

**COVER SHEET**

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SEC Registration Number

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

(Company's Full Name)

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P A S O N G T A M O E X T . M A K A T I C I T Y

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

HERBERT M. CONSUNJI  
Contact Person

888-3000  
Company Telephone Number

(Last Wednesday of July)

1 2  
Month

3 1  
Day

Fiscal Year

**SEC Form 17-Q**  
**Third Quarter Interim Report 2007**  
FORM TYPE

0 7  
Month

2 6  
Day

Annual Meeting

N.A.

Secondary License Type, If Applicable

C F D  
Dept Requiring this Doc

Amended Articles Number / Section

Total No. of Stockholders

Total Amount of Borrowings  
Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

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LCU

Document ID

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

- 1. For the quarter ended September 30, 2007
- 2. SEC Identification No. AS095-002283      3. BIR Tax Identification No. 004-703-376

DMCI Holdings, Inc.

- 4. Exact name of issuer as specified in its charter
  - 5. Philippines      6.  (SEC Use Only)
- Province, Country or other jurisdiction of incorporation or organization      Industry Classification Code:

- 7. 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	4,480
Common Shares, Php 1.00 Par	150,000,000

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

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

Yes [X]      No [ ]

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

Philippine Stock Exchange      Class "A" Shares  
Preferred Shares

12. Indicate by check mark whether the registrant:

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

Yes  No

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

Yes  No

## PART I--FINANCIAL INFORMATION

### Item 1. Financial Statements.

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

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

#### I. RESULTS OF OPERATIONS

DMCI Holdings, Inc. (the "Company") reported a consolidated net income after minority of P1.735 billion and negative P322 million for the nine months and third quarter of 2007 compared to P1.029 billion and P185 million of the same periods in 2006.

The increase in the nine-month period income (or "period income") was due to improvements in the real estate and construction segments, accounting for a 1,322% and 19% increase in earnings respectively. Contributions of the newly acquired water business also added to the growth in consolidated income for the period. The coal mining business experienced major improvements in sales, but the increase was offset by the effective reduction in prices from the depreciation of the US Dollar (as coal prices are essentially hedged on US Dollar global prices) and the initial low prices of coal exports which resulted in a 1% decline in coal income despite better coal deliveries (see discussion below on different business operating results for details).

Quarter income was a negative despite growth in most sectors as the Company decided to reverse some extraordinary and non-recurring items within the water business to reflect a more recurring amount indicative of the actual water business (see discussion in Water below for details).

#### WATER

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

The Company initially invested the amount of P3 billion pesos for a 50% share in the joint venture/bid company, DMCI-MPIC Water Company, Inc. (DMWC or Bidco) which subsequently acquired 84% ownership in Maynilad. Since ownership in DMWC is 50% and control is not solely with the Company, the investment in the water business will be accounted for under the equity method.

Maynilad booked a nine-month net income of P1.14 billion as water and sewerage services continued to provide the much needed revenues. Improvements in the water system and better water flow management proved helpful in the positive performance of Maynilad. Continuing and new developments in the water flow and pressure management systems, improvements in current physical pipes, identification of key areas for improvement, and subdividing into hydraulic zones were among the strategic progress activities that helped in Maynilad's growth since the new sponsors came in. The new owners have provided the water company continuous and steady up rise in water operations. This resulted in the nine-month net income of DMWC of P3.228 billion, which includes, aside from the P1.14 billion recurring earnings from Maynilad, a non-recurring negative goodwill worth P3.323 billion and P1.262 billion of other costs from interest expenses, bidding and transaction costs, and foreign exchange losses.

The Company's board of directors decided that since the water business is being accounted for under the equity method, it will adopt a conservative principle in the recognition of its equity in net earnings from DMWC that might be different from how MPIC accounts for their share. For the 3<sup>rd</sup> quarter, the Company has reversed an amount of P957 million from its previously recorded equity contributions from DMWC that included the negative goodwill and other costs. The Company believes that the other costs of DMWC can be capitalized as part of its investment and that the non-recurring negative goodwill needs to be deliberated fully first before final recognition. It is to the opinion of the Company that all these extraordinary items if recorded for the period will not reflect the true recurring operations inherent in the water business. With this, the Company recognized only its net share of Maynilad's attributable earnings for the period which amounted to P479 million, or 42% of P1.14 billion. At the year end audit, these items are expected to be finalized and will be consistent for both the Company and MPIC with the help of our external auditors, SGV & Co.

The Company expects that the water segment will provide substantial net recurring income with not just the prospects in general water services but also in the engineering requirements and opportunities as the Company's construction segment is expected to be awarded significant amounts of engineering and water work requirements for Maynilad. With this, the Company believes that the acquisition of the water business was a sound and strategic move that will be an integral part of its expansion into more stable businesses while staying true to its core competencies and reputable skills as engineers and contractors.

## **REAL ESTATE**

The Company's real estate business, headed by 100% owned real estate company DMCI Project Developers, Inc. (PDI), continued to experience record-high operations for the period and quarter. Extraordinary real estate sales from continued housing demand, improved selling and marketing activities, plus the proven track record of the Company as quality builders helped post higher earnings from P41 million in 2006 to P583 million in 2007.

Sales from existing projects added to the record high revenues reported as of the 3<sup>rd</sup> quarter. Existing projects: East Ortigas Mansions and Mayfield Park Residences continued to provide regular revenues but notched slightly lower than last year as these projects are already fully sold. Mahogany Place Subdivision, now in its 2<sup>nd</sup> and 3<sup>rd</sup> phase of development, factored in significant numbers also but was below last year as this project has also reached fully sold status as well. Bonifacio Heights, on the other hand is relatively a new joint venture project with and for the Armed Forces of the Philippines (AFP), that contributed significant sales for the period compared to just meager sales reported last year.

With the successful turnover rate from existing projects, the Company have been actively launching new projects, namely the Raya Gardens Condominiums ("Raya"), a combination of high rise and medium rise development located in the West Service Road, Barangay Merville, Paranaque; and Rosewood Pointe ("Rosewood"), a project utilizing another combination of medium and high rise structures done in the same design and aesthetics as Mayfield Park Residences located in Taguig, Metro Manila; and The Manors at Celebrity Place ("Celebrity"), a mixed town house-medium rise community project located adjacent to the Celebrity Sports Plaza in Loyola Heights, Quezon City. These projects started contributing notable revenues for the period, namely: Raya – P380 million, Rosewood – P481 million, Celebrity – P125 million, (total – P986 million).

