



SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarter ended June 30, 2008
2. SEC Identification No. AS095-002283      3. BIR Tax Identification No. 004-703-376

DMCI Holdings, Inc.

4. Exact name of issuer as specified in its charter

5. Philippines

6.  (SEC Use Only)

Province, Country or other jurisdiction of  
incorporation or organization

Industry Classification Code:

7. 3<sup>rd</sup> Floor, Dacon Building, 2281 Pasong Tamo Ext., Makati city      1231  
Address of principal office      Postal Code

8. Tel. (632) 888-3000      Fax (632) 816-7362  
Issuer's telephone number, including area code

9. Not applicable

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

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares, Php 1.00 Par	1,127,747,000
Preferred Shares, Php 1.00 Par	4,380
Common Shares, Php 1.00 Par	150,000,000

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

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

Yes [X]      No [ ]

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

Philippine Stock Exchange

Class "A" Shares  
Preferred Shares

12. Indicate by check mark whether the registrant:

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

Yes  No

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

Yes  No

## PART I--FINANCIAL INFORMATION

### Item 1. Financial Statements.

The Financial Statements for the quarter and period ended **June 30, 2008** are contained herein.

### MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE PERIOD ENDED JUNE 30, 2008.

#### I. RESULTS OF OPERATIONS

DMCI Holdings, Inc. (the "Company") reported a net income of P543 million for the first half of 2008, 73% lower than the P2 billion reported for the same period in 2007. Quarter income, on the other hand, went up 11 times to P498 million compared to the first quarter income of P43 million. Complications in its water business relegated the slight growth in the other sectors, namely construction, coal mining, and real estate.

#### WATER

The Company's investment in the water sector, via a consortium with MVP led Metro Pacific, reported a significant drop in net contributions for the period from a P1.4 billion income to a loss of P234 million. Extraordinary high income from the negative goodwill booked last year coupled with non-operating consortium level costs recorded this year led to the big discrepancy in the bottomline figures. These consortium level costs include: (1) forex losses from the USDollar denominated loans obtained to acquire Maynilad Water Services, Inc. worth P695 million, (2) amortization of the negative goodwill amounting to P302 million and (3) net interest expense from the same USDollar denominated loans costing P347 million. The consortium expects the net interest expense to reduce significantly when the US Dollar loans is converted and additional capital infusion have been finalized within the year.

Maynilad operations, on a stand alone, posted a net income of P1 billion for the first half of the year, up by 26% from the P802 million income reported last year. This includes forex gains from the retirement of Maynilad's rehab debt which erased the forex losses booked in line with the new IFRIC 12 concession accounting adopted in the previous quarter. Water services improvement measures such as enhanced water flow management thru subdivided hydraulic areas, heightened water pressure, continuing pipe rehab/replacement, and the strengthening of water services in the south all boosted Maynilad billed volume to record highs. Furthermore, as a result, non revenue water is down from 66% to 63.5% from the start to the first half of the year. With these initiatives implemented, the DMCI and MPIC is confident that Maynilad is on the roadmap towards sustained progress.

#### REAL ESTATE

The Company's real estate business is reported under 100% owned real estate company DMCI Project Developers, Inc. (PDI) with the brand DMCI Homes. The real estate segment recognized a slight growth for the period. First half revenues and income were up by 23% and 8% respectively from last year. An effective higher selling price coming from the existing projects provided much of the rise in top line with higher costs limiting bottom line improvement.

Notable sales from existing projects: Manors at Celebrity Place, Raya Gardens, and Rosewood Pointe and new projects: Alta Vista Boracay, Dansalan Gardens, and Riverfront Residences contributed a total of P1.27 billion or 69% of the real estate sales booked for the first half. Old projects: East Ortigas Mansions, and Vista De Lago, all of which are now reputable DMCI residential communities, were essentially sold out and only contributed marginal and tail end revenues for the period. Moving forward,

the Company has new projects in the pipeline that it expects to provide future revenue flows for the Company's real estate business.

The Company notes that it has been using the completed contract method for recognizing housing sales which is different from the percentage of completion method adopted by most of its counterparts in the real estate industry. With the current move by the Philippine Financial Reporting Council to adopt the completed contract method by January 1, 2009, (in line with International Accounting Standards) percentage of completion users may be significantly affected. In this regard, the Company is in a very strong position as it is already prepared for such a shift.

Selling prices for the new and existing projects are marginally higher than the old projects as this year's residential unit mix include high rise units which cost more than the previous all mid rise unit developments. Moreover, building materials for the current work in progress units have also gone up. The Company still sees its prices as approximately 10-15% below competitors, an edge it enjoys as both a triple A construction company and a real estate developer. Consequently, gross margins for the real estate segment have gone down as well.

Operating expenses in the real estate segment were significantly higher due to the increased marketing/ selling and the organizational development activities. This was one of the main contributors to the jump in consolidated general and administrative expenses on a quarter to quarter basis. It is expected that the operating costs for the real estate division will continue to escalate as the Company is strengthening its real estate operations.

Though our specific residential market segment continues to experience an up-trend in business, the Company is aware of the global adversities prevalent in the international real estate sector, most predominantly in the US. These adversities may have a harmful effect on the Company's real estate operations through our direct US sales. The Company would like to point out that it's direct US sales only account for approximately 2% of its total sales to date. With this, the Company has resolved to strengthen its domestic and international sales in the European and Middle Eastern OFW markets.

## CONSTRUCTION

The construction business, reported under wholly-owned construction company, D.M. Consunji, Inc. (DMCI), was the best performing segment for the Company as it reported a substantial jump in operational results for the period. First half construction revenues and income were up by 66% and 24% respectively. This was caused by collection of previously incurred change orders, increased works from outside contracts and construction from the water business.

Finalized billings on construction of Shangrila Boracay, Robinsons One Adriatico and Cybergate Tower accounted for a sizeable share of the revenues for the period. In addition, construction from Maynilad, which already contributed P339 million in 2007, added P514 million of revenues for the first half of 2008. We stress however that the contracts awarded by Maynilad are bid and contracted on an arms length transaction basis. Regardless, The Company believes that control and reaction time for the Maynilad project under its construction arm is beneficial to the improvement of Maynilad's water operations. Back-log work as of the end of the first half showed an amount of P1.66 billion compared to P1.95 billion at the end of 2007.

Contributions from the other non-traditional construction operations such as equipment rental and sales, plus the ready-mix concrete business were also helpful in providing gross contributions for the construction business.

General and administrative expenses for the construction group were 18% lower from last year. Construction overhead is expected to be at low levels consistent with the Company's cost reduction guidance, more so with the construction industry becoming more diversified and competitive.

As the construction sector grows evident by the increased work activity, the Company is now undertaking organizational development to prepare for the expected infrastructure boom. On the other hand, the Company currently applies most of its construction capabilities with the other (and newer) more recurring business ventures such as mining, water utility, real estate development, and power generation. Notwithstanding, the Company is still providing engineering expertise and remains a stalwart provider of excellent construction services but will be selective in its external projects evaluation.

## COAL

The Company's coal mining business, operated by 55%-owned, publicly listed Semirara Mining Corp (SMC), reported flat results for the first half of 2008 compared to 2007. Despite this, the increased coal deliveries from the local markets and off shore coal customers have driven a significant 67% increase in coal mining revenues. Costs increased from higher fuel prices.

