





12. Indicate by check mark whether the registrant:

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

Yes  No

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

Yes  No

## PART I--FINANCIAL INFORMATION

### Item 1. Financial Statements.

The Financial Statements for the quarter and period ended **June 30, 2012** are contained herein.

### MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF CONSOLIDATED OPERATIONS AND CONSOLIDATED FINANCIAL CONDITION FOR THE QUARTER AND PERIOD ENDED JUNE 30, 2012.

#### 1<sup>st</sup> Half 2012 vs 1<sup>st</sup> Half 2011

#### I. RESULTS OF OPERATIONS

DMCI Holdings, Inc. (the "Company") reported an increase of 9% in its first half consolidated net income after non-controlling interests from P5.3 billion last year to P5.8 billion this year. As expected, and driven by the lower coal prices, coal mining which accounts for much of the Company's earnings in the past, suffered a drop in contributions. The power segment, coming mainly from the Calaca power units, also dropped in contributions due to the reduced capacity coming from the rehabilitation of its Unit 1. Residential real estate and water, on the other hand, posted significant improvements in net income boosting the respectable growth in consolidated bottom figure. The construction business also reversed its 1<sup>st</sup> quarter dip and recorded growth in its net contributions to the Company.

Below is a table of the segmented 1<sup>st</sup> half net income contributions of the Company's businesses for 2012 and 2011:

#### NET INCOME (after Non-controlling interests)

<i>(in Php Millions)</i>	For the first half		Variance	%
	2012	2011		
COAL MINING	P 1,494	P 1,821	(327)	-18%
NICKEL MINING	473	342	131	39%
CONSTRUCTION	601	486	115	24%
REAL ESTATE	1,169	845	324	38%
ELECTRICITY	693	850	(157)	-18%
WATER	1,226	946	280	30%
PARENT & OTHERS	120	(11)	131	1,091%
<b>TOTAL</b>	<b>5,776</b>	<b>5,279</b>	<b>497</b>	<b>9%</b>

#### WATER

The Company's investment in the water sector is recognized mainly through its equity investment in the partnership with Metro Pacific Investments Corp. (MPIC) with the actual operations under Maynilad Water Services, Inc. (Maynilad). The Company owns 44.59% of the consortium company which in turn owns 91.9% of Maynilad. Maynilad handles the water distribution and sewer services for the western side of Metro Manila.

Net of adjustments at the consortium level, the Company's first quarter equitized income contributions from its water investments reported a 30% increase from P946 million last year to P1.2 billion this year.

Water operating efficiencies continued to improve as Maynilad reported an increase in 1<sup>st</sup> half net income from P2.7 billion in 2011 to P3.3 billion in 2012. Billed volume for the period was up 9.2%, despite minimal 1.2% dip in water supply. Non-revenue water (NRW) for the period consequently dropped to 44.87% as of June this year from 50.14% last year. Billed services continued to grow with an 11% improvement to a little above 1 million accounts from the 938 thousand accounts reported as of the same date last year. As a result, Maynilad water service revenue for the quarter was up by 13% from P5.4 billion in 2011 to P6.1 billion in 2012. Non-cash opex showed a 39% growth due mainly to the amortization of concession assets while cash opex reported only a marginal increase.

Consortium adjustments to the net income in Maynilad reported a net reduction of P315 million for this period compared to P394 million last year.

## CONSTRUCTION

The Company's construction business, reported under D.M. Consunji, Inc. (DMCI), posted better operations as 1<sup>st</sup> half net contributions reached P601 million this year compared to P486 million last year. This was due mainly to billable works done for the building projects. Notable accomplishments in the Entertainment City and the Raffles Hotel provided most of the boost in revenues. Construction activity from the Tarlac-Pangasinan-LaUnion Expressway (TPLEX) also helped contribute notable revenues for DMCI.

Moving forward, newly awarded power plant-civil works projects in Calaca and Balayan, Batangas are also expected to contribute not just construction revenues but higher margins as well. DMCI's orderbook (balance of work) as of June, 2012 reached P17 billion. Bulk of the balance of work is coming from the Entertainment City and the power plant contracts in Batangas. However, the orderbook does not include the MRT-7 railway project, which was conditionally awarded to DMCI upon financial closing. The Company believes that the MRT-7 and the accomplishment of the outstanding projects would provide the much needed construction revenue and subsequent contributions.

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

## 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) and under the brand name DMCI Homes PDI has developed and sold housing units within the middle income segment of the market.

As a background, 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 15% has already been paid. This method is already in compliance with International Accounting Standards but not yet fully adopted in the country.

The housing segment recognized a 38% increase in net contributions for the period from P845 million last year to P1.2 billion this year as units previously sold were completed in the period. Consequently realized revenues grew by 40% from P3.2 billion last year to P4.5 billion as both the completion and collection of 15% thresholds for realization was reached. Recently completed units in the Cedar Crest project in Taguig significantly accounted for the growth in realized revenues.

A better representative of current demand would be sales and reservations for the period which experienced a 6% dip from P10 billion in 2011 to P9.4 billion in 2012. Though demand remained at relatively high levels, it suffered a dip as current projects reached completion and the launch of new projects are expected to pick up in the 2<sup>nd</sup> half. With this the Company hopes to at least reach the same levels of full year sales and reservations as 2011.

Operating expenses in the real estate segment were consistently higher by 32% due to:

- Increase in selling and marketing activities such as advertising, sales incentives, marketing tools, ads, project launches, etc.
- Increase in personnel costs
- Increase in utilities
- Increase in taxes and licenses

Note that most of the Company's housing units have a selling price around P3 million per unit and with the current increase of VAT-free housing price threshold to around P3.3 million, the Company has leveraged on the tax advantage to become more competitive in terms of price in the market.

the Company has passed on the incentive to buyers by lowering the price of some of its units above the VAT-free threshold.

## MINING & POWER

### Coal Mining & Power (Calaca)

The Company's coal mining business which owns the major power generating asset, Calaca are both lodged under the 56%-owned and publicly listed Semirara Mining Corp (SMC). SMC reported a dip in first half results due to lower coal prices and the reduced power generating capacity from the rehabilitation of Calaca unit 1.

Below is SMC's management discussion and analysis of results of operations and financial condition for the period ending and as of June 30, 2012 as lifted from its first half financial report:

### **MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

#### **I. PRODUCTION – COMPARATIVE REPORT H1 2012 vs H1 2011**

##### **Coal**

*To take advantage of the dry weather in the Q1, mining operations were concentrated at the lowest level of the pit resulting to longer hauling cycle. Total rainfall in H1 this year is at 859mm, 20% higher than same period last year. This constrained operations, especially starting middle of Q2. Due to the longer hauling cycle and higher rainfall, year-on-year material movement dropped by 15% at 41.58 million bank cubic meters (bcm) from 49.14 million bcm last year.*

*On the other hand, strip ratio is lower by 14% at 9.61:1 in the current period versus 11.22:1 last year as mining operations was not able to advance its stripping activities due to rain and longer hauling cycle. Nevertheless, volume of coal production was not significantly affected. The lower strip ratio mitigated the decrease in run-of-mine (ROM) coal production at 2% to 4.03 million MTs as compared to 4.12 million MTs in H1 2011. Net total product coal registered at 3.74 million MTs this period from 3.79 million MTs in H1 2011 or 1% lower resulting from lower ROM coal.*

*Total volume sold during the current period almost matched production, thus change in coal inventory was insignificant from beginning level of 992 thousand MTs to close at 963 thousand MTs. Current coal inventory level is more than 13 times of H1 2011 ending inventory of 74 thousand tons as sales volume was significantly higher last year.*

The table below shows the comparative production data for H1 2012 and H1 2011.

