

COVER SHEET

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SEC Registration Number

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

(Company's Full Name)

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P A S O N G T A M O E X T . 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

(Last Wednesday of July)

1 2
Month

3 1
Day

Fiscal Year

SEC Form 17-Q
Second Quarter Interim Report 2007
FORM TYPE

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Month

2 6
Day

Annual Meeting

N.A.

Secondary License Type, If Applicable

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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

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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 June 30, 2007
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 city 1231
Address of principal office Postal Code

8. Tel. (632) 888-3000 Fax (632) 816-7362
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	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares, Php 1.00 Par	1,127,747,000
Preferred Shares, Php 1.00 Par	4,480
Common Shares, Php 1.00 Par	150,000,000

(1,127,747,000 Common shares are exempt under Section 6 (a) (4) of the RSA, and 74,719,200 underlying Common shares exempt under Section 6 (a)-7 of the RSA.)

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 No

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

Yes No

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

The Financial Statements for the quarter and period ended **June 30, 2007** are contained herein.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE PERIOD ENDED JUNE 30 31, 2007.

I. RESULTS OF OPERATIONS

DMCI Holdings, Inc. (the "Company") reported a consolidated income after minority of P2 billion and P1.7 billion for the first half and second quarter of 2007 compared to P843 million and P602 million of the same periods in 2006. The sharp increase was mainly due to the non-recurring items and business contributions reported in the newly acquired water business, and the continuing growth and improvement in the real estate and construction segments. Recovery in the coal mining business was evident as the Company indicated a slight progress in its coal operations.

WATER

Late in 2006, the Company, along with Metro Pacific Investments Corp. (MPIC), won the public bidding of Maynilad Water Services, Inc. (Maynilad), the water concessionaire servicing the west side and southern areas of the Manila region.

The Company initially invested the amount of P3 billion pesos for a 50% share in the joint venture/bid company, DMCI-MPIC Water Company, Inc. (DMWC or Bidco) which subsequently acquired 84% ownership in Maynilad. Since the Company owns and controls only half of DMWC, the Company's investments in the water business are accounted for under the equity method.

Net earnings from 50%-owned DMWC (which consolidates Maynilad) amounted to P1.455 billion. This was mainly due to non-recurring negative goodwill worth P4.4 billion booked by DMWC in the quarter.

Maynilad booked a 1st half net income of P802 million as water services in all key performance areas continued to show improvements. Non-revenue water improved to 65% from the 2006 average of 68% with total volume of water billed jumping 10% to 141million cubic meters from 127 million cubic meters. Total billed customers also increased to 695,785 end of June compared to 677,985 end of last year. Continued and new developments in the management of water flow and pressure systems, improvements in current pipe systems, subdivision into hydraulic zones and identification of key areas for development were among the strategic activities that helped in Maynilad's progress since the new sponsors came in.

Maynilad's operational contribution was offset by upfront acquisition charges, interest and financing costs and operating expenses incurred by DMWC. Net financing charges pertaining to the loans availed from First Pacific Company Limited and Ashmore Funds to finance the Standby LCs required for the acquisition of Maynilad amounted to P274 million while amortization of front-end costs associated with the purchase of Maynilad totaled P387 million for the period.

The Company expects that the water segment will provide substantial net recurring income with not just the prospects in basic water services provided by Maynilad but also in the engineering requirements and opportunities as the Company's construction segment was awarded P423 million worth

of water system works. With this, the Company believes that the acquisition of the water business was a sound and strategic move that will be an integral part of its expansion into more stable businesses while staying true to its core competence and reputable skills as engineers and contractors.

REAL ESTATE

The Company's 100%-owned real estate business, DMCI Project Developers, Inc. (PDI), continued to experience better business for the period and quarter compared to last year. Continued demand for housing within Metro Manila, improved selling and marketing activities, plus the proven track record and reputation as builders helped post higher 1st half and 2nd quarter housing net income from P114 million and P113 million respectively in 2006 to P261 million and P152 million in 2007.

The Company's residential community projects continued to be a success as consistent sales from existing projects and take-up from new projects provided record revenues for the period compared to last year.

Existing projects East Ortigas Mansions and Mayfield Park Residences continued to provide consistent notable recognized revenues amounting to P302 million lower than last year as these projects are approaching fully sold status. Bonifacio Heights, a relatively newer joint venture project with the Armed Forces of the Philippines (AFP), located in the Fort Bonifacio area of which are exclusively available for AFP personnel, contributed P248 million in recognized sales for the period slightly higher than last year. Moreover, Mahogany Place Subdivision, now within its 2nd and 3rd phase of development, factored significant revenues for the period amounting to P158 million for the period but was slightly lower than last year as this project is reaching fully sold status as well.

With the successful turnover rate from existing projects, the Company have been actively identifying and launching new projects, namely the Raya Gardens Condominiums ("Raya"), a combination of high rise and medium rise development located in the West Service Road, Barangay Merville, Paranaque; and Rosewood Pointe ("Rosewood"), a project utilizing another combination of medium and high rise structures done in the same design and aesthetics as Mayfield Park Residences located in Taguig, Metro Manila; and The Manors at Celebrity Place ("Celebrity"), a mixed town house-medium rise community project located adjacent to the Celebrity Sports Plaza in Loyola Heights, Quezon City. These projects started contributing notable revenues for the period: Raya – P318 million, Rosewood – P250 million, Celebrity – P95 million, and are expected to contribute further.

Other projects that were either newly launched or will be launched in the near future are : Alta Vista, a condotel project located in pristine Boracay Island; Tivoli Gardens, another residential community development located in the Makati-Mandaluyong, Metro Manila area; and Riverfront Residences, a joint venture housing project with Equitable PCI Bank located in the Pasig-Marikina boundary of the Metro; and Cypress Towers, another high-rise condominium joint venture project with Crown Equities, Inc. located along C-5 road in Taguig, Metro Manila. These newly introduced residential projects and others to come are expected to provide the continuing sales and revenues for the Company's real estate business.

Overseas Filipino Workers (OFWs) continue to provide significantly to total sales as approximately 30% of all sales were directly from these OFWs with the estimate that even some of the local purchases are being funded by OFW money. With the purchasing power, the Company is keen on pursuing the foreign OFW market as an avenue towards expansion and growth for its housing business.

General and administrative costs were significantly increased due to amplified marketing and selling activities for the quarter compared to last year. This trend is projected to continue as expansion and strengthening of its real estate operations will be pursued by the Company. Increase in marketing costs within the housing business accounted for much of the increase in consolidated general and administrative costs of the Company.

With opportunities presented in the current economic environment and foreign interest in the country, the Company's is also strongly considering an initial public offering as an option to drive its residential development business to even greater heights.

CONSTRUCTION

The construction segment, operated by wholly-owned construction subsidiary D.M. Consunji, Inc. (DMCI), posted a 9% increase in the first semester operations from a net income of P127 million in 2006 to a net income of P139 million in 2007. For the second quarter, construction income rose 72% as catch up revenues were booked in this quarter from work done in the first quarter.

Continuous work from key projects: the Subic-Tarlac Express-Deck Fabrication (99% complete), the KAMANAVA Floodway civil works (74% complete), and the One Adriatico Place residential high-rise building (94% complete) tallied a total P423 million in first half construction revenues. Initial works on new projects, Shangrila Boracay and Robinson Cybergate Tower, with a total contract amount of P1.5 billion, added P346 million in revenues. In addition, DMCI have been able to get almost P380 million worth of construction from Maynilad, which already contributed P53 million of recognized revenues. As DMCI reported lower revenues during the first quarter, second quarter revenues from these new projects accounted for the 31% and 117% increase in construction revenues on a period-to-period and quarter-to-quarter basis respectively.

