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SEC Registration Number

D M C I H O L D I N G S , I N C . A N D S U B S I D I A R I E S
(Company's Full Name)

3 r d F l o o r , D a c o n B u i l d i n g , 2 2 8 1 D o n C h i n o R o c e s A v e n u e , 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)

1 2 | 3 1
Month *Day*
(Fiscal Year)

A A F S
(Form Type)

Month *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
DMCI Holdings, Inc.
3rd Floor, Dacon Building
2281 Don Chino Roces Avenue
Makati City

We have audited the accompanying consolidated financial statements of DMCI Holdings, Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of DMCI Holdings, Inc. and its subsidiaries as at December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-2 (Group A),
February 11, 2010, valid until February 10, 2013
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174583, January 2, 2012, Makati City

April 23, 2012

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 35)	**₱15,065,748**	₱9,946,666
Financial assets at fair value through profit or loss (Notes 5 and 35)	**71,400**	–
Available-for-sale financial assets (Notes 6 and 35)	**59,910**	215,771
Receivables (Notes 7, 21 and 35)	**8,407,880**	9,178,533
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 8)	**452,084**	449,196
Inventories (Note 9)	**17,484,675**	12,704,544
Other current assets (Note 10)	**4,567,316**	3,868,993
Total Current Assets	**46,109,013**	36,363,703
Noncurrent Assets		
Noncurrent receivables (Notes 7 and 35)	**2,438,697**	2,782,287
Available-for-sale financial assets (Notes 6 and 35)	**164,507**	–
Investments in associates, jointly controlled entity and others (Note 11)	**10,849,383**	9,387,673
Investment properties (Note 12)	**142,159**	116,334
Property, plant and equipment (Note 13)	**23,419,344**	21,781,135
Deferred tax assets - net (Note 29)	**16,140**	10,191
Pension asset (Note 23)	**4,355**	–
Other noncurrent assets (Note 14)	**1,040,091**	824,820
Total Noncurrent Assets	**38,074,676**	34,902,440
	₱84,183,689	₱71,266,143
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt (Notes 15 and 35)	**₱1,490,648**	₱760,274
Current portion of liabilities for purchased land (Notes 16 and 35)	**471,886**	660,622
Accounts and other payables (Notes 17 and 35)	**11,925,949**	10,101,780
Billings in excess of costs and estimated earnings on uncompleted contracts (Note 8)	**750,744**	586,880
Customers' advances and deposits (Note 18)	**3,638,509**	4,437,999
Current portion of long-term debt (Notes 19 and 35)	**3,813,948**	3,158,362
Income tax payable	**138,199**	146,079
Payable to related parties (Notes 21 and 35)	**326,997**	517,384
Total Current Liabilities	**22,556,880**	20,369,380

(Forward)

	December 31	
	2011	2010
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19 and 35)	**₱17,775,617**	₱15,858,722
Liabilities for purchased land - net of current portion (Notes 16 and 35)	**460,047**	731,262
Deferred tax liabilities - net (Note 29)	**1,008,459**	496,766
Pension liabilities (Note 23)	**180,305**	216,784
Other noncurrent liabilities (Notes 20 and 35)	**1,732,378**	1,170,027
Total Noncurrent Liabilities	**21,156,806**	18,473,561
Total Liabilities	**43,713,686**	38,842,941
Equity (Note 22)		
Equity attributable to equity holders of the DMCI Holdings, Inc.:		
Paid-in capital	**7,420,815**	7,421,415
Retained earnings	**26,633,072**	19,693,115
Premium on acquisition of non-controlling interests	**(161,033)**	(161,033)
Other comprehensive loss (Note 36)	**(1,090)**	(2,781)
	33,891,764	26,950,716
Non-controlling interests	**6,578,239**	5,472,486
Total Equity	**40,470,003**	32,423,202
	₱84,183,689	₱71,266,143

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, except for Earnings Per Share figures)

