





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 **September 30, 2011** are contained herein.

### MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF CONSOLIDATED OPERATIONS AND CONSOLIDATED FINANCIAL CONDITION FOR THE QUARTER AND PERIOD ENDED SEPTEMBER 30, 2011.

#### 1H 2010 – 1H 2011

#### I. RESULTS OF OPERATIONS

DMCI Holdings, Inc. (the “Company”) reported an improvement of 30% in its first half net income (after minority) from P5.8 billion in 2010 to P7 billion in 2011. Despite a slide in general construction and the non-inclusion of the steel fabrication business, significant growth in the coal nickel and power segments along with the sustained improvement in the real estate and water businesses caused the growth consolidated bottom line.

Below is a table on the 9 month net income contributions of the Company’s businesses for 2011 and 2010:

<b>NET INCOME (after Minority)</b> <i>(in Php Millions)</i>	9-month		Variance	
	2011	2010	Amount	%
COAL SALES	2,103	1,124	979	87%
NICKEL ORE SALES	361	243	118	48%
CONSTRUCTION	756	903	(147)	-16%
REAL ESTATE	1,245	1,014	231	23%
ELECTRICITY	1,009	670	339	51%
WATER	1,549	1,328	220	17%
PARENT & OTHERS	13	(16)	29	184%
STEEL	-	506	(506)	-100%
<b>TOTAL</b>	<b>7,036</b>	<b>5,772</b>	<b>1,264</b>	<b>30%</b>

For the period, mining was the main driver of the P1.2 billion increase in the Company’s attributable income due mainly to higher coal prices and the improved operations in the nickel ore mining business. The power generation business also posted significant growth due to higher generation capacity coming from the rehabilitated Calaca unit 2. The real estate and water sectors registered modest improvements as well in its operations.

Consolidated 3<sup>rd</sup> quarter net income on the other hand was significantly less than the previous 2 quarters of the year. Historically within the year, mining operations are normally down as the weather for this time of the year only allows limited mining. This plus the extended dry weather experienced last year caused the significant drop in quarter mining operations year-on-year. Nonetheless, consolidated quarter performance year-on-year was flattish due to the growth in real estate, electricity and water offsetting the drop in mining contributions.

This year also marks the non-inclusion of Atlantic Gulf & Pacific Company of Manila, Inc., the Company’s previously owned steel fabrication which was sold in December 2010.

## WATER

The Company's investment in the water sector is recognized mainly through its equity investment in the consortium with Metro Pacific Investments Corp. (MPIC) which owns Maynilad Water Services, Inc. (Maynilad), the water concessionaire. Maynilad handles the water distribution and sewer services for the western portion of Metro Manila and some areas of Cavite.

Maynilad reported improved water operating efficiencies for the 9-month period in 2011 vs. 2010. Billed volume increased by 7.6% or 21.04 million cubic meters (MCM) despite a 2.6%, or almost 16 MCM, reduction in supply causing non-revenue water (NRW) for the period improved to 49.19% from 54.03%. Average effective tariff also increased by 6.8% coming from inflationary and rebasing adjustments. These caused the improvement in Maynilad's water service revenues by 13.5% from P7.3 billion to P8.3 billion. Billed services further grew by 11% to around 939,000 accounts, but didn't contribute proportionally to the increase in revenues as the growth in connections were from the domestic or residential customers whose rates are subsidized. Meanwhile, cash opex showed a 19.3% jump due mainly to the following: (a) higher personnel costs from a redundancy program and manpower build up, (b) light & power expenses, and (c) real estate and business taxes. As a result, Maynilad bottom figure reached P4.3 billion for the first 9 months of 2011, growing by 23% from the P3.5 billion in 2010.

The Company's net share in the equitized earning from its water investment in Maynilad reached only P1.5 billion this year from the P1.3 billion last year. This was mainly due to the water consortium adjustments. The consortium's ownership in Maynilad was also reduced from 94% in 2010 to 92% in 2011 as Maynilad employees exercised their 2% ESOP in 2010 which were carved out of the consortium's shareholdings.

## CONSTRUCTION

The construction business experienced a marginal decrease from its unprecedented growth last year due to the following: (a) completion of infrastructure projects with no new infrastructure projects awarded, and (b) last year's income includes recognition of a unofficial and unconfirmed change order claim from the Shangrila Boracay project where the costs were conservatively booked in the previous year.

Construction revenues from the Skyway Extension project were reduced for the first semester of 2011 compared to 2010 as the project is almost at full completion. The continuing activity from the 168 Residences, the delayed but now fully resumed Raffles Hotel works provided much of the revenues for the period, and the activity from the recently awarded Entertainment City Complex of Surestre Properties in JV with Bloomburly Resorts and Hotels contributed significantly to construction revenues. This however was not too good for the bottom line as building contracts have lesser margins than specialized infrastructure projects. With the construction works coming mainly from the building contracts, margins and net income declined.

Although delayed, we believe the infrastructure development programs of the current Philippine government (PPP) will inevitably materialize. As such, the Company, thru DMCI, is very much interested in the construction and engineering of these initiatives. The Company believes it is well positioned to be a driver and a beneficiary of the country's infrastructure progress.

In addition, DMCI expects to win the and start the construction of the 135 MW Coal Fired Plant of South Luzon Thermal Energy Corp., a JV between Trans Asia Oil and the Ayala Group. Hopefully, this additional power-infrastructure contract along with others being eyed by DMCI will generate the much needed lift in construction revenues and healthier margins.

## REAL ESTATE

The Company's real estate business is focused purely on residential development. It is led by the Company's wholly owned real estate development subsidiary, DMCI Project Developers, Inc. (PDI). Under the brand name DMCI Homes, PDI has developed and sold middle income housing units that define best in quality & value for money dwellings in its market segment.

The Company recognizes real estate revenues using the full accrual method where sales are booked when the unit is fully complete and the downpayment of 20% is already collected. This method is already in compliance with International Accounting Standards. There was a plan to adopt this in the country in 2008 but was subsequently suspended by the SEC after majority of the real estate companies lobbied against it due to the retroactive adjustments that will be recorded upon adoption. Despite this, the full accrual method has been and is still used by the Company as we believe the adoption is inevitable if the country wants to be at par with global accounting practices.

The housing segment recognized a 23% increase in net contributions for the period from P1 billion last year to P1.2 billion this year. Realized housing sales for the period grew by 25% to P5 billion with the timing of completion and realization of sales from of existing projects: East Raya, Magnolia Place, Mahogany Place 3, Ohana Residences and Rosewood Pointe all contributed to improvement in real estate revenues. Also margins improved due as prices improved slightly due to improvements in product quality such as better (and bigger) amenities and facilities

A better representative of current demand would be sales and reservations for the period which experienced an increase of 24% from P11 billion in 2010 to P13.8 billion in 2011. Increasing demand for DMCI housing units coming mainly from new projects: La Verti Residences in Taft, Pasay City; the Redwoods in Fairview, Novaliches; Siena Park in Bicutan Paranaque and Stellar Place in Quezon City pushed marketing sales to new heights. Moreover, increased take up from added phases in existing projects East Raya and Magnolia Place also added to the growth in sales.

Operating expenses in the real estate segment were higher by 26% due to:

- Increase in selling and marketing activities such as advertising, sales incentives, marketing tools, ads, project launches, etc.
- Increase in employee salaries & wages
- Increase in utilities and real estate taxes

Note that most of the Company's housing units have a selling price below P3 million per unit and as such has been registered with the Board of Investments (BOI) as part of their affordable housing investments that provide vat and income tax incentives.

## MINING & POWER

### Coal Mining & Power (Calaca-Coal)

The Company's coal mining business which owns the major power asset, Calaca are both lodged under the 56%-owned and publicly listed Semirara Mining Corp (SMC). SMC reported an improvement in operations for the period with a net contribution of P2.1 billion for coal mining and P1.3 billion for power generation in 2011 compared to P1.1 billion and P685 million respectively in 2010. This was mainly due to higher coal prices and the improved capacity for the power operations due to the completion of the rehabilitation of Calaca unit 2.

Below is SMC's management discussion and analysis of results of operations and financial condition for the period ending and as of September 30, 2011 compared to September 30, 2010 as lifted from its interim 3<sup>rd</sup> quarter financial report with the PSE and SEC:

## **MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS 2011 NINE-MONTH OPERATION**

Efficient mining operations resulted to setting a new record in total material movement of 65,263,730 bank cubic meters (bcm) as at the end of Q3 2011. This is already 87% of full year capacity of 75 million bcm. With an average strip ratio of 10.25: 1, total run-of-mine (ROM) coal produced was at 5,953,720 metric tons (MTs). During the dry season, the Company aggressively pre-stripped, exposing around 600,000 MTs of coal as at the beginning of Q3. Hence, despite the heavy rains in the island during the quarter, mining operations went on smoothly. Clean coal production stood at 4,798,646 MTs, while washable coal totalled to 1,155,074 MTs. The resulting net product coal was 5,436,773 MTs. The Company continued its exploratory drilling all over the island, with special focus on the eastern part. Drilling data continued to indicate positive results during the period.