Below is SMC's management discussion and analysis of financial condition and results of operations for the period lifted from the SMC First Half and Second Quarter 2008 Financial Report (SEC Form 17-Q) for a more detailed discussion:

### **SEMIRARA MINING CORP. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE PERIOD AND QUARTER ENDED JUNE 30, 2008**

#### **2008 FIRST HALF OPERATION**

*New mining equipment started to arrive during the first quarter of the year. The additional capacity enabled operations to maintain a high level of total material movement of 19,220,787 bank cubic meters (bcm), despite adverse weather conditions. Heavy rains toward the end of April disrupted coal mining activities at the lower level of the pit. Efforts were then directed to stabilize the slope and mining operation was diverted to waste stripping and coal extraction was concentrated at upper level for a while. Moreover, a typhoon hit the country in June and again brought heavy rains in the island which disrupted again coal mining at the lower level where the major seam is located. The resulting run-of-mine (ROM) coal production amounted to 1,878,232 metric tons (MTs), indicating a waste-to-coal or strip ratio of 9.52:1. Of this volume, 1,604,227 MTs were clean coal and 274,005 MTs were washable coal. Net product coal during the first half of the year amounted to 1,750,944 MTs.*

*To cater to the growing demand for Semirara coal, both from local users and off-shore buyers, the Company launched another capacity expansion and modernization program. During the first half of the year, sixteen (16) units 100-tonner dump trucks and three (3) units excavators (1 unit 16-cubic meter capacity and 2 units 12-cubic meter capacity) arrived at the mine site and were immediately used in the operations. Support equipment were also purchased to complement the imported conventional mining equipment.*

*Meanwhile, exploratory drilling operations were undertaken beyond the ultimate pit limits of Panian to survey whether there are coal reserves outside the established pit limits. More drilling equipment were bought during the first half of the year to accomplish this program.*

*A 4 MW bunker-fired generator set was commissioned during the first quarter for back-up power supply, which will become useful to power up dewatering pumps during rainy season.*

*The continuous increase in coal demand brought down inventory to a meager level of 13,819 MTs at close of first half. A new record high of six-month period coal sales of 2,118,095 MTs registered this year.*

*The impressive sales level translated to Coal Revenues of P4.728 billion, at a composite average FOB price of P2,231/MT for coal sold with an average heating value of 9,715 BTU/lb or 5,338 kcal. Added to*

Coal Handling Revenues from coal handling operations at the Calaca coal yard amounting to P20.396 billion, the resulting Gross Revenues amounted to P4.748 billion for the first half of the year.

Cost of Sales, which included Coal Handling Costs of P26.722 billion and Shipping, Loading and Hauling Costs of P196.265 billion, amounted to P3.635 billion. Consequently, Gross Margin was recorded at P1.113 billion, indicating a Gross Profit Margin of 23%.

Operating Expenses amounting to P488.616 billion mainly comprised of provision for Government Share of P433.264 billion. The remaining P55.352 billion reflected General and Administrative Expenses. As a result, Operating Income amounted to P624.444 billion, reflecting 13% of Revenues.

Other Income of P38.969 billion included Interest Income on short-term investments, sale of electricity to the local electric cooperative in Semirara (ANTECO), and insurance claim on equipment for partial loss due to accident. On the other hand, Interest and Other Financing Charges totaling to P54.255 billion were incurred for interest expenses on short-term and long-term loans. Meanwhile, the fluctuation of the peso against the US dollar (at P41.28: 1USD at beginning of the year to P44.76: 1USD at end of June 30, 2008) prompted the recording to Realized Foreign Exchange Loss of P1.964 billion and Unrealized Foreign Exchange Gain of P20.050 billion.

After accounting for Non-Recurring Income of P10.677, representing gain on sale of phased out fully depreciated equipment of P44.6 billion, offset by P34 billion accrual of Philippine Ports Authority Fees back charges of which 50% was paid under protest, Net Income Before Tax posted at P637.921 billion. With full Provision for Income Tax of P194.643 billion, the resulting Net Income After Tax amounted to P443.279 billion.

## **2008 FIRST HALF FINANCIAL CONDITION**

The Company continued to maintain a healthy level of Total Assets at P6.563 billion as at the end of the first half of the current year, recording a 2% growth from beginning balance of P6.423 billion.

Total Current Assets of P4.345 billion showed a slight 2% dip from beginning balance of P4.435 billion, mainly as a result of the huge drop in Coal Inventory as coal sales outpaced coal production during the first half.

Cash and Cash Equivalents amounted to P1.966 billion, reflecting a 19% increase from P1.651 billion beginning balance. Short-Term Investments of P1.771 billion that are denominated in Philippine peso (P1.16 billion) and US dollars (\$13.75 million), mainly accounted for the increase.

Meanwhile, Total Receivables amounted to P1.281 billion, up by 15% from start of the year level of P1.116 billion. The increase is primarily trade-related, with Trade Receivables amounting to P1.226 billion as at the end of the current period. The bulk of the balance represented receivables from the National Power Corporation (NPC) on price differentials for second quarter and May and June 2008 shortfall billing amounting to around P540 million. Receivables from Related Parties of P42.162 million represented normal operating advances for coal freight charges, drilling services, equipment rental, and pile driving. Other Receivables of P13.292 million accounted for advances for liquidation by employees, medical accounts receivables, and advances to suppliers and/or contractors.

On the other hand, Inventories registered a substantial decrease of 42% from beginning level of P1.453 billion to ending balance of P846.826 million. Coal Inventory dropped by 96% to P22.197 million as at the end of the period from P570.807 million beginning balance, as a result of strong demand for coal vis-à-vis production. Meanwhile, the 6% drop in materials and parts from P881.864 million at the start of the year to P824.315 million reflected issuance of supplies for use in mining operations.

Other Current Assets posted a 17% increase at P251.315 million from P215.241 million beginning balance. This included creditable withholding taxes on coal sales and erroneously withheld VAT for coal deliveries to NPC, which has a pending claim with the Bureau of Internal Revenue.

In the meantime, Total Non-Current Assets recorded a 12% growth from P1.988 billion as at the start of the year to P2.219 billion ending balance. Property, Plant and Equipment (PPE) reduced by 32% from P1.904 billion beginning balance to P1.290 billion as a result of accounting for additional depreciation expenses for the period, purchase of additional equipment amounting to P699.717 million, which are subjected to a sale and leaseback arrangement and booked as Financial Lease Assets, cause the increase in the Non-Current Assets portion. Furthermore, Investments as at the end of the period amounted to P225 million from P80.871 million beginning balance, reflecting additional cash infusion to the Company's investments to the group's nickel mining venture and forward integration to the power industry. Meanwhile, the 48% growth of Deferred Charges and Other Non-Current Assets, from P2.869 million beginning balance to P4.239 million as at the end of the first half of the current period, represented software costs. They all accounted for the 12% growth of total Non-Current Assets.

Availment of credit accommodations for new mining equipment and increase in government share are the two major factors explaining the jump in Total Liabilities by 45% from P1.808 billion at the start of the period to P2.616 billion as at the end of the first half of the year.

The 33% growth in Current Liabilities, from P1.326 billion beginning balance to P1.767 ending balance, is mainly attributed to the 82% increase in Accounts and Other Payables, from P533.681 million to P973.500 million, which included provision for government share amounting to P372.4 million, accrued materials payable of P219 million, and P84 million payable for utilized equipment parts under consignment agreement with equipment suppliers. Increased coal price coupled with improved production efficiency resulted to better cost management, but in turn result to a 416% increase in Government Share for the first half of this year as against the previous year's comparable period. As operation becomes more efficient the government will get more premium beyond the 3% minimum government share out of gross coal revenue.

Continuous debt servicing resulted to a 59% decline in Current Portion of Long-Term Debt from P730.171 million as at the start of the period to P325.852 million ending balance. However, entering into Financial Lease arrangements for new mining equipment prompted the Company to recognize Financial Lease Payable, the current portion of which amounted to P263.834 million as at the end of the first half this year.

Income Taxes Payable likewise recorded a significant increase of 239% from the beginning balance of P40.167 million to ending balance of P136.127 million with the provision of taxes for the second quarter income.

Payable to Related Parties which comprised of payables related to use of affiliates' equipment for Calaca operations, dropped by 28% from P12.921 million to P9.250 million as at the end of the six-month period.

Finally, Customer's Deposit also showed a sizeable growth of 559% from P8.867 million as at the start of the period to P58.469 million ending balance, reflecting advance payments made by few customers.

Similarly, Total Non-Current Liabilities posted a growth of 76% from P482.049 million beginning balance to P848.671 million as at the end of the period. Again, this is mainly attributed to the availment of financing for new mining equipment covered by Financing Lease arrangements. Moreover, although total long-term debts continued to decline, the Long-Term portion recorded a slight 7% increase from P397.581 million to P424.379 million at the end of the current period.

The declaration and payment of P1.11 billion Cash Dividends during the first quarter, which was partially offset by Net Income After Tax of P443.279 million for the current period, tapered Total Stockholders' Equity to P4.477 billion as at the end of first half.