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

Overseas Filipino Workers (OFWs) accounts for around 30% of all sales. The Company even estimates that even 50% of the local purchases are being funded by OFW money and most of these OFWs are located in Italy, London, Vienna, Hong Kong, and Dubai which are not affected considerably with the depreciation of the US Dollar. With the purchasing power, the Company is keen on pursuing the OFW market as an avenue towards real estate sales expansion.

Reduction in previous adopted cost estimates effected this period reduced past booked costs. This caused an unnatural jump in gross margins. The incorporation of real estate construction into the real estate development side effectively removed construction margins retroactively. This allowed for a change in accounting estimate that was booked as a reduction to current cost of inventory and sales.

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

The Company's real estate business also enjoys tax holiday/incentive on some of its projects as these projects have unit prices below P2 million per unit as provided by the Philippine Board of Investments. This greatly helps in the savings of the real estate business.

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

## **CONSTRUCTION**

The construction business, booked under wholly-owned construction company, D.M. Consunji, Inc. (DMCI), reported improved operations for both the period and quarter of this year compared to last year. Construction income reached P344 million for the period and P205 million for the quarter, up 20% and 28% respectively. This was caused by increased construction activity from outside contracts and jobs provided by the water business.

Tail-end activity from on-going key projects: Subic-Tarlac Express-Deck Fabrication (99% complete), KAMANAVA Floodway civil works (90% complete), and One Adriatico Place residential high-rise building (98% complete) provided a total P750 million in construction revenues for the nine-month period, up by P327 million from the revenues booked in the first half this year. Initial works on new projects, Shangrila Boracay and Robinson Cybergate Tower, with a total contract amount of P1.5 billion, added P624 million in period revenues almost half of which was booked this quarter. In addition, DMCI have been able to get almost P518 million worth of construction from Maynilad as of the third quarter, which already contributed P229 million of recognized revenues, a significant portion of which was also recorded this quarter. Back-log work now shows P2.1 billion as of the 3<sup>rd</sup> quarter.

Revenues from the other non-traditional construction operations, specifically from the special business units, namely the equipment rental and sales, the ready-mix concrete business, and the formworks management unit were also helpful in providing gross contributions for the construction business.

General and administrative expenses slightly went up as required by the increased construction demand for the period. DMCI still expects its overhead to be at low levels for the whole year consistent with the Company's cost reduction guidance, more so with the construction industry becoming more diversified and competitive.

As the construction business continues to be a challenge, the Company is still confident that it can maintain its foothold as one of the leading providers of construction services with the heritage as proud Filipino contractors to the local and global community.

## **COAL**

The Company's coal mining business, operated by 58%-owned, publicly listed Semirara Mining Corp (SMC), reported promising operations for the period and third quarter of 2007. Coal production was 44% better with coal sales reaching record levels. Coal deliveries for the nine-month period already tallied 2.551 million metric tons (MT) a far cry from the 1.6 million MT for the same period last year. The 3<sup>rd</sup> quarter sales in itself reached 1 million MT, the highest so far experienced by SMC for one quarter. Increase in take up from domestic users and deliveries to the export market proved valuable to the growth in coal sales. Coal revenues were up 26% but despite this, coal income for the period and quarter was down marginally due to the significant coal price reduction from the depreciation of the US Dollar vs the Philippine Peso (SMC's coal prices are naturally hedged on local import prices in USD). Moreover, the initial low penetrating prices for the export markets further added to the unfavorable reduction in total coal price.

Below is the detailed management discussion and analysis of financial condition and results of operations of SMC for the reporting period lifted from the Third Quarter 2007 Financial Report (SEC Form 17-Q) of SMC:

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS 2007 NINE-MONTH OPERATION**

*The strengthening of local demand and the development of export markets dictated operations this year. Unlike the previous year, increasing sales volume set the focus of operations to coal production, instead of waste stripping. Total material movement in the first nine months registered at 24,233,081 bank cubic meters (bcm). Strip ratio, or the ratio between waste and coal produced, was kept to the standard level of 8.12:1, resulting to a historical high run-of-mine (ROM) coal production of 2,743,179 metric tons (MTs). Of this volume washable coal amounted to 468,827 MTs. The resulting net product coal reached 2,530,091 MTs, another historical high.*

*The foray in the export markets steered the Company to reevaluate its operations to successfully support the logistical requirements of the new venture. One of the first major improvements currently undertaken is the dredging of the pier to allow bigger vessels that can accommodate up to 50,000 MTs, especially employed for export deliveries, to dock for safe berthing and for faster shiploading using the conveyor/shiploader line. In addition, the new barge loading facility which has a rated capacity of 750 MTs/hr that was set up last year is now fully operational and is being used to load smaller vessels for local deliveries, thus allowing simultaneous loading for export and domestic shipments.*

*The operation of the second line of in-pit crusher, which became fully operational during the first quarter greatly improved efficiency in moving waste materials and also cushioned the cost effect of increasing oil prices since this minimizes the use of trucks.*

*Machine availability during the first half of the year was recorded at 86% for hauling equipment and 82% for loading units. However, since stripping activities slowed down as the focus of operation shifted to coal extraction coupled by higher rainfall on the ninth month of the year, utilization of hauling and loading equipment dropped to 60% and 69%, respectively.*

*The Resource Estimation of Panian Coal Deposit as at 31 December 2006, under 2004 Joint Ore Resource Committee (JORC) Code, showed 62.0 million MTs of measured in situ coal resources at Panian mine as reported by Mr. Barry Saunders B, principal Geologist of Queensland Geological Services Pty. Ltd. of Australia. The confirmation of total mineable reserve is still in process after all economic, technical and physical limits are taken into account.*

*In-house confirmatory drillings are still being done as part of normal mine planning activities. Meanwhile, drilling activities are also on-going for Himalian coal deposits.*