The Company targets to jumpstart the certification of the additional volume discovered by a local competent person on coal resource and mineable reserve within the year to increase its mineable coal reserve inventory, prior to its certification in accordance with JORC standards. Construction of the additional shiploading facility was finally completed and already operational, thus augmenting the mine loading capacity to match the increase in production and demand. The strategic location of the new pier will also provide efficiencies on coal transfer time. Strong demand for Semirara coal is reflected by the high coal sales of 5,617,104 MTs. Although export demand is still robust, especially from China, the Company prioritized serving the local markets as these commanded higher prices. Ending coal inventory closed at 237,010 MTs.

### **Power**

Meanwhile, the power segment's total gross generation during the period was 1,494 GWhr. Unit 1 and 2 generated 728 GWhr and 766 GWhr, respectively. Capacity factor and availability for Unit 1 was at 37% and 35%, while Unit 2 was at 33% and 32%, respectively. Dependable capacity of Unit 1 was at 160 MW with 51% utilization. On the other hand, dependable capacity of Unit 2 is already at 300 MW with 59% utilization.

Power Unit 2 experienced forced outage after its rehabilitation due to failure of some equipment during the commissioning, thus it registered low performance in Q1. These were immediately addressed at the onset of Q2, hence, the improvements in terms of gross generation, availability, capacity factor and efficiency of the unit were evident during the period.

### **2011 NINE-MONTH FINANCIAL CONDITION**

The Company's consolidated earnings in just three quarters is already 31% higher than its 2010 full year profits. After eliminations, Revenues generated by the coal and power segments amounted to PHP14.05 billion and PHP7.40 billion, respectively, thus consolidating to PHP21.45 billion. The coal segment's Revenues reflected both domestic sales, excluding Calaca, of 2.12 million MTs and export sales of 2.34 million MTs. Composite average price during the period was PHP 3,046 per MT. Meanwhile, the power segment's Revenue is composed of bilateral contracts sales of 1,217 GWhr and spot sales of 383 GWhr at an average price of PHP4.62 per KWhr.

Net of eliminating entries, Cost of Sales of the coal and power segments amounted to PHP8.09 billion and PHP4.81 billion, consolidating to PHP12.90 billion. The coal segment's Cost of Sales is mainly comprised of Materials, Fuel, Lube and Overhead of PHP6.55 billion and Depreciation and Amortization of PHP1.54 billion. On the other hand, Fuel Costs of PHP3.79 billion and Spot Purchases of PHP998 million mainly comprised the power segment's Cost of Sales.

Consolidated Gross Profit amounted to PHP8.56 billion, with the coal and power segments contributing PHP5.96 billion and PHP2.59 billion, respectively.

The coal segment's Operating Expenses of PHP2.26 billion is mainly comprised of temporary accrual of Government Share for the period amounting to PHP1.77 billion.

Meanwhile, management fees representing O&M fees for Calaca Plants' operation amounting to PHP471.71 million is the single biggest item that comprised the power segment's Operating Expenses of PHP884.83 million. Consolidated Operating Expenses totalled to PHP3.14 billion. The coal segment booked Net Other Income of PHP32.94 million. Financing Costs of PHP90.63 million for its outstanding loans and Net Forex Losses of PHP14.02 million were offset by Finance Revenue generation of PHP46.40 million and PHP91.19 million

Other Income which is mainly comprised of gain on sale of equipment and insurance recovery of PHP53.48 million and PHP35.19 million. On the other hand, the power segment incurred Financing Costs of PHP278.80 million for its outstanding project finance loan. This was slightly offset by Finance Revenue of PHP32.08 million and Forex Gains of PHP2.80 million, thus Net Other Expenses amounted to PHP243.91 million. As a result, the Company recorded consolidated Other Expenses of PHP210.97 million for the period.

The resulting consolidated Income Before Tax stood at PHP5.20 billion. The coal and power segments' contribution was at PHP3.74 billion and PHP1.46 billion, respectively.

Both the coal and the power segments are BOI-registered companies, thus these are enjoying Income Tax Holidays. As a result, consolidated Income Tax Provision was minimal at PHP8.84 million, the coal and power segments provided for PHP5.67 million and PHP3.17 million, respectively.

As a result, consolidated Net Income After Tax amounted to PHP5.20 billion, the coal and power segments, accounted for PHP3.74 billion and PHP1.46 billion, respectively. Consolidated EPS stood at PHP14.58.

The Company's consolidated balance sheet closed with Assets amounting to PHP33.84 billion, Liabilities of 19.87 billion, and Equity of PHP13.97 billion.

The coal segment's total assets as at end of Q3 stood at PHP11.84 billion, posting a 10.2% increase from beginning balance of PHP10.74 billion. Of this amount, current portion stood at PHP8.34 billion, increasing by 22% from beginning balance of PHP6.86 billion. Bulk of Current Assets is comprised of Cash and Cash Equivalents at PHP4.37 billion, as a result of strong sales during the period. Net

Receivables amounting to PHP1.01 billion are mainly trade related, while Net Inventories of PHP1.68 billion is comprised of coal inventory of PHP439.17 million and materials and supplies of PHP1.24 billion. Due from related parties closed at PHP149.25 million. Other current assets of PHP1.12 billion mainly consist of advances to suppliers of PHP451.42 million; prepaid income taxes and VAT receivable of PHP347.65 million and PHP324.72 million security deposits and other prepayments.

Total non-current portion of the coal segment closed at PHP3.50 billion, 10% lower than beginning balance of PHP3.88 billion. This is comprised of Property, Plant and Equipment - net of depreciation amounting to PHP3.35 billion; Investment and Advances of PHP2.5 million accounting for Investments in Calaca Ecozone project; and other noncurrent assets of PHP144.22 million covering cost of software and noncurrent portion of VAT receivable.

The coal segment's total Liabilities closed at PHP9.10 billion, reflecting a 25% growth from beginning balance of PHP7.29 billion. Current Liabilities of PHP5.15 billion accounted for Accounts and Other Payables which are mainly trade-related at PHP4.39 billion, Due to Affiliated Companies of PHP48.24 million, and short-term and current portion of loans totalling to PHP706.97 million. Total Noncurrent Liabilities closed at PHP3.95 billion. This is comprised of Long-Term Debt - net of current portion of PHP3.91 billion. Provision for decommissioning and site rehabilitation of PHP1.88 million, and Deferred Income Tax of PHP28.09 million. Meanwhile, the power segment's total assets closed at PHP21.15 billion, growing by 7% from beginning balance of PHP19.75 billion. Current assets which closed at PHP4.37 billion is comprised of Cash and Cash Equivalents of PHP1.16 billion, net Receivables of PHP1.02 billion, Inventories of PHP1.77 billion, due from related parties of PHP60.81 million, and Other Assets of PHP363.19 million. On the other hand, noncurrent assets closed at PHP16.79 billion. This accounted for Property, Plant and Equipment of PHP16.35 billion, Investments and Advances of PHP321.77 million, and Other noncurrent assets of PHP106.16 million.

The power segment's total Liabilities of PHP10.77 billion decreased by 1% from beginning balance of PHP10.87 billion mainly as a result to its amortization of its project finance debt. Current Liabilities closed at PHP2.78 billion, consisting of trade payable and due to government agencies, totalling to PHP1.58 billion; due to affiliated companies of PHP53.10 million; and short-term loans and current portion of long-term loans of PHP1.14 billion. Noncurrent liability of PHP7.99 billion is the long-term portion of the balance of the PHP9.6 debt incurred for the acquisition of the business.

The Company also accounted for its newest investment in expansion of its power generating capacity in its consolidated financial statements. Southwest Luzon Power Corporation (SCPC) was created for this expansion project. Its assets consist of PHP750 million of Cash and Cash Equivalents and total non-current assets of PHP104.18, which is comprised of Property, Plant and Equipment of PHP83.98 million and Other noncurrent assets of PHP20.20 million. Strong earnings during the period beefed up the coal segment's Equity to PHP12.18 billion, even after paying dividends of PHP3.56 billion. In addition, the power segment's Equity closed at PHP1.80 billion after declaring dividends of PHP1.2 billion in April.