## **2008 COMPARATIVE REPORT**

### **I. PRODUCTION**

*The arrival of new mining equipment units ordered in accordance with the new expansion and modernization program launched by the Company started to reflect in the improved volume of total materials moved during the current quarter at 9,940,985 bcm, 7% higher than Q1 2008 material movement of 9,279,804 bcm and 10% better than Q2 2007 volume of 9,042,553 bcm. H1 2008 total materials moved is higher by 8% at 19,220,787 bcm as compared to the 2007 first six months' material movement of 17,760,461 bcm as capacity expansion already made an impact in 2008*

*Conversely, ROM coal production of 812,845 MTs during the recent quarter suffered a setback and dropped by 24% compared to Q1 2008 level of 1,065,387 and 26% from Q2 2007 volume of 1,101,335 MTs. The slump in production volume can be attributed to heavy rains during the period which adversely affected the coal mining activity at lower levels of the pit. The resulting waste movement during the current quarter showed a strip ratio of 11.52:1, posting a 44% increase from Q1 2008 strip ratio of 8.00:1 and 54% higher than Q2 2007 strip ratio of 7.50:1. Accordingly, H1 2008 ROM coal produced is 1% lower at 1,878,232 MTs compared to H1 2007 production of 1,714,978 MTs. Year-to-date (YTD) strip ratio is higher this year at 9.52:1 as against H2 2007 strip ratio of 8.67:1.*

*Consequently, net product coal registered a decline in Q2 this year at 747,401 MTs, a drop by 26% from Q1 volume of 1,003,542 MTs, and 27% lower than Q2 2007 figure of 1,025,716 MTs. YTD net coal production is nevertheless slightly higher by 0.5% in the current year at 1,750,944 MTs as against last year's volume of 1,742,386 MTs since Q1 2007 production registered a low figure.*

*Robust market demand resulted to the huge reduction in coal inventory level. The current semester closed with a minimal ending inventory of 13,819 MTs, 98% short of H1 2007 coal inventory of 814,330 MTs.*

### **II. MARKETING**

*With limited supply of high grade coal against strong global demand for the commodity, the market has opened up to lower quality coal to fill in the increasing requirements of both traditional and non-traditional users of the product. As a result, Semirara coal has successfully gained stable acceptance in the export markets. As at the first half of the current year, export sales accounted for 40% of total sales at 842,337 MTs, compared to 99,847 MTs sold in H1 2007, which only accounted 7% of total sales in same period last year. Of this volume, 388,667 MTs were delivered in Q2, while 453,670 MTs were sold in Q1.*

*Meanwhile, the steady rise in oil prices encouraged more local users to consider the use of Semirara coal as a blending coal to more expensive imported coal that has a total landed cost which includes a sizeable freight component.*

*Historically, the Company has been dependent on a single market, with more than 90% of total sales delivered to the NPC Calaca plants in Batangas. Two years ago the Company's earnings has been adversely affected. when the plants were besieged with a battery of technical problems that caused the shutdown of one plant for almost ten months. Currently however, despite the problems besetting the plants that resulted to a huge reduction in coal off take in the current semester, which dropped by 48% to 374,152 MTs compared to H1 2007 sales volume of 724,812 MTs, the Company has managed to increase total sales volume by 41% from 1,502,686 MTs in H1 2007 to a new historical high of 2,118,095 MTs in H1 this year. This only signified that the Company has finally weaned itself off from dependence to a single buyer and has successfully diversified its market.*

Of the total sales volume in the current semester, 1,120,961 MTs were sold in Q1, while 997,134 MTs were delivered in Q2. Notably, current quarter's sales volume is 19% more than Q2 2007 sales level of 839,774 MTs.

Increasing demand from Non-NPC power plants, which accounted for 15% of total sales this year, and non-traditional coal users like the cement plants and other industrial plants, comprising 20% and 5% of sales, respectively, cushioned the impact of the sizeable decrease in NPC sales. The resulting YTD total volume sold to local markets registered a 9% dip from 1,402,839 MTs in H1 2007 to 1,275,758 MTs.

### **III. FINANCE**

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

Improved sales volume, matched by increased average YTD composite FOB price of P2,231/MT or 20% more than H1 2007 price/MT of P1,864, translated to Coal Revenues of P4.728 billion for the first semester this year. This recorded a 69% growth from H1 2007 Coal Revenues of P2.802 billion.

This quarter's average FOB price of P2,444/MT is 27% higher than Q1 price of P1,923/MT and 35% better than Q2 2007 price of P1,815/MT. Current period's price level generated Coal Revenues of P2.436 billion, 19% more than Q1 Revenues of P2.290 billion and 60% more than Q2 2007 Revenues of P1.524 billion.

Increase in fuel cost, on going repairs and rehabilitation costs of mine facilities including road networks and increase in equipment complement resulted to higher Cost of Coal Sold/MT at P1,523/MT for the current period, compared to P1,376/MT in H1 2007. Shipping, loading and hauling cost is higher by 124% compared to same period last year due to higher volume sold. Higher cost applied to more volume sold translated to a 72% increase in Cost of Sales from P2.100 billion in H1 2007 to P3.625 billion in the current semester. Meanwhile, Government Share surged by 416% on a year-on-year H1 comparison as recoverable cost is limited to 69% of Revenues as a result of increased efficiency in the mine site and coal prices. The increase in the Company's level of operations is reflected in the corresponding growth in General and Administrative Expenses. Increasing cash level generated more Interest Income for the Company, while decreasing debts correspondingly brought down Interest and Other Financing Charges. Fluctuations in foreign exchange resulted to the booking of Realized and Unrealized Forex Loss and Gains, respectively. Non-Recurring Income was generated as a result of disposal of phased out fully depreciated mining equipment. Meanwhile, the Company accounted for full provision of Regular Corporate Income Taxes on Taxable Income.

Current quarter registered an EBITDA of P863.119 million. Added up to the previous quarter's EBITDA of P669.738 million, first semester EBITDA posted an impressive level of P1.533 billion, marking a 9% growth over H1 2007 EBITDA of P1.407 billion.

#### **B. Solvency and Liquidity**

The Company's operations generated Net Cash of P314.956 million. Added to the Beginning Cash balance of P1.651 billion, Ending Cash level increased to P1.966 billion.

Net Cash Provided by Operating activities amounting to P870.243 million in the current semester registered a 48% improvement over last year's comparative period's cash generation of P587.479 million. This is mainly caused by the considerable decrease in Inventories as coal sales exceeded the period's production. The minimal increase in Receivables of P165.237 million despite the spike in coal sales, compared to H1 2007 increase of P468.556 million, considering the lower sales volume, is an attestation that sales collection performance improved. The increase in market share of export sales, which is covered by sight letter of credits and negotiated in a matter of days after coal loading accounted for this

movement in the account. Meanwhile, Interest Received from short-term investments is higher due to the higher volume of investments. Conversely, Interest Paid is lower as a consequence of the decline in balances of interest-bearing debts.

Investing activities during the current semester reflected a net decrease of P144.937 million as disposal of PPE is partially offset by Additions to Investment. Compared to H1 2007, Net Cash Generated from Investing Activities is higher at P190.604 million as the Company recouped its Temporary Investment of P300 million.

Finally, the sizeable payment of Cash Dividends amounting to P1.018 billion during the current period and Repayment of Long-Term Debts of P747.824 million, offset by Availment of Long-Term Debt of P311.156 million and cash generation from sale and leaseback arrangements for mining equipment amounting to P754.305 million, resulted to Net Cash Outflow for Financing Activities of P700.22 million. This figure is 13% higher than H1 outflow of P622.033 million since Cash Dividends paid is lower at P304.89 million, while repayment of Long-Term Debt is lower at P522.84 million and Debt Availment is correspondingly lower at P205.71 million.

The Company's remarkable liquidity condition is demonstrated by healthy Current Ratios throughout the years. As at the end of the current semester, Current Ratio remained strong at 2.08x, although it has dropped from yearend 2007 level of 3.34x and 3.70x as at end H1 2007. In addition, the Company's solvency condition, as manifested by its Total Debt to Equity Ratio, also remained impressive at 0.66:1 as at the end of H1 this year, although it has gone up from yearend 2007 level of 0.39:1 and H1 2007 ratio of 0.42:1.

Earnings Per Share (EPS) is 8% higher at P1.59 compared to P1.47 in H1 2007.