<b>COMPARATIVE PRODUCTION DATA</b>							
<i>(in '000, except Strip Ratio)</i>							
	<b>Q1 '12</b>	<b>Q2 '12</b>	<b>H1 '12</b>	<b>Q1 '11</b>	<b>Q12'11</b>	<b>H1 '11</b>	<b>%Inc (Dec)</b>
<b>Total Materials (bcm)</b>	22,303	19,273	41,576	26,850	22,294	49,144	-15%
<b>ROM Coal (MT)</b>	1,805	2,220	4,025	1,822	2,296	4,117	-2%
<b>Strip Ratio</b>	11.64:1	7.97:1	9.61:1	14.03:1	9.00:1	11.22:1	-14%
<b>Net TPC (MT)</b>	1,651	2,089	3,740	1,642	2,149	3,791	-1%
<b>COAL WASHING</b>							
<b>Washable Coal (MTs)</b>	344	334	678	408	313	721	-6%
<b>Washed Coal (MTs)</b>	206	200	407	245	188	432	-6%
<b>%recovery</b>	60%	60%	60%	60%	60%	60%	
<b>Beg. Inventory (MTs)</b>	992	950	992	491	469	992	0%
<b>End Inventory (MTs)</b>	950	963	963	469	74	74	1195%

### Power

Power capacity in H1 2012 is still at 300MW coming from Power Unit 2 with average load of 239MW from 192MW in H1 2011, registering a 24% improvement. As of cut-off date Power Unit 1 was still down for the final stage of the rehabilitation works, while partial test commissioning of the major equipment was on-going. Total energy generated from Unit 2 is 951W or 63% higher than same period last year. Total plant energy generation is lower by 11% due to the absence of Unit 1. Unit 2 availability is at 88%, registering 34% improvement from 66% in 2011. Meanwhile, total plant availability is only at 44% compared to 69% same period last year. Registered capacity factor of Unit 2 alone is 72% from 45% during the same period last year.

The table below shows the comparative plant performance for H1 2012 and H1 2011.

<b>COMPARATIVE PLANT PERFORMANCE DATA</b>							
<i>H1'12 vs H1'11</i>							
	<b>Q1 '12</b>	<b>Q2 '12</b>	<b>H1 '12</b>	<b>Q1 '11</b>	<b>Q12'11</b>	<b>H1 '11</b>	<b>%Inc (Dec)</b>
<b>Gross Generation, Gwh</b>							
<b>Unit 1</b>	-	-	-	243	245	488	-100%
<b>Unit 2</b>	473	478	951	189	395	585	63%
<b>Total Plant</b>	473	478	951	432	641	1,073	-11%
<b>% Availability</b>							
<b>Unit 1</b>	0%	0%	0%	70%	74%	72%	-100%
<b>Unit 2</b>	88%	88%	88%	49%	83%	66%	34%
<b>Total Plant</b>	44%	44%	44%	59%	78%	69%	-36%
<b>Capacity Factor</b>							
<b>Unit 1</b>	0%	0%		70%	37%	37%	-100%
<b>Unit 2</b>	72%	72%	73%	49%	60%	45%	62%
<b>Total Plant</b>	36%	44%	36%	59%	48%	41%	-11%

## II. MARKETING – COMPARATIVE REPORT H1 2012 vs. H1 2011

### Coal

Total coal sales volume in H1 2012 of 3.73 million MTs is 10% lower than H1 2011 sales of 4.16 million MTs. Although Q1 2012 sales of 1.67 million MTs was 2% stronger than 1.64 million MTs in Q1 2011, Q2 2012 sales volume of 2.06 million MTs was weaker by 18% as against 2.52 million MTs in Q2 2011.

The table below shows the comparative coal sales volume data as of H1 2012 and H1 2011.

COMPARATIVE SALES VOLUME DATA									
(in '000 MTs)									
CUSTOMER	Q1 '12	Q2 '12	H1 '12	%	Q1 '11	Q1 '11	H1 '11	%	% Inc (Dec)
<b>Power Plants</b>									
Calaca	205	285	490	13%	412	320	732	18%	-33%
Other PPs	325	382	708	19%	384	325	708	17%	0%
<b>TOTAL PPs</b>	<b>531</b>	<b>667</b>	<b>1,198</b>	<b>60%</b>	<b>795</b>	<b>645</b>	<b>1,440</b>	<b>71%</b>	<b>-17%</b>
<b>Other Industries</b>									
Cement	271	338	608	16%	186	127	313	8%	94%
Others	99	105	204	5%	199	77	276	7%	-26%
<b>Total Others</b>	<b>370</b>	<b>443</b>	<b>813</b>	<b>22%</b>	<b>384</b>	<b>205</b>	<b>589</b>	<b>14%</b>	<b>38%</b>
<b>TOTAL LOCAL</b>	<b>901</b>	<b>1,110</b>	<b>2,011</b>	<b>54%</b>	<b>1,180</b>	<b>850</b>	<b>2,030</b>	<b>49%</b>	<b>-1%</b>
<b>EXPORT</b>	<b>771</b>	<b>946</b>	<b>1,717</b>	<b>46%</b>	<b>462</b>	<b>1,665</b>	<b>2,127</b>	<b>51%</b>	<b>-19%</b>
<b>GRAND TOTAL</b>	<b>1,672</b>	<b>2,056</b>	<b>3,728</b>	<b>100%</b>	<b>1,641</b>	<b>2,516</b>	<b>4,157</b>	<b>100%</b>	<b>-10%</b>

Sales to power plants of 1.20 million MTs this year dropped by 17% from 1.44 million MTs last year, mainly as a result of the 33% decrease in SCPC off-take with only one plant running this year. Unlike last year, wherein both power units were up and running during the first half, although reliability of Unit 2 post-rehab was only fully realized at the start of Q2. Unit 1 was down for rehabilitation since September last year, thus explaining the drop in SCPC's coal requirements.

Meanwhile, sales to other power plants were maintained at 708 thousand MTs.

On the other hand, with three new customers this year, sales to cement plants increased by 94% at 608 thousand MTs from 313 thousand MTs.

Slower off-take by some small traders in Q1 2012 resulted to a 26% drop in sales to other industries at 204 thousand MTs from 276 thousand MTs last year. However, it is important to note that deliveries to these traders started to pick-up in Q2.

Total deliveries to domestic customers registered a slight 1% drop at 2.01 million MTs from 2.03 million MTs last year. The lower off-take of SCPC was offset by the increase in off-take for the cement plants. Export sales recorded a bigger decrease of 19% at 1.72 million MTs this year from 2.13 million MTs last year. With the softening in export prices, exports in Q2 2012 were tempered by the Company.

The drop in global coal prices resulted to a corresponding 6% decrease in composite average FOB price per MT at PHP2,847 from PHP3,014 last year.

### Power

From the total energy generated of 951GW in H1 2012, 913GW was sold and the balance was utilized for station use. There was very minimal spot purchase of 17GW in H1. Likewise, volume sold to spot market of 1GW was negligible. Hence, almost the entire energy sales were sold to bilateral

contracts (BCQ). Sales in H1 is 19% lower compared to the same period last year. Although energy generation was lower, contracted energy was met, hence, the almost nil spot purchase.

Of the total BCQ sales, 81% went to Meralco. Meralco share was doubled from last year after the power supply contract was successfully negotiated last December 2011. The share of the pie for energy sold to "Other" customers was further reduced to 1% due to the expiration of the direct power supply to Cavite Economic Zone, which now forms part of the Meralco contract. The balance of 18% of the pie are for BATELEC and Trans-Asia at 12% and 6%, respectively. Spot sales were negligible during the quarter.

Average H1 sales price per kWh registered at P4.28 against P4.69 in H1 2011.

The table below shows the comparative power sales volume data as of H1 2012 and H1 2011.

<b>COMPARATIVE SALES VOLUME DATA</b>									
<i>(in GWh)</i>									
<b>CUSTOMER</b>	<b>Q1 '12</b>	<b>Q2 '12</b>	<b>H1 '12</b>	<b>%</b>	<b>Q1 '11</b>	<b>Q1 '11</b>	<b>H1 '11</b>	<b>%</b>	<b>% Inc (Dec)</b>
BCQs	452	460	913	100%	353	466	819	73%	11%
Spot Sales	0.6	0.9	1.4	0%	94	215	308	27%	-100%
<b>GRAND TOTAL</b>	<b>453</b>	<b>461</b>	<b>914</b>	<b>100%</b>	<b>446</b>	<b>681</b>	<b>1,127</b>	<b>100%</b>	<b>-19%</b>

### **III. FINANCE**

#### **A. Sales and Profitability**

Consolidated Revenues, net of eliminating entries, decreased by 17% at PHP13.33 billion in the current period versus PHP15.97billion last year. Coal Revenues, before elimination, dropped by 15% at PHP10.61 billion this year from PHP12.53 billion last year, resulting from lower sales volume and lower composite average price per MT. Coal Revenues after eliminations decreased by 12% at PHP9.42 billion from PHP10.69 billion last year. Meanwhile, with only one plant running at a derated capacity and lower average price per kwhr, energy Revenues dropped by 26% at PHP3.91 billion from PHP5.28 billion in H1 last year.