## 2011 COMPARATIVE REPORT

### I. COAL PRODUCTION I POWER GENERATION

Improved mechanical availability of mining equipment, additional fleet capacity and shortened hauling distance were factors that increased efficiency of mining operations. As a result, total material movement reflected 11% increase from 2010 level of 58,802,443 bcm to 65,263,730 bcm this year. The table below shows the quarterly material movement for the two comparative years:

#### QUARTERLY MATERIAL MOVEMENT (in million BCM)

	2011	2010	Inc/(Dec)
<b>Q1</b>	26.85	19.45	38%
<b>Q2</b>	22.29	21.18	5%
<b>Q3</b>	16.12	18.17	(11%)
<b>YTD</b>	65.26	58.80	11%

Meanwhile, despite the increase in YTD strip ratio at 10.25: 1 for the first three quarters this year as compared to 9.90: 1 last year, ROM coal production increased by 8% at 5,953,720 MTs in the current period as compared to Q3 YTD 2010 level of 5,537,655 MTs. The table below shows the quarterly ROM coal production for the two comparative years:

#### QUARTERLY ROM COAL PRODUCTION (in million MTs)

	2011	2010	Inc/(Dec)
<b>Q1</b>	1.82	1.85	(1%)
<b>Q2</b>	2.30	1.86	24%
<b>Q3</b>	1.84	1.83	0%
<b>YTD</b>	5.95	5.54	8%

Net product coal production likewise increased by 7% from 5,086,182 MTs as at end of Q3 in 2010 to 5,436,773 MTs this year. The table below shows the quarterly net product coal production for the two comparative years:

**QUARTERLY NET PRODUCT COAL (in million MTs)**

	<b>2011</b>	<b>2010</b>	<b>Inc/(Dec)</b>
<b>Q1</b>	1.64	1.67	(2%)
<b>Q2</b>	2.15	1.71	26%
<b>Q3</b>	<b>1.65</b>	<b>1.70</b>	<b>(3%)</b>
<b>YTD</b>	<b>5.44</b>	<b>5.09</b>	<b>7%</b>

Lower beginning inventory and higher coal sales in the current period reflected a lower ending inventory level of 237,010 MTs at the close of Q3 this year, as against 702,088 MTs as at end of Q3 2010.

Meanwhile, the table below shows the quarterly generation of the power segment's two power plants for the two comparative years:

**SCPC ENERGY GENERATION (in GWhr)**

	<b>2011</b>			<b>2010</b>		
	<b>Unit 1</b>	<b>Unit 2</b>	<b>Total</b>	<b>Unit 1</b>	<b>Unit 2</b>	<b>Total</b>
<b>Q1</b>	243	189	432	224	241	465
<b>Q2</b>	245	395	640	295	322	617
<b>Q3</b>	<b>240</b>	<b>182</b>	<b>422</b>	<b>156</b>	<b>157</b>	<b>313</b>
<b>YTD</b>	<b>728</b>	<b>766</b>	<b>1,494</b>	<b>675</b>	<b>720</b>	<b>1,395</b>

Unit 2's rehabilitation which started in August last year lasted until Q1 this year. Fine tuning activities on the plant were still done in the first few months of the year to bring back the plant's performance up to its rated capacity. Hence, Unit 2's generation only marked a significant improvement in Q2 this year. On the other hand, Unit 1 was able to hold its ground as its rehabilitation was postponed to the second half of the year to take advantage of high electricity prices during the dry season. Unit 1 was shut down for rehabilitation in September.

**II. MARKETING**

Sales in the second quarter this year compensated for the weaker delivered volume in Q1. This was mainly driven by the recovery in export sales from an anticipated slump in the first few months of the year since China beefed up on inventory towards the end of 2010. However, as expected, sales in Q3 dropped as coal production was limited during the rainy season. Local customers were given dispatch priority over export orders since the former commanded higher prices. Nonetheless, Q3 this year is 24% higher than same period last year. As a result, YTD coal sales increased by 10% at 5,617,104 MTs this year from 5,092,309 MTs last year. The table below shows the quarterly coal sales for the two comparative years:

**QUARTERLY COAL SALES (in MTs)**

	<b>2011</b>	<b>2010</b>	<b>Inc/(Dec)</b>
<b>Q1</b>	1,641,515	2,007,530	(18%)
<b>Q2</b>	2,515,474	1,909,614	32%
<b>Q3</b>	1,460,115	1,175,165	24%
<b>YTD</b>	<b>5,617,104</b>	<b>5,092,309</b>	<b>10%</b>

Local sales accounted for 58%, while export sales' market share stood at 42% as at Q3 this year. On the contrary, export sales took up a bigger share in the pie at 52% as compared to 48% by local sales in the same period last year. The table below shows the comparative YTD sales volume per industry for 2010 and 2009:

**COAL SALES PER INDUSTRY (in MTs)**

	<b>2011</b>	<b>2010</b>	<b>Inc/(Dec)</b>
<b>LOCAL</b>			
Power	2,666,757	1,417,222	88%
Cement	459,685	653,874	(30%)
Other Industries	145,677	366,867	(60%)
<b>Total LOCAL</b>	<b>3,272,120</b>	<b>2,437,963</b>	<b>34%</b>
<b>Export</b>	<b>2,344,984</b>	<b>2,654,346</b>	<b>(12%)</b>
<b>Total Sales Volume</b>	<b>5,617,104</b>	<b>5,092,309</b>	<b>10%</b>

The increase in the off-take of the power industry was largely due to the increased purchases of a customer who signed a long-term contract with the Company, as well as increased deliveries to the power segment. The increase in deliveries to the power industry was more than enough to offset the 30% decrease in deliveries to cement plants and 60% drop in sales to other industries. As a result, local sales recorded a significant increase of 34% at 3,272,120 MTs this year as compared to 2,437,963 MTs in the same period last year.

On the other hand, total sales to the export market dropped by 12% at 2,344,984 MTs in the first three quarters this year from 2,654,346 MTs in the same period year.

Coal prices remained resilient this year despite global economic slowdown. Composite average FOB price per MT increased by 33% from PHP2,286 as at end of Q3 2010 to PHP3,046 this year.

Meanwhile, the power segment registered a slight 1% drop in total energy sales this period at 1,127 GWhr, as compared to 1,133 GWhr in H1 2010. This is due to lower volume sold in Q1 this year when Unit 2 was still under fine tuning after its commissioning. Of the total energy sold, 88% was sourced from generation of the plant and 12% was purchased from the spot market. Total spot purchase this year of 131 GWhr is almost the same as H1 2010 level of 133 GWhr. Average selling price/KWhr for the first half registered at PHP5.26 and PHP4.69 in 2010 and 2011, respectively. The table below shows the quarterly energy sales of the power segment's two power plants for the two comparative years:

### SCPC ENERGY SALES (in GWhr)

	2011			2010		
	BCQ Sales	Spot Sales	Total	BCQ Sales	Spot Sales	Total
<b>Q1</b>	362	94	455	397	121	518
<b>Q2</b>	457	215	671	405	211	616
<b>Q3</b>	398	74	474	284	98	382
<b>YTD</b>	<b>1,217</b>	<b>383</b>	<b>1,600</b>	<b>1,086</b>	<b>430</b>	<b>1,516</b>

### III. FINANCE

#### A. Sales and Profitability

Revenues generated by the coal segment, inclusive of sales to the power segments totalled to PHP17.11 billion, while the power segment generated PHP7.40 billion. After eliminations, consolidated Revenues stood at PHP21.45 billion, posting a 27% increase over Q3 2010 consolidated Revenues of PHP16.90 billion. The growth is mainly due to higher coal sales and increased coal prices, slightly tempered by lower energy prices this year.

Meanwhile, Consolidated Cost of Sales increased by 10% at PHP12.90 billion from PHP11.73 billion as at Q3 2010. Cost of mine rehabilitation activities, upgrading of support facilities, higher oil prices plus higher strip ratio caused upward pressure on cost of coal sold per MT, however this was fully compensated by the increase in selling price. Meanwhile, the power segment's cost of generation increased by 6% at PHP4.81 billion as against PHP4.53 billion last year due to higher start-up cost incurred resulting from unscheduled shutdowns and higher prices effective third quarter. Before eliminations, the coal and power segments generated Gross Profit of PHP5.96 billion and PHP2.92 billion, respectively. Consolidated Gross profit closed at PHP8.56 billion, reflecting a 66% increase over PHP5.16 billion as at Q3 2010. Gross profit margin is more impressive at 40% this year as compared to 31 % last year.

Improving efficiency at the minesite is reflected by higher government share provision at 10.33% of coal revenue. This largely accounted for the increase in the coal segment's Operating Expenses, before eliminations, of PHP2.25 billion from PHP1.15 billion last year. On the other hand, the standalone Operating Expenses incurred by the power segment mainly consisted of Management Fees and Taxes and Licenses amounting to PHP471.71 million and PHP246.83 million respectively. Thus, consolidating to PHP3.14 billion. This is 80% higher than last year's same period consolidated Operating Expenses of PHP1.74 billion.

Consolidated Interest Expenses dropped by 28% at PHP369A3 million as compared to PHP511014 million last year. The power segment has started to amortize its PHP9.6 billion debt related to the asset's acquisition. Moreover, the coal segment enjoys significantly lower interest rates on its dollar borrowings this year.

With healthier cash levels, consolidated Interest Income is 302% higher this year at PHP78.48 million as compared to PHP19.53 million last year.

Meanwhile, the fluctuation of the PHP against the USD resulted to net Forex Losses of PHP11.22 million in the current period. In the same period last year, consolidated Forex gains totalled to PHP140.31 million.

Other Income of PHP91.19 million is mainly comprised of the coal segment's gain on sale of retired equipment amounting to PHP53A8 million and Insurance claims of 35.19 million.