*The ramped up coal production afforded the Company to keep coal inventory to the ideal 1.5 months level at 535,062 MTs. The first nine months recorded an unprecedented coal sales volume of 2,551,169 MTs, a figure higher than any full year sales volume in the past, with an average heating value of 9,550 BTU/lb. At a composite average price of P1,804.15/MT, Coal Revenues amounted to P4.587 billion as at the end of the nine-month period in the current year. An additional P71.411 million was generated from the coal handling operations at the Calaca coal yard. Gross revenues totaled to P4.659 billion.*

*Cost of Coal Sold/MT of P1,402.24, and Coal Handling Cost of P46.154 million, translated to total Cost of Sales of P3.624 billion. Non-Cash costs accounted for 34% of the amount. The resulting Gross Margin is posted at P1.047 billion, indicating a Gross Profit Ratio of 22%. Despite the increased efficiency in operations, Government Share was maintained at a minimum of 3% of Coal Revenues amounting to P137.623 million by applying the remaining Accumulated Recoverable Costs. Meanwhile, General and Administrative Expenses were recorded at P60.157 million, the noted increase can be attributed to cost incurred for organizational changes, upgrading of information and communication facilities, among others. The resulting Total Operating Expenses of P197.780 million further cut earnings to post an Operating Income of P837,552 million, which represented 18% of Revenues.*

*Other Income of P32.182 million represented sale of electricity to local cooperative, settlement of insurance claim, gain on sale of equipment, and interest earned by the Company from its short-term placements and investments, offset by bank charges for Letter of Credit applications. Conversely, the Company incurred Financing Charges of P109.570 million for working capital loans and funding for Capital Expenditures, which posted a significant reduction from previous year's level of P157.335 million due to decreasing debt levels. With the appreciating Peso visà-vis the US dollar, the Company was also able to recognize Realized and Unrealized Foreign Exchange Gains of P18.432 million and P59.261 million, respectively. Net Income Before tax amounted to P837.857 million. With full income tax provision of P272.817 million, Net Income After Tax resulted to P565.040 million.*

## **2007 NINE-MONTH FINANCIAL CONDITION**

*The period closed with Total Current Assents at P4.039 billion. This is significantly augmented by a healthy level of Cash and Cash Equivalents at P1.250 billion, which recorded a 145% growth from the balance at the start of the year of P510.439 million as a result of increased Revenues. The increased Sales likewise boosted Accounts Receivables to P1.070 billion, with P875.643 million in Trade Receivables. This also included receivable from affiliates amounting to P156.728 million for offset against actual billing of drilling, shipping, stevedoring, shiploading support services and other operating advances. On the other hand, increased demand trimmed down Inventories to P1.486 billion, manifesting a 19% drop from the beginning balance. The decreased cost of P1,343/MT and lower coal inventory volume at the end of the period contributed to the significant decline in Coal Inventory. Materials and Supplies amounting to P767,171 million is mainly comprised of Materials and Parts Inventories of P682.206 million. Prepaid Expenses and Other Current Assets totaling to P233.124 million are composed of VAT withheld on NPC sales amounting to P192.258 million, Prepaid Insurance of P25 million, and Environmental Guarantee Fund, and Creditable Withholding Taxes. The increase was mainly attributed to creditable withholding tax on coal sales and additional VAT withheld in 2007, prior to the issuance of the BIR ruling to the Company's favor. Since the Company is VAT-exempt, the withholding of VAT was ruled to be incorrect, and the processing for refund is now being undertaken by the Bureau of Internal Revenue.*

*Additions to Property Plant and Equipment (PPE) were posted at P143.026 million. Recording Depreciation of P1.136 billion resulted to a net PPE book value of P2.005 billion as at the end of nine months from beginning balance of P3.015 billion. Deferred Charges and Other Non-Current Assets of P89.010 million reflected mining rights of P81 million, software costs amounting to P2.3 million, and various Non-Current Assets totaling to P6.5 million.*



The decrease in PPE significantly impacted on Total Assets which reduced to P6.133 billion as at the end of the current period, from the beginning balance of P6.511 billion. Total Liabilities recorded a hefty cut of 28% from P2.197 billion at the start of the current year to P1.586 billion as at the end of the nine-month period. This is an effect of the continued servicing of debts vis-à-vis reduced availments. Current Liabilities of P788.342 million showed a 41% drop from beginning balance of P1.346 billion. Current Portion of Long Term Debt, which included availments of Letter of Credit and Trust Receipt facilities, took up the biggest share of the pie at 59%. Updated payments of Trade Payables and DOE share also reduced Accounts and Other Payables by 25% from beginning balance of P320.465 million to P241.189 million. Meanwhile, delivery of coal paid in advance by a cement company and NPC also reduced Customer's Deposit to P2 million.

Meanwhile, Non-Current Liabilities reduced by 6% from P850.659 million at the start of the year to P797.922 million as at the end of the current period. Long-Term Portion of Long-Term Debt amounting to P664.930 million accounted for 83% of the total amount. The ratio between US Dollar denominated loans and local loans is 52% to 48%. Pension Liability stood at 54.922 million; provision for Asset Retirement Obligation amounted to P11.139 million representing legal obligations with the Department of Environment and Natural Resources upon the abandonment of the mine pits; and Deferred Tax Liability was recorded at P66.932 million. The reduction in the latter came from the tax effect of recognized depreciation of revaluation increment during the period.

Even taking into account the declaration of Cash Dividends amounting to P304.894 million, the Company's Stockholders' Equity posted a 5% growth from P4.315 billion as at the beginning of the year to P4.547 million at the end of the first nine months. The period's Net Income After Tax generation of P565.040 million explained the increase.

## **2007 COMPARATIVE REPORT**

### **I. PRODUCTION**

Total material movement as at the end of the third quarter registered a 15% slump from 28,343,936 bank cubic meters (bcm) in 2006 to 24,233,081 bcm this year. Third quarter material movement is lowest in the current year at 6,472,619 bcm, compared to Q1 and Q2 volumes of 8,717,362 and 9,043,100 bcm, respectively.

The current quarter's volume is likewise lower by 5% compared to Q3 last year material movement of 6,837,649 bcm. As a consequence of increasing demand, operations is directed at coal production, rather than waste stripping during the year. The further decline in the recent quarter is attributed to adverse weather conditions. Rains in Q3 slowed down activities in the pit.