Revenues from the other non-traditional construction operations, specifically from the special business units, namely the Equipment Management business unit, the Ready Mix Concrete business unit, and the Formwork Management business unit were also helpful in providing revenues with minimal costs for the construction business. Utilizing and optimizing the specific core competencies and opportunities brought within DMCI construction resources remains an opportunity in the industry.

General and administrative expenses went up as requirements from the new projects and some initial cost recording were experienced in the period. DMCI still expects its overhead to be at low levels for the whole year consistent to the Company's cost reduction guidance, more so with the construction industry becoming more diversified and competitive.

As the construction business is maturing and undertaking the challenges nowadays with its retail-competitive nature, the Company is still confident that it can maintain its foothold as one of the leading providers of construction services with the heritage of proud Filipino contractors to the country and to the global community.

COAL

The Company's coal mining business, operated by 58%-owned, publicly listed Semirara Mining Corp (SMC), reported recovering results for the second quarter of 2007 compared to 2006 as net contributions from the coal segment for the second quarter increased 172% at P168 million, compared to P62 million in 2006. This was mainly due to increased sales volume driven by the growth in the local markets and the introduction into the coal exports. Pre-stripping activities done and recorded in 2006 also helped reduce costs per unit. Although volume was significantly up, coal prices were relatively down due to the weakening of the USD.

Below is SMC's management discussion and analysis of financial condition and results of operations for the period lifted from the SMC First Half and Second Quarter 2007 Financial Report (SEC Form 17-Q) for a more detailed discussion:

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS 2007 FIRST HALF OPERATION

The new demand from the recently penetrated export markets and increased uptake from local markets directed the Company's operations for the first half of the year. Unlike in the previous year wherein mining equipment were mainly employed for waste stripping, focus of operations in the current period is coal production to serve the increasing demand of the commodity. Out of total materials moved of 17,760,461 bank cubic meters (bcm), run-of mine (ROM) coal produced amounted to 1,892,179 metric tons (MTs), reflecting a strip ratio of 8.67:1. Of the ROM coal, 1,561,697 MTs were clean coal and 330,482 MTs were washable coal. Net product coal produced was recorded at an unprecedented 6-month period level of 1,759,986 MTs.

Meanwhile, to improve logistics support in order to serve the increased demand more efficiently, dredging of the pier was undertaken during the period. This will allow bigger vessels (up to 50,000 MTs) employed for export deliveries to dock for safe berthing and for faster ship loading using the conveyor/ship loader line. Moreover, loading to vessels for local and export deliveries can now be done simultaneously with the new barge loading facility (at rated capacity of 750MT/hr), which was made in place last year in preparation for higher volume of coal shipments.

The fully completed second line of conveyors, which started operating during the first quarter continued to improve efficiency in transporting waste materials, by minimizing the use of trucks, thereby saving on diesel fuel cost. Machine availability during the first half of the year was recorded at 83% for hauling equipment and 81% for loading units. However, since stripping activities slowed down as the focus of operation shifted to coal extraction, utilization of hauling and loading equipment dropped to 67% and 75%, respectively.

Meanwhile, evaluation of geological data by Joint Ore Reserve Committee (JORC) consultants of Australia are still in progress, for their final certification that the coal reserves calculated by the company are in accordance with methods and standards which are internationally accepted. In-house confirmatory drillings are still on-going for this purpose. Inventory level was ramped up to 814,190 MTs as at the end of the period in anticipation of the increasing demand, both from the local and export markets, in the succeeding period and the anticipated rainy days.

Coal sold during the first half amounted to a record high of 1,502,823 MTs with an average heating value of 9,737 BTU/lb. At a composite average FOB price of P1,864/MT, coal deliveries generated Coal Revenues of P2.802 billion during the first half of the year. Meanwhile, coal handling operations at the Calaca coal yard generated Coal Handling Revenues amounting to P47.379 million. The resulting Gross Revenues totaled P2.849 billion.

Cost of Sales, inclusive of Costs of Coal Handling amounting to P32.22 million, was reported at P2.100 billion, 34% of which is Non-Cash. This translated to a further reduced Cost of Coal Sold/MT of P1,376.11, which is indicative of the decreased Net Production Cost/MT of coal produced in the current period of P1,190.19. As a result, Gross Margin was posted at P748.766 million, reflecting a Gross Profit Ratio of 26%. With the remaining Accumulated Recoverable Costs, Government Share was kept at minimum of 3% of Coal Revenues. General and Administrative Expenses totaled to P46.510 million, bringing Total Operating Expenses to P130.560 million. As a consequence, Operating Income was posted at P618.206 million or 22% of Revenues. Other Income, which included interest earned by the Company from its short-term placements and investments, offset by bank charges for Letter of Credit applications, reflected a total amount of P19.098 million. On the other hand, the Company incurred Financing Charges of P77.772 million for working capital loans and funding for Capital Expenditures, a significant reduction from previous year's level of P113.956 million as loan levels fall due to debt servicing. With the appreciating Peso vis-à-vis the US dollar, the Company was also able to recognize Realized and Unrealized Foreign Exchange Gains of P12.298 million and P42.208 million, respectively. Net Income Before tax was recorded at P614.038 million. With full income tax provision amounting to P204.970 million, the resulting Net Income After Tax amounted to P409.068 million

2007 FIRST HALF FINANCIAL CONDITION

Current Assets as at the end of first half was recorded at P3.777 billion, inclusive of a healthier level of Cash and Cash Equivalents amounting to P666.490 million, which showed a 31% improvement from beginning balance of P510.439 million as a result of higher collections of trade receivables which that are augmented by export sales. Temporary investments were reduced to zero as this was already terminated in the first quarter earning a total interest of P11.30 million. Ninety-two percent (92%) of the total Receivables of P1.035 billion are Trade Receivables, manifesting increased sales towards the end of the period.

Meanwhile, the augmented coal inventory exhibited a corresponding increase in the value of Coal Stockpile amounting to P1,072.816 billion. Materials and Supplies inventories went down due to full utilization of inventories intended for projects and rehabilitation of facilities. Prepaid Expenses and Other Current Assets amounting to P232.777 million are composed of VAT withheld on NPC sales amounting to P192.258 million, Prepaid Insurance of P18.63 million, and Environmental Guarantee Fund, and Creditable Withholding Taxes.

The increase was contributed by additional VAT withheld in 2007 prior to the issuance of the BIR ruling to the Company's favor. The incorrect VAT withheld (the Company being VAT exempt) is now being processed for refund with the Bureau of Internal Revenue. Additions to Property Plant and Equipment (PPE) amounted to P104.801 million. However, total Depreciation expensed by the Company reached P770 million, resulting to decrease in net PPE to P2.357 billion at the end of the first half from beginning balance of P3.015 billion.

On the other hand, Deferred Charges and Other Non-Current Assets increased to P95.935 million from P90.641 million. This account is composed of mining rights of P84.4 million, software costs amounting to P2.3 million, and various Non-Current Assets of P9.5 million.

The increase was mainly due to a reclassification of account from PPE. The decrease in PPE resulted to lower Total Assets of P6.230 billion as at the end of the first semester of the current year, from the beginning balance of P6.511 billion. The continuous servicing of debts brought down Total Liabilities to P1.839 billion from P2.197 billion at the start of the current year. Of the amount, P1.020 billion were Current Liabilities, while the balance amounting to P819.299 million were Non-Current Liabilities. Current Portion of Long Term Debt comprised 64% of Current Liabilities (which includes LC/TR availments) at P650.311 million, after availing P205.71 million for LC-TRs and working capital requirements. Meanwhile Accounts and Other Payables represented 21% at P214.688 million. Increased revenue level brought up Income Taxes Payable to P153.088 million. Delivery of coal paid in advance by a cement company and NPC also reduced Customer's deposit down to P2 million. Non-Current Liabilities consisted of Long-Term Portion of Long-Term Debt amounting to P680.194 million, 50% of which are Peso loans while the other 50% are US Dollar denominated; Pension Liability of P54.171 million; provision for Asset Retirement Obligation amounting to P11.139 million for legal obligations with the Department of Energy and Natural Resources upon the abandonment of the mine pits; and Deferred Tax Liability of P73.794 million.