Consolidated Cost of Sales increased by 9% at PHP7.94 billion from PHP8.74 billion last year. Before elimination, Cost of Coal Sales dropped by 7% at PHP6.94 billion from PHP7.50 billion last year mainly due to lower volume sold. Net of elimination, cost of coal sold registered a slight decline of 1% at PHP5.58 billion from PHP5.62 billion due to lower volume sold with higher cost of coal sold per unit during the period compared to same period last year.

On the other hand power Cost of Sales decreased by 29% before elimination at PHP2.31 billion from PHP3.26 billion last year; and 28% after elimination at PHP2.36 billion from PHP3.26 billion last year. The decrease is a result of minimal spot purchases for replacement power this year compared to last year and lower coal fuel average cost.

The resulting consolidated Gross Profit amounted to PHP5.4 billion, with the coal and power segments each contributing PHP3.85billion and PHP1.55billion, respectively. This decreased by 25% compared to last year's consolidated Gross profit of PHP7.09 billion, PHP5.21 billion from coal and PHP2.02billion from power. Gross profit margin decreased to40% this year from 45% last year due to the combined effect of higher cost of coal beginning inventory and decrease in composite average price both for coal and energy sales.

Consolidated Operating Expenses decreased by 26% at PHP1.88billionfrom PHP2.53billion last year. The coal segment's Operating Expenses this year of PHP1.41billion decreased by 25% from last year's PHP1.87billion as Government Share dropped by 29% at PHP1.20billion from PHP1.70billion last year due to lower coal revenues during the period. The power segment also recorded a decrease of 16% at PHP442.90 million fromPHP523.76 million last year mainly due to reduced O&M fees

amounting to P100M or 32% lower compared with same period last year. The pre-operating Southwest Luzon Power Generation Corp. (SLPGC), a wholly-owned subsidiary of the Company incorporated to expand its power capacity with the construction of 2 x 150 MW power plants, incurred PHP18.95million pre-operating expenses, representing taxes, licenses and fees incurred during the period.

Consolidated Finance Costs dropped by 4% at PHP244.65 million from PHP235.10 million last year. Although the coal segment's interest-bearing loans increased by 33% at PHP4.53 billion from PHP3.39 billion last year, reduction in interest rates brought down its Finance Costs by 19% at PHP37.06 million from PHP46.02 million last year. On the other hand, although the PHP9.6 billion long-term project financing debt of the power segment dropped to PHP7.68 billion, after it started servicing the loan, availment of short-term working capital loans, increased its Finance Costs by 10% at PHP191 million from PHP174 million last year.

Consolidated Finance Revenues decreased by 43% at PHP28.41 million from PHP50.19 million last year. The drop is a combined effect of lower cash and lower placement interest rates. The coal segment's investible funds reduced after its additional equity infusion of PHP2.41 billion to SLPGC, thus its Finance Revenues decreased by 66% at PHP9.48 million from PHP 28.18 million last year. The power segment's Finance Revenues also dropped by 14% at PHP18.93 million from PHP22.01 million last year after using most of its cash this year for debt service and payment of dividends.

Consolidated Forex Gains improved by 2334% at PHP169.92 million from PHP6.98 million last year. This is due to the continuous strengthening of the peso against the dollar. The coal segment recognized PHP168.84 million of Forex Gains this year as compared to PHP5.85 million last year as most of its loans are in USD; while with minimal Forex exposure, the power segment's Forex Gains registered at PHP1.08 million from PHP1.13 million last year.

Consolidated Other Income increased by 175% at PHP164.54 million from PHP59.83 million generated by the coal segment last year from gain on sale of retired assets. The coal segment's Other Income this year which increased by 94% at PHP116.30 million included gain on sale of retired assets, sale of electricity and insurance claims. Meanwhile, the power segment's Other Income of PHP48.24 million is mainly composed of sale of fly ash..

The resulting consolidated Income Before Tax stood at PHP3.64 billion, with the coal segment and power segment contributing PHP2.67billion and PHP983.31 million, respectively, while SLPGC registered a loss of 18.95 million This is 21% lower than last year's consolidated Income Before Tax of PHP4.56 billion, with coal and power segments contributing PHP3.24 billion and PHP1.34 billion, respectively.

Both the coal and power segments enjoy Income Tax Holidays as Board of Investments (BOI)-registered companies. SLPGC's application for BOI registration was also approved recently. Consolidated Income Tax Provision remained minimal at PHP2.78 million this year representing final tax, lower by 56% than last year's PHP6.35 million. The coal and power segments' tax provision in the current period was at PHP1.15 million and PHP1.63 million, respectively.

The resulting Net Income After Tax decreased by 21% at PHP3.63 billion from PHP4.58 billion last year. Coal and power respectively generated PHP2.67 billion, PHP1.63 billion, and PHP21.67 million this year, while SLPGC recorded a net loss of PHP18.95 million. Earnings per Share (EPS) correspondingly decreased by 21% at PHP10.20 from PHP12.85 last year.

## **B. Solvency and Liquidity**

Consolidated Cash Provided by Operations in H1 dropped by 48% at PHP3.29 billion this year as compared to last year's PHP6.32 billion. Operating Income Before Working Capital Changes decreased by 24% at PHP4.88billion from PHP6.41 billion last year. Moreover, consolidated working capital requirements this year is 1770% more at PHP1.59 billion from PHP85.03million last year. Decrease in Trade and Other Payables and increase in Receivables and Inventories were the main causes for the increase in the current period's working capital.

Advance payments of the Company's expansion of power assets mainly comprised the Cash Outflow from Investing Activities of PHP4.68billion, recording a 151% increase from last year's PHP1.87 million.

Cash dividends payment is higher this year as dividend per share increased from PHP10 last year to PHP12. However, the Company availed more loans for its Capex, while SLPGC had its initial drawdown of PHP550 million from its project finance facility set up for the power expansion. As a result, Cash Flows from Financing Activities dropped by 40% at PHP2.09 billion from PHP3.49billion last year.

Consolidated Net Cash Outflow this year stood at PHP3.68 billion as against net inflow of PHP813.30 million last year. Although consolidated beginning cash is 31% healthier at PHP5.01 billion this year as compared to PHP3.81 billion last year, consolidated cash end is 71% lower at PHP1.33 billion from PHP4.63 billion last year.

Current ratio is lower this year at 1.02x as compared to 1.63x as at the end of H1 2011.

### **C. Financial Condition**

Consolidated Total Assets closed at PHP35.47 billion, just about the same as beginning balance level of PHP35.62 billion. Net of eliminations, the coal and power segments' Total Assets stood at PHP10.31 billion and PHP21.34 billion, respectively. SLPGC and Sem-Cal Industrial Park Developers, Inc. (SIPDI), another wholly-owned subsidiary, incorporated to develop the Calaca property into an economic zone, recorded Total Assets of PHP3.80 billion and PHP2.50 million, respectively.

Consolidated Current Assets dropped by 27% at PHP10.27 billion from PHP14.16 billion last year. Coal, power, SLPGC, and SIPDI accounted for PHP6.15 billion and PHP3.66 billion, PHP456.32million, and PHP2.50 million, respectively.

The 73% decrease in consolidated Cash and Cash Equivalents at PHP1.33 billion from PHP5.01 billion beginning level mainly accounted for the decrease in consolidated Current Assets. The substantial decrease in Cash is attributable to payment of dividends and payment of Trade and Other Payables, particularly the down payment for the 2 x 150MW power plant expansion.