The resulting consolidated Income Before Tax stood at PHP5.20 billion, posting a 66% increase over Q3 2010 level of PHP3.13 billion.

Since both business segments enjoy Income Tax Holiday as BOI-registered companies, consolidated tax provision is minimal at PHP8.84 million. Total tax provision as at Q3 2010 was at even lower level of PHP1.36 million.

Consolidated Net Income After Tax of PHP5.2Q billion is 62% higher than YTD Q3 2010 net earnings of PHP3.21 billion. Despite a bigger capital base, EPS of PHP14.58 posted a 40% growth over last year's level of PHP10A2.

#### **Solvency and liquidity**

The Company's robust income generation during the period, augmented by collection of some Receivables, allowed the Company to spend sizeable amounts in investments, particularly additional property, plant and equipment which recorded a consolidated amount of PHP2.78 billion.

In addition, it paid dividends of PHP3.56 billion, which is double of last year's total payout.

Moreover, consolidate debt payments during the period amounted to PHP4.5 billion, of which PHP2.41 billion and PHP2.09 billion serviced the coal and power segments' debts, respectively.

Despite the SUBstantial cash outlay of the Company during the period, ending Cash balance is robust as total cash generation during the period of PHP2.46 billion augmented beginning balance of PHP3.81 billion, thus posting a consolidated Cash end of PHP6.28 billion.

Notably, despite a slow start, the power segment contributed significantly to the Company's cash generation during the period. Its healthy cash position enabled it to pay PHP1.2 billion in dividends its parent company.

The Company's liquidity position continued to improve with Current ratio closing at 1.70x. Meanwhile, Debt-to-Equity ratio also improved to 1.42:1, reflecting the Company's solid financial standing.

#### **IV. PERFORMANCE INDICATORS**

**1. Earnings per Share** - An important indicator of the Company's operations is its EPS. The Company's increasing EPS reflects its notable efforts in managing its resources efficiently. Despite a bigger capital base, this period's EPS of PHP14.58 is 40% higher than same period of last year's EPS of 10.42.

**2. Debt-to-Equity Ratio** - Manifesting the continued strengthening of the Company's financial strength is the corresponding improvement of its DE ratio. The Stock Rights Offering exercise last year, strong earnings and debt amortization are the major factors that improved the Company's DE ratio.

**3. Business Expansion** - After recovering from the financial stress of a huge investment made in 2009, the Company is again reinforcing its artillery as it is once again financially strong to make new investments. The Company is poised to expand its power generating capacity within the next three years to take advantage of the supply and demand gap in the energy sector.

**4. Expanded Market** - The power segment was able to renegotiate an expiring bilateral power supply contract with improved terms. Also, it gained a new customer for a continuous flat load for 24 hours. Meanwhile, the coal segment's market is more reliable with its long term supply contract with one of the country's biggest power company.

**5. Improved coal quality** - Market acceptability of Semirara coal is a manifestation of its successful efforts in improving its coal quality. Moreover, the continuous advancement of technology augurs well for Semirara coal as even its lowest quality stock, which was not marketable before, can be sold already.

## Nickel

The Company's venture into nickel mining was revived in late 2009 when a mining venture with Benguet Mining was agreed upon in September of that year. DMCI Mining, Corp., the Company's nickel and metals (non-coal) mining company, set out to mine and market relatively high concentration nickel ore (1.8%-2% nickel content) at the Benguet mine in Zambales with the agreement to effectively share in the profits from mining and selling nickel ore.

DMCI Mining has also signed another contract with Zambales Diversified Mining Corp., a subsidiary of European Nickel, to operate the old Acoje mine. First shipment from this mine has been subsequently made in July 2011. Operations in Acoje is expected to supplement and eventually replace production from Benguet since the current contract with Benguet is expected to be finished by 2012.

DMCI Mining reported continuous growth in 9-month contributions for 2011 amounting to P361 million compared to P243 million in 2010. Nickel ore shipments coming mainly from Benguet (minimal from Acoje) for the period reached 1.1 million wet metric tons (WMT) this year compared to 781 thousand WMT last year. With the higher volume and a 27% growth in average selling price, revenues grew by 79% for the period. Note that the Company co-owned equally DMCI Mining with SMC until the Company purchased SMC's equity in DMCI Mining late in 2010.

Evident of the Company's competence in mining and having arguably the best working port facility in Santa Cruz, Zambales, DMCI Mining has proved to be one of the prime miners in the Zambales area.

## **II. FINANCIAL CONDITION**

### **December 31, 2010 (Audited) – September 30, 2011 (Unaudited)**

The Company's financial condition for the period improved as total assets and net assets increased by 18% and 16% respectively.

Cash increased by a significant 52% to P15 billion due mainly from operations of the different business and the syndicated loan raised by the real estate business. Major use of cash is for operations and from payment of cash dividends.

Total receivables (current and non-current) went up due mainly to new sales in all sectors and the reinstatement of owner/supplier receivables covered with owner/supplier advances at the construction business.

Consolidated inventories grew by 28% increase as real estate inventories grew due to the growth in complete units and units being constructed. Inventories for power equipment also increased significantly for the quarter prompting the increase in Semirara consolidated inventory.

Investments were slightly up as a result of the Company's share in net operations of the water business and other equity investments of the group.

Property plant & equipment inched up ever so slightly as there were not much significant equipment acquisitions for the period.

Accounts & other payables increased mostly as a result of the operating credits, deferred revenues and accruals.

Customer's deposits grew with the historically high sales and reservations in the housing segment. This is evident of the growing demand for DMCI Homes units despite the completion of the units. Receipts from these customers helped push-up the customer's deposit account.

Long term debt increased due to the P5 billion corporate notes issued at the real estate segment.

Current ratio improved from 1.78 to 2.05 due mainly from cash generation of the different businesses.

Debt to equity ratio remained at the same levels despite additional debt issued at the real estate business as operations generating the much needed asset growth.

### III. KEY PERFORMANCE INDICATORS

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

- a) Segment Revenues
- b) Segment Net Income (after Minority)
- c) Earnings Per Share
- d) Current Ratio
- e) Debt to Equity Ratio

#### SEGMENT REVENUES

##### REVENUES

<i>(in Php Millions)</i>	9-month		Variance	
	2011	2010	Amount	%
COAL SALES	14,051	9,463	4,589	48%
NICKEL ORE SALES	2,042	1,138	904	79%
CONSTRUCTION	7,324	8,161	(837)	-10%
REAL ESTATE	5,098	4,066	1,032	25%
ELECTRICITY	7,980	7,538	442	6%
PARENT & OTHERS	115	103	13	12%
<b>TOTAL</b>	<b>36,610</b>	<b>30,468</b>	<b>6,142</b>	<b>20%</b>

The initial indicator of the Company's gross business results are seen in the movements in the different business segment revenues. As illustrated above the significant main drivers for revenue growth are the mining and real estate sectors (*see Part I. Results of Operations – different segments for a detailed discussion per business*).

#### SEGMENT NET INCOME

##### NET INCOME (after Minority)

<i>(in Php Millions)</i>	9-month		Variance	
	2011	2010	Amount	%
COAL SALES	2,103	1,124	979	87%
NICKEL ORE SALES	361	243	118	48%
CONSTRUCTION	756	903	(147)	-16%
REAL ESTATE	1,245	1,014	231	23%
ELECTRICITY	1,009	670	339	51%
WATER	1,549	1,328	220	17%
PARENT & OTHERS	13	(16)	29	184%
STEEL	-	506	(506)	-100%
<b>TOTAL</b>	<b>7,036</b>	<b>5,772</b>	<b>1,264</b>	<b>30%</b>

The net income (after minority) or bottom line results from 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 for the different business segments. Except for construction, the current period posted strong growth in earnings from the coal and nickel mining businesses, while other segments provided modest improvement (see *Part I. Results of Operations – different segments for a detailed discussion per business*).

#### EARNINGS PER SHARE

The Company's consolidated earnings per share (EPS) for the period was P2.65/share accounting for a 22% increase from the P2.17/share EPS of the same period last year. Same as segment net income, all the businesses except construction all contributed to the improvement in earnings (see *Part I. Results of Operations – different segments for a detailed discussion per business*).