Despite declaring dividends amounting to P333.087 million, the Company's Stockholders' Equity posted a 2% growth from P4.315 billion as at the beginning of the year to P4.391 billion at the end of the first half. The increase is attributed to the period's Net Income After Tax generation of P409.068 million.

2007 COMPARATIVE REPORT

I. PRODUCTION

Total material movement during the second quarter of the current year is 4% higher at 9,043,100 bcm than Q1 material movement of 8,717,362 bcm, but 10% lower than Q2 2006. The resulting H1 material movement is 17,760,461 bcm, indicating a 17% drop from H1 2006 volume of 21,506,287 bcm. Equipment utilization in the current year is geared towards coal production, unlike last year wherein

slower demand prompted the Company to focus operations on waste stripping which necessitated movement of more materials.

The increasing demand called for more coal production than waste stripping. Accordingly, Strip Ratio, or the ratio between waste and coal produced, further improved to 7.50:1 in Q2 2007 from 10.31:1 in Q1 and 12.92:1 in Q2 2006. The average strip ratio as of H1 2007 showed an improvement by 43% at 8.67:1 from 15.11:1 in H1 2006. As a result, ROM coal produced in Q2 this year is impressive at 1,101,335 MTs. Added to the preceding quarter's ROM coal production of 790,844 MTs, H1 total ROM coal reached a historic level of 1,892,178, 39% better than H1 2006 ROM coal production of 1,359,235.

The resulting Net Product Coal, which is inclusive of washed coal, totaled to 1,742,386 MTs in H1 2007, 716,670 MTs were produced in Q1, while the remaining 1,025,716 MTs were Q2 output. This volume is 44% higher than H1 2006 net production of 1,225,371 MTs.

Year-on-year, current semester ending inventory level is 82% more at 814,819 MTs, compared to H1 2006 ending inventory of 447,864 MTs. Higher demand encouraged operations to maintain a more robust stockpile to timely serve orders largely triggered by exports.

II. MARKETING

This year brought about a major marketing breakthrough for the Company. For the first time in its history, it has finally breached the export market. The successful deliveries to China and India proved that despite the inherent low quality of Semirara coal, it can effectively be used as a blending coal for higher, but more expensive coal. For the first half, export deliveries already amounted to 99,847 MTs, 71,011 MTs of which were delivered to India and 28,836 MT went to China. More importantly, the Company was able to sign short-term export supply contracts of up to 1 million MTs until H1 2008. More buyers expressed their interest to execute a supply contract, but the Company declined to commit more volumes until it has completely put together additional logistics support needed to effectively serve export demand, such as improvement of its pier and loading facilities.

Meanwhile, local markets have also increased their purchases significantly. Total local current quarter sales was recorded at 768,869 MTs, 48% or 371,707 MTs were delivered to NPC, while the rest were sold to other power plants, cement plants and other industrial plants. Total Q2 sales volume is 21% higher than Q1 local deliveries of 634,107 MTs, and 29% more than Q2 2006 volume of 596,965 MTs. Similarly, H1 2007 total local sales of 1,402,976 MTs posted a 17% increase over H1 2006 volume of 1,196,991 MTs. Remarkably, the Company's dependence on NPC Calaca has further reduced to 48% on year-to-date total sales volume, compared to last year's 56%, notwithstanding the increase in the current period's Calaca deliveries by 49,665 over first half last year.

III. FINANCE

A. Sales and Profitability

Although coal deliveries improved by 26% as of the current semester, Coal Revenues only recorded a 4% increase from P2.693 billion in H1 2006 to P2,802 billion this year. This is a consequence of lower prices, mainly as a result of the marginal pricing strategy on export sales and strengthening of the peso against the US dollar. Average composite FOB price for H1 2007 is 17% lower at P1,864/MT, compared to similar period last year's price of P2,250/MT.

Q2 2007 composite average FOB of P1,815/MT raked in Coal Revenues of P1.524 billion, 19% higher than Q1 Coal Revenues of P1.277 at a composite average price of P1,927/MT. Despite the bigger increase in volume, compared to Q2 2006, current quarter Coal Revenues is only 12% higher since average FOB price was at P2,275/MT in the previous period.

Meanwhile, with improved strip ratio, Cost of Coal Sold/MT dropped to P1,376 for the current period from P1,621 in H1 2006. With expanded operations, Operating Expenses correspondingly increased.

Marketing efforts to support the Company's export activities likewise elevated the level of Operating Expenses. Other Income, which is mainly comprised of Interest Income from short-term placements dropped by 47% on a year-on year H1 comparison as cash level during H1 2006 is 36% higher than cash end of H1 2007.

On the other hand, lower loan balances and decreased interest rates significantly brought down Interest and Financing Charges by 32%, compared to the first semester of 2006. This year's stronger peso augured well for the Company as it was able to book Realized and Unrealized Forex gains. With the absence of allowable deductions against corporate income tax, such as the NOLCO, the Company continued to provide for Regular Corporate Income Taxes.

Current quarter's EBITDA is fairly high at P833.872 million. Combined to Q1 2007 EBITDA of P573,409 million, H1 2007 records an EBITDA of P1.407 billion, posting an 11% increase over H1 2006 EBITDA of P1.269 billion.

B. Solvency and Liquidity

From a Beginning Cash level of P510.439 million, H1 2007 closed with additional inflow of Cash and Cash Equivalents amounting to P156.051, thereby increasing Ending Cash level to P666.490 million.

Net Cash Provided by Operating Activities dropped by 16% to P599.312 million compared to H1 2006 cash generation from operations of P710.169 million. The main contributor to the drop is the increase in Receivables by P468.556 million as at the current semester as a result of booking of more sales towards the end of the period. H1 2006 recorded a decrease of P227.476 million in Receivables. With more PPE to depreciate, Depreciation, Depletion and amortization further increased to P769,901 million in the current period, compared to H1 2006 level of P550.294 million. Lower loan balances and lower interest rates brought down Interest and Financing Charges to P77.772 million from P113.956 million in the same period last year. However, with lower cash for investment, H1 Interest Income dropped by 60% from P38.778 million to P15.385 million year-on-year.

On the other hand, the Company's investing activities brought in a Net Cash Inflow of P178.772 million as it has recouped its Temporary Investment of P300 million. Additions to PPE dropped by 88% to P104.801 million from H1 2006 investments in PPE amounting to P993.076 million, which resulted to the previous period's Net Outflow of Cash Used in Investing Activities by P952.761 million.

Meanwhile, the Company used P622.033 million for its financing activities in the current semester. Payment of Dividends amounting to P304.894 million and Repayment of Long-Term Debt of P522.846 million was slightly offset by Availment of Loans amounting to P205.708 million. In H1 2006, debt availment of P779.353 cushioned expenses relating to the Company's financing activities which included Repurchase of Shares of Stock costing P145.258 million, Payment of Dividends amounting to P333.087 million and Repayment of Long-Term Debt of P349.127 million, thereby limiting total Cash used in Financing Activities to P48.119 million.

The improving liquidity of the company is highlighted by the continuous increase in the Current Ratio which currently stands at 3.70x from 2.53x as at the end of 2006 and 2.88x as at H1 2006. As a consequence of its strong financial condition, the Company was able to promptly pay its maturing obligations and has decreased its availment of debts. Similarly, the stable income generation of the Company continued to improve total capitalization to P4.391 billion from P4.315 billion as at yearend 2006 and P4.12 billion as at H1 2006.