With coal extraction as the main focus of mining activities, waste stripping was likewise limited during the current year. As a result, YTD Strip Ratio decreased to the standard level of 8.12:1 compared to last year's 13.56:1. Q3 Strip Ratio continued to go down to 6.89:1 from 10.31:1 in Q1 and 7.50:1 in Q2. This is also better than Q3 2006 strip ratio of 10.19:1.

The resulting ROM coal produced increased by 38% at 2,743,179 metric tons (MTs) from Q3 YTD volume of 1,986,168 MTs. Of the volume, 851,000 were produced in Q3, while Q1 and Q2 ROM coal output were recorded at 790,844 MTs and 1,101,335 MTs, respectively. Meanwhile, current quarter production is 36% higher than ROM coal produced in Q3 2006 amounting to 626,933 MTs.

Correspondingly, Net Product Coal also posted a 44% growth in the current period at 2,530,091 MTs YTD compared to the nine-month 2006 production volume of 1,751,538 MTs. Q3 volume of 787,705 MTs is lower than Q2 volume of 1,025,716 MTs, but higher than Q1 volume of 716,670 MTs. It is however 44% better than Q3 2006 volume of 538,420 MTs.

Ending Inventory is maintained at an almost the same level at 535,062 MTs as at the end of the period, posting a slight 5% decrease over Q3 YTD volume of 564,066 MTs.

## **II. MARKETING**

A new milestone was etched in the Company's history when it set off its maiden export shipment of 28,836 MTs to China in February in the current year. Since the first successful export sale, the marketing milieu has changed in a short period. The few months that followed further proved the acceptability of Semirara coal when shipments to India and Hong Kong were likewise successfully used by end users. The third quarter showed a rather hectic period in the ports of Semirara when export orders ramped up while pier works were ongoing. A total of 354,554 MTs of export orders were managed to be served in the current quarter which aggregated export deliveries in the nine-month period to 454,401 MTs. What is noteworthy is that more export buyers are knocking at the Company's door offering to buy Semirara coal, but after signing short-term export supply contracts of up to one million MTs until H1 2008, the Company declined to commit more volumes since domestic demand is also in the upswing. Meanwhile, the Company has placed an order for additional mining equipment which are expected to start arriving towards yearend in order to increase capacity, and subsequently to serve more export volumes.

Meanwhile, local deliveries posted a 30% increase from 1,609,478 MTs in the first three quarters in 2006 to 2,096,767 MTs in the current comparable period. Power plants took up most of local volumes, recording 1,400,605 MTs which accounted 67% of total local sales and posting a 23% improvement in power plant sales as at Q3 2006 of 1,142,573 MTs. Cement companies recorded an even higher growth of 32% with sales volume of 589,028 MTs as at the end of the current period compared to YTD 2006 volume of 447,126 MTs. Sales to other industrial plants also recorded an impressive 442% growth from 19,779 MTs last year to 107,135 MTs YTD 2007.

Although Q3 total local volume is lower by 74,803 MTs compared to Q2 local sales of 768,732 MTs, it posted a 9% growth over Q1 sales of 634,107 MTs and 68% higher than Q3 2006 sales of 412,487 MTs. Meanwhile, with export deliveries, Q3 sales is at record high of 1,048,483 MTs, 58% and 25% higher than Q1 and Q2 volumes, respectively.

Despite a higher uptake of the NPC Calaca plants, the entry of new local markets, including Asia Pacific Energy Corp. and other small boilers, and the new export markets further reduced dependence on this market to 42% on YTD sales volume from 58% share in similar period last year.

## **III. FINANCE**

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

Coal Revenues recorded a more modest YTD growth of 25% to P4.587 billion this period from P3.659 billion in the previous year compared to the more significant increase in sales volume. Lower average coal price, which is a consequence of the marginal pricing strategy to penetrate the export market and strengthening of the peso against the US dollar explained this. Average composite YTD FOB price dipped by 20% to P1,804/MT from P2,260/MT in the previous year.

On the other hand, economies of scale and improved strip ratio triggered YTD Cost of Coal Sold/MT to drop to P1,402 from P1,686 in the previous year, posting a decrease of 16%. The aggregate amount is however higher by 31% at P3.612 billion this year from P2.755 billion YTD Q3 2006 as more volumes were sold this year. Operating expenses rose to match the expanded operations in the current year.

Despite the decrease in margins, increase in sales volume allowed the Company to generate respectable profits. Booking Other Income from its other activities and operations and minimizing cost of financing helped maintain a good profitability level. Furthermore, the devaluation of the US dollar against the peso also benefits the Company since a bigger percentage of its loans are dollar-denominated.

However, the full utilization of allowable tax deductions, such as the Net Operating

Loss Carry Over (NOLCO) obliged the Company to provide for Regular Corporate Income Taxes. The resulting YTD Net Income After Taxes (NIAT) in the current year of P565.040 million is slightly lower by 1% compared to the reported NIAT of P571.210 million in the comparable period last year.

The Company continued to report a healthy EBITDA. Current quarter's EBITDA remained strong at P 763.651 million, which added to Q1 and Q2 amount of P573,409 million and P833.872 million, respectively, totaled to P2.171 billion for the nine-month period. This is 23% more than YTD Q3 2006 amount of P1.770 billion.

## **B. Solvency and Liquidity**

The Company's cash position remained strong with additional inflow of Cash and Cash Equivalents during the first nine months of the year amounting to P739.547 million, which is added to the Beginning Cash balance of P510.439 million and resulted to an Ending Cash level of P1.250 billion, P1.1 billion is placed in short term placements. The nine-month cash level is also more robust by 145% than YTD 2006 Ending Cash of P510.439 million.

Higher Coal Sales during the current period brought up Receivables by P503.525 million. This also resulted to a drop in Inventory by P345.834 million. Income Tax paid reflected payments of Q1 and Q2 Corporate Income Taxes of the current year and final Corporate Taxes for 2006. The decrease in Interest Paid is a consequence of declining debt balances and lower interest rates. The resulting Net Cash Provided by Operating Activities amounted to P1.384 billion, also higher by 48% than YTD 2006 level of P932.225 million.