The decrease in consolidated Cash and Cash Equivalents was partially offset by the 10% growth in consolidated Net Receivables at PHP3.53 billion from PHP3.22 billion due to higher coal and power receivables at cut-off dates from beginning balances. The coal and power segments Receivables of PHP2.06 billion and PHP1.46 billion, respectively, are mainly trade related.

Consolidated Net Inventories dropped by 5% at PHP4.36 billion from PHP4.59 billion as at the start of the year. The coal segment's ending Inventory of PHP3.14 billion is mainly comprised of cost of ending coal inventory and materials and supplies, while the power segment's Inventory of PHP1.22 billion is mainly from spareparts inventory for corrective, preventive and predictive maintenance program.

During the period, the Company accounted for Due from Affiliated Companies of 90.30 million, of which PHP69.26 million is from coal and PHP21.03 million from power. These receivables from affiliates are accrued in the normal and ordinary course of business which are included under "Receivable" account.

Consolidated Other Current Assets reduced by 1% at PHP969.32million from PHP1.31 billion beginning balance. The coal segment's Other Current Assets of PHP683.12 million is mainly comprised of creditable withholding taxes, advances to suppliers, and pre-paid insurance. Meanwhile, the power segment's Other Current Assets amounting of PHP286.20 million mainly accounted for advances to suppliers and pre-paid insurance.

Consolidated Non-Current Assets increased by 17% at PHP25.19 billion from PHP21.50 billion beginning balance. Coal, power, and SLPGC accounted for PHP4.16 billion and PHP17.69 billion, and PHP3.34 billion, respectively.

The 9% increase in consolidated non-current assets came mainly from the increase in consolidated net PPE at PHP24.43 billion from PHP20.74 billion beginning balance. Down payments were made to suppliers for the expansion of power capacity under SLPGC, while the coal segment also purchased additional mining equipment to replace its retired assets. Coal, power, and SLPGC accounted for net PPE of PHP4.00 billion and PHP17.09 billion, and PHP3.34 billion, respectively.

Consolidated Investments and Advances posted a minimal 1% growth at PHP498.09 million from PHP490.79 million beginning balance. The whole amount is attributed to the power segment for this period.

SLPGC accounted for Deferred Tax Assets of PHP6.07 million for which was recognized in 2011 for future tax deductibility of recorded losses. In 2011, consolidated Deferred Tax Assets closed at PHP17.41, thus current balance reflected a 65% reduction.

Consolidated Other Non-Current Assets slightly increased by 3% at PHP264.24 million from PHP258.4 million as at the start of the year. Coal and power segments accounted for PHP164.80 million and PHP99.45 million, respectively.

Meanwhile Consolidated Total Liabilities increased by 2% at PHP21.30 billion from PHP20.82 billion beginning balance. Coal, power, SLPGC and SIPDI accounted for PHP9.90 billion, PHP10.84 billion, PHP561.36 million and PHP0.05 million, respectively.

Consolidated Total Current Liabilities decrease by 12% at PHP10.02 billion from PHP11.3 billion beginning balance. Coal, power, SLPGC and SIPDI accounted for PHP6.00 billion, PHP4.01 billion, PHP11.36 million and PHP0.05 million, respectively.

Consolidated Trade and Other Payables decrease by 20% at PHP5.89 billion from PHP7.30 billion beginning balance after payment of the balance of the coal segment's government share for prior year of P905.0 million and settlement of other trade accounts for both coal and power segments. Coal, power, SLPGC and SIPDI respectively accounted for PHP4.0 billion and PHP1.85 billion, PHP11.36 million and PHP0.05 million of Trade and Other Payables.

Consolidated Current Portion of Long-Term Debt dropped by 52% at PHP1.45 billion from beginning balance of PHP2.99 billion after payment of maturities. Of the current balance, coal and power accounted for PHP679.94 million and PHP768 million, respectively.

Consolidated Short-Term Loans increased by 165% at PHP2.68 billion from PHP1.01 billion beginning balance as both coal and power segments availed of bridge loans for working capital requirement. Coal and power accounted for PHP1.29 billion and PHP1.38 billion, respectively.

Meanwhile, the coal and power segments accounted for Due to Affiliated Companies amounting of PHP57.86 million and PHP165.65 million, respectively, consolidating to PHP223.51 million. These payables were accrued in the normal and ordinary course of business and included under "Trade and Other Payable" account.

Consolidated Total Non-Current Liabilities increased by 18% at PHP11.28 billion, from PHP9.52 billion beginning balance. Coal, power, and SLPGC accounted for PHP3.89 billion, PHP6.83 billion and PHP550 million, respectively.

The Increase in consolidated Total Non-Current Liabilities is mainly due to the coal segment's availing of medium-term loans to finance its Capex during the period and the initial drawdown of SLPGC's project finance facility. Consolidated Long-Term Debt increased by 19% at PHP11.23 billion from PHP9.47 billion beginning balance, of which coal, power, and SLPGC accounted for PHP3.85 billion, PHP6.83 billion, and PHP550 million, respectively.

There were no movements in other Non-Current Liabilities accounts during the period.

After payment of dividends amounting to PHP4.28 billion and accounting of income generation of PHP3.63 billion, consolidated Stockholders' Equity decreased by 6% at PHP14.17 billion from PHP14.81 billion as at the start of the year. Stockholders' Equity of coal, power, SLPGC and SIPDI closed at PHP12.51 billion, PHP1.68 billion, (PHP24.67) million and (PHP0.05) million, respectively.

Debt-to-Equity ratio decreased by 7% at 1.50:1 from 1.41:1 as at the start of the year.

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

1. **Earnings per Share** – Despite unfavorable market conditions for the coal segment and limited capacity of the power segment the Company's strong income generation during the period is reflected in its healthy EPS.

2. **Debt-to-Equity Ratio** – As a measure of the Company's financial condition, the current period's DE Ratio reflects a strong balance sheet. This allows the Company to continue enjoy competitive borrowing rates. On 24 February, financial close for its 2 x 150 MW power plants expansion was obtained, with best commercial terms.

3. **Business Expansion** – The forward-integration into the power business proved to be beneficial for the Company. It improves its coal recovery as its power assets are the only local plants that could use unwashed coal as of this time. Moreover, it creates a multiplier effect of the value its coal reserves, as evidenced by the positive income generation of the power assets since their acquisition. Finally, it safeguards the Company's income generation from unfavorable market developments in the coal industry. These are sound motivations for the Company to further expand its power capacities.

4. **Expanded Market** – The Company's current marketing strategy evolves in developing more domestic demand for coal by providing customers incentives to fully refurbish their plants to be able to use 100% Semirara coal. This is over and above the expansion program of its power business.

Meanwhile, the power segment's supply contract with Meralco is the ideal solution for a base load plant as it offers a reliable and stable market for power. Pricing mechanism for the bilateral contracts provide cushion to the highly volatile spot prices.

5. **Improved coal quality** – While the Company continues to implement measures to improve coal quality for its domestic customers, the power segment is on experimentation stages as it tried to blend unwashed coal with clean coal for fuel. During the period, its experiment proved successful for Unit 2 but the Company is still in the process of finding the perfect fuel mix ratio and determining whether this strategy is sustainable for both Units. This development brings more promising upside for the Company as this will improve coal recovery and save coal washing cost.

#### **Nickel**

DMCI Mining, Corp., the Company's nickel and metals (non-coal) mining company, continued to mine and sell nickel ore (1.7% and up nickel content) from the Benguet and Acoje mines in Zambales.

DMCI Mining reported continuous improvement for 2012 as net income for the half grew by 39% from P342 million last year to P473 million this year. First half nickel ore shipments for the year improved to 992 thousand wet metric tons (WMT) compared to 889 thousand WMT last year while revenues dipped to P1.5 billion compared to P1.8 billion last year. Nickel grade shipments were more on the low grade ore causing much of the drop in nickel prices. Despite this, net income still grew due to the conservative costing being adopted by DMCI Mining as its current mine contracts in the Benguet Nickel and Acoje mines have either been stopped or will be stopped within the year. Mining continues at the Benguet mines where most of the shipments were coming from. Shipments from the Acoje mine are from stockpiles previously mined.