Combined with reduced Liabilities, the Company's solvency condition was further augmented as Total Debt to Equity Ratio further improved to 0.42:1 as at the end of the current period from 0.51:1 as at 31 December 2006 and 0.72:1 in H1 2006. Earnings Per Share (EPS) slightly improved to P1.4737 in the current period from P1.446 in H1 2006.

IV. PERFORMANCE INDICATORS:

1. Average Selling Price – Lower import price of coal of NPC during Q3 2006 and stronger peso against the US dollar has adversely affected price for Semirara coal. Being the only major coal producer in the country, it uses regional coal prices as benchmark for its pricing. The marginal pricing strategy implemented by the Company for export sales in order to effectively penetrate the new markets, has likewise lowered composite average price. As a result, increase in Revenues did not fully correspond to the increase sales volume.

2. Debt to Equity Ratio - The Company's improving solvency condition boosted its holistic financial strength. As a consequence, its credit rating has remarkably improved, thus enabling it to enjoy prime borrowing rates for clean loans. Moreover, management can now look into different opportunities for investments to further create more shareholders value.

3. Capital Expenditures – The capacity expansion program which was completed in 2006 has borne fruits this year as augmented capacity has enabled the Company to expand its market. Foreseeing a continuous uptrend in demand, management is seriously evaluating if there is a need to go into another expansion program. Proper timing is crucial to optimize the benefits of spending huge amounts of money for Capital Expenditures, considering that the mining boom has increased delivery lead time for mining equipment.

4. Expanded Market – With the successful entry to the global market, the opportunities for Semirara coal has tremendously increased. Furthermore, the long-time goal of the Company to wean itself from over-dependence to a single market is now attained. Apart from the new export market, it has likewise successfully diversified its local sales. More volumes were delivered to non-traditional markets like the cement plants. Also, more industrial companies have expressed their intent to recalibrate their plants to be able to use 100% Semirara coal.

5. Improved coal quality – The marketing success of the Company can likewise be attributed to its capability to enhance coal quality. More importantly, its dependability to deliver committed coal quality has earned goodwill for the Company. Its well-maintained laboratory ensures that quality parameters of every coal delivery are compatible with contracted specifications.

II. FINANCIAL CONDITION

The Company's financial condition for the period improved as total assets as of first quarter 2007 increased by 15% from end 2006 balances.

Cash doubled from 2006 with P2.7 billion raised in new capital issuance, while P403 million was used for consolidated operations and P1 billion was used for investing activities in the water business. The Company's fund raising activities was completed in the second quarter of 2007 and was done as a follow-up capital issuance for the water business.

Total receivables (current and non-current) went up as a result of heightened sales in the real estate sector, sustained coal take-up, and regular construction business among others.

The real estate business continues to record improving sales and as such is depleting its into existing inventory. The Company is starting to build new projects and accelerate work on its existing ones, providing a significant rise in inventory. Some long term investment properties were also reclassified to real estate inventory, as these properties were determined to be for development in the near future, adding to the increase in inventories and reduction in investment properties. Coal from the 2006 high cost inventory accounted for a large amount of the increase in inventories as well.

Investments were up as a result of the Company's new investment in the water sector which was recorded late in 2006.

Some equipment disposals, more in the construction and coal businesses were done in the quarter. Accelerated depreciation in the coal business also helped in the 10% reduction of the property, plant and equipment.

Accounts & other payables increased marginally as a result of regular credit and payment transactions done in normal business.

Long term liabilities (including current portion) decreased as the Company's business repaid and/or refinanced most its high interest debts. SMC's expansion was financed mainly by long term loans but expects to prepay most of its loans within the year from internally generated cash. In addition, the Company acquired local bank financing to fund half of its P3 billion initial investment in the Maynilad acquisition in late 2006 but was subsequently paid within the first quarter of 2007.

Stockholders equity increased as the Company had to raise funds to pay off and retire the loans it acquired to acquire Maynilad. The Company issued an additional 168 million shares at an average price of P7/share to an existing shareholder and is planning to issue additional 232 million shares from its deposit in future subscriptions.

Current ratio increased from 2.43 as of end 2006 to 2.58 at the end of the period significantly affected considerably by the cash raised from the issuance of new shares. Current debt repayment capability is healthy and well within industry averages. Debt to equity ratio slightly decreased from 0.77 to 0.44 indicating a slight increase in stockholders position for the Company's stockholders vs. its creditors, this is a result of the additional issuance of capital. The Company notes that the debt to equity ratio is below 1, indicating a strong owner base leverage and is in a very good debt gearing position. The debt to equity ratio was also within industry averages as the Company strives to maintain its financial risk position relative to the interest of its stockholders (current ratio average per industry: Mining-1.78, Construction-1.29; Real Estate-1.84; debt to equity ratio average: Construction-2.05; Mining/Quarrying-2.08; Real Estate-0.32; reference: Business World Top 1000 Corporations in the Philippines. 2005, Volume19).

KEY INDICATORS

The Company and its Subsidiaries (the "Group") has the following as its key performance indicators:

- a) Change in Coal Sales
- b) Change in Real Estate Sales
- c) Change in Construction Revenues
- d) Change in Net Income
- e) Change in Current Ratio
- f) Change in Debt to Equity Ratio

CHANGE IN COAL SALES

With the emergence of coal mining as a significant business of the Company, it is imperative that the Company discuss thoroughly its coal business through its now 58% owned coal mining subsidiary, SMC. A clear indicator of performance in the coal mining business is any change in Coal Sales. This will show how this period's coal mining business fared with respect to the same period in the previous year/s (see *Part I. Results of Operations-Coal Mining for a detailed discussion*).

CHANGE IN REAL ESTATE SALES

The real estate business is currently becoming another significant contributor for the Company operations. Any change will indicate an improvement or deterioration in the Company's real estate business for the period. Currently the Company is intently looking at the changes in its real estate operations as an indication of performance (*see Part I. Results of Operations-Real Estate for a detailed discussion*).

CHANGE IN CONSTRUCTION REVENUE

The Company, for the past years of its existence, has always been known as the listed vessel for its construction business. In this regard, it is prudent that the Company note operational performance in its construction business. The initial performance indicator of the Company's construction business is any increment in its Construction Revenues. Any change will indicate an improvement or deterioration in the Company's construction business for the period (*see Part I. Results of Operations-Construction for a detailed discussion*).

CHANGE IN NET INCOME

The results of consolidated operations of the Company can be seen with the increment in net income for the period compared to the same period of the previous year/s. Bottom line analysis takes into consideration all business that the Company is engaged in. The Company calculates any decrease and increase in net income and studies the results of its operational business segments and provides discussions as a general on the main reasons why the change in net income (*see Part I. Results of Operations-1st paragraph for a detailed discussion*).

CURRENT RATIO

Liquidity is an essential character of any organization, and the Company, including the Group as a whole, should indicate acceptable levels of liquidity. The initial test of liquidity is the current ratio, which will display a company's ability to satisfy current obligations with current resources. Current ratio is arrived by dividing the current assets over the current liabilities. The Company uses this test and compares it with industry balances to determine its ability to satisfy current obligations with respect to its competitors (*see Part II. Financial Condition for a detailed discussion*).

DEBT TO EQUITY RATIO

As a stockholder/investor, financial position and stability would be an important aspect. The Company tests its financial position through the debt to equity ratio. This test indicates the Company's ownership of creditors vs. owners/investors. In addition, debt to equity ratio maintenance is a requirement set by creditors as a standard for extending credit. Debt to equity ratio is computed by dividing the total liabilities over total stockholders equity (*see Part II. Financial Condition for a detailed discussion*).