#### 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 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 1.00 per common share paid on July 7, 2011 to the holders of record of June 15, 2011.
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

November 16, 2011

**DMCI HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**For the period ended September 30, 2011 and December 31, 2010**  
**(Amounts in Thousands of Philippine Pesos,**  
**Except Par Value and Number of Shares)**

	2011	AUDITED 2010
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	15,117,497	9,946,666
Available-for-sale financial assets - net	293,278	222,203
Receivables - net	13,348,799	9,125,086
Costs and estimated earnings in excess of billings on uncompleted contrac	0	449,196
Inventories - net	16,212,350	12,704,544
Other current assets	1,810,031	3,920,594
<b>Total Current Assets</b>	<b>46,781,955</b>	<b>36,368,289</b>
<b>Noncurrent Assets</b>		
Noncurrent receivables - net	1,211,653	2,782,287
Investments in associates, jointly controlled entities and others - net	11,155,035	9,387,673
Investment properties - net	415,385	358,590
Property, Plant and Equipment - net	22,288,098	21,540,724
Deferred tax assets	0	10,191
Other noncurrent assets - net	2,229,465	824,822
<b>Total Noncurrent Assets</b>	<b>37,299,636</b>	<b>34,904,287</b>
	<b>84,081,591</b>	<b>71,272,576</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Bank Loans	2,031,437	753,534
Current portion of liabilities for purchased land	0	660,622
Accounts and other payables	11,606,625	10,108,213
Billings in Excess of Costs and estimated earnings on uncompleted contracts	704,639	586,880
Customers' advances and deposits	7,046,153	4,437,999
Current portion of long-term debt	28,867	3,165,102
Income tax payable	184,472	146,079
Payable to related parties	1,175,219	517,384
<b>Total Current Liabilities</b>	<b>22,777,412</b>	<b>20,375,813</b>
<b>Noncurrent Liabilities</b>		
Long-Term Debt - net of current portion	21,459,530	15,858,722
Liabilities for purchased land - net of current portion	0	731,262
Deferred tax liabilities - net	742,307	496,766
Pension liabilities	184,618	216,784
Other Noncurrent Liabilities	1,222,925	1,170,027
<b>Total Noncurrent Liabilities</b>	<b>23,609,380</b>	<b>18,473,561</b>
<b>Total Liabilities</b>	<b>46,386,792</b>	<b>38,849,374</b>
<b>Equity</b>		
Equity attributable to equity holders of the DMCI Holdings, Inc.:		
Paid-up capital	7,420,814	7,421,415
Deposit for future subscription	0	0
Retained earnings	24,073,705	19,693,115
Premium on acquisition of non-controlling interests		(161,033)
Other comprehensive income	0	(2,781)
	<b>31,494,519</b>	<b>26,950,716</b>
<b>Non-controlling interests</b>	<b>6,200,280</b>	<b>5,472,486</b>
<b>Total Equity</b>	<b>37,694,799</b>	<b>32,423,202</b>
	<b>84,081,591</b>	<b>71,272,576</b>

**DMCI HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

For the period ended September 30, 2011 and 2010 and for the quarter ended  
September 30, 2011 and 2010

(Amounts in Thousands of Philippine Pesos)

	For the period		For the quarter	
	2011	2010	2011	2010
<b>REVENUE</b>				
Coal Sales	14,051,489	9,462,782	3,360,592	2,404,720
Nickel Ore Sales	2,041,759	1,137,969	279,110	314,835
Construction contracts	7,323,820	8,161,002	2,486,938	2,372,298
Electricity sales	7,979,770	7,537,532	2,337,281	1,580,721
Real estate sales	5,097,857	4,065,833	1,896,121	1,665,590
Merchandise sales and others	115,451	102,910	35,537	31,072
	<b>36,610,146</b>	<b>30,468,028</b>	<b>10,395,579</b>	<b>8,369,236</b>
<b>COST OF SALES AND SERVICES</b>				
Coal Sales	8,089,076	6,487,226	2,611,382	1,881,002
Nickel Ore Sales	1,517,682	687,925	250,444	97,608
Construction contracts	6,212,481	6,798,900	2,127,734	2,015,990
Electricity sales	5,210,845	5,326,514	1,658,328	1,377,726
Real estate sales	2,767,998	2,304,032	1,022,531	934,886
Merchandise sales and others	75,117	61,915	22,887	19,379
	<b>23,873,199</b>	<b>21,666,512</b>	<b>7,693,306</b>	<b>6,326,591</b>
<b>GROSS PROFIT</b>	<b>12,736,947</b>	<b>8,801,516</b>	<b>2,702,273</b>	<b>2,042,645</b>
<b>OPERATING EXPENSES</b>	(4,628,971)	(2,909,274)	(1,179,525)	(414,097)
	8,107,976	5,892,242	1,522,748	1,628,548
<b>OTHER INCOME (LOSSES)</b>				
Equity in net earnings of associates	1,548,534	1,474,856	602,763	568,408
Finance income	998,929	369,988	433,099	(134,495)
Finance costs	(951,979)	(498,823)	(246,094)	57,335
Other income (charges) - net	421,691	131,942	64,585	(56,794)
<b>INCOME BEFORE INCOME TAX</b>	10,125,151	7,370,205	2,377,101	2,063,002
<b>PROVISION FOR INCOME TAX</b>	805,287	620,181	345,756	222,254
<b>INCOME BEFORE CONTINUING OPERATIONS</b>	9,319,864	6,750,024	2,031,345	1,840,748
<b>AFTER TAX INCOME FROM DISCONTINUED OPERATIONS</b>	0	513,632	0	178,693
<b>NET INCOME (LOSS) (NOTE 4)</b>	<b>9,319,864</b>	<b>7,263,656</b>	<b>2,031,345</b>	<b>2,019,441</b>
<b>NET INCOME ATTRIBUTABLE TO</b>				
Equity holders of DMCI Holdings, Inc.	7,036,082	5,772,615	1,756,753	1,591,810
Non-controlling interests	2,283,782	1,491,041	274,592	427,631
	9,319,864	7,263,656	2,031,345	2,019,441
<b>Basic/Diluted Earnings Per Share</b>	2.65	2.17	0.66	0.60

**DMCI HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****For the period ended September 30, 2011 and 2010 and for the quarter ended  
September 30, 2011 and 2010****(Amounts in Thousands of Philippine Pesos)**

	For the period		For the quarter	
	2011	2010	2011	2010
<b>NET INCOME</b>	9,319,864	7,263,656	2,031,345	2,019,441
<b>OTHER COMPREHENSIVE INCOME</b>				
Change in fair value on AFS financial assets				
Unrealized gain (loss) on AFS financial assets transferred to statement of income	-	-	-	-
Exchange differences on translating foreign operation:	-	-	-	-
Recognized revaluation increment	-	-	-	-
<b>OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX</b>	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>9,319,864</b>	<b>7,263,656</b>	<b>2,031,345</b>	<b>2,019,441</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>				
Equity holders of DMCI Holdings, Inc.	7,036,082	5,772,615	1,756,753	1,591,810
Minority interests	2,283,782	1,491,041	274,592	427,631
	<b>9,319,864</b>	<b>7,263,656</b>	<b>2,031,345</b>	<b>2,019,441</b>

DMCI HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED SEPTEMBER 2011 AND 2010

	<b>SEPTEMBER 2011</b>	<b>SEPTEMBER 2010</b>
<b>CAPITAL STOCK</b>		
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	(2,396,220)	(2,395,620)
	<u>3,780</u>	<u>4,380</u>
Common stock - P1 par value		
Authorized - 5,900,000,000 shares		
Issued - 2,655,494,000 shares	2,655,494,000	2,655,494,000
	<u>2,655,497,780</u>	<u>2,655,498,380</u>
<b>ADDITIONAL PAID-IN CAPITAL</b>		
Balance at the beginning	4,765,316,671	4,765,916,071
Retirement of Preferred Shares	-	-
Additional Paid-in Capital of new subscribed shares	-	-
	<u>4,765,316,671</u>	<u>4,765,916,071</u>
<b>DEPOSITS FOR FUTURE SUBSCRIPTION</b>		
		-
<b>RETAINED EARNINGS (DEFICIT)</b>		
Balance at beginning of the period	19,693,115,974	13,135,744,178
Net income(loss) for the period	7,036,082,576	5,772,615,065
Dividends paid	(2,655,494,000)	(1,327,747,000)
Balance at end of the period	<u>24,073,704,550</u>	<u>17,580,612,243</u>
Cumulative Translation Adjustment	-	-
<b>PREFERRED SHARES HELD IN TREASURY</b>		
Balance at beginning of the period	-	-
Acquisitions for the period	-	-
Redemption/Retirement of preferred shares	-	-
Balance at end of the period	<u>-</u>	<u>-</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b><u>31,494,519,001</u></b>	<b><u>25,002,026,694</u></b>

**DMCI HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the period ended September 30, 2011 and 2010**  
**(Amounts in Thousands of Philippine Pesos)**