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

1. **Average Selling Price** – The movements in global coal prices affect price of Semirara coal as pricing to local buyers is benchmarked to the total landed cost of imported coal. Meanwhile, as the Company has successfully penetrated the export markets, it gained more leverage in pricing its coal to local buyers. After the strategic low introductory pricing to new export customers, Semirara has proven its reliability as a coal supplier and has started to bring up its prices at par with current market prices. As a result, the Company's composite average FOB price reflects a steady growth over the periods.

2. **Debt to Equity Ratio** - Notwithstanding the huge declaration of Cash Dividends in the current period, the Company managed to maintain a healthy Debt to Equity Ratio. As a result, its credit standing remained strong, enabling it to enjoy prime borrowing rates for its loan accommodations. Moreover, the Company now affords to evaluate investment opportunities to further create shareholders' value.

3. **Capital Expenditures** – The steadily improving demand for Semirara coal encouraged the Company to launch another expansion and modernization program. In addition, it is actively pursuing exploration activities beyond the ultimate pit limit to determine the feasibility of expanding the current active mine. Remarkably, demand has increased so much that during the period, production fell short of coal sales. Evidently, the Company's decision to launch another capacity expansion project is timely and necessary.

4. **Expanded Market** – The successful breakthrough in the export market has transformed the Company's marketing opportunities and strategies. Sales going to the export markets is substantial at 40%. This favorable development provided the Company ample leverage to negotiate fair pricing for its product, both locally and internationally.

5. **Improved coal quality** – Generally, acceptance for lower grade coal has improved in the global market, as high grade coal is becoming a rarer and more expensive commodity with demand from big users like China and Japan soaring. As a result, coal users learned to use lower grade coal for blending with high grade coal. This augurs well for Semirara coal. However, despite the warmer acceptance for

*the product, the Company continues to strive to maximize the full quality potential of its product through continuous improvement and modernization of its quality-improving processes.*

## NICKEL

One of the Company's new business is nickel direct shipping ore operations reported under DMCI Mining Corp (DMCI Mining). DMCI Mining went into a joint venture with Australian listed exploration company, Rusina Mining Ltd. early in 2007 to mine and ship nickel (and chromite) ore in the old Acoje mine located in Sta. Cruz, Zambales. Normal operations started early this year and DMCI Mining has shipped nickel ore to China. For the first half of this year DMCI Mining has shipped **270 thousand** wet metric tons of nickel ore, with a majority grade of around 1.7% nickel content, and a total aggregate amount of around US\$10 million. As a result, DMCI Mining reported a revenue of P442 million and a net income of P45 million for the first six months of 2008.

The Company notes that direct shipping ore deliveries and prices have gone down in the latter part of the period and expects a continuing down trend in prices. This is due to the production restraining of some Chinese nickel users such as stainless steel plants and nickel smelter in line with the Beijing, Olympics. DMCI Mining is now exploring other markets like Japan, Australia and India but expects nickel demand in China will resume after the Olympics. Moreover, DMCI Mining is studying the opportunity of putting up a nickel processing plant to further improve the value of the raw nickel ore into processed based metal which will allow its processed nickel to be priced according to the global standards (London Metals Exchange). With these prospects on the horizon, the Company believes its nickel interest can be valuable investment.

## OTHERS

The Company's consolidated income statement for the period now includes income from noncurrent assets held for sale worth P34 million. The Company, late in 2007, converted its receivables worth P957 million into equity in AG&P, thereby increasing its ownership. However, the Company's board decided that AG&P will be sold and as such AG&P is reported on a one-line basis in the consolidated financial statement.

AG&P is the oldest construction company in the Philippines specializing in steel fabrication. It currently has major projects for Goro Nickel composed of modular steel works and fabrication being done here and the hook-up and commissioning of these modular steel structures in New Caledonia. The contract amount of this Goro Nickel project is around US\$100 million with major revenue and income expected to be booked in subsequent periods of the year.

## II. FINANCIAL CONDITION

The Company's financial condition for the period marginally increased as total assets increased by 10% from the end of 2007.

Cash increased by 8% due mainly to the normal cash transactions on a consolidated operating level. Long term debt payments at the coal mining business have been equalized by new loans obtained at the construction level and investments into the power generation and nickel mining businesses.

Total receivables (current and non-current) went up 32% as a result of heightened sales in the real estate and coal businesses. Real estate receivables are termed up to a maximum of 10 years and coal sales are normally collected in 60-90 days.

The notable coal take-up from improved local demand and growing coal exports reduced coal inventory accounting for much of the decrease in consolidated inventory for the Company.

Investments were up as a result of the Company's share in net operations of unconsolidated equity investments and additional investments into the power generation and nickel mining businesses.

Depreciation from coal equipment was counteracted by acquisitions of new coal mining equipment which accounted significantly for the 8% increase in the Company's property, plant & equipment.

Accounts & other payables increased as a result of trade operations, deferred revenues and accruals. Customers' deposits now decreased as sales from these customers have reached full recognition status (25% collected and unit fully complete) and as such, the appropriate revenue and receivables have been recorded.

Long term liabilities (including current portion) decreased due to current repayments and prepayments mostly done in the coal mining segment. SMC's expansion was financed mainly by long term loans but has prepaid most of its loans within the year from internally generated cash.

Non-current assets and liabilities associated with assets held for sale are from AG&P which is consolidated under the net-line basis due to its specific identification of future disposal. AG&P assets and liabilities increased from normal operations.

Current ratio decreased from 2.21 to 1.93 due to bank loans obtained under the construction segment. Despite this, the Company's current debt repayment capability remains healthy and well within industry averages. Debt to equity ratio declined from 0.78 to 0.82 as total liabilities increased. The Company notes that the debt to equity ratio is still below 1, indicating a strong owner base and a very strong gearing position. The debt to equity ratio was also well within industry averages as the Company strives to maintain its financial risk position relative to the interest of its stockholders.

### III. KEY PERFORMANCE INDICATORS

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

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

#### CHANGE IN COAL SALES

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

#### CHANGE IN REAL ESTATE SALES

The real estate business is currently becoming another significant contributor for the Company operations. Any change will indicate an improvement or deterioration in the Company's real estate

business for the period. Currently the Company is intently looking at the changes in its real estate operations as an indication of performance (*see Part I. Results of Operations-Real Estate for a detailed discussion*).

#### CHANGE IN CONSTRUCTION REVENUE

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

#### CHANGE IN NET INCOME

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

#### CURRENT RATIO

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

#### DEBT TO EQUITY RATIO

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

## PART II--OTHER INFORMATION

1. This interim financial report is in compliance with generally accepted accounting principles;
2. The same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements;
3. The company's operation is a continuous process. It is not dependent on any cycle or season;
4. A cash dividend was declared at the amount of Php 0.10 per common share to be paid on May 30, 2008 to the holders of record of May 12, 2008.
5. There were no subsequent events that have not been reflected in the financial statements for the period that the company have knowledge of;
6. There are no contingent accounts in the balance sheet of the corporation;
7. Except for interest payments on loans, which the Company can fully service, the only commitment that would have a material impact on liquidity are construction guarantees. These are usually required from contractors in case of any damage / destruction to a completed project.
8. Any known trends or any known demands, commitments, events or uncertainties that will result in or that will have a material impact on the registrant's liquidity. - **NONE**
9. The Company recognizes that the continuing slump in the property sector would keep both real estate sales and construction revenues moderate. Nonetheless, the Group's venture into middle-income housing development is expected to significantly contribute to revenues and income.

**SIGNATURES**

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

Issuer DMCI Holdings, Inc.