PART II--OTHER INFORMATION


1. This interim financial report is in compliance with generally accepted accounting principles;
2. The same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements;
3. The company's operation is a continuous process. It is not dependent on any cycle or season;
4. A cash dividend was declared at the amount of Php 0.10 per common share paid on May 28, 2007 to the holders of record of April 30, 2007.
5. There were no subsequent events that have not been reflected in the financial statements for the period that the company have knowledge of;
6. There are no contingent accounts in the balance sheet of the corporation;
7. Except for interest payments on loans, which the Company can fully service, the only 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 Company recognizes that the continuing slump in the property sector would keep both real estate sales and construction revenues moderate. Nonetheless, the Group's venture into middle-income housing development is expected to significantly contribute to revenues and income.


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**
Vice President & Chief Finance Officer


Signature and Title **Aldric G. Borlaza**
Finance Officer


Ma. Luisa C. Austria
Accounting Officer

Date August 21, 2007

DMCI HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS**

For the period ended June 30, 2007 and December 31, 2006

(Amounts in Thousands of Philippine Pesos,

Except Par Value and Number of Shares)

	JUNE	AUDITED
	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents	2,518,911	1,251,911
Available-for-sale investments	71,086	259,592
Receivables - net	3,320,082	3,714,849
Costs and estimated earnings in excess of billings on uncompleted contract	0	17,016
Inventories - net	5,320,977	4,714,825
Prepaid expenses and other current assets	252,256	379,057
Total Current Assets	11,483,312	10,337,250
Noncurrent Assets		
Noncurrent receivables - net	1,409,187	687,641
Investments in associates, jointly controlled entities and others - net	4,937,755	3,266,773
Investment properties - net	2,079,736	2,279,059
Property, Plant and Equipment - net	2,955,979	3,295,499
Deferred tax assets	0	219,868
Other non-current assets - net	845,488	486,279
Total Noncurrent Assets	12,228,146	10,235,119
Total Assets	23,711,458	20,572,369

LIABILITIES AND STOCKHOLDERS' EQUITY**Current Liabilities**

Bank Loans	57,640	53,811
Accounts and other payables	3,397,539	3,015,060
Current portion of long-term debt	676,304	1,122,685
Billings in Excess of Costs on Uncompleted Contracts	0	20,566
Income Tax Payable	319,454	43,892
Total Current Liabilities	4,450,937	4,256,014

Noncurrent Liabilities

Long-Term Debt - net of current portion	2,442,771	3,476,921
Payables to related parties	35,999	473,163
Deferred Tax Liability	94,045	263,768
Deferred revenues	139,184	0
Pension Liabilities	64,369	47,171
Other Noncurrent Liabilities	15,889	395,142
Total Noncurrent Liabilities	2,792,256	4,656,165
Total Liabilities	7,243,193	8,912,179

Equity

Equity attributable to equity holders of the parent:

Paid-up capital (Note 3)	5,820,076	4,659,283
Deposit for future subscription	1,801,563	
Retained earnings	6,919,578	5,103,728
Cumulative translation adjustment	39,873	39,873
Preferred shares held in treasury (Note 3)	0	(1,100)
	14,581,090	9,801,784
Minority Interest	1,887,174	1,858,406
Total Equity	16,468,264	11,660,190
	23,711,458	20,572,369

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
For the period ended June 30, 2007 and 2006 and for the quarter ended
June 30, 2007 and 2006
(Amounts in Thousands of Philippine Pesos)

	For the period		For the quarter	
	2007	2006	2007	2006
SALE OF GOODS AND SERVICES (Note 5)	5,820,941	4,904,465	3,216,773	2,190,360
COSTS OF SALES & SERVICES (Note 5)	4,134,427	3,217,830	2,178,399	1,142,033
GROSS PROFIT	1,686,514	1,686,635	1,038,374	1,048,327
OPERATING EXPENSES	(468,484)	(361,111)	(209,894)	(208,985)
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES, JOINTLY CONTROLLED ENTITIES AND OTHERS	1,455,782	(2,078)	1,318,473	39
FINANCE INCOME	103,187	155,297	84,139	121,826
FINANCE COSTS	(320,392)	(223,944)	(184,447)	(113,470)
OTHER INCOME	145,874	69,181	81,017	0
INCOME BEFORE INCOME TAX	2,602,481	1,323,980	2,127,662	847,737
PROVISION FOR INCOME TAX	373,703	311,389	236,576	174,683
NET INCOME	2,228,778	1,012,591	1,891,086	673,054
ATTRIBUTABLE TO				
Equity holders of the parent	2,058,199	843,752	1,768,655	602,718
Minority Interest	170,579	168,839	122,431	70,336
	2,228,778	1,012,591	1,891,086	673,054
RETAINED EARNINGS/(DEFICIT), BEG.	5,103,728	4,193,978	5,393,272	4,435,012
RETAINED EARNINGS/(DEFICIT), END	6,919,578	5,037,730	6,919,578	5,037,730
Earnings per Common share				
Basic*	0.95	0.37	0.83	0.27
Diluted	0.00	-	-	-

*Net Income less dividends divided by the total outstanding shares of 2,423,494,000

DMCI HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE PERIOD ENDED JUNE 30, 2007 AND 2006

	JUNE 2007	JUNE 2006
CAPITAL STOCK		
Cumulative and convertible		
Preferred stock - P1 par value		
Authorized - 100,000,000 shares		
Issued - 2,400,000 shares	2,400,000	2,400,000
Retirement of preferred shares	(2,395,520)	(2,392,970)
	<u>4,480</u>	<u>7,030</u>
Reclassification of preferred stock to liability	<u>-</u>	<u>7,030</u>
	<u>4,480</u>	
Common stock - P1 par value		
Authorized - 5,900,000,000 shares		
Issued - 2,255,494,000 shares	2,255,494,000	2,255,494,000
Add'l subscription - 168,000,000 shares	168,000,000	
	<u>2,423,494,000</u>	<u>2,255,494,000</u>
	<u>2,423,494,000</u>	<u>2,255,494,000</u>
ADDITIONAL PAID-IN CAPITAL		
Balance at the beginning	2,403,783,826	2,827,839,006
Retirement of Preferred Shares	(1,099,000)	(406,599,480)
Additional Paid-in capital of new subscribed shares	993,893,100	
	<u>3,396,577,926</u>	<u>2,421,239,526</u>
Reclassification of preferred shares-APIC to liability		(47,787,123)
	<u>3,396,577,926</u>	<u>2,373,452,403</u>
DEPOSITS FOR FUTURE SUBSCRIPTION	1,801,563,000	-
RETAINED EARNINGS (DEFICIT)		
Balance at beginning of the period	5,103,727,748	4,193,977,659
Net income(loss) for the period	2,058,199,594	843,751,460
Accrued dividends declared	(242,349,400)	-
Balance at end of the period	<u>6,919,577,942</u>	<u>5,037,729,119</u>
Cumulative Translation Adjustment	<u>39,872,880</u>	<u>2,402,067</u>
PREFERRED SHARES HELD IN TREASURY		
Balance at beginning of the period	-	(187,210,650)
Acquisitions for the period	-	(2,072,050)
Redemption/Retirement of preferred shares	-	187,710,650
Balance at end of the period	<u>-</u>	<u>(1,572,050)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>14,581,090,228</u>	<u>9,667,505,539</u>