With the current direction of Benguet to operate its own nickel reserves and the Acoje mining operations with European Nickel stopping mine contract operations with DMCI Mining in May 2012, the Company has initiated to acquire its own nickel and other metal resource assets. As the Philippine Government is also looking to revamp and improve revenue generation and policy implementation in the mining industry, the Company sees opportunities to possibly acquire mining assets for the group. Currently (post first half cut-off date), the Company has launched its offer to acquire the outstanding shares of ENK PLC in partnership with D&A Income (the single biggest shareholder in ENK. ENK effectively has major ownership in the Acoje mine previously being operated by DMCI Mining. With this and some other opportunities, the Company believes that it can be a significant player in the metals mining industry.

## **II. FINANCIAL CONDITION**

### **June 30, 2012 (Unaudited) vs December 31, 2011 (Audited)**

The Company's financial condition for the period improved as total assets and net assets improved by 15% to P96.5 billion.

Consolidated cash slightly decreased from P15 billion in December 31, 2011 vs. P14.5 billion in June 30, 2012 due mainly to PPE and investment growth. Moreover Semirara paid cash dividends in June 25, 2012.

Total receivables (current and non-current) went up due mainly to normal trade in the businesses with the major growth coming from the milestone billings from the construction segment.

Consolidated inventories continued to grow by 11% coming mainly from the continuing work in progress at the real estate segment.

Other current assets decreased by 51% due to prepaid taxes applied in the first half of the year and recoupment of advances to suppliers.

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 grew 15% as the rehabilitation of Calaca unit 1 was underway in the 1<sup>st</sup> half.

Accounts & other payables marginally increased mostly as a result of normal trade operations, deferred revenues and accruals.

Customers deposits doubled with the payments from customers at the real estate and construction segments the revenue of which has yet to be realized.

Long term grew slightly due to withdrawals from loans in the power plant expansion and the receivable discounting at real estate segment. This was offsetted with regular debt payments being made mostly at the real estate, coal and power sectors.

Both the current ratio and the debt to equity ratio retained at the same levels at 2.04-2.07 and 1.08-1.10 respectively.

### 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>	For the period		Variance	%
	2012	2011		
COAL MINING	9,424	10,691	(1,267)	(12)
NICKEL MINING	1,526	1,763	(237)	(13)
CONSTRUCTION	7,533	4,837	2,696	56
REAL ESTATE	4,490	3,202	1,288	40
ELECTRICITY	4,394	5,642	(1,248)	(22)
PARENT & OTHERS	107	80	27	34
<b>TOTAL</b>	<b>27,474</b>	<b>26,215</b>	<b>1,259</b>	<b>5%</b>

The initial indicators 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>	For the first half		Variance	%
	2012	2011		
COAL MINING	1,494	1,821	(327)	-18%
NICKEL MINING	473	342	131	39%
CONSTRUCTION	601	486	115	24%
REAL ESTATE	1,169	845	324	38%
ELECTRICITY	693	850	(157)	-18%
WATER	1,226	946	280	30%
PARENT & OTHERS	120	(11)	131	1,091%
<b>TOTAL</b>	<b>5,776</b>	<b>5,279</b>	<b>497</b>	<b>9%</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 P2.18/share accounting for a 9.5% increase from the P1.99/share EPS last year. (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 1.20 per common share paid on July 5, 2012 to the holders of record of June 15, 2012.
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** **Ma. Luisa C. Austria**  
Finance Officer Accounting Officer

Date August 17, 2012

**DMCI HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

For the period ended June 30, 2012 and December 31, 2011

(Amounts in Thousands of Philippine Pesos,  
Except Par Value and Number of Shares)

	2012	AUDITED 2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	14,539,387	15,065,748
Financial assets at fair value through profit or loss	71,330	71,400
Available-for-sale financial assets - net	69,859	59,910
Receivables - net	17,762,098	8,407,880
Inventories - net	19,349,762	17,484,675
Other current assets	2,457,844	5,019,400
Total Current Assets	54,250,280	46,109,013
<b>Noncurrent Assets</b>		
Noncurrent receivables - net	1,090,476	2,438,697
Available-for-sale financial assets - net	163,004	164,507
Investments in associates, jointly controlled entities and others - net	11,949,194	10,849,383
Investment properties - net	662,294	142,159
Property, Plant and Equipment - net	27,024,376	23,419,344
Other noncurrent assets - net	1,329,845	1,060,586
Total Noncurrent Assets	42,219,189	38,074,676
	96,469,469	84,183,689
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Short-term debt	3,160,684	1,490,648
Current portion of liabilities for purchased land	871,837	471,886
Accounts and other payables	12,173,197	12,252,946
Billings in Excess of Costs and estimated earnings on uncompleted contracts	648,587	750,744
Customers' advances and deposits	7,526,071	3,638,509
Current portion of long-term debt	1,532,076	3,813,948
Income tax payable	233,916	138,199
Total Current Liabilities	26,146,368	22,556,880

**Noncurrent Liabilities**

Long-Term Debt - net of current portion	21,416,157	17,775,617
Liabilities for purchased land - net of current portion	258,183	460,047
Deferred tax liabilities - net	664,856	1,008,459
Pension liabilities	181,309	180,305
Other Noncurrent Liabilities	1,827,393	1,732,378
<b>Total Noncurrent Liabilities</b>	<b>24,347,898</b>	<b>21,156,806</b>
<b>Total Liabilities</b>	<b>50,494,266</b>	<b>43,713,686</b>

**Equity**

Equity attributable to equity holders of the DMCI Holdings, Inc.:

Paid-in capital	7,420,814	7,420,815
Retained earnings	32,409,108	26,633,072
Premium on acquisition of non-controlling interests	(161,033)	(161,033)
Other comprehensive loss	(1,090)	(1,090)
	<b>39,667,800</b>	<b>33,891,764</b>
<b>Non-controlling interests</b>	<b>6,307,403</b>	<b>6,578,239</b>
<b>Total Equity</b>	<b>45,975,203</b>	<b>40,470,003</b>
	<b>96,469,469</b>	<b>84,183,689</b>

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

For the period ended June 30, 2012 and 2011 and for the quarter ended  
June 30, 2012 and 2011

(Amounts in Thousands of Philippine Pesos)

	For the period		For the quarter	
	2012	2011	2012	2011
<b>REVENUE</b>				
Coal Sales	9,423,790	10,690,897	5,087,943	6,739,055
Nickel Ore Sales	1,525,371	1,762,649	550,886	807,142
Construction contracts	7,533,186	4,836,882	3,858,585	2,214,876
Electricity sales	4,394,156	5,642,489	2,139,127	3,529,637
Real estate sales	4,489,973	3,201,736	2,769,452	2,061,940
Merchandise sales and others	107,278	79,914	57,505	47,178
	<b>27,473,754</b>	<b>26,214,567</b>	<b>14,463,498</b>	<b>15,399,828</b>
<b>COST OF SALES AND SERVICES</b>				
Coal Sales	5,578,199	5,477,694	2,800,132	3,554,306
Nickel Ore Sales	820,646	1,267,238	248,254	623,971
Construction contracts	6,619,405	4,084,747	3,390,048	1,948,823
Electricity sales	2,736,504	3,552,517	1,380,768	2,187,952
Real estate sales	1,991,934	1,745,467	1,173,084	1,137,605
Merchandise sales and others	66,198	52,230	34,283	31,813
	<b>17,812,886</b>	<b>16,179,893</b>	<b>9,026,569</b>	<b>9,484,470</b>
<b>GROSS PROFIT</b>	<b>9,660,868</b>	<b>10,034,674</b>	<b>5,436,929</b>	<b>5,915,358</b>
<b>OPERATING EXPENSES</b>	<b>(3,057,513)</b>	<b>(3,449,446)</b>	<b>(1,663,719)</b>	<b>(2,036,814)</b>
	6,603,355	6,585,228	3,773,210	3,878,544
<b>OTHER INCOME (LOSSES)</b>				
Equity in net earnings of associates	1,225,844	945,771	614,982	447,271
Finance income	392,620	565,830	186,879	364,602
Finance costs	(646,308)	(705,885)	(337,256)	(411,289)
Other income (charges) - net	685,955	357,106	206,097	181,553
<b>INCOME BEFORE INCOME TAX</b>	<b>8,261,466</b>	<b>7,748,050</b>	<b>4,443,912</b>	<b>4,460,681</b>
<b>PROVISION FOR INCOME TAX</b>	<b>872,359</b>	<b>459,531</b>	<b>494,426</b>	<b>178,369</b>
<b>NET INCOME (NOTE 4)</b>	<b>7,389,107</b>	<b>7,288,519</b>	<b>3,949,486</b>	<b>4,282,312</b>
<b>NET INCOME ATTRIBUTABLE TO</b>				
<b>Equity holders of DMCI Holdings, Inc.</b>	<b>5,776,037</b>	<b>5,279,329</b>	<b>3,102,098</b>	<b>3,012,253</b>
<b>Non-controlling interests</b>	<b>1,613,070</b>	<b>2,009,190</b>	<b>847,388</b>	<b>1,270,059</b>
	<b>7,389,107</b>	<b>7,288,519</b>	<b>3,949,486</b>	<b>4,282,312</b>
<b>Basic/Diluted Earnings Per Share</b>	<b>2.18</b>	<b>1.99</b>	<b>1.17</b>	<b>1.13</b>