Net Cash generated from investing activities posted a positive amount of P163.985 million as the Company terminated its Short-Term Investment of P300 million in the early part of the year. The decrease in Additions to PPE mainly reflected Depreciation, Depletion and Amortization, which offset the minimal CAPEX incurred during the year.

Meanwhile, Cash Flows From Financing Activities recorded a negative amount of P807.984, which reflected Payment of Cash Dividends amounting to P304.894 million and Repayment of Long-Term Debt of P822,106 million. Loan Availments totaling to P319.016 offset cash outflow. In 2006, more Long-Term Debts were availed to finance Capital Expenditures, hence, lesser Net Cash Outflow for Financing Activities was reported, amounting to P511.175 million.

Although 2006 started with a heftier Beginning Cash balance of P1.332 billion which included proceeds from shares offering in February 2005, a net Cash Outflow of P726.319 million was spent by the Company during the nine-month period. Cash end is higher in the current period as more cash was generated from coal sales, exceeding debt service and working capital requirements. As a result, liquidity is more impressive, even after the aggressive servicing of debts, as the Company recorded a further improvement in the Current Ratio to 5.12x as at the end of Q3 2007 from 3.18x as at Q3 2006 and 2.53x as at yearend 2006. Meanwhile with stable profitability, total Capitalization also continued to post a growth to P4.547 billion as at end of Q3 this year from P4.285 billion as at Q3 2006 and P4.315 billion as at yearend 2006. The stronger equity level and the decreased Liabilities manifested a huge improvement in the Company's solvency condition, and low dependence on debt as source of capital, as Total Debt to Equity Ratio stood at 0.35:1 from 0.54:1 as at Q3 2006 and 0.51:1 as at the close of the previous fiscal year.

The slight slump in Net Income After Tax resulted to a corresponding reduction in Earnings Per Share (EPS) from P2.058 as at Q3 2006 to P2.036 in the current comparable period.

## **IV. PERFORMANCE INDICATORS:**

**1. Average Selling Price** – The increasing volume and market share of export deliveries which were priced lower put on a significant dent to the average selling price of Semirara coal. However, it must be considered that low export prices were only temporary as it is a strategy of the Company to penetrate first

*the new markets to introduce Semirara coal as a new brand in the market. Notably, since it started exporting in February at a lower price, recent contracts have been negotiated to slowly come at par with industry prices. Moreover, the appreciation of the Peso against the US dollar also caused the drop of the Composite Average Price. Since there are no other major coal producers in the country, price for Semirara coal is benchmarked to coal prices in the region, like the coal produce in Kalimantan, Indonesia, which are priced in US dollars.*

**2. Debt to Equity Ratio** - *This is one of the most important figures that clearly manifest the financial strength of the Company. The continued improvement of its solvency condition allows the Company to take on opportunistic investments that further add value to its operations. Currently, forward integration to the power industry is seriously considered to ensure that there is a ready market for Semirara coal at all times.*

**3. Capital Expenditures** – *With the growing market for Semirara coal, it is expected that there will be a corresponding increase in Capital Expenditures as capacity needs to be matched with demand. Currently, the Company is negotiating for at least another fleet for next year which will increase production by another 500 thousand MTs or increasing its total excavation capacity by 6.0 million bcm. Despite the long lead time to order mining equipment, as there is a mining boom worldwide, suppliers have confirmed one 16-cubic meter excavator and 12 units 100-tonner dump trucks for delivery to minesite starting yearend 2007 to first half of 2008.*

**4. Expanded Market** – *The coal industry has become a sellers' market since there is an increased demand for thermal coal worldwide partly due to the skyrocketing of oil price and the robust economic growth in the region. The Company has started to become a player in the international trade of coal, successfully supplying coal to China, India, and Hong Kong. Currently, the Company is faced with a more pleasant challenge than before. Marketing efforts are now geared towards choosing contracts that will give holistic value and sustainable development to Semirara coal. For the first time in the history of its operations, the Company can now afford to choose its market. It has clearly come a long way from dependence to a sole buyer. Notably, the increase in international demand for coal augurs well in the further development of local markets. Plants which refuse to even try Semirara coal before are now motivated to start testing the brand, especially that buying from the Company whose minesite is strategically located in the center of the archipelago gives them significant cost savings and lesser logistics problems.*

**5. Improved coal quality** – *The Company managed to optimize the value of its inherently low-grade resource by putting processes in between the whole production process that enhance quality. Its marketing success is a function of how well the Company manages the stability of its quality parameters. Notably, the Company does not cut corners in investing in facilities that ensure its reliability to deliver the agreed specifications of contracted volumes.*

## **II. FINANCIAL CONDITION**

The Company's financial condition for the period improved as total assets as of the 3rd quarter 2007 increased by 16% from year end 2006 balances.

Cash doubled from 2006 with P2.3 billion raised in new capital issuance, while P697 million was used for consolidated operations and P378 million was used for investing activities. The Company's fund raising activities was completed in the second quarter of 2007 and was done as a follow-up capital issuance envisioned to strengthen its investments in the water business.

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

The real estate business continues to thrive as record sales and as such is eating up into existing inventory. The Company is also quick to build new projects and accelerate work on its existing ones, providing that significant rise in inventory. Some long term investment properties were also reclassified to real estate inventory, as these properties were determined to be for development in the near future, further adding to the increase in inventories (and causing the reduction in investment properties). Coal production also accounted for a large amount of the increase in inventories.

Investments were up as a result of the Company's new investment in the water sector which was recorded early in 2007.

Depreciation mostly from coal equipment accounts for much of the decrease in property, plant and equipment. This decrease was counteracted by the recent purchase of a property to be used as new headquarters for the expanding office requirements of the real estate business coupled by some equipment purchases required by the construction business.

Other non-current assets composing of prepaid taxes increased mainly from unused input vat registered by the real estate business that doesn't have output vat as a result of its unit pricing.

Accounts & other payables increased marginally as a result of regular business and the acquisition of the new office for the real estate business.