  
Signature and Title **Herbert M. Consunji**  
Vice President & Chief Finance Officer

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

  
**Ma. Luisa C. Austria**  
Accounting Officer

Date August 19, 2008

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

For the period ended June 30, 2008 and December 31, 2007

(Amounts in Thousands of Philippine Pesos,

Except Par Value and Number of Shares)

	<b>JUNE</b>	<b>AUDITED</b>
	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	3,823,232	3,539,648
Available-for-sale financial assets - net	143,481	202,673
Receivables - net	5,264,073	2,860,780
Costs and estimated earnings in excess of billings on uncompleted contract	0	140,681
Inventories - net	6,194,621	6,375,959
Other current assets	509,891	568,934
Total Current Assets	15,935,299	13,688,675
Noncurrent Assets held for sale	3,093,609	2,976,609
	19,028,907	16,665,284
<b>Noncurrent Assets</b>		
Noncurrent receivables - net	1,137,227	1,983,314
Investments in associates, jointly controlled entities and others - net	5,896,194	5,055,377
Investment properties - net	2,018,415	2,057,446
Property, Plant and Equipment - net	3,153,421	2,933,158
Deferred tax assets	0	207,507
Other non-current assets - net	646,868	161,119
Total Noncurrent Assets	12,852,125	12,397,921
Total Assets	31,881,032	29,063,205
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Bank Loans	1,370,540	40,311
Current portion of liabilities for land purchased	0	169,088
Accounts and other payables	5,079,765	2,766,999
Current portion of long-term debt	629,939	1,843,239
Billings in Excess of Costs on Uncompleted Contracts	0	30,888
Customers' deposits	859,220	1,271,184
Income Tax Payable	328,740	58,968
Total Current Liabilities	8,268,204	6,180,677
Liabilities directly associated with noncurrent assets held for sale	2,220,600	2,327,976
	10,488,804	8,508,653
<b>Noncurrent Liabilities</b>		
Long-Term Debt - net of current portion	3,569,748	2,022,067
Liabilities for land purchased - net of current portion		433,851
Payables to related parties	113,470	450,686
Deferred Tax Liability	174,606	273,441
Pension Liabilities	35,077	127,411
Other Noncurrent Liabilities	4,750	16,955
Total Noncurrent Liabilities	3,897,650	3,324,411
Total Liabilities	14,386,454	11,833,064
<b>Equity</b>		
Equity attributable to equity holders of the parent:		
Paid-up capital	7,421,640	7,421,640
Deposit for future subscription	0	0
Retained earnings	8,244,452	7,701,472
Net unrealized gain (loss) on available-for sale financial assets	0	(35,880)
Preferred shares held in treasury	(226)	0
	15,665,867	15,087,232
Minority Interest		
Minority interests - net of interests attributable to noncurrent assets held for sale	1,828,712	2,121,838
Minority interests attributable to noncurrent assets held for sale	0	21,071
Total Equity	17,494,579	17,230,141
	31,881,032	29,063,205

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

For the period ended June 30, 2008 and 2007 and for the quarter ended

June 30, 2008 and 2007

(Amounts in Thousands of Philippine Pesos)

	For the period		For the quarter	
	2008	2007	2008	2007
<b>REVENUES</b>				
Construction Contracts	2,212,515	1,403,506	1,179,115	905,127
Coal Sales	4,748,187	2,849,040	2,584,903	1,545,578
Real Estate Sales	1,831,047	1,488,079	845,563	735,007
Nickel Ore Sales	441,196	-	344,387	-
Merchandise sales	221,406	80,316	145,784	31,061
	<b>9,454,351</b>	<b>5,820,941</b>	<b>5,099,752</b>	<b>3,216,773</b>
<b>COSTS OF SALES &amp; SERVICES</b>				
Construction costs and expenses	1,888,514	1,111,712	955,398	689,160
Cost of Coal Sales	3,635,127	2,100,274	1,786,756	1,041,958
Cost of Real Estate Sold	1,153,680	869,231	497,304	437,165
Cost of Nickel Ore Sales	237,277	-	156,779	-
Cost of merchandise sales	179,531	53,210	119,764	10,116
	<b>7,094,129</b>	<b>4,134,427</b>	<b>3,516,001</b>	<b>2,178,399</b>
<b>GROSS PROFIT</b>	<b>2,360,222</b>	<b>1,686,514</b>	<b>1,583,751</b>	<b>1,038,374</b>
<b>OPERATING EXPENSES</b>	<b>(1,167,132)</b>	<b>(468,484)</b>	<b>(834,202)</b>	<b>(209,894)</b>
	1,193,090	1,218,030	749,549	828,480
<b>OTHER INCOME (CHARGES)</b>				
Equity in net earnings of associates, jointly controlled entities and others	(237,642)	1,455,782	4,337	1,318,473
Finance Income	156,369	103,187	91,949	84,139
Gain on sale of investment				
Finance Cost	(115,831)	(320,392)	(72,196)	(184,447)
Other income - net	81,663	145,874	43,603	81,017
<b>INCOME FROM OPERATIONS</b>	<b>1,077,649</b>	<b>2,602,481</b>	<b>817,242</b>	<b>2,127,662</b>
<b>NON-RECURRING CHARGES</b>	<b>(10,677)</b>	<b>0</b>	<b>(28,149)</b>	<b>0</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>1,088,326</b>	<b>2,602,481</b>	<b>845,391</b>	<b>2,127,662</b>
<b>PROVISION FOR INCOME TAX</b>	<b>376,259</b>	<b>373,703</b>	<b>237,840</b>	<b>236,576</b>
<b>INCOME BEFORE INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE</b>	<b>712,067</b>	<b>2,228,778</b>	<b>607,551</b>	<b>1,891,086</b>
<b>INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE - net of tax</b>	<b>34,762</b>	<b>0</b>	<b>31,465</b>	<b>0</b>
<b>NET INCOME (LOSS)</b>	<b>746,829</b>	<b>2,228,778</b>	<b>639,016</b>	<b>1,891,086</b>
<b>ATTRIBUTABLE TO</b>				
Equit holders of the parent	542,980	2,058,199	498,248	1,768,655
Minority Interests	203,849	170,579	140,768	122,431
	<b>746,829</b>	<b>2,228,778</b>	<b>639,016</b>	<b>1,891,086</b>
<b>Earning (Loss) Per Share</b>				
Basic*	<b>0.20</b>	<b>0.91</b>	<b>0.19</b>	<b>0.78</b>
Diluted	0.00	-	-	-

\*Net income less minority interest divided by the total outstanding shares of 2,655,494,000

**DMCI HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE PERIOD ENDED JUNE 30, 2008 AND 2007**

	<b>JUNE 2008</b>	<b>JUNE 2007</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	(2,395,520)	2,395,520
	<u>4,480</u>	<u>4,480</u>
Common stock - P1 par value		
Authorized - 5,900,000,000 shares		
Issued - 2,255,494,000 shares	2,255,494,000	2,255,494,000
Additional Subscription	400,000,000	168,000,000
	<u>2,655,494,000</u>	<u>2,423,494,000</u>
<b>ADDITIONAL PAID-IN CAPITAL</b>		
Balance at the beginning	2,402,684,826	2,403,783,826
Retirement of Preferred Shares	-	(1,099,000)
Additional Paid-in capital of new subscribed shares	2,363,456,700	993,893,100
	<u>4,766,141,526</u>	<u>3,396,577,926</u>
<b>DEPOSITS FOR FUTURE SUBSCRIPTION</b>		1,801,563,000
<b>RETAINED EARNINGS (DEFICIT)</b>		
Balance at beginning of the period	7,701,472,463	5,103,727,748
Net income(loss) for the period	542,979,599	2,058,199,594
Accrued dividends declared	-	(242,349,400)
Balance at end of the period	<u>8,244,452,062</u>	<u>6,919,577,942</u>
Cumulative Translation Adjustment	-	39,872,880
<b>PREFERRED SHARES HELD IN TREASURY</b>		
Balance at beginning of the period	-	-
Acquisitions for the period	(225,555)	-
Redemption/Retirement of preferred shares	-	-
Balance at end of the period	<u>(225,555)</u>	<u>-</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b><u>15,665,866,513</u></b>	<b><u>14,581,090,228</u></b>

**DMCI HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the period ended June 30, 2008 and 2007**  
**(Amounts in Thousands of Philippine Pesos)**