	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Net (Loss)/ Income</b>	9,319,864	7,263,656
Adjustments to reconcile net income (loss) to net cash:		
Equity in net losses (earnings) of affiliates, depreciation, depletic amortization and other non-cash items (net)	(4,403,748)	(2,893,140)
Income (Loss) applicable to Minority Interest	2,283,782	1,491,041
Changes in assets and liabilities:		
Decrease / (Increase) in :		
Receivables- net	(2,653,079)	(3,572,886)
Inventories - net	(3,507,806)	(760,937)
Prepaid expenses and other current assets	2,110,563	2,106,524
Increase/ (Decrease) in :		
Accounts payable and accrued expenses	4,103,779	4,954,314
Current portion of long-term debt	(3,136,235)	(3,355,340)
Non current liabilities	5,135,819	2,974,881
Billings in excess of cost of uncompleted contracts	566,955	240,010
Income tax payable	38,393	45,423
<b>Net cash provided by operating activities</b>	<b>9,858,287</b>	<b>8,493,546</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in:		
Available for sale investments	(71,075)	(3,041)
Investments - net	(1,824,157)	(1,890,630)
Property, plant and equipment - net	(747,374)	(745,446)
Deferred charges and other assets - net	(1,394,452)	(1,450,131)
<b>Net cash provided by investing activities</b>	<b>(4,037,058)</b>	<b>(4,089,248)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net availments (payments) of:		
Notes payable	1,277,903	(839,833)
Additional subscription of common shares		
Capital Stock at P1.00 par value	0	0
Additional paid-in capital	(601)	(1)
Deposit for future subscription	0	0
Acquisition of preferred shares to treasury	0	0
Redemption of preferred shares		
Capital Stock at P1.00 par value	0	0
Additional paid-in capital	0	0
Redemption of preferred shares from treasury	0	0
Payment of Dividends	(2,655,494)	(1,327,747)
Net increase (decrease) in minority interest	727,794	2,411,630
<b>Net cash provided by financing activities</b>	<b>(650,398)</b>	<b>244,049</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>5,170,831</b>	<b>4,648,347</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<b>9,946,666</b>	<b>3,262,290</b>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<b>15,117,497</b>	<b>7,910,637</b>

# **DMCI HOLDINGS, INC. AND SUBSIDIARIES**

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## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **1. Corporate Information**

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

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

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### **2. Summary of Significant Accounting Policies**

#### Basis of Preparation

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

#### Statement of Compliance

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

#### Basis of Consolidation

##### *Basis of consolidation from January 1, 2010*

The consolidated financial statements comprise the financial statements of the Group as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010. Under PFRS, it is acceptable to use, for consolidation purposes, the financial statements of subsidiaries for fiscal periods differing from that of the Parent Company if the difference is not more than three months.

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

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

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not wholly owned by the Group and are presented separately in consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of changes in equity and within equity in the consolidated statement of financial position, separately from equity holders' of the Parent Company.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interest and the cumulative translation differences, recorded in equity.
- Recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss.
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

*Basis of consolidation prior to January 1, 2010*

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to January 1, 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the share in the book value of the net assets acquired were recognized in goodwill.
- Losses incurred by the Group were attributed to non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless non-controlling interest had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at January 1, 2010 has not been restated.

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

	<b>Effective Percentages of Ownership</b>	
	<b>June 30, 2011</b>	2010
<u>General Construction:</u>		
D.M. Consunji, Inc. (DMCI) <sup>1</sup>	<b>100.00%</b>	100.00%
DMCI International, Inc. (DMCII) <sup>2</sup>	<b>100.00</b>	100.00
OHKI-DMCI Corporation (OHKI) <sup>2</sup>	<b>100.00</b>	100.00
Atlantic, Gulf and Pacific Company of Manila, Inc. and Subsidiaries (AG&P)	–	–
DMCI-Laing Construction, Inc. (DMCI-Laing) <sup>2</sup>	<b>60.00</b>	60.00
Beta Electric Corporation (Beta Electric) <sup>2</sup>	<b>50.77</b>	50.77
Raco Haven Automation Philippines, Inc. (Raco) <sup>2</sup>	<b>50.14</b>	50.14
<u>Mining:</u>		
Semirara Mining Corporation (Semirara)	<b>56.32</b>	56.32
DMCI Mining Corporation (DMC)	<b>100.00</b>	100.00

	Effective Percentages of Ownership	
	March 31, 2011	2010
<u>Real Estate Development:</u>		
DMCI Project Developers, Inc. (PDI)	100.00	100.00
Hampstead Gardens Corporation (Hampstead) <sup>3</sup>	100.00	100.00
Riviera Land Corporation (Riviera) <sup>3</sup>	100.00	100.00
DMCI-PDI Hotels, Inc. (PDI Hotels) <sup>3</sup>	100.00	100.00
DMCI Homes Property Management Corporation (DHPMC) <sup>3</sup>	100.00	100.00
<u>Manufacturing:</u>		
Semirara Cement Corporation (SemCem) *	100.00	100.00
Oriken Dynamix Company, Inc. (Oriken) <sup>2</sup>	89.00	89.00
Wire Rope Corporation of the Philippines (Wire Rope)	61.70	61.70
<u>Marketing Arm:</u>		
DMCI Homes, Inc. (DMCI Homes) <sup>3</sup>	100.00	100.00
<u>Power:</u>		
DMCI Power Corporation (DPC) (formerly DMCI Energy Resources Unlimited Inc.) *	100.00	100.00
DMCI Masbate Power Corporation (DMCI Masbate)	100.00	100.00
DMCI Concepcion Power Corporation (DMCI Concepcion)	-	-
DMCI Calaca Power Corporation	100.00	100.00
Sem-Calaca Power Corporation (SCPC) <sup>4</sup>	56.32	56.32

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

<sup>1</sup> Also engaged in real estate development

<sup>2</sup> DMCI's subsidiaries

<sup>3</sup> PDI's subsidiaries

<sup>4</sup> Semirara's subsidiary

### *AG&P*

On December 22, 2010, the Parent Company (the "Seller") and AGP Philippines Holdings, Inc. (AGPPHI or "Buyer") entered into a Stock Purchase Agreement (the "SPA"), wherein the Seller agreed to sell and the Buyer agreed to purchase nine hundred seventy-three million eighty-nine thousand forty-two (973,089,042) shares of stock (the "Shares") representing 98.19% of the AG&P's total issued and outstanding capital stock (see Note 39).

### *PDI Hotels*

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

### *PDI*

In 2008, DMCI and PDI entered into a debt-to-equity conversion agreement for the equivalent 32.19% interest in PDI. On December 9, 2009, PDI, DMCI and the Parent Company, entered into a property-for-share swap wherein certain parcels of land owned by DMCI and the Parent Company were transferred to PDI in exchange of equity interest in PDI.

### *DPC*

#### Sale of Shares in DMCI Concepcion and land in Concepcion, Iloilo

On August 16, 2010, DPC entered into a Sale and Purchase Agreement (the Agreement) with Palm Thermal Consolidated Holdings Corporation and Panay Consolidated Land Holdings Corporation (the Buyers) for the sale of its 2.50 million shares in DMCI Concepcion, representing its entire investment in the said company, and its 300,000 sq/m land located in Concepcion, Iloilo with aggregate book value of ₱58.95 million for a total consideration of ₱80.00 million to be paid in accordance with the following schedule:

- a. ₱1.00 million as earnest money payable on the date of the Agreement; and,
- b. ₱79.00 million upon full compliance of the conditions set forth in the Agreement.

On November 11, 2010, DPC received ₱79.00 million from the Buyers representing the remaining balance of the agreed consideration. Net gain from said transaction amounted to ₱19.05 million after deducting commissions paid to brokers in 2010 amounting to ₱2.00 million.

### *DMCI Masbate*

#### Power Supply Agreement with Masbate Electric Cooperative, Inc. (Maselco)

In May 4, 2007, Maselco and the DMCI Masbate entered into a Power Supply Agreement (PSA) wherein DMCI Masbate shall deliver a guaranteed dependable capacity of 13,000 kW, which Maselco may dispatch for its load and ancillary services requirements.

The PSA has a term commencing on the date on its execution and expiring on the last day of the fifteenth (15th) year of the commercial operations period as provided therein, unless extended or earlier terminated. The commercial operations period shall commence not later than eighteen (18) months from effective date. Maselco shall only pay for actual energy delivered, not on a take or pay basis, except in extraordinary circumstances as provided in the PSA. In exceptional circumstances, payments shall be based on a pre-defined net expected energy rate.

#### Transitory Agreement with Maselco

On March 3, 2010, DMCI Masbate entered into a Transitory Agreement, which shall have a term of five (5) years commencing from the date of the agreement, wherein Maselco shall avail of the generating capacity of DMCI Masbate and shall pay for such energy output according to the approved Subsidized/Approved Generation Rate of ₱3.65 for Masbate.

Also, under this agreement, DMCI Masbate shall deliver the coal-fired power plant barring any political and social situation preventing the construction and development thereof pursuant to the PSA not later than the 5th year anniversary of this agreement. If it is determined anytime during the term that the construction and commissioning of a coal-fired power plant in Masbate cannot be completed prior to the lapse of the term, the parties may extend the term of this agreement, amend the existing PSA or terminate this agreement and negotiate for a new PSA.

### *DMC*

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

Agreement, after deducting the costs and expenses connected with the production of the product, and over and above payment of all taxes and royalty, shall be divided equally between them.

In March 2010, the Company and Benguet Corp Nickel Mines, Inc., an affiliate of BC, agreed to establish and maintain a Mine Rehabilitation Fund as a reasonable environmental deposit to ensure the availability of funds for its satisfactory compliance with the commitments and performance of activities stipulated in its Environment Protection and Management Program/Annual Environmental Protection and Enhancement Program during a specific project phase.