Long term liabilities (including current portion) due to current repayments and prepayments mostly done in the coal mining segment. SMC's expansion was financed mainly by long term loans but expects to prepay most of its loans within the year from internally generated cash. In addition, the Company's long-term debt incurred to fund half of its P3 billion initial investment in the Maynilad acquisition in late 2006 was subsequently paid within the first quarter of 2007.

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

Current ratio increased from 2.43 as of end 2006 to 3.023 at the end of the period significantly affected considerably by the cash raised from the issuance of new shares. Current debt repayment capability is healthy and well within industry averages. Debt to equity ratio slightly decreased from 0.76 to 0.49 indicating a significant increase in stockholders position in the Company. This is a result mainly of the additional issuance of capital. The Company notes that the debt to equity ratio is below 1, indicating a strong owner base leverage and is in a very good debt gearing position. The debt to equity ratio was also within industry averages as the Company strives to maintain its financial risk position relative to the interest of its stockholders.

## **KEY INDICATORS**

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

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

## CHANGE IN COAL SALES

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

## CHANGE IN REAL ESTATE SALES

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

## CHANGE IN CONSTRUCTION REVENUE

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

## CHANGE IN NET INCOME

The results of consolidated operations of the Company can be seen with the increment in net income for the period compared to the same period of the previous year/s. Bottom line analysis takes into consideration all business that the Company is engaged in. The Company calculates any decrease and increase in net income and studies the results of its operational business segments and provides discussions as a general on the main reasons why the change in net income (see *Part I. Results of Operations-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 paid on May 28, 2007 to the holders of record of April 30, 2007.
5. There were no subsequent events that have not been reflected in the financial statements for the period that the company have knowledge of;
6. There are no contingent accounts in the balance sheet of the corporation;
7. Except for interest payments on loans, which the Company can fully service, the only commitment that would have a material impact on liquidity are construction guarantees. These are usually required from contractors in case of any damage / destruction to a completed project.
8. Any known trends or any known demands, commitments, events or uncertainties that will result in or that will have a material impact on the registrant's liquidity. - **NONE**
9. The Company recognizes that the continuing slump in the property sector would keep both real estate sales and construction revenues moderate. Nonetheless, the Group's venture into middle-income housing development is expected to significantly contribute to revenues and income.

**SIGNATURES**

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

Issuer                                  DMCI Holdings, Inc.

Signature and Title	 <b>Aldric G. Borlaza</b> Finance Officer	 <b>Ma. Luisa C. Austria</b> Accounting Officer
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Date    November 19, 2007



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

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

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

	2007	AUDITED 2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	2,977,610	1,251,911
Available-for-sale investments	71,498	259,592
Receivables - net	3,614,784	3,714,849
Costs and estimated earnings in excess of billings on uncompleted contrac	0	17,016
Inventories - net	5,807,898	4,714,825
Prepaid expenses and other current assets	292,700	379,057
<b>Total Current Assets</b>	<b>12,764,490</b>	<b>10,337,250</b>
<b>Noncurrent Assets</b>		
Noncurrent receivables - net	1,023,313	687,641
Investments in associates, jointly controlled entities and others - net	4,069,657	3,266,773
Investment properties - net	1,971,804	2,279,059
Property, Plant and Equipment - net	2,961,175	3,295,499
Deferred tax assets	0	219,868
Other noncurrent assets - net	1,110,829	486,279
<b>Total Noncurrent Assets</b>	<b>11,136,777</b>	<b>10,235,119</b>
	<b>23,901,267</b>	<b>20,572,369</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Bank Loans	242,432	53,811
Accounts and other payables	3,218,025	3,015,060
Current portion of long-term debt	480,538	1,122,685
Billings in Excess of Costs on Uncompleted Contracts	0	20,566
Income tax payable	280,876	43,892
<b>Total Current Liabilities</b>	<b>4,221,871</b>	<b>4,256,014</b>
<b>Noncurrent Liabilities</b>		
Long-Term Debt - net of current portion	3,063,988	3,476,921
Payables to related parties	363,471	473,163
Deferred tax liability	160,977	263,768
Pension liabilities	65,120	47,171
Other Noncurrent Liabilities	15,889	395,142
<b>Total Noncurrent Liabilities</b>	<b>3,669,444</b>	<b>4,656,165</b>
<b>Total Liabilities</b>	<b>7,891,315</b>	<b>8,912,179</b>
<b>Equity</b>		
Equity attributable to equity holders of the parent:		
Paid-up capital	7,421,640	4,659,283
Deposit for future subscription	0	0
Retained earnings	6,597,103	5,103,728
Cumulative translation adjustment	39,873	39,873
Preferred shares held in treasury	0	(1,100)
	<b>14,058,616</b>	<b>9,801,784</b>
Minority Interest	1,951,336	1,858,406
<b>Total Equity</b>	<b>16,009,952</b>	<b>11,660,190</b>
	<b>23,901,267</b>	<b>20,572,369</b>

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

For the period ended September 30, 2007 and 2006 and for the quarter ended

September 30, 2007 and 2006

(Amounts in Thousands of Philippine Pesos)

	For the period		For the quarter	
	2007	2006	2007	2006
<b>SALE OF GOODS AND SERVICES (Note 5)</b>	9,293,367	6,941,167	3,472,426	2,036,702
<b>COST OF SALES AND SERVICES (Note 5)</b>	6,403,992	4,810,365	2,269,565	1,592,535
<b>GROSS PROFIT</b>	<b>2,889,375</b>	<b>2,130,802</b>	<b>1,202,861</b>	<b>444,167</b>
<b>OPERATING EXPENSES</b>	(670,546)	(512,782)	(202,062)	(151,671)
<b>EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES, JOINTLY CONTROLLED ENTITIES AND OTHERS</b>	478,696	(2,235)	(977,086)	(157)
<b>FINANCE INCOME</b>	162,613	239,558	59,426	84,261
<b>FINANCE COSTS</b>	(451,836)	(332,325)	(131,444)	(108,382)
<b>OTHER INCOME</b>	223,316	162,740	77,442	93,559
<b>INCOME BEFORE INCOME TAX</b>	<b>2,631,618</b>	<b>1,685,757</b>	<b>29,137</b>	<b>361,777</b>
<b>PROVISION FOR INCOME TAX</b>	659,937	417,883	286,234	106,494
<b>NET INCOME (LOSS)</b>	<b>1,971,681</b>	<b>1,267,874</b>	<b>(257,097)</b>	<b>255,283</b>
<b>ATTRIBUTABLE TO</b>				
<b>Equity holders of the parent</b>	1,735,724	1,029,518	(322,475)	185,766
<b>Minority Interests</b>	235,957	238,356	65,378	69,517
	<b>1,971,681</b>	<b>1,267,874</b>	<b>(257,097)</b>	<b>255,283</b>
<b>Earnings per Common share</b>				
Basic*	0.78	0.46	0.57	0.08
Diluted	0.00	-	-	-
*Net Income less dividends divided by the total outstanding shares of 2,655,494,000				
<b>Earnings per Common share</b>				
Basic*	0.95	0.37	0.83	0.27
Diluted	0.00	-	-	-