	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Net (Loss)/ Income</b>	746,829	2,058,199
Adjustments to reconcile net income (loss) to net cash:		
Equity in net losses (earnings) of affiliates, depreciation, depletion amortization and other non-cash items (net)	(371,818)	170,578
Income (Loss) applicable to Minority Interest	203,849	170,579
Changes in assets and liabilities:		
Decrease / (Increase) in :		
Receivables- net	(1,557,206)	(326,779)
Inventories - net	181,338	(606,152)
Prepaid expenses and other current assets	59,043	126,801
Increase/ (Decrease) in :		
Accounts payable and accrued expenses	1,731,714	382,479
Current portion of long-term debt	(1,213,300)	(446,381)
Non current liabilities	465,863	(1,863,908)
Billings in excess of cost of uncompleted contracts	109,793	(3,550)
Income Tax Payable	269,772	275,562
<b>Net cash provided by operating activities</b>	<b>625,877</b>	<b>(403,730)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in:		
Available for sale investments	59,192	188,506
Investments - net	(801,786)	(1,471,659)
Property, plant and equipment - net	(220,263)	339,520
Deferred charges and other assets - net	(395,242)	(139,341)
<b>Net cash provided by investing activities</b>	<b>(1,358,099)</b>	<b>(1,082,974)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net availments (payments) of:		
Notes payable	1,330,229	3,829
Additional subscription of common shares		
Capital Stock at P 1.00 par value	0	168,000
Additional paid-in capital	0	993,893
Deposit for future subscription	0	1,801,563
Acquisition for preferred shares to treasury	(226)	0
Redemption of preferred shares		
Capital Stock at P 1.00 par value	0	(1)
Additional paid-in capital	0	(1,099)
Redemption of preferred shares from treasury	0	1,100
Payment of Dividends	0	(242,349)
Net increase (decrease) in minority interest	(314,197)	28,768
<b>Net cash provided by financing activities</b>	<b>1,015,806</b>	<b>2,753,704</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>283,584</b>	<b>1,267,000</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<b>3,539,648</b>	<b>1,251,911</b>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<b>3,823,232</b>	<b>2,518,911</b>

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

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## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **1. Corporate Information**

DMCI Holdings, Inc. (the Company) is incorporated in the Philippines. The Company was organized on March 8, 1995. The Company's registered office address is 3rd Floor, Dacon Building, 2281 Don Chino Roces Avenue, Makati City.

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

The consolidated financial statements of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007 were endorsed for approval by the Audit Committee on April 23, 2008 and authorized for issue by the Board of Directors (BOD) on April 24, 2008.

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

#### Basis of Preparation

The consolidated financial statements of the Group have been prepared using the historical cost basis, except for available-for-sale financial (AFS) assets that have been measured at fair value. The Company's functional and presentation currency is the Philippine Peso (₱).

#### Statement of Compliance

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

#### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007. Under PFRS, it is acceptable to use, for consolidation purposes, the financial statements of subsidiaries for fiscal periods differing from that of the Company if the difference is not more than three months.

All intra-company balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intra-company transactions that are recognized in assets are eliminated in full.

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

Minority interests represent the portion of profit or loss and net assets in subsidiaries not wholly owned by the Group and are presented separately in the consolidated statement of income and consolidated statement of changes in equity and within equity in the consolidated balance sheet, separately from equity holders' of the Company.

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

	<b>Effective Percentages of Ownership</b>	
	<b>2007</b>	<b>2006</b>
<b>General Construction:</b>		
D.M. Consunji, Inc. (DMCI) <sup>1</sup>	<b>100.00%</b>	100.00%
DMCI International, Inc. (DMCII) <sup>2</sup>	<b>100.00</b>	100.00
OHKI-DMCI Corporation (OHKI) <sup>2</sup>	<b>100.00</b>	100.00
DMCI-Laing Construction, Inc. (DMCI-Laing) <sup>2</sup>	<b>60.00</b>	60.00
Beta Electric Corporation (Beta Electric) <sup>2</sup>	<b>50.77</b>	50.77
Raco Haven Automation Philippines, Inc. (Raco) <sup>2</sup>	<b>50.14</b>	50.14
<b>Coal Mining:</b>		
Semirara Mining Corporation (Semirara)	<b>55.30</b>	58.31
DMCI Mining Corporation	<b>100.00</b>	
<b>Real Estate Development:</b>		
DMCI Project Developers, Inc. (PDI)	<b>100.00</b>	100.00
Hampstead Gardens Corporation (Hampstead) <sup>3</sup>	<b>100.00</b>	100.00
Riviera Land Corporation (Riviera) <sup>3</sup>	<b>96.38</b>	96.38
<b>Manufacturing:</b>		
Semirara Cement Corporation (SemCem) *	<b>100.00</b>	100.00
Oriken Dynamix Company, Inc. (Oriken) <sup>2</sup>	<b>89.00</b>	89.00
Wire Rope Corporation of the Philippines (Wire Rope)	<b>61.70</b>	61.70
<b>Marketing Arm:</b>		
DMCI Homes, Inc. (DMCI Homes) <sup>3</sup>	<b>100.00</b>	100.00
<b>Power:</b>		
DMCI Power Corporation (DPC) (formerly DMCI Energy Resources Unlimited Inc.) * (Note 12)	<b>100.00</b>	100.00
DMCI Masbate Power Corporation (DMCI Masbate)	<b>100.00</b>	-

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

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

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

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

#### *Power Supply Agreement (PSA)*

In 2006, the Company incorporated DMCI Energy Resources Unlimited, Inc. (DMCI Energy) that will handle its power business in line with plans to increase the Group's exposure in this sector. DMCI Energy will put up coal-fired power plants and participate in the privatization of the power supply of off-grid islands and remote villages.

The privatization of Small Power Utilities Group (SPUG) Areas was mandated by Department of Energy (DOE) Circular No. 2004-01-001 issued on January 26, 2004. The circular called for the periodic assessment of the requirements and prospects of bringing power generation and associated power delivery systems to commercial viability on an area-by-area basis, including a program to encourage private sector participation in the SPUG areas. In line with this, the Company participated in the bid of Masbate SPUG. On January 15, 2007, the National Power Corporation (NPC) bids and awards committee has awarded the Masbate's SPUG rights to DMCI HI. Initially, the BOD, in its meeting on January 15, 2007, approved the assignment and transfer of all the rights, interests and liabilities over the PSA with Masbate Electric Cooperative to DMCI Energy. On November 26, 2007, however, the BOD constituted DMCI Masbate Power Corporation (DMCI Masbate) as the new Project Company for its Masbate Power Project in lieu of DMCI Energy. Accordingly, the BOD approved the assignment and transfer of all the Company's rights, interests, liabilities and obligations in the Masbate Power Project, including those arising from the PSA, executed on May 4, 2007, between the Company and Masbate Electric Cooperative, Inc., as well as those rights, interests, liabilities and obligations by virtue of the Bidding Process of the Private Sector Participation in Power Generation in the Province of Masbate in favor of DMCI Masbate.

On January 26, 2007, in a special meeting of the BOD, the members of the BOD approved the change in name of the Company from DMCI Energy Resources Unlimited Inc. to DMCI Power Corporation (DPC). The SEC approved the Company's application for the change in name on February 2, 2007.

#### *Semirara Mining Corporation (Semirara)*

On February 4, 2005, Semirara successfully completed its international offer of 89,866,000 shares. The offered shares comprised 42,991,000 existing shares held by the Company and 46,875,000 new shares. Concurrently, the Company offered 15,180,000 existing shares to all of the trading participants of the Philippine Stock Exchange. As a result of these offers, the Company recognized gains aggregating ₱2,016.91 million in 2005.

On May 13, 2006, the Company sold 16.50 million Semirara shares resulting to ₱356.05 million gain.

On November 14, 2007, the BOD approved the assignment of certain shares of stock of Semirara which are held by the Company in favor of DACON Corporation ('DACON') in full/partial payment/settlement of the Company's liabilities to DACON.

#### Changes in Accounting Policies

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

The Group has adopted the following new and amended PFRS and Philippine Interpretations during the year.

- PFRS 7, *Financial Instruments: Disclosures*
- Philippine Accounting Standards (PAS) 1, *Amendment - Presentation of Financial Statements*
- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*
- 

The principal effects of these changes are as follows:

*PFRS 7, Financial Instruments: Disclosures*

PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation* and PAS 30, *Disclosure in the Financial Statements of Banks and Similar Financial Institutions*. It is applicable to all entities that report under PFRS.

The Group adopted the amendment to the transitional provisions of PFRS 7, as approved by the Financial Reporting Standards Council of the Philippines, which gives transitory relief with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments. Accordingly, the Group does not need to present comparative information for the disclosures required by paragraphs 31- 42 of PFRS 7, unless the disclosure was previously required under PAS 32. Adoption of PFRS 7 resulted in additional disclosures, which are included throughout the consolidated financial statements. These disclosures include presenting the different classes of loans and receivables

(see Note 6), rollforward of allowance for doubtful accounts (see Note 6), credit quality of financial assets (see Note 35), aging of past due but not impaired financial assets (see Note 35), and sensitivity analysis as to changes in interest and foreign exchange rates (see Note 35).