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the period ended June 30, 2007 and 2006
(Amounts in Thousands of Philippine Pesos)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss)/ Income		843,751
Adjustments to reconcile net income (loss) to net cash:		
Equity in net losses (earnings) of affiliates, depreciation, depletion, amortization and other non-cash items (net)		168,839
Income (Loss) applicable to Minority Interest		(168,839)
Changes in assets and liabilities:		
Decrease / (Increase) in :		
Receivables- net		(636,535)
Inventories - net		(1,144,156)
Prepaid expenses and other current assets		(48,443)
Increase/ (Decrease) in :		
Accounts payable and accrued expenses		140,970
Current portion of long-term debt		165,992
Non current liabilities		451,885
Billings in excess of cost of uncompleted contracts		6,091
Income Tax Payable		(155,547)
Net cash provided by operating activities		(375,993)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Available for sale investments		(601,120)
Investments - net		517,127
Property, plant and equipment - net		(515,336)
Deferred charges and other assets - net		92,828
Net cash provided by investing activities		(506,501)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net availments (payments) of:		
Notes payable		(208)
Additional subscription of common shares		
Capital stock at P1.00 par value	168,000	0
Additional paid-in capital	993,893	0
Deposit for future subscription	1,801,563	0
Redemption of preferred shares		
Capital stock at P1.00 par value	(1)	0
Additional paid-in capital	(1,099)	0
Redemption of preferred shares from treasury	1,100	185,639
Payment of Dividends	(242,349)	
Net increase (decrease) in minority interest	28,768	160,257
Net cash provided by financing activities	2,753,704	345,688
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,267,000	(536,806)
CASH AND CASH EQUIVALENTS, BEGINNING	1,251,911	1,949,711
CASH AND CASH EQUIVALENTS, ENDING	2,518,911	1,412,905

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

1. Corporate Information

DMCI Holdings, Inc. (the Company/DMCI-HI) is incorporated in the Philippines. The Company's registered office address is 3rd Floor, Dacon Building, 2281 Don Chino Roces Avenue, Makati City.

The Company is the holding company of the DMCI Group (collectively referred to herein as the Group) which is primarily engaged in general construction, coal mining, infrastructure and real estate development and manufacturing.

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

	Effective Percentages of Ownership	
	2006	2005
General Construction:		
D.M. Consunji, Inc. (DMCI) ¹	100.00	100.00
DMCI International, Inc. (DMCII) ²	100.00	100.00
OHKI-DMCI Corporation (OHKI) ²	100.00	100.00
DMCI-Laing Construction, Inc. (DMCI-Laing) ²	60.00	60.00
Beta Electric Corporation (Beta Electric) ²	50.77	50.77
Raco Haven Automation Philippines, Inc. (Raco) ²	50.14	50.14
Coal Mining:		
Semirara Mining Corporation (Semirara)	58.31	62.92
Infrastructure and Real Estate Development:		
DMCI Project Developers, Inc. (PDI)	100.00	100.00
Constress Philippines, Inc. (Constress) ³	-	100.00
Hampstead Gardens Corporation (Hampstead) ³	100.00	100.00
Riviera Land Corporation (Riviera) ³	96.38	96.38
Manufacturing:		
Semirara Cement Corporation (SemCem) *	100.00	100.00
Oriken Dynamix Company, Inc. (Oriken) ²	89.00	89.00
Wire Rope Corporation of the Philippines (Wire Rope)	61.70	61.70
Marketing Arm:		
DMCI Homes, Inc. (DMCI Homes) ³	100.00	100.00
Utilities:		
DMCI Power Corporation	100.00	-
DMCI-MPIC Water Company, Inc.**	50.00	-

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

** Owns 84% of Maynilad Water Services, Inc.

¹ Also engaged in real estate development

² DMCI's subsidiaries

³ PDI's subsidiaries

On November 2, 2005, the BOD approved the merger of the PDI with Constress Philippines, Inc., with the PDI as the surviving corporation. On March 7, 2006, the SEC has approved the said merger. The merger was accounted for at cost similar to a pooling of interest since the entities that were merged are under common control.

2. Changes in Accounting Policies

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

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

Philippine Accounting Standards (PAS) 19, Amendment - Employee Benefits

- PAS 21, *Amendment - The Effects of Changes in Foreign Exchange Rates*
- PAS 39, *Amendments - Financial Instruments: Recognition and Measurement*
- PFRS 6, *Exploration for and Evaluation of Mineral Resources*
- PIC Q&A 2006-1, *PAS 18, Appendix, paragraph 9-Revenue Recognition for Sales of Property Units under Pre-completion Contracts*
- Philippine Interpretation - International Financial Reporting Interpretations Committee (IFRIC) 4 - *Determining whether an Arrangement Contains a Lease*
- Philippine Interpretation IFRIC 5 - *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- Philippine Interpretation IFRIC 6 - *Liabilities arising from Participating in a Specific Market-Waste Electrical and Electrical Equipment*

The principal effects of these changes are as follows:

PAS 19 - Employee Benefits

As of January 1, 2006, the Group adopted the amendments to PAS 19. As a result, additional disclosures are made providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has resulted in additional disclosures being included in the consolidated financial statements (Note 22) but has not had a recognition or measurement impact, as the Group chose not to apply the new option offered to recognize actuarial gains and loss outside of the consolidated statement of income.

PAS 21 - The Effects of Changes in Foreign Exchange Rates

As of January 1, 2006, the Group adopted the amendments to PAS 21. Under this amendment, all exchange differences arising from a monetary item that forms part of the Group's investment in a foreign operation are recognized in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. This change did not impact the consolidated financial statements as there are no investments in foreign operation.

PAS 39 - Financial Instruments: Recognition and Measurement

Amendment for financial guarantee contracts - amended the scope of PAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be

recognized initially at fair value and to be remeasured at the higher of the amount determined in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with

PAS 18, *Revenue*. The effect of the adoption of the amendment was not significant to the consolidated financial statements.

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

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

As allowed under PFRS 1, PAS 32 and PAS 39 were adopted from January 1, 2005. The effect of adopting these standards, were charged against retained earnings as of January 1, 2005.

The adoption of the fair value measurement of AFS investments and the adoption of the provision of PAS 39 on the classification and related measurement of financial assets and liabilities on the consolidated financial statements resulted in the recognition of unrealized gain on AFS investments shown as a separate equity item amounting to ₱2.40 million as of January 1, 2005. In addition, installment receivable was discounted in compliance with PAS 39 and resulted to ₱41.46 million decrease in retained earnings.

PFRS 6, Exploration for and Evaluation of Mineral Resources

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

PIC Q&A 2006-1, *PAS 18, Appendix, paragraph 9-Revenue Recognition for Sales of Property Units under Pre-completion Contracts*, which states that the law in different countries may determine the point in time at which the entity transfers the significant risks and rewards of ownership and that the examples in the Appendix need to be read in the context of the laws relating to the sale of goods in the country in which the transaction takes place. In the Philippines, equitable interest may vest in the buyer before a condominium building is complete and before legal title passes since the concept of equitable interest is recognized in Presidential Decree 957, known as the *Condominium and Subdivision Buyers' Protective Decree*. Although the sale of property units under pre-completion contracts is not within the scope of PAS 11, *Construction Contracts*, the method of determining the stage of completion and revenue recognition as provided in that Standard may be referred to for guidance in determining revenue as the acts are performed.

The effect of the adoption of the interpretation was not significant to the consolidated financial statements.

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

The following Philippine Interpretations and accounting standards have been issued but effective for financial statements after January 1, 2006. The Group did not early adopt these Philippine Interpretations and accounting standards.

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2 (effective for financial years beginning on or after June 1, 2006)*. This IFRIC Interpretation clarifies that PFRS 2, *Share-based Payment*, will apply to any arrangement when equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group, when the identifiable consideration appears to be less than the fair value of the instruments given. The adoption of this Philippine Interpretation will not impact the consolidated financial statements as the Group has no share-based payments.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives (effective for financial years beginning on or after June 1, 2006)*. This Philippine Interpretation requires an entity to assess whether a contract contains an embedded derivative at the date an entity first become a party to the contract and prohibits reassessment unless there is change to the contract that significantly modifies the cash flows. The Group will reassess to determine whether or not embedded derivatives were assessed at the date of transition to PFRS rather than at the date of entering into the contract. This Philippine Interpretation requires the Group to revisit and revise accounting for embedded derivatives.
- Philippine Interpretation IFRIC 10, *Interim financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006)*. This Philippine Interpretation addresses an inconsistency between PAS 34, *Interim Financial Reporting* and the impairment requirements relating to goodwill in PAS 36, *Impairment of Assets* and equity instruments classified as available for sale in PAS 39, *Financial Instruments: Recognition and Measurement*. The interpretation states that the specific requirements of PAS 36 and PAS 39 take precedence over the general requirements of PAS 34 and, therefore, any impairment loss recognized for these assets in an interim period may not

be reversed in subsequent interim periods. The Group will assess the impact of this Philippine Interpretation.