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

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

	<b>SEPTEMBER 2007</b>	<b>SEPTEMBER 2006</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)	(2,394,520)
	<u>4,480</u>	<u>5,480</u>
Reclassification of preferred stock to liability	<u>-</u>	<u>(5,480)</u>
	4,480	-
Common stock - P1 par value		
Authorized - 5,900,000,000 shares		
Issued - 2,255,494,000 shares	2,255,494,000	2,255,494,000
Add'l subscription - 168,000,000 shares	400,000,000	
	<u>2,655,494,000</u>	<u>2,255,494,000</u>
	<u>2,655,494,000</u>	<u>2,255,494,000</u>
<b>ADDITIONAL PAID-IN CAPITAL</b>		
Balance at the beginning	2,403,783,826	2,827,839,006
Retirement of Preferred Shares	(1,099,000)	(408,716,780)
Additional Paid-in capital of new subscribed shares	2,363,456,700	
	<u>4,766,141,526</u>	<u>2,419,122,226</u>
Reclassification of preferred shares-APIC to liability		<u>(45,669,823)</u>
	<u>4,766,141,526</u>	<u>2,373,452,403</u>
<b>RETAINED EARNINGS (DEFICIT)</b>		
Balance at beginning of the period	5,103,727,747	4,193,977,659
Net income(loss) for the period	1,735,724,416	1,029,517,871
Accrued dividends declared	(242,349,400)	(225,549,400)
Balance at end of the period	<u>6,597,102,763</u>	<u>4,997,946,130</u>
Cumulative Translation Adjustment	<u>39,872,880</u>	<u>2,402,067</u>
<b>PREFERRED SHARES HELD IN TREASURY</b>		
Balance at beginning of the period	-	(187,210,650)
Acquisitions for the period	-	(2,618,850)
Redemption/Retirement of preferred shares	-	189,829,500
Balance at end of the period	<u>-</u>	<u>-</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b><u>14,058,615,649</u></b>	<b><u>9,629,294,600</u></b>

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

	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Net (Loss)/ Income</b>	1,735,724	1,029,518
Adjustments to reconcile net income (loss) to net cash:		
Equity in net losses (earnings) of affiliates	(478,696)	2,235
Depreciation, depletion and amortization	716,854	162,461
Income (Loss) applicable to Minority Interest	(235,957)	(238,356)
Changes in assets and liabilities:		
Decrease / (Increase) in :		
Receivables- net	(235,607)	(1,520,010)
Inventories - net	(1,093,073)	(1,655,369)
Prepaid expenses and other current assets	86,357	(26,111)
Increase/ (Decrease) in :		
Accounts payable and accrued expenses	202,965	444,320
Current portion of long-term debt	(642,147)	20,433
Non current liabilities	(986,721)	1,172,914
Billings in excess of cost of uncompleted contracts	(3,550)	6,091
Income Tax Payable	236,984	(168,199)
<b>Net cash provided by operating activities</b>	<b>(696,867)</b>	<b>(770,073)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in:		
Available for sale investments	188,094	(399,498)
Investments - net	(495,629)	358,374
Property, plant and equipment - net	334,324	(408,450)
Deferred charges and other assets - net	(404,682)	16,796
<b>Net cash provided by investing activities</b>	<b>(377,893)</b>	<b>(432,778)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net availments (payments) of:		
Notes payable	188,621	172
Additional subscription of common shares		
Capital stock at P1.00 par value	400,000	0
Additional paid-in capital	2,362,357	0
Deposit for future subscription	0	0
Redemption of preferred shares		
Capital stock at P1.00 par value	(1)	0
Additional paid-in capital	(1,099)	0
Redemption of preferred shares from treasury	0	187,211
Payment of Dividends	(242,349)	(225,549)
Net increase (decrease) in minority interest	92,930	229,331
<b>Net cash provided by financing activities</b>	<b>2,800,459</b>	<b>191,165</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,725,699</b>	<b>1,011,686</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<b>1,251,911</b>	<b>1,949,711</b>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<b>2,977,610</b>	<b>938,025</b>

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

**1. Corporate Information**

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

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

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

	<b>Effective Percentages of Ownership</b>	
	<b>2006</b>	<b>2005</b>
General Construction:		
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
Coal Mining:		
Semirara Mining Corporation (Semirara)	<b>58.31</b>	62.92
Infrastructure and Real Estate Development:		
DMCI Project Developers, Inc. (PDI)	<b>100.00</b>	100.00
Constress Philippines, Inc. (Constress) <sup>3</sup>	–	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
Manufacturing:		
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
Marketing Arm:		
DMCI Homes, Inc. (DMCI Homes) <sup>3</sup>	<b>100.00</b>	100.00
Utilities:		
DMCI Power Corporation	<b>100.00</b>	–
DMCI-MPIC Water Company, Inc.**	<b>50.00</b>	–

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

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

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

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

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

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

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## 2. Changes in Accounting Policies

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

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

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

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

The principal effects of these changes are as follows:

*PAS 19 - Employee Benefits*

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

*PAS 21 - The Effects of Changes in Foreign Exchange Rates*

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

*PAS 39 - Financial Instruments: Recognition and Measurement*

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

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

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

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

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

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

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

#### *PFRS 6, Exploration for and Evaluation of Mineral Resources*

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

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

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

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

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

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



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

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

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

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### 3. Summary of Significant Accounting Policies