*PAS 1, Amendment - Presentation of Financial Statements*

The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The new disclosures are shown in Note 22 to the consolidated financial statements.

*Philippine Interpretation IFRIC 8, Scope of PFRS 2*

This Interpretation requires PFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. The adoption of this Philippine Interpretation has no impact on the consolidated financial statements as the Group has no share-based payments.

*Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives*

Philippine Interpretation IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, this Philippine Interpretation has no impact on the financial position or performance of the Group.

Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*

The Group adopted the Interpretation beginning January 1, 2007, which prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. Adoption of the Interpretation did not have any significant impact on the consolidated financial statements.

Future Changes in Accounting Policies

The Group has not applied the following new and amended PFRS and Philippine Interpretations which are not yet effective for the year ended December 31, 2007:

PAS 1, *Presentation of Financial Statements (Revised) (effective for annual periods beginning on or after January 1, 2009)*

The revised standard requires that the statement of changes in equity includes only transactions with owners and all non-owner changes are presented in equity as a single line with details included in a separate statement.

In addition, the amendment to PAS 1 provides for the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in the consolidated statement of income together with 'other comprehensive income'. The revisions specify what is included in other comprehensive income, such as actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can choose to present all items in one statement, or to present two linked statements, a separate consolidated statement of income and a statement of comprehensive income. The Group will assess the impact of the Standard on its current manner of reporting all items of income and expenses.

PAS 23, *Borrowing Costs (Effective for annual periods beginning on or after January 1, 2009)*

The Standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. The Group assessed that the adoption of this Standard will have no impact on the consolidated financial statements.

Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions (Effective for annual periods beginning on or after March 1, 2007)*

This Philippine Interpretation requires arrangements whereby an employee is granted rights to a Group's equity instruments to be accounted for as an equity-settled scheme by the Group even if: (a) the Group chooses or is required to buy those equity instruments (e.g. treasury shares) from another party, or (b) the shareholders of the Group provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to equity instruments of the parent. The adoption of this Philippine Interpretation will have no impact on the Group's financial statements.

PFRS 8, *Operating Segments (Effective for annual periods beginning on or after January 1, 2009)*

This Amendment was issued as part of the convergence project with the United States (US) Financial Accounting Standards Board. This new standard replaces PAS 14, *Segment Reporting* and adopts a management approach to segment reporting as required in the US Standard SFAS 131 - *Disclosures about Segments of an Enterprise and Related Information*. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the consolidated balance sheet and consolidated statement of income and entities will need to provide explanations and reconciliations of the differences. The Group will assess the impact of the adoption of this standard.

Philippine Interpretation IFRIC 12, *“Service Concession Arrangements” (effective January 1, 2008)*

This Interpretation establishes the accounting to be applied for certain infrastructure that is constructed, acquired or provided by the grantor for the purposes of meeting the concession. Philippine Interpretation IFRIC 12 prescribed the accounting for the rights which the Operator receives from the Grantor using either:

*Financial Asset Model.* Wherein the Operator shall recognize a financial asset to the extent that it has an unconditional contractual right to receive cash from the Grantor. The Operator has an unconditional right to receive cash if the Grantor contractually guarantees to pay the Operator;

*Intangible Asset Model.* Wherein the Operator shall recognize an intangible asset to the extent that it received a right to charge the users (not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service); or

*Mixed Model.* If the Operator is paid by the users, but the Grantor guarantees a certain minimum amount to be paid to the Operator, the Financial Asset Model is used to the extent of such amount.

This Interpretation becomes applicable for financial years beginning on or after January 1, 2008.

Based on Maynilad Water Services, Inc.’s (Maynilad) assessment, its Concession Agreement with MWSS would qualify under the intangible asset model. The adoption of this Interpretation will require Maynilad to recognize the fair value of the entire concession fees to be paid during the entire concession period, which would result in the increase in total assets with a corresponding increase in liabilities. Currently, Maynilad only recognizes concession fees that are paid and due (currently presented as “concession assets”). In addition, the infrastructure and concession assets will no longer be recognized as such but will form part of the intangible assets. These intangible assets will then be amortized using the straight-line method over the life of the Concession Agreement.

Based on Maynilad’s preliminary estimates, the adoption of IFRIC 12 will result in an increase in total assets and total liabilities as of January 1, 2008 of ₱1.4 billion and ₱9.3 billion, respectively, and a decrease in retained earnings by ₱7.9 billion (net of tax effect of ₱2.8 billion). With the Parent Group’s effective equity interest of 42% in Maynilad, the

estimated effect of adopting IFRIC 12 will be a decrease in retained earnings as of January 1, 2008 of ₱73.3 billion (net of tax effect).

*Philippine Interpretation IFRIC 13, Customer Loyalty Programmes (Effective for annual periods beginning on or after July 1, 2008)*

This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the awards credits and deferred over the period that the award credits are fulfilled. The Group does not expect this Interpretation to have a significant impact on the consolidated financial statements as no such scheme currently exists.

*Philippine Interpretation IFRIC 14, PAS 19 - Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2008)*

This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group does not expect this Interpretation to have a significant impact on the consolidated financial statements.

#### Cash and Cash Equivalents

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

#### Financial Instruments

##### *Date of recognition*

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

##### *Initial recognition of financial instruments*

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

As of December 31, 2007 and 2006, the Group's financial instruments are of the nature of AFS financial asset, loans and receivables and other financial liabilities.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income.

Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

#### *Determination of fair value*

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

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

#### *Day 1 profit*

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 profit) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where the valuation technique used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

#### *Loans and receivables*

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

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

#### *AFS financial assets*

AFS financial assets are those non-derivative financial assets that are designated as AFS FA or are not classified in any of the three preceding categories. After initial measurement, AFS FA are measured at fair value with unrealized gains or losses being recognized directly in equity under net unrealized gain on AFS financial assets. account When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the consolidated statement of income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the consolidated statement of income when the right to receive has been

established. The Group's AFS financial assets pertain to quoted and unquoted securities (see Note 5).

#### *Other financial liabilities*

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

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

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

#### Impairment of Financial Assets

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

#### *Loans and receivables*

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

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

allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

#### *Assets carried at cost*

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

#### *AFS financial assets*

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

In the case of AFS financial assets classified as debt instruments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of "Interest income" in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the consolidated statement of income.

#### Offsetting

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

## Derecognition of Financial Assets and Liabilities

### *Financial assets*

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

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

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

### *Financial liabilities*

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

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

## Inventories

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

### *Coal inventory*

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

*Materials-in-transit*

Cost is determined using the specific identification basis.

*Spare parts and other supplies*

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

*Real estate held for sale and development*

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

Noncurrent Assets Held for Sale

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

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

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

Investments in Associates, Jointly Controlled Entities and Others

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

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

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

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

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

#### Investment Properties

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

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

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

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

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

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

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

#### Property, Plant and Equipment

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

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

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

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

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

	<u>Years</u>
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.

#### *Decommissioning and site rehabilitation costs*

The Group is legally required to fulfill certain obligations as required under its Environmental Compliance Certificate (ECC) issued by Department of Environment and Natural Resources (DENR). The Group recognizes the present value of the liability for these obligations and capitalizes the present value of these costs as part of the balance of the related property, plant and equipment accounts which are depreciated on a straight-line basis over the EUL of the related

property, plant and equipment or the contract period, whichever is shorter. The decommissioning and site rehabilitation costs is determined based on PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group recognizes the liability for these obligations as “Provision for the decommissioning and site rehabilitation” under “Other noncurrent liabilities” in the consolidated balance sheet.

#### Mine Exploration and Development Costs

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

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

#### Intangible Assets

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

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

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

#### Impairment of nonfinancial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that largely independent of those from other assets or group of assets. Where the carrying amount

of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

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

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

#### Treasury Shares

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

#### Revenue and Cost Recognition

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

##### *Construction contracts*

Revenue from construction contracts is recognized under the percentage-of-completion method of accounting and is measured principally on the basis of the estimated completion of a physical proportion of the contract work. Contracts to manage, supervise, or coordinate the construction

activity of others and those contracts wherein the materials and services are supplied by contract owners are recognized only to the extent of the contracted fee revenue. Revenue from cost plus contracts is recognized by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. The amount of such loss is determined irrespective of whether or not work has commenced on the contract; the stage of completion of contract activity; or the amount of profits expected to arise on other contracts, which are not treated as a single construction contract. Changes in contract performance, contract

conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements that may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined. Profit incentives are recognized as revenue when their realization is reasonably assured.