**DMCI HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****For the period ended June 30, 2012 and 2011 and for the quarter ended  
June 30, 2012 and 2011****(Amounts in Thousands of Philippine Pesos)**

	For the period		For the quarter	
	2012	2011	2012	2011
<b>NET INCOME</b>	7,389,107	7,288,519	3,949,486	4,282,312
<b>OTHER COMPREHENSIVE INCOME</b>	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>7,389,107</b>	<b>7,288,519</b>	<b>3,949,486</b>	<b>4,282,312</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>				
Equity holders of DMCI Holdings, Inc.	5,776,037	5,279,329	3,102,098	3,012,253
Minority interests	1,613,070	2,009,190	847,388	1,270,059
	<b>7,389,107</b>	<b>7,288,519</b>	<b>3,949,486</b>	<b>4,282,312</b>

DMCI HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED JUNE 2012 AND 2011

	<b>JUNE 2012</b>	<b>JUNE 2011</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)	(2,396,220)
	<u>3,780</u>	<u>3,780</u>
Common stock - P1 par value		
Authorized - 5,900,000,000 shares		
Issued - 2,255,494,000 shares	2,655,494,000	2,655,494,000
Additional subscription - 400,000,000 shares	-	-
	<u>2,655,494,000</u>	<u>2,655,494,000</u>
	<u>2,655,497,780</u>	<u>2,655,497,780</u>
<b>ADDITIONAL PAID-IN CAPITAL</b>		
Balance at the beginning	4,765,316,671	4,765,316,671
Retirement of Preferred Shares	-	-
Additional Paid-in Capital of new subscribed shares	-	-
	<u>4,765,316,671</u>	<u>4,765,316,671</u>
<b>DEPOSITS FOR FUTURE SUBSCRIPTION</b>		
		-
<b>RETAINED EARNINGS (DEFICIT)</b>		
Balance at beginning of the period	26,633,071,940	19,693,115,974
Net income(loss) for the period	5,776,036,420	5,279,328,734
Dividends paid	-	-
Balance at end of the period	<u>32,409,108,360</u>	<u>24,972,444,708</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u><b>39,829,922,811</b></u>	<u><b>32,393,259,159</b></u>

**DMCI HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the period ended June 30, 2012 and 2011**  
**(Amounts in Thousands of Philippine Pesos)**

	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Net Income</b>	7,389,107	7,288,519
Adjustments to reconcile net income (loss) to net cash:		
Equity in net losses (earnings) of affiliates, depreciation, depletion and amortization and other non-cash items (net)	(3,226,138)	(4,967,165)
Income (Loss) applicable to Minority Interest	1,613,070	2,009,190
Changes in assets and liabilities:		
Decrease / (Increase) in :		
Receivables- net	(8,005,997)	(2,832,486)
Inventories - net	(1,865,088)	(1,198,000)
Prepaid expenses and other current assets	2,561,556	2,396,040
Increase/ (Decrease) in :		
Accounts payable and accrued expenses	4,207,764	3,203,375
Billings in excess of cost of uncompleted contracts	(102,157)	157,988
Income tax payable	95,717	30,554
<b>Net cash provided by operating activities</b>	<b>2,667,834</b>	<b>6,088,015</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in:		
Financial assets at fair value through profit or loss	70	0
Available for sale financial assets	(8,446)	(1,075)
Investments in associates, jointly controlled entities and others	(1,099,811)	(817,116)
Investment properties	(520,135)	(37,964)
Property, plant and equipment - net	(3,605,032)	(613,388)
Deferred charges and other assets - net	(269,259)	(1,080,027)
<b>Net cash used by investing activities</b>	<b>(5,502,613)</b>	<b>(2,549,570)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net availments (payments) of:		
Notes Payable	1,670,036	854,138
Current portion of long-term debt	(2,281,872)	(2,027,460)
Non current liabilities	3,191,091	4,755,001
Additional subscription of common shares		
Capital Stock at P1.00 par value	0	0
Additional paid-in capital	(1)	(601)
Net increase (decrease) in minority interest	(270,836)	453,121
<b>Net cash provided by financing activities</b>	<b>2,308,418</b>	<b>4,034,199</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(526,361)</b>	<b>7,572,644</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<b>15,065,748</b>	<b>9,946,666</b>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<b>14,539,387</b>	<b>17,519,310</b>

# DMCI HOLDINGS, INC. AND SUBSIDIARIES

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

### 1. Corporate Information

DMCI Holdings, Inc. (the Parent Company) was incorporated on March 8, 1995 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.

---

### 2. Summary of Significant Accounting Policies

#### Basis of Preparation

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

#### Statement of Compliance

The interim 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, 2011 and 2010 and for each of the three years in the period ended December 31, 2011. 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 (NCI) 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 NCI 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 NCI 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 NCI, 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 NCI 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 NCI 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):

	June 30 2012			2011		
	Direct	Indirect	Effective Interest	Direct	Indirect	Effective Interest
<u>General Construction:</u>						
D.M. Consunji, Inc. (DMCI) <sup>1</sup>	100.00%	–%	100.00%	100.00%	–%	100.00%
DMCI International, Inc. (DMCII) <sup>2</sup> (	–	100.00	100.00	–	100.00	100.00
OHKI-DMCI Corporation (OHKI) <sup>2</sup>	–	100.00	100.00	–	100.00	100.00
DMCI-Laing Construction, Inc. (DMCI-Laing) <sup>2</sup>	–	60.00	60.00	–	60.00	60.00
Beta Electric Corporation (Beta Electric) <sup>2</sup>	–	51.77	51.77	–	51.77	51.77
Raco Haven Automation Philippines, Inc. (Raco) <sup>2</sup>	–	50.14	50.14	–	50.14	50.14
<u>Mining:</u>						
Semirara Mining Corporation (Semirara)	56.32	–	56.32	56.32	–	56.32
DMCI Mining Corporation (DMC)	100.00	–	100.00	100.00	–	100.00
<u>Real Estate Development:</u>						
DMCI Project Developers, Inc. (PDI)	84.47	15.53	100.00	84.47	15.53	100.00
Hampstead Gardens Corporation (Hampstead) <sup>3</sup>	–	100.00	100.00	–	100.00	100.00
Riviera Land Corporation (Riviera) <sup>3</sup>	–	100.00	100.00	–	100.00	100.00
DMCI-PDI Hotels, Inc. (PDI Hotels) <sup>3</sup>	–	100.00	100.00	–	100.00	100.00
DMCI Homes Property Management Corporation (DHPMC) <sup>3</sup>	–	100.00	100.00	–	100.00	100.00