- PFRS 7, *Financial Instruments - Disclosures* (effective for annual periods beginning on or after January 1, 2007). PFRS 7 includes all of the disclosure requirements relating to financial instruments and will replace the disclosure section of PAS 32, *Financial Instruments: Disclosure and Presentation* and all of PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*. PAS 32 will then contain only presentation requirements for financial instruments. The most significant additional disclosure requirements of PFRS 7 (compared to PAS 32 and PAS 30) are as follows:
 - (a) qualitative risk disclosures are to include information on the processes that an entity uses to manage and measure its risks, (b) quantitative data about the exposure to each type of risk (including credit risk, liquidity risk and market risk) arising from financial instruments,
 - (c) information about the credit quality of financial assets that are neither past due nor impaired, (d) an analysis of financial assets that are past due or impaired, including a description of collateral held as security and its fair value, (e) a market risk sensitivity analysis which includes the effect of a reasonably possible change in the risk variables, along with the methods and assumptions used in preparing the analysis. The Group will assess whether the processes and systems in place are capable of collecting these information and making any necessary changes. The Group will reassess to determine whether documented policies are comprehensive and complete. The amendment requires presentation of comparative information in the consolidated financial statements.
- Amendments to PAS 1, *Presentation of Financial Statements - Capital Disclosure*. This amendment, which is effective for annual periods beginning on or after January 1, 2007, requires entities to disclose information that enables readers to evaluate the entity's objectives, policies and processes for managing capital. The disclosures are based on information provided internally to key management personnel, and will include: (a) the objectives, procedures and policies used to manage capital, (b) a description of what the entity manages as capital, the nature of any externally imposed capital requirements (if any) and how it meets objectives for managing capital, (c) quantitative information about what the entity manages as capital and any changes from the prior period, (d) whether the entity complied with externally imposed capital requirements and the consequences of any non-compliance, (if applicable). The Group will consider what information is currently used internally and how this is to be incorporated into the disclosures.
- Philippine Interpretation IFRIC 7, *Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies* (effective for annual periods beginning on or after January 1, 2007). This Philippine Interpretation requires entities to apply PAS 29, *Financial Reporting in Hyper-inflationary Economies*, in the reporting period in which an entity first identifies the existence of hyperinflation in the economy of its functional currency as if the economy had always been hyperinflationary. This Philippine Interpretation is not applicable to the Group.

- Philippine Interpretation IFRIC 11, *PFRS2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007)*. This Philippine Interpretation requires arrangements whereby an employee is granted rights to equity instruments to be accounted for as an equity-settled scheme by the Group even if: (a) the Group chooses or is required to buy those equity instruments (e.g. treasury shares) from another party, or (b) the shareholders of the Group provide the equity instruments needed. The adoption of this Philippine Interpretation will not impact the consolidated financial statements.
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements (effective for annual periods beginning on or after January 1, 2008)*. This Philippine Interpretation outlines an approach to account for contractual arrangements arising from entities providing public services. It provides that the operator should not account for the infrastructure as property, plant and equipment, but recognize a financial asset and/or an intangible asset. The Group will assess the impact of this Philippine Interpretation since the Group will now be involved in providing public services with the acquisition of water and power distribution facilities.
- PFRS 8, *Operating Segments (effective for annual periods beginning on or after January 1, 2009)*. This amendment was issued as part of the convergence project with the US Financial Accounting Standards Board. This new standard replaces PAS 14, *Segment Reporting* and adopts a management approach to segment reporting as required in the US Standard SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the consolidated balance sheet and consolidated statement of income and entities will need to provide explanations and reconciliations of the differences. As the information required to be disclosed will likely be readily available as it is already used internally, the Group will reassess to determine whether additional processes should be put into place to reconcile information to the consolidated balance sheet and consolidated statement of income.

3. Summary of Significant Accounting Policies

Revenue Recognition

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

Construction Contracts

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

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

The asset, "*Costs and estimated earnings in excess of billings on uncompleted contracts,*" represents total costs incurred and estimated earnings recognized in excess of amounts billed. The liability, "*Billings in excess of costs and estimated earnings on uncompleted contracts,*" represents billings in excess of total costs incurred and estimated earnings recognized. Contract retentions are presented as part of "*Construction receivable*" under the "*Receivables*" account in the consolidated balance sheet.

Real Estate

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

Real estate sales are accounted for under the percentage-of-completion method when: (a) equitable interest and/or legal title to the subject property is transferred to the buyer; (b) the seller is obliged to perform significant acts after the subject properties are sold; (c) the amount of revenue can be measured reliably; (d) the costs incurred or to be incurred can be measured reliably; and (e) it is probable that the economic benefits will flow to the entity. Under this method, the revenue and cost of sale is recognized as the acts are performed.

If any of the criteria under the full accrual method or the percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the "*Customers' deposits*" account which is shown as part of the "*Accounts and Other Payables*" account in the liabilities section of the consolidated balance sheet.

Interest income

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

Coal sales

Revenue from coal sales is recognized upon delivery when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Merchandise sales

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

Dividend income

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

Rental Income

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

Cash and Cash Equivalents

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

Financial Instruments

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

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

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

Financial assets and financial liabilities at fair value through profit and loss (FVPL)

Financial assets and financial liabilities at FVPL include financial assets and liabilities held for trading, financial assets and financial liabilities designated upon initial recognition as at FVPL, and derivative instruments.

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Included in this classification are debt and equity securities which have been acquired principally during trading purposes.

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

HTM investments

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

Loans and Receivables

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

AFS Investments

AFS investments are those non derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial measurement, AFS are measured at fair value with unrealized gains or losses being recognized directly in equity in the unrealized gain on AFS investments. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the consolidated statement of income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the consolidated statement of income when the right to receive has been established. The Group considers its quoted and unquoted securities, mutual funds, private bonds and government securities as its AFS investments (Note 7).

Fair Value

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

Interest Bearing Loans and Borrowings

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

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

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

Derecognition of Financial Assets and Liabilities

Financial Assets

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

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

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

Financial Liabilities

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

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

Offsetting

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

Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial assets' original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income during the period in which it arises.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

AFS financial investments

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

Inventories

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

Coal inventory

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

Materials in-transit

Cost is determined using the specific identification basis.

Spare parts and other supplies

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

Real estate inventories

Real estate inventories, consists of housing and condominium units for sale and development and land for sale and development, are carried at the lower of cost or NRV. Real estate costs include those costs that relate to the acquisition, development, improvement and construction of the real estate projects. Borrowing costs in 2004 are capitalized while the development and construction of the real estate projects are in progress, and to the extent that these are expected to be recovered in the future. NRV is the selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale such as commissions.

Investments in Associates, Jointly Controlled Entities and Others

Investments in associates and jointly controlled entities (investee companies) are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Under the equity method, the investments in the investee companies are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share in the net assets of the investee companies. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The consolidated statement of income reflect the share of the results of the operations of the investee companies. Profit and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies.

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

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

Investment Properties

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

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

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

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

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

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

	<u>Years</u>
Condominium units	5
Buildings and improvement	5-25

Property, Plant and Equipment

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

The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property, plant and equipment.