#### *SCPC*

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

#### *Semirara*

Semirara and the Parent Company have 50%-50% shareholdings in both DPC and DMC. On December 8, 2010, a Deed of Assignment was made and executed between Semirara and the Parent Company, the former being the “Assignor” and the latter being the “Assignee”. Semirara offered to assign, transfer and convey all of its rights, ownership and interest over its shares in DPC and DMC.

#### Changes in Accounting Policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for the following new and amended PFRS and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) effective as of January 1, 2010.

#### *New and Amended Standards and Interpretations*

- PFRS 2, *Share-based Payment: Group Cash-settled Share-based Payment Transactions* (effective January 1, 2010)
- PFRS 3, *Business Combinations (Revised)*, and Philippine Accounting Standards (PAS) 27, *Consolidated and Separate Financial Statements (Amended)* (effective July 1, 2009, including consequential amendments to PFRS 2, PFRS 5, PFRS 7, PAS 7, PAS 21, PAS 28, PAS 31 and PAS 39)
- PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items* (effective July 1, 2009)
- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners* (effective July 1, 2009)
- Improvements to PFRSs 2008, with respect to PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
- Improvements to PFRSs 2009

Standards or interpretations that have been adopted by the Group are described below. However, the adoption of these standards and interpretations did not have an impact on the consolidated financial statements of the Group, unless otherwise stated.

- PFRS 2, *Share-based Payment (Amendment) - Group Cash-settled Share-based Payment Transactions*

The amendment to PFRS 2 clarified the scope and the accounting for group cash-settled share-based payment transactions.

- PFRS 3 (Revised), *Business Combinations*, and PAS 27 (Amended), *Consolidated and Separate Financial Statements*

PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interest after January 1, 2010.

- PAS 39, *Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items*

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

#### *Improvements to PFRSs*

*Improvements to PFRSs*, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- PFRS 8, *Operating Segments*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 33.

Other amendments resulting from Improvements to PFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- PFRS 2, *Share-based Payment*

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operation*
- PAS 1, *Presentation of Financial Statements*
- PAS 7, *Statement of Cash Flows*
- PAS 17, *Leases*
- PAS 34, *Interim Financial Reporting*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

#### Future Changes in Accounting Policies

The Group has not applied the following PFRS and Philippine Interpretations which are not yet effective as of December 31, 2010. This list consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. The Group does not expect the adoption of these standards to have a significant impact in the consolidated financial statements, unless otherwise stated.

- PAS 24, *Related Party Disclosures (Amendment)*  
The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.
- PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues (Amendment)*  
The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.
- PAS 12, *Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets*  
The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.
- PFRS 7, *Financial Instruments: Disclosures (Amendments) - Disclosures - Transfers of Financial Assets*  
The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

- *PFRS 9, Financial Instruments: Classification and Measurement*  
 PFRS 9 as issued reflects the first phase of the IASB's work on the replacement of PAS 39 and applies to classification and measurement of financial assets as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in second quarter 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.
- *Philippine Interpretation IFRIC 14, Prepayments of a Minimum Funding Requirement (Amendment)*  
 The amendment to IFRIC 14 is effective for annual periods beginning on or after January 1, 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.
- *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*  
 This Philippine Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.
- *Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments*  
 IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

*Improvements to PFRSs (issued in May 2010)*

*Improvements to PFRSs* is an omnibus of amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2011, except when otherwise stated. The Group, however, expects no impact from the adoption of the amendments on its consolidated financial position or performance.

- *PFRS 3, Business Combinations*  
 The amendment to PFRS 3 is effective for annual periods beginning on or after July 1, 2010. It clarifies that the amendments to PFRS 7, PAS 32 and PAS 39, *Financial Instruments: Recognition and Measurement*, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose

acquisition dates precede the application of PFRS 3 (as revised in 2008). The amendment will be applied retrospectively.

The amendment also limits the scope of the measurement choices that only the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share to the entity's net assets, in the event of liquidation, shall be measured either at fair value or at present ownership instrument's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interest are measured at their acquisition date fair value, unless another measurement basis is required by another PFRS.

Further, the amendment requires an entity in a business combination to account for the replacement of the acquiree's share-based payment transactions, whether obliged or voluntarily, such as split between considerations and post-combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognized as post-combination expenses. The amendment also specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested - they are part of non-controlling interest and measured at their market-based measure; if vested - they are measured at market-based value as if granted at acquisition date, and allocated between non-controlling interest and post-combination expenses.

- *PFRS 7, Financial Instruments: Disclosures*  
PFRS 7 emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. The amendment will be applied retrospectively.
- *PAS 1, Presentation of Financial Statements*  
The amendment to PAS 1 clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment will be applied retrospectively.
- *PAS 27, Consolidated and Separate Financial Statements*  
The amended standard is effective for annual reporting periods beginning on or after July 1, 2010. It clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures*, apply prospectively for annual periods beginning on or after July 1, 2009 or earlier when PAS 27 is applied earlier. The amendment will be applied retrospectively.
- *Philippine Interpretation IFRIC 13, Customer Loyalty Programmes*  
This Philippine Interpretation clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account. The amendment will be applied retrospectively.

### Cash and Cash Equivalents

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

### Financial Instruments

#### *Date of recognition*

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

#### *Initial recognition of financial instruments*

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

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

As of December 31, 2010 and 2009, the Group's financial instruments are classified as AFS financial assets, loans and receivables and other financial liabilities.

#### *Determination of fair value*

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

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

#### *Day 1 difference*

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

observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

#### *Loans and receivables*

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

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

#### *AFS financial assets*

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

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

#### *Other financial liabilities*

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

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

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

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

#### Impairment of Financial Assets

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

#### *Loans and receivables*

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

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

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, customer type, customer location, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is

adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

#### *Financial assets carried at cost*

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

#### *AFS financial assets*

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

#### Offsetting Financial Instruments

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

#### Derecognition of Financial Assets and Liabilities

##### *Financial asset*

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 liability*

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

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

### Inventories

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

#### *Coal inventory*

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

#### *Nickel ore and chromites inventory*

The cost of extracted nickel ore and chromites includes all direct materials, labor, fuel, outside services and other mine-related costs incurred during the period and allocated on per metric ton basis by dividing the total production cost with total volume of nickel ore produced. Except for shiploading cost, which is a component of total cost of sales, all other production related costs are charged to production cost.

#### *Materials-in-transit*

Cost is determined using the specific identification basis.

#### *Equipment parts and supplies*

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

#### *Real estate held for sale and development*

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

### Investments in Associates, Jointly Controlled Entity and Others

Investments in associates and jointly controlled entity (investee companies) are accounted for under the equity method of accounting.

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

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

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

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

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting period whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the "Equity in net earnings of associates, jointly controlled entities and others" in the consolidated statement of income.

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

### Interest in a Joint Venture

The Group has an interest in a joint venture, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognizes its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared

for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, transactions and unrealised gains and losses on such transactions between the Group and its jointly controlled entity. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

#### Investment Properties

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

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of income in the period of derecognition.

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

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

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If 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.

#### Mining Reserves

Mining reserves are estimates of the amount of coal that can be economically and legally extracted from the Semirara's mining properties. Semirara estimates its mining reserves based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the coal body, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the coal body. Changes in the reserve estimates may impact upon the carrying value of property, plant and equipment, provision for decommissioning and site rehabilitation, recognition of deferred tax assets, and depreciation charges.

### Property, Plant and Equipment

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

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

Construction in progress included in property, plant and equipment is stated at cost. This includes the cost of the construction of property, plant and equipment and other direct costs.

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

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

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

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

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

### Intangible Assets

Intangible assets acquired separately are capitalized at cost and these are shown as part of the other noncurrent assets account in the consolidated statement of financial position. Following initial recognition, intangible assets are measured at cost less accumulated amortization and provisions for impairment losses, if any. The useful lives of intangible assets with finite life

are assessed at the individual asset level. Intangible assets with finite life are amortized over their EUL. The 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 EUL ranging from 3 to 5 years. Costs directly associated with the development of identifiable computer software that generate expected future benefits to the Group are recognized as intangible assets. All other costs of developing and maintaining computer software programs are recognized as expense when incurred.

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

#### Input Value Added Tax (VAT)

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

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

#### Impairment of Nonfinancial Assets

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

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

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, depletion and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

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

### Equity

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

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

### Treasury Shares

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

### Non-controlling Interests

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

### Revenue and Cost Recognition

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

#### *Mining*

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

#### *Electricity sales*

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

#### *Real estate sales*

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

and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

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

#### *Construction contracts*

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

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

The asset “Costs and estimated earnings in excess of billings on uncompleted contracts” represents total costs incurred and estimated earnings recognized in excess of amounts billed. The liability

“Billings in excess of costs and estimated earnings on uncompleted contracts” represents billings in excess of total costs incurred and estimated earnings recognized. Contract retentions are presented as part of “Trade receivables” under the “Receivables” account in the consolidated statement of financial position.

#### *Merchandise sales*

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

#### *Dividend income*

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

#### *Rental income*

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

#### *Interest income*

Revenue is recognized as interest accrues using the effective interest method.