	June 2012			2011		
	Direct	Indirect	Effective Interest	Direct	Indirect	Effective Interest
<u>Manufacturing:</u>						
Semirara Cement Corporation (SemCem) *	100.00	–	100.00	100.00	–	100.00
Oriken Dynamix Company, Inc. (Oriken) <sup>2</sup>	–	89.00	89.00	–	89.00	89.00
Wire Rope Corporation of the Philippines (Wire Rope)	45.68	16.02	61.70	45.68	16.02	61.70
<u>Marketing Arm:</u>						
DMCI Homes, Inc. (DMCI Homes) <sup>3</sup>	–	100.00	100.00	–	100.00	100.00
<u>Power:</u>						
DMCI Power Corporation (DPC) (formerly DMCI Energy Resources Unlimited Inc.) *	100.00	–	100.00	100.00	–	100.00
DMCI Masbate Power Corporation (DMCI Masbate)	–	100.00	100.00	–	100.00	100.00
DMCI Calaca Power Corporation	100.00	–	100.00	100.00	–	100.00
Sem-Calaca Power Corporation (SCPC) <sup>4</sup>	–	56.32	56.32	–	56.32	56.32
Southwest Luzon Power Generation Corporation (SLPGC) <sup>4**</sup>	–	56.32	56.32	–	56.32	56.32
SEM-Cal Industrial Park Developers, Inc. (SIPDI) <sup>4**</sup>	–	56.32	56.32	–	56.32	56.32

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

\*\* Organized on August 31, 2011 and April 24, 2011 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 subsidiaries

### *DMCI*

On December 5, 2011, the Securities and Exchange Commission (SEC) approved DMCI's application to declare property dividend to the Parent Company in the amount of ₱949.59 million payable in 949,594,750 shares of stocks in PDI with a total par value of ₱949.59 million.

### *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 AG&P's total issued and outstanding capital stock (see Note 39).

### *DPC*

On February 3, 2011, the Parent Company and DPC executed a Deed of Assignment, whereby the Parent Company assigned, transferred, and conveyed all its rights and interest over its subscribed 5,099,995 shares of DMCI Masbate with ₱1.00 par value each. The assigned shares were transferred for a consideration amounting to ₱1.27 million which is also equal to the amount paid-up by the Parent Company.

### 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 (collectively "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 amounting to ₱2.00 million.

#### *DMCI Masbate*

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

On 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 effectivity 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.

### *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.

### *SLPGC*

On August 31, 2011, SLPGC, a wholly-owned subsidiary of Semirara, was incorporated to operate electric power plants and to engage in business of a Generation Company.

### *SIPDI*

On April 24, 2011, SIPDI, a wholly-owned subsidiary of Semirara, was incorporated to acquire, develop, construct, invest in, operate and maintain an economic zone in Calaca, Batangas.

As of December 31, 2011, SLPGC and SIPDI have not yet started commercial operation.

### Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2011, except for the adoption of new Standards and Interpretations enumerated below.

#### *Effective 2012*

- PAS 12, *Income Taxes - Recovery of Underlying Assets* (Amendment)  
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property*, should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.
- PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements* (Amendment)  
The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group’s financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity’s continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011.

#### *Effective 2013*

- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*  
The amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

- PAS 19, *Employee Benefits* (Amendment)  
 Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The Group is currently assessing the full impact of the amendments in reporting actuarial gains or losses.
- PAS 27, *Separate Financial Statements* (as revised in 2011)  
 As a consequence of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.
- PAS 28, *Investment in Associates and Joint Ventures* (as revised in 2011)  
 As a consequence of the new PFRS 11, *Joint Agreements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.
- PFRS 7, *Financial Instruments: Disclosures - Offsetting of Financial Assets and Financial Liabilities*  
 These amendments require an entity to disclose information about rights of set-off and related arrangements such as collateral agreements. The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  - a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  - b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statements of financial position;
  - c) The net amounts presented in the statements of financial position;
  - d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    - ii. Amounts related to financial collateral (including cash collateral); and
  - e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013.

- *PFRS 10, Consolidated Financial Statements*  
 PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, which addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013. The Group is currently assessing the possible impact of this standard in the consolidated financial statements.
- *PFRS 11, Joint Agreements*  
 PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for Jointly Controlled Entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013.
- *PFRS 12, Disclosure of Interests in Other Entities*  
 PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.
- *PFRS 13, Fair Value Measurement*  
 PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after January 1, 2013.
- *Philippine Interpretation IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine*  
 This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of the production stripping costs as an asset and measurement of the stripping activity asset. This interpretation becomes effective for annual periods beginning on or after January 1, 2013. This interpretation may have an impact on both financial position and performance of the Group.

*Effective 2014*

- *PAS 32, Financial Instruments: Presentation - Offsetting of Financial Assets and Financial Liabilities*  
 These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to

settlement systems such as central clearing house systems which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

#### *Effective 2015*

- *PFRS 9, Financial Instruments: Classification and Measurement*  
PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurement of financial liabilities. The Group has decided not to early adopt for its 2012 financial reporting, thus, has not conducted a full quantification of the impact of this standard. The Group will quantify the effect in conjunction with the other phases, when issued, to present a more comprehensive picture.

#### New Standards Issued but not yet Effective

The Group has not adopted the following PFRS and Philippine Interpretations which are not yet effective as of December 31, 2011. The Group will adopt these 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.

- *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*  
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. 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. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

#### 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 and financial liabilities 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. 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.

The Group's financial instruments are classified as AFS financial assets, financial assets at FVPL, 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 under "Finance income" and "Finance costs" 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.

#### *Financial assets*

##### Financial Assets and Financial Liabilities at FVPL

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

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets or financial liabilities held for trading are recorded in the consolidated statement of financial position at fair value. Changes in fair value relating to the held for trading positions are recognized in “Other income - net” account in the consolidated statements of income. Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded when the right to receive payment has been established.

Financial assets may be designated at initial recognition as at FVPL if any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative that would need to be separately recorded.

The Group’s financial asset at FVPL pertains to investment in quoted equity securities (see Note 5). The Group does not have any financial liability at FVPL.

#### 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 Refundable 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 (EIR) 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 EIR and transaction costs. The amortization is included in “Finance income” in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized under “Other expenses” in the consolidated statement of income.

#### AFS Financial Assets

AFS financial assets are those which are designated as such or do not qualify to be classified or designated as at FVPL, HTM, or loans and receivables. 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 EIR. Dividends earned on investments are recognized in the consolidated statement of income when the right to receive payment has been established. The losses arising from

impairment of such investments are recognized under “Other expenses” in the consolidated statement of income.

AFS financial assets are classified as current asset if verified to be realized within 12 months from reporting date.

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.

The Group’s AFS financial assets pertain to quoted and unquoted securities (see Note 6).

### *Financial liabilities*

#### Other Financial Liabilities

Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral parts of the EIR. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.

Other financial liabilities relate to the consolidated statement of financial position captions, “Accounts and other payables”, “Liabilities for purchased land”, “Payable to related parties”, “Short-term and Long-term debt” 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.

#### Deferred Financing Costs

Deferred financing costs represent debt issue costs arising from the fees incurred to obtain project financing. This is included in the initial measurement of the related debt. The deferred financing costs are treated as a discount on the related debt and are amortized using the EIR method over the term of the related debt.

#### 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 EIR (i.e., the EIR 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 EIR 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 annually 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 and financial assets at FVPL*

For AFS financial assets and financial assets at FVPL, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity investments classified as AFS financial assets and financial assets at FVPL, 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 expenses" 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 comprehensive income.

#### Offsetting Financial Instruments

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

#### Derecognition of Financial Assets and Liabilities

##### *Financial 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 canceled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the

recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

#### 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).

Equipment parts and supplies are transferred from inventories to property, plant and equipments when the use of such supplies is expected to extend the useful life of the asset and increase its economic benefit. Transfers between inventories to property, plant and equipment do not change the carrying amount of the inventories transferred and they do not change the cost of that inventory for measurement or disclosure purposes.

Equipment parts and supplies used for repairs and maintenance of the equipments are recognized in the consolidated statements of income when consumed.

##### *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 and 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. Dividends received are treated as a reduction of the carrying value of the investment.