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

#### *Real estate*

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

If the above criteria is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the "Customers' deposits" account in the liabilities section of the consolidated balance sheet.

#### *Interest income*

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

#### *Coal sales*

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

#### *Rendering of services*

Service fees from coal handling activities are recognized as revenue when the related services have been rendered.

#### *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.

#### Borrowing Costs

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

#### Foreign Currency Transactions

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

#### Retirement Cost

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

The net pension liability recognized by the Group in respect of the defined benefit pension plan is the lower of: (a) the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains or

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

### Leases

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

#### *Group as a lessee*

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

#### *Group as a lessor*

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

### Income Tax

#### *Current tax*

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

#### *Deferred tax*

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

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

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

temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

#### Earnings Per Share

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

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

### Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products. Financial information on business segments is presented in Note 34 to the consolidated financial statements.

### Provisions

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

### Contingencies

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

### Subsequent Events

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

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## 3. Preferred and Common Stock

The changes in the number of shares follow:

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Preferred stock - ₱1 par value cumulative and convertible to common stock		
Authorized number of shares	<b>100,000,000</b>	<b>100,000,000</b>
Issued and outstanding		
Balance at beginning of year	<b>4,480</b>	<b>144,480</b>
Cancellation/retirement of issued preferred shares	<b>(100)</b>	<b>(140,000)</b>
Balance at end of year	<b>4,380</b>	<b>4,480</b>
Common stock - ₱1 par value		
Authorized number of shares	<b>5,900,000,000</b>	<b>5,900,000,000</b>
Issued and outstanding	<b>2,655,494,000</b>	<b>2,255,494,000</b>
Additional subscription	<b>-</b>	<b>400,000,000</b>

Preferred shares held in treasury		
Balance at beginning of year	-	(1,000)
Redemption of preferred shares	(100)	-
Cancellation/retirement of issued preferred shares	100	1,000
Balance at end of year	-	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.

On April 1, 2002, the Company's BOD approved the Exchange Offer involving the redemption of all of the Company's outstanding preferred shares totaling 1,670,584 shares as of December 31, 2001, which were due for redemption on April 7, 2002 (Final Redemption Date). Such Exchange Offer, which was formally presented to the preferred shareholders on April 5, 2002, consisted of any one or more of the following Options:

Option A - Secured 5-Year Term Loan

*Redemption of preferred shares through the issuance of Promissory Notes (PNs) by the Company, DMCI or PDI at a valuation of ₱1,000 per share, equivalent to the original issue price of the preferred shares.* The PNs, which are value dated April 7, 2002, shall be subject to a floating interest rate based on prevailing 91-day T-Bill rate plus a 2% spread; and shall be secured by a mortgage on certain real estate properties owned by the Group and related parties.

In 2004, the Group issued PNs amounting to ₱139 million (net of payments of ₱99 million in 2004) for the redemption of 310,700 preferred shares, respectively, under Option A.

Option B - Secured 7-Year Term Loan

*Redemption of preferred shares through the issuance of PNs by the Company, DMCI or PDI at a valuation of ₱1,367 per share, equivalent to the original issue price of the preferred shares plus accumulated and nonconversion premium.* The PNs, which are also value dated April 7, 2002, shall be subject to either of the following interest rates at the option of the preferred shareholders: (a) floating interest rate based on prevailing 91-day T-Bill rate plus a 3% spread; (b) fixed interest at 13% for the first 5 years of the loan and floating for the remaining 2 years at a rate equivalent to that contemplated in letter (a); and (c) fixed interest at 13% for the entire 7-year term; and shall be secured by a participation in a mortgage trust indenture covering various accounts receivables, inventory and equipment and a mortgage on certain provincial real estate properties owned by the Group.

In 2003, the Group issued PNs amounting to ₱244 million for the redemption of 202,355 preferred shares under Option B.

As of June 30, 2008, there were no other redemption under options A and B and the outstanding liabilities to preferred shareholders who opted for options A and B have been fully paid.

Option C - Asset for Share Exchange

*Redemption of preferred shares in exchange for residential and office units, equipment and/or accounts receivable at a valuation of ₱1,112 per share (purchase price), equivalent to the original issue price of the preferred shares plus accumulated and current dividends.* The exchange shall be carried out with the subject assets valued at their selling price or fair market value. In the event that the total value of the assets elected by the preferred shareholders exceeds the total purchase price of the preferred shares, the resulting residual amount shall be paid by such shareholders to the Company in cash. Conversely, should the total purchase price exceeds the asset value, the residual amount shall be paid by the Company to the shareholders through either of Options A, B or D.

As of December 31, 2004, the Company redeemed 659,279 preferred shares under Option C in exchange for Asian Hospital, Inc. (AHI) shares; certain construction equipment owned by DMCI amounting to ₱50 million and other certain assets of the Group amounting to ₱586 million in favor of Dacon Corporation (Dacon), a major stockholder; proceeds from sale of various condominium units owned by Constress and PDI totaling to ₱56 million in favor of certain preferred shareholders; and condominium units owned by PDI with an aggregate value of ₱6 million in favor of certain preferred shareholders. As of June 30, 2008 there have been no other redemptions under Option C.

#### Option D - Cash Payment

*Redemption of preferred shares for cash at a price of ₱775 per share, equivalent to the closing market price of such preferred shares on April 1, 2002 up to a maximum of ₱72 million (cap funds held by custodian bank for the redemption of preferred shares).* Should the total amount of all the preferred shares of the holders electing this option exceed the cap, the ₱72 million shall be allocated among all accepting shareholders on a pari passu basis; with the remaining preferred shares to be purchased under any of Options A, B or C.

As of December 31, 2006 and 2005, the Group redeemed 3,050 and 149,210 preferred shares, respectively, under Option D. From then, as of June 30, 2008, there have been no other redemptions under Option D.

#### *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 as of June 30, 2008 for acquisition of treasury shares.

#### *Dividends declared*

On April 24, 2008 and April 3, 2007 the Parent Company's BOD approved and declared cash dividend of ₱0.10 per share or ₱265.55 million and ₱225.55 million respectively to stockholders of record as of May 12, 2008 and April 30, 2007, respectively. The cash dividend shall be paid on May 30, 2008 and was paid on May 28, 2007 respectively as well.

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#### 4. Business Segments

The following tables present the net income of the specific business segments for the period and quarter ended June 30, 2008 and 2007 (amounts in thousand):

	Net Income Before Minority			
	For the period		For the Quarter	
	2008	2007	2008	2007
General Construction	173,481	135,527	129,004	122,446
Coal Mining	443,279	409,067	303,365	289,127
Water Services	(234,218)	1,456,801	7,750	1,319,473
Infrastructure and Real Estate Development	283,320	261,372	128,106	153,498
Nickel Mining	45,347	-	45,347	-
Parent Company and Others	35,620	(32,990)	26,911	6,148
	<b>746,829</b>	<b>2,228,778</b>	<b>640,483</b>	<b>1,890,692</b>

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#### 5. 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 1,333,979,396.62 and Php 597,880,776 as of June 30, 2008 and December 31, 2007 respectively, where Php 514,235,148.29 and Php 53,328,478.16 were booked for the period June 30, 2008 and June 30, 2007 respectively.



OTHER RECEIVABLES -

D.M. Consunji, Inc.	18,731,083.00
Beta Electric Corporation	23,105,658.17
Raco Haven Automation	1,373,128.00
	<u>43,209,869.17</u>

DMCI Holdings, Inc.	3,907,918.92
DMCI Project Developers, Inc.	9,665,975.20
Semirara Mining Corporation	13,291,673.00
DMCI Power Corporation	21,307.46
	<u>26,886,874.58</u>

Sub-total 70,096,743.75

Total Non-trade Receivables 1,254,307,722.63

Less: Allowance for Doubtful Accounts -

**Net Non-trade Receivables** **1,254,307,722.63**

**TOTAL RECEIVABLES** **6,401,300,389.93**

**DMCI HOLDINGS, INC.**  
**ACCOUNTS RECEIVABLE DESCRIPTION**  
**June 30, 2008**

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

**Normal Operating Cycle**

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