#### Revenue Recognition

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

#### *Construction Contracts*

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

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

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

#### *Real Estate*

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

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

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

#### *Interest income*

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

#### *Coal sales*

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

#### *Merchandise sales*

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

#### *Dividend income*

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

#### *Rental Income*

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

#### Cash and Cash Equivalents

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

#### Financial Instruments

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

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

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

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

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

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

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

#### *HTM investments*

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

#### *Loans and Receivables*

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

#### *AFS Investments*

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

### *Fair Value*

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

### Interest Bearing Loans and Borrowings

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

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

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

### Derecognition of Financial Assets and Liabilities

#### *Financial Assets*

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

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

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

#### *Financial Liabilities*

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

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

#### Offsetting

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

#### Impairment of Financial Assets

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

#### *Assets carried at amortized cost*

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

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

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

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

#### *AFS financial investments*

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

#### Inventories

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

#### *Coal inventory*

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

#### *Materials in-transit*

Cost is determined using the specific identification basis.

#### *Spare parts and other supplies*

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

#### *Real estate inventories*

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

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

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



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

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

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

#### Investment Properties

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

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

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

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

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

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

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

Property, Plant and Equipment

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

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

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

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

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

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

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

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

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

#### Asset Retirement Obligation (ARO)

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

#### Mine Exploration and Development Costs

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

#### Intangible Assets

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

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

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

### Impairment of nonfinancial assets

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

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

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

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

### Borrowing Costs

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

### Treasury Shares

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

## Income Tax

### *Current Tax*

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

### *Deferred Income Tax*

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

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

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

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

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

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

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

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

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

#### Foreign Currency Transactions

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

#### Retirement Cost

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

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

#### Leases

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

#### *Group as a Lessee*

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

#### *Group as a Lessor*

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

#### Earnings Per Share

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

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

#### Segment Reporting

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

#### Provisions

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

#### Contingencies

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

### Subsequent Events

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

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#### 4. Preferred and Common Stock

The changes in the number of shares follow:

	2007	2006
<hr/>		
Preferred stock - ₱1 par value cumulative and convertible to common stock		
Authorized number of shares	<b>100,000,000</b>	<b>100,000,000</b>
<hr/>		
Issued and outstanding		
Balance at beginning of year	<b>5,480</b>	<b>144,480</b>
Cancellation/retirement of issued preferred shares	<b>(1,000)</b>	<b>(139,000)</b>
Balance at end of year	<b>4,480</b>	<b>5,480</b>
<hr/>		
Common stock - ₱1 par value		
Authorized number of shares	<b>5,900,000,000</b>	<b>5,900,000,000</b>
<hr/>		
Issued and outstanding	<b>2,655,494,000</b>	<b>2,255,494,000</b>
Additional subscription	<b>400,000,000</b>	
Preferred shares held in treasury		
Balance at beginning of year	<b>(1,000)</b>	<b>(136,950)</b>
Redemption of preferred shares	<b>-</b>	<b>(3,050)</b>
Cancellation/retirement of issued preferred shares	<b>1,000</b>	<b>139,000</b>
Balance at end of year	<b>0</b>	<b>(1,000)</b>

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## 5. Business Segments

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

	For the Period		For the Quarter	
	2007	2006	2007	2006
<b>SALES &amp; SERVICES</b>				
General Construction	2,466,989	1,596,041	1,063,483	524,372
Coal Mining	4,658,842	3,730,398	1,809,802	962,697
Real Estate Development	2,055,694	1,201,705	567,615	535,863
Manufacturing and Parent Company	111,842	413,023	31,526	13,770
	<b>9,293,367</b>	<b>6,941,167</b>	<b>3,472,426</b>	<b>2,036,702</b>
<b>COST OF SALES &amp; SERVICES</b>				
General Construction	1,820,055	1,117,437	708,343	356,317
Coal Mining	3,612,233	2,755,432	1,511,959	792,004
Real Estate Development	896,773	894,533	27,542	433,722
Manufacturing and Parent Company	74,930	42,961	21,721	10,492
	<b>6,403,992</b>	<b>4,810,365</b>	<b>2,269,565</b>	<b>1,592,535</b>
<b>GROSS PROFIT</b>				
General Construction	646,934	478,604	355,140	168,055
Coal Mining	1,046,609	974,966	297,843	170,693
Real Estate Development	1,158,921	307,172	540,073	102,141
Manufacturing and Parent Company	36,912	370,062	9,805	3,278
	<b>2,889,375</b>	<b>2,130,802</b>	<b>1,202,861</b>	<b>444,167</b>
<b>NET INCOME</b>				
General Construction	344,052	287,860	205,199	160,442
Coal Mining	329,480	333,078	90,949	98,265
Water Services	478,766	-	(977,035)	-
Real Estate Development	582,677	40,552	321,305	(73,821)
Manufacturing and Parent Company	749	368,027	37,107	879
	<b>1,735,724</b>	<b>1,029,517</b>	<b>(322,475)</b>	<b>185,765</b>

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## 6. **Related Party Transactions**

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

- (a) Comprehensive surety, corporate and letters of guarantee issued by the Company and DMCI for various credit facilities granted to and for full performance of certain obligations by certain related parties.
- (b) Certain assets of the Group, associates and other related parties were placed under accommodation mortgages to secure the indebtedness of the Group, its associates and other related parties
- (c) Interest and non interest-bearing cash and operating advances made by the Group to and from various associates and other related parties.

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

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

**Normal Operating Cycle**

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



OTHER RECEIVABLES -

D.M. Consunji, Inc.	20,006,926.61
Beta Electric Corporation	25,109,226.36
Raco Haven Automation	321,827.87
	<u>45,437,980.84</u>

DMCI Holdings, Inc.	5,039,932.21
DMCI Project Developers, Inc.	7,324,815.52
Semirara Mining Corporation	19,856,323.00
	<u>32,221,070.73</u>

Sub-total 77,659,051.57

Total Non-trade Receivables 1,147,966,123.79

Less: Allowance for Doubtful Accounts \_\_\_\_\_

**Net Non-trade Receivables** **1,147,966,123.79**

**TOTAL RECEIVABLES** **4,638,096,778.22**