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 under "Other expenses" 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 the joint venture. 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 comprise completed property and property under construction or redevelopment that are held to earn rentals or capital appreciation or both and that are not occupied by the companies in the Group. 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 amortization 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 derecognized 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:

	Years
Buildings and building improvements	5-25
Condominium units	25

A transfer is made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. A transfer is made from investment property when and only when there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. A transfer between investment property, owner-occupied property and inventory does not change the carrying amount of the property transferred nor does it change the cost of that property for measurement or disclosure purposes.

### Mining Reserves

Mining reserves are estimates of the amount of coal that can be economically and legally extracted from 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.

#### *Investments in associates and jointly controlled entities*

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee companies. The Group determines at each reporting date whether there is any objective evidence that the investment in associates or jointly controlled entities is impaired.

If this is the case, the Group calculates the amount of impairment as being the difference between the fair value and the carrying value of the investee company and recognizes the difference in the consolidated statement of income.

### 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.

Redeemed shares represent own equity instruments which are reacquired and are subsequently retired by the Group. No gain or loss is recognized in the profit or loss upon retirement of the own equity instruments. When the assets are retired, the capital stock account is reduced by its par value and the excess of cost over par value is debited to additional paid-in capital recognized when the shares were issued and to retained earnings for the remaining balance.

### Business Combinations and Goodwill

#### *Business combinations from 1 January 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 Company 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 recognized 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.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit 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 this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

*Business combinations prior to January 1, 2010*

In comparison to the abovementioned 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.

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 consolidated statements of income.

Related Party Relationships and Transactions

Related party relationship exist when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities, which are under common control with the reporting enterprises and its key management personnel, directors, or its shareholders. In considering each related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

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 acceptance of the goods delivered upon which 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.

Cost of coal includes expenses, which include directly related to the production and sale of coal such as cost of fuel and lubricants, materials and supplies, depreciation and depletion and other related costs, are recognized when incurred.

#### *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.

Cost of energy includes expenses directly related to the production and sale of electricity such as cost of coal, fuel, depreciation and other related costs. Cost of coal and fuel are recognized at the time the related coal and fuel inventories are consumed for the production of electricity. Cost of energy also includes electricity purchased from the spot market and the related market fees. It is recognized as expense when the Group receives the electricity and simultaneously sells to its customers.

#### *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.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Company's in-house technical staff.

#### *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.

### Foreign Currency Translations and Transactions

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, if there are any, are likewise included under the cumulative translation adjustments account in the consolidated statement of financial position.

### Commission Expense

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

### Pension Expense

The Group has a noncontributory defined benefit retirement plan.

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

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

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

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

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

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

#### 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 tax is provided, using the balance sheet liability method, on all temporary differences, with certain exceptions, 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 with certain exception. Deferred tax assets are recognized for all deductible temporary differences, carry forward benefit of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from MCIT and NOLCO can be utilized.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic associates and interests in joint ventures.

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 assets 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 assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rate and tax laws that have been enacted or substantially enacted at the financial reporting date. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged against or credited to income for the period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets relate to the same taxable entity and the same taxation authority.

#### 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 34 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 20).

## 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.

### 3. Preferred and Common Stock

The changes in the number of shares follow:

	June 30, 2012	December 31, 2011
<hr/>		
Preferred stock - ₱1 par value cumulative and convertible to common stock		
Authorized number of shares	100,000,000	100,000,000
<hr/>		
Issued and outstanding		
Balance at beginning of year	3,780	4,380
Cancellation/retirement of issued preferred shares	0	600
Balance at end of year	3,780	3,780
<hr/>		
Common stock - ₱1 par value		
Authorized number of shares	5,900,000,000	5,900,000,000
<hr/>		
Issued and outstanding	2,655,494,000	2,655,494,000
<hr/>		
Additional subscription	-	-
Preferred shares held in treasury		
Balance at beginning of year	0	0
Redemption of preferred shares	0	600
Cancellation/retirement of issued preferred shares	0	(600)
Balance	0	0

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 15, 2012 and May 31, 2011 the Parent Company's BOD approved and declared cash dividend of ₱ 1.20 and ₱ 1.00 per share or ₱ 3,186 and ₱2,655 million respectively to stockholders of record as of June 15, 2012 and June 15, 2011, respectively. The cash dividend will be paid on July 5, 2012, while last year it was paid on July 7, 2011.

#### 4. Business Segments

The following tables present the net income of the specific business segments for the period and quarter ended June 30, 2012 and 2011 (amounts in thousand):

	<b>Revenues</b>			
	For the period		For the Quarter	
	2012	2011	2012	2011
Construction	7,533,186	4,836,882	3,858,585	2,214,876
Coal Mining	9,423,790	10,690,897	5,087,943	6,739,055
Nickel Ore Mining	1,525,371	1,762,649	550,886	807,142
Water	-	-	-	-
Real Estate Development	4,489,973	3,201,736	2,769,452	2,061,940
Electricity	4,394,156	5,642,489	2,139,127	3,529,637
Parent Company and Others	107,278	79,914	57,505	47,178
<b>TOTAL</b>	<b>27,473,754</b>	<b>26,214,567</b>	<b>14,463,498</b>	<b>15,399,828</b>

	<b>Net Income After Minority</b>			
	For the period		For the Quarter	
	2012	2011	2012	2011
Construction	601,284	486,208	318,890	124,202
Coal Mining	1,493,787	1,821,532	843,932	1,082,321
Nickel Ore Mining	473,302	341,712	204,779	144,572
Water	1,225,844	945,771	614,982	447,271
Real Estate Development	1,168,751	844,811	764,060	621,059
Electricity	692,893	849,785	292,492	587,683
Parent Company and Others	120,176	(10,490)	62,963	5,145
<b>TOTAL</b>	<b>5,776,037</b>	<b>5,279,329</b>	<b>3,102,098</b>	<b>3,012,253</b>

## 5. Operating Expenses

The following tables present the consolidated operating expenses for the period ended June 30, 2012 and 2011:

	<b>JUNE 2012</b>	<b>JUNE 2011</b>
Government Share	1,198,298,987.00	1,697,065,857.00
Salaries, Wages & Employees benefits	506,813,586.76	536,155,879.90
Advertising and Marketing Expense	217,965,899.74	200,107,737.49
Commission	202,418,383.73	113,896,498.00
Outside Services	76,554,676.10	42,667,452.58
Taxes and Licenses	274,419,018.21	311,130,128.84
Depreciation Expense	133,893,139.12	202,318,211.88
Professional Fees	63,752,322.78	90,670,402.94
Entertainment, amusement and recreation	25,589,822.12	18,793,576.70
Rental Expense	14,939,669.29	23,347,629.80
Transportation and Travel	23,917,296.45	16,820,009.60
Communication, light and water	28,245,551.50	27,689,112.53
Repairs and Maintenance	115,617,342.06	50,366,735.15
Gasoline and Oil Expense	6,270,570.14	6,977,854.72
Supplies	52,549,038.66	15,711,056.16
Insurance	31,629,096.17	19,786,530.74
Other Operating Expense	84,638,965.45	75,941,236.29
<b>TOTAL</b>	<b>3,057,513,365.28</b>	<b>3,449,445,910.32</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 2,029,944,835.62 and Php 3,686,316,511.76 as of June 30, 2012 and June 30, 2011 respectively, where Php 306,926,331.03 and Php 658,205,732.34 were booked for the period ended June 30, 2012 and June 30, 2011 respectively.

---

## **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.

DMCI HOLDINGS, INC.  
 ACCOUNTS RECEIVABLE DESCRIPTION  
 June 30, 2012

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



Sub-total	<b>409,924,905.61</b>
OTHER RECEIVABLES -	
D.M. Consunji, Inc.	314,751,627.17
Raco Haven Automation	3,602,481.00
Beta Electric Corporation	<u>693,986.28</u>
	<u>319,048,094.45</u>
DMCI Holdings, Inc.	67,624.33
DMCI Project Developers, Inc.	354,648,073.00
DMCI Mining Corporation	6,786,979.00
Sub-total	<b>680,550,770.78</b>
Total Non-trade Receivables	<b>3,651,119,419.81</b>
Less: Allowance for Doubtful Accounts	<u>-</u>