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

Depreciation and amortization of property, plant and equipment, except for mining rights, are calculated on the straight-line basis over the following estimated useful lives of the respective assets:

	<u>Years</u>
Land improvements	5-17
Buildings and building improvements	5-25
Construction equipment, machinery and tools	5-10
Office furniture, fixtures and equipment	3-5
Transportation equipment	4-5
Conventional and continuous mining equipment	2-13
Leasehold improvements	5-7 or remaining lease term, whichever is shorter

Depletion of mining rights is calculated based on the units-of-production method.

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

Construction in progress included in property, plant and equipment is stated at cost. This includes the cost of the construction of property, plant and equipment and other direct costs. Construction in progress is not depreciated until such time the relevant assets are completed and put into operational use.

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

Asset Retirement Obligation (ARO)

The Group is legally required to fulfill certain obligations as required under its Environmental Compliance Certificate (ECC) issued by Department of Environment and Natural Resources (DENR). When appropriate, the Group recognizes the liability for these obligations and this is included as part of the cost of property, plant and equipment.

Mine Exploration and Development Costs

Expenditures for mine exploration and development activities on mining properties are deferred as incurred. These deferred costs are charged to expense when the results of the exploration activities are determined to be negative or not commercially viable. When exploration results are positive or commercially viable, the exploration expenses and subsequent development expenses are capitalized and presented under the "*Other noncurrent assets*" account in the consolidated balance sheet. Upon the start of commercial production, such capitalized costs are accordingly transferred to the "*Property, plant and equipment*" account in the consolidated balance sheet and amortized using the unit-of-production method.

Intangible Assets

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

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

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

Impairment of nonfinancial assets

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

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

Borrowing Costs

Borrowing costs are generally expensed as incurred. Interest on borrowed funds used to finance the construction of a qualifying asset to the extent incurred during the period of construction is capitalized as part of the cost of the qualifying asset. The capitalization of these borrowing costs as part of the cost of the qualifying asset: (a) commences when the expenditures and borrowing costs are being incurred during the construction and related activities necessary to prepare the qualifying asset for its intended use are in progress; and (b) ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete. The capitalized borrowing costs are amortized using the straight-line method over the estimated useful life of the qualifying asset.

Treasury Shares

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

Income Tax

Current Tax

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

Deferred Income Tax

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

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

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

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

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

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

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

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

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

Foreign Currency Transactions

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

Retirement Cost

The Group's pension costs are actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses and the effect of any curtailments or settlements.

The net pension liability recognized by the Group in respect of the defined benefit pension plan is the lower of: (a) the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in later periods; or (b) the total of any cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related pension liability.

Leases

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

Group as a Lessee

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

Group as a Lessor

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

Earnings Per Share

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

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

Segment Reporting

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

Provisions

A provision is recognized only when the Group has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Contingencies

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

Subsequent Events

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

4. Preferred and Common Stock

The changes in the number of shares follow:

	2007	2006
<hr/>		
Preferred stock - ₱1 par value cumulative and convertible to common stock		
Authorized number of shares	100,000,000	100,000,000
<hr/>		
Issued and outstanding		
Balance at beginning of year	5,480	144,480
Cancellation/retirement of issued preferred shares	(1,000)	(139,000)
Balance at end of year	4,480	5,480
<hr/>		
Common stock - ₱1 par value		
Authorized number of shares	5,900,000,000	5,900,000,000
<hr/>		
Issued and outstanding	2,423,494,000	2,255,494,000
Additional subscription	168,000,000	
Preferred shares held in treasury		
Balance at beginning of year	(1,000)	(136,950)
Redemption of preferred shares	-	(3,050)
Cancellation/retirement of issued preferred shares	1,000	139,000
Balance at end of year	0	(1,000)

5. Business Segments

The following tables present sales and services, cost of sales and services, and gross profit information regarding business segments for the period and quarter ended June 30, 2007 and 2006 (amounts in thousand):

	For the Period		For the Quarter	
	2007	2006	2007	2006
SALES & SERVICES				
General Construction	1,403,506	1,071,669	905,127	416,934
Coal Mining	2,849,040	2,767,701	1,545,578	1,382,887
Real Estate Development	1,488,079	665,842	735,007	7,014
Manufacturing and Parent Company	80,316	399,253	31,061	383,525
	5,820,941	4,904,465	3,216,773	2,190,360
COST OF SALES & SERVICES				
General Construction	1,111,712	761,121	689,160	125,442
Coal Mining	2,100,274	1,963,428	1,041,958	1,004,747
Real Estate Development	869,231	460,811	437,165	(9,686)
Manufacturing and Parent Company	53,210	32,470	10,116	21,530
	4,134,427	3,217,830	2,178,399	1,142,033
GROSS PROFIT				
General Construction	291,794	310,548	215,967	291,492
Coal Mining	748,766	804,273	503,620	378,140
Real Estate Development	618,848	205,031	297,842	16,700
Manufacturing and Parent Company	27,106	366,783	20,945	361,995
	1,686,514	1,686,635	1,038,374	1,048,327
NET INCOME				
General Construction	138,853	127,418	126,380	73,562
Coal Mining	238,531	234,813	168,594	61,883
Water Services	1,455,801	-	1,318,473	-
Real Estate Development	261,372	114,373	152,428	113,456
Manufacturing and Parent Company	(36,358)	367,148	2,780	353,817
	2,058,199	843,752	1,768,655	602,718

6. **Related Party Transactions**

In the regular course of business, the Group's significant transactions with related parties consisted primarily of the following:

- (a) Comprehensive surety, corporate and letters of guarantee issued by the Company and DMCI 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) Interest and non interest-bearing cash and operating advances made by the Group to and from various associates and other related parties.

Sub-total 1,365,311,333.02

OTHER RECEIVABLES -

D.M. Consunji, Inc.	608,548.44
Oriken Dynamix Company, Inc.	3,126,987.69
Beta Electric Corporation	24,877,482.92
Raco Haven Automation	321,827.87
	<u>28,934,846.92</u>

DMCI Holdings, Inc.	6,039,932.21
Semirara Mining Corporation	8,900,710.00
	<u>14,940,642.21</u>

Sub-total 43,875,489.13

Total Non-trade Receivables 1,626,093,152.53

Less: Allowance for Doubtful Accounts -

Net Non-trade Receivables 1,626,093,152.53

TOTAL RECEIVABLES 4,729,269,025.91

DMCI HOLDINGS, INC.
 ACCOUNTS RECEIVABLE DESCRIPTION
 June 30, 2007

Type of Receivable	Nature/Description	Collection Period
1) Contracts/Retention Receivable	Construction contract billings, sale of Goods and services pertaining to construction and related businesses of subsidiaries; real estate sales like sale of condominium units; development, improvements and construction of real estate projects; and coal mining sales	Contract Receivable - 20 to 30 days upon submission of progress billing Retention Receivable (10%) - depends on the agreement: 1) usually, 60 days after completion and acceptance of the project 2) if 50% completed, can bill 50% of retained amount as specified in the contract agreement Coal Mine Receivable - 1) Average standard term 80% of sales - 30 days upon presentation of invoice 20% of sales - 35 to 45 days term upon receipt of test results 2) Actual term - 45 to 60 days after billing Real Estate Receivable terms: Upon sale - 1) Reservation Fee - P 20,000.00 2) Balance paid through in-house or bank financing
2) Advances	Includes Advances to Suppliers, sub-contractors, and advances to employees/subject for liquidation	
3) Affiliates	Includes Advances to Subsidiaries and Affiliates	
4) Other Receivables	Includes refundable deposits, claims from some government agency like SSS, BIR and other receivables from miscellaneous billings	

Normal Operating Cycle

- 1.) Construction and Real Estate - positive net working capital
- 2) Mining - positive net working capital