### Operating Expenses

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

### Borrowing Costs

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

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized from the commencement of the development work until the date of practical completion. The capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalized on the purchased cost of a site property acquired specially for development but only where activities necessary to prepare the asset for development are in progress.

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

### Foreign Currency Translations

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

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

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

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

### Commission Expense

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

### Pension Expense

The Group has a non-contributory defined benefit retirement plan.

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

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

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

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

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

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

### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement

is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### *Group as a lessee*

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

#### *Group as a lessor*

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

### Income Tax

#### *Current tax*

Current 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 reporting date.

#### *Deferred tax*

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

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

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

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

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

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

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

### Earnings per Share

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

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

### Operating Segment

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group generally accounts for intersegment revenues and expenses at agreed transfer prices. Income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of income after taxes. Financial information on operating segments is presented in Note 33 to the consolidated financial statements.

### Provisions

#### *General*

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

#### *Provision for decommissioning and site rehabilitation costs*

The Group is legally required to fulfill certain obligations as required under its Environmental Compliance Certificate (ECC) issued by Department of Environment and Natural Resources

(DENR). The Group recognizes the present value of the liability for these obligations and capitalizes the present value of these costs as part of the balance of the related property, plant and equipment accounts which are depreciated, depleted and amortized on a straight-line basis over the EUL of the related property, plant and equipment or the contract period, whichever is shorter. The decommissioning and site rehabilitation costs are determined based on the provisions of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group recognizes the liability for these obligations as “Provision for decommissioning and site rehabilitation” under “Other noncurrent liabilities” in the consolidated statement of financial position (see Note 19).

#### Contingencies

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

#### Events After the Reporting Period

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

#### Business Combinations and Goodwill

##### *Business combinations from January 1, 2010*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment determined in accordance with PFRS 8.

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall recognize immediately in the consolidated statement of comprehensive income any excess remaining after reassessment.

*Business combinations prior to January 1, 2010*

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition.

If the initial accounting for a business combination can only be determined on a provisional basis by the end of the period in which the combination is effected because either the fair

values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Parent Company accounts for the combination using those provisional values. The Parent Company recognizes any adjustment to those provisional values as a result of completing the initial accounting within 12 months from the acquisition date.

#### Discontinued Operation

A discontinued operation is a component of an entity that has been disposed of and represents a separate major line of business. In the consolidated statement of income of the reporting period, and of the comparable period of the previous years, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes. The resulting income or loss (after taxes) is presented separately in the statements of income.

#### Acquisition of Non-controlling Interest in a Subsidiary

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

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### 3. Preferred and Common Stock

The changes in the number of shares follow:

	September 30, 2011	December 31, 2010
Preferred stock - ₱1 par value cumulative and convertible to common stock		
Authorized number of shares	<b>100,000,000</b>	<b>100,000,000</b>
Issued and outstanding		
Balance at beginning of year	<b>4,380</b>	<b>4,380</b>
Cancellation/retirement of issued preferred shares	<b>600</b>	<b>0</b>
Balance at end of year	<b>3,780</b>	<b>4,380</b>
Common stock - ₱1 par value		
Authorized number of shares	<b>5,900,000,000</b>	<b>5,900,000,000</b>
Issued and outstanding	<b>2,655,494,000</b>	<b>2,655,494,000</b>
Additional subscription	-	-
Preferred shares held in treasury		
Balance at beginning of year	<b>0</b>	<b>0</b>
Redemption of preferred shares	<b>600</b>	<b>0</b>
Cancellation/retirement of issued preferred shares	<b>(600)</b>	<b>0</b>
Balance	<b>0</b>	<b>0</b>

The preferred stock is redeemable, convertible, non-voting, non-participating and cumulative with par value of ₱1.00 per share. The preferred shareholders' right of converting the preferred shares to common shares expired in March 2002. Aside from the issued and outstanding 3,780 preferred shares, all the preferred shares were essentially redeemed, retired, cancelled and paid.

*Appropriation*

Retained earnings is restricted to the extent of the acquisition cost of the treasury shares amounting to ₱1.10 million and ₱187.21 million as of December 31, 2006 and 2005, respectively. No retained earnings have been currently appropriated for acquisition of treasury shares.

*Dividends declared*

On May 31, 2011 and June 4, 2010 the Parent Company's BOD approved and declared cash dividend of Php 1.00 and ₱0.50 per share or P2,655 and ₱1,328 million respectively to stockholders of record as of June 15, 2011 and June 22, 2010, respectively. The cash dividend was paid on July 7, 2011 and July 15, 2010 respectively as well.

**4. Business Segments**

The following tables present the net income of the specific business segments for the period and quarter ended September 30, 2011 and 2010 (amounts in thousand):

	<b>Revenues</b>			
	For the period		For the Quarter	
	2011	2010	2011	2010
Construction	7,323,820	8,161,002	2,486,938	2,372,298
Mining	16,093,248	10,600,751	3,639,702	2,719,555
Water	-	-	-	-
Real Estate Development	5,097,857	4,065,833	1,896,121	1,665,590
Electricity	7,979,770	7,537,532	2,337,281	1,580,721
Parent Company and Others	115,451	102,910	35,537	31,072
<b>TOTAL</b>	<b>36,610,146</b>	<b>30,468,028</b>	<b>10,395,579</b>	<b>8,369,236</b>

**Net Income After Minority**

	For the period		For the Quarter	
	2011	2010	2011	2010
Construction	755,727	1,408,093	269,519	462,827
Coal Mining	3,758,885	1,367,359	1,595,641	536,995
Water	1,548,534	1,328,450	602,763	422,615
Real Estate Development	1,244,956	1,013,584	400,145	249,202
Electricity	(285,158)	670,687	(1,134,943)	(64,269)
Parent Company and Others	13,137	(15,556)	23,627	(15,557)
<b>TOTAL</b>	<b>7,036,082</b>	<b>5,772,617</b>	<b>1,756,752</b>	<b>1,591,813</b>

**5. Operating Expenses**

The following tables present the consolidated operating expenses for the period ended September 30, 2011 and 2010 (amount in Php thousands):

	<b>SEPTEMBER 2011</b>	<b>SEPTEMBER 2010</b>
Government Share	1,767,562,947.00	884,453,043.00
Salaries, Wages & Employees benefits	794,363,335.30	408,827,624.65
Advertising and Marketing Expense	271,097,691.72	223,685,973.71
Commission	354,127,219.56	266,563,794.24
Outside Services	83,738,888.04	38,718,235.83
Taxes and Licenses	532,642,943.43	511,347,205.63
Depreciation Expense	366,538,712.25	76,316,084.89
Professional Fees	94,705,786.25	104,135,917.35
Entertainment, amusement and recreation	24,847,975.76	26,131,134.36
Rental Expense	39,601,129.71	34,341,520.64
Transportation and Travel	25,777,151.79	24,508,324.64
Communication, light and water	42,096,208.42	30,437,220.38
Repairs and Maintenance	32,982,658.92	49,257,545.62
Gasoline and Oil Expense	9,968,504.82	10,233,100.60
Supplies	30,989,520.38	38,112,282.31
Insurance	61,538,005.84	44,552,798.50
Other Operating Expense	96,392,039.01	137,652,379.86
<b>TOTAL</b>	<b>4,628,970,718.20</b>	<b>2,909,274,186.21</b>

## 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.
- (d) Engineering and construction works of the water business is contracted to the construction segment of the Company. These projects are bid out to various contractors and are awarded on arms length transactions. The interrelated contracts amounted to Php 3,711,699,922.33 and Php 3,350,849,478.02 as of September 30, 2011 and September 30, 2010 respectively, where Php 1,011,552,095.76 and Php 1,665,248,624.58 were booked for the period ended September 30, 2011 and September 30, 2010 respectively.

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## 7. **Financial Instruments and Financial Risk**

For interim reporting purposes, financial assets and liabilities are recognized at historical cost which is the fair value of the consideration given (in the case of the asset) or received (in the case of liability). Debt issuance costs are included in the initial measurement of all financial assets and liabilities except those that are designated as fair value through profit and loss.



Sub-total	<b>323,975,879.25</b>
OTHER RECEIVABLES -	
D.M. Consunji, Inc.	276,147,651.34
Raco Haven Automation	3,602,481.00
Beta Electric Corporation	<u>8,220,261.99</u>
	<u>287,970,394.33</u>
DMCI Holdings, Inc.	62,661.64
DMCI Project Developers, Inc.	571,809,319.00
Semirara Mining Corporation	27,834,909.00
Sub-total	<b>887,677,283.97</b>
Total Non-trade Receivables	<b>3,190,628,972.87</b>
Less: Allowance for Doubtful Accounts	<u>-</u>

DMCI HOLDINGS, INC.  
 ACCOUNTS RECEIVABLE DESCRIPTION  
 SEPTEMBER 30, 2011

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) 10% or 20% downpayment over one year (depends on the payment) 3) Balance paid through in-house or pag-ibig 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