	Years Ended December 31		
	2011	2010	2009
REVENUE			
Mining	**₱18,682,228**	₱16,029,885	₱11,602,130
Electricity sales	**10,420,559**	8,948,308	443,493
Construction contracts	**10,277,235**	10,729,337	7,999,066
Real estate sales	**8,251,128**	7,704,893	6,963,108
Merchandise sales and others	**171,435**	71,386	260,054
	47,802,585	43,483,809	27,267,851
COSTS OF SALES AND SERVICES (Note 24)			
Mining	**11,566,728**	11,025,348	8,873,190
Electricity sales	**7,019,858**	5,974,593	419,709
Construction contracts	**8,629,612**	8,798,377	6,847,905
Real estate sales	**4,080,030**	4,758,532	4,756,934
Merchandise sales and others	**132,752**	47,033	197,957
	31,428,980	30,603,883	21,095,695
GROSS PROFIT	**16,373,605**	12,879,926	6,172,156
OPERATING EXPENSES (Note 25)	**5,205,907**	4,755,130	2,430,043
	11,167,698	8,124,796	3,742,113
OTHER INCOME (LOSSES)			
Equity in net earnings of associates (Note 11)	**2,185,199**	1,893,197	1,674,826
Finance income (Note 26)	**1,098,176**	1,058,041	834,473
Gain on sale of investments	**–**	–	40,412
Finance costs (Note 27)	**(1,261,885)**	(1,577,130)	(545,335)
Other income - net (Note 28)	**432,873**	487,947	23,346
INCOME BEFORE INCOME TAX	**13,622,061**	9,986,851	5,769,835
PROVISION FOR INCOME TAX (Note 29)	**1,345,155**	1,029,135	601,120
INCOME BEFORE CONTINUING OPERATIONS	**12,276,906**	8,957,716	5,168,715
INCOME AFTER TAX FROM DISCONTINUED OPERATIONS (Note 40)	**–**	677,345	297,347
NET INCOME (Note 34)	**₱12,276,906**	₱9,635,061	₱5,466,062
ATTRIBUTABLE TO			
Equity holders of DMCI Holdings, Inc.			
Income from continuing operations	**₱9,595,451**	₱7,201,534	₱4,411,712
Income from discontinued operations	**–**	665,749	292,256
Income for the year	**9,595,451**	7,867,283	4,703,968
Non-controlling interests			
Income from continuing operations	**2,681,455**	1,756,182	757,003
Income from discontinued operations	**–**	11,596	5,091
Income for the year	**2,681,455**	1,767,778	762,094
	₱12,276,906	₱9,635,061	₱5,466,062
EARNINGS PER SHARE (Note 30)			
Basic/Diluted, income for the year	**₱3.61**	₱2.96	₱1.77
Basic/Diluted, income from continuing operations	**3.61**	2.71	1.66
Basic/Diluted, income from discontinued operations	**–**	0.25	0.11

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2011	2010	2009
NET INCOME	**₱12,276,906**	₱9,635,061	₱5,466,062
OTHER COMPREHESIVE INCOME			
Changes in fair value on AFS financial assets (Note 6)	**1,691**	3,868	(6,649)
Exchange differences on translating foreign operations	**–**	(25)	(3,797)
Recognized revaluation increment (Note 36)	**–**	(80,005)	–
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**1,691**	(76,162)	(10,446)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**₱12,278,597**	₱9,558,899	₱5,455,616
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO			
Equity holders of DMCI Holdings, Inc.	**₱9,597,142**	₱7,792,409	₱4,694,959
Non-controlling interests	**2,681,455**	1,766,490	760,657
	₱12,278,597	₱9,558,899	₱5,455,616

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	Attributable to Equity Holders of the Parent									
	Capital Stock (Note 22)	Additional Paid-in Capital (Note 22)	Total Paid-in Capital (Note 22)	Unppropriated Retained Earnings (Note 22)	Appropriated Retained Earnings (Note 22)	Premium on Acquisition of Non-controlling Interest	Other Comprehensive Income (Loss) (Note 36)	Total	Attributable to Non-controlling Interests	Total Equity
As of January 1, 2011	**₱2,655,498**	**₱4,765,917**	**₱7,421,415**	**₱19,291,456**	**₱401,659**	**(₱161,033)**	**(₱2,781)**	**₱26,950,716**	**₱5,472,486**	**₱32,423,202**
Net income for the year	–	–	–	**9,595,451**	–	–	–	**9,595,451**	**2,681,455**	**12,276,906**
Other comprehensive income	–	–	–	–	–	–	**1,691**	**1,691**	–	**1,691**
Total comprehensive income	–	–	–	**9,595,451**	–	–	**1,691**	**9,597,142**	**2,681,455**	**12,278,597**
Appropriation	–	–	–	**(3,000,000)**	**3,000,000**	–	–	–	–	–
Dividends declared	–	–	–	**(2,655,494)**	–	–	–	**(2,655,494)**	**(1,575,702)**	**(4,231,196)**
Redemption of preferred shares	**(1)**	**(599)**	**(600)**	–	–	–	–	**(600)**	–	**(600)**
Balances at December 31, 2011	**₱2,655,497**	**₱4,765,318**	**₱7,420,815**	**₱23,231,413**	**₱3,401,659**	**(₱161,033)**	**(₱1,090)**	**₱33,891,764**	**₱6,578,239**	**₱40,470,003**
As of January 1, 2010	₱2,655,498	₱4,765,917	₱7,421,415	₱12,755,533	₱401,659	(₱161,033)	₱72,093	₱20,489,667	₱2,940,601	₱23,430,268
Net income for the year	–	–	–	7,867,283	–	–	–	7,867,283	1,767,778	9,635,061
Other comprehensive income	–	–	–	–	–	–	(74,874)	(74,874)	(1,288)	(76,162)
Total comprehensive income	–	–	–	7,867,283	–	–	(74,874)	7,792,409	1,766,490	9,558,899
Dividends declared	–	–	–	(1,327,747)	–	–	–	(1,327,747)	(779,955)	(2,107,702)
Discontinued operations	–	–	–	–	–	–	–	–	(44,758)	(44,758)
Appropriation	–	–	–	–	401,659	–	–	–	–	–
Release of appropriations	–	–	–	–	(401,659)	–	–	–	–	–
Acquisition of NCI	–	–	–	12,015	–	–	–	12,015	(12,015)	–
Effect of dilution of interest	–	–	–	(15,628)	–	–	–	(15,628)	15,628	–
Net movement in non-controlling interests	–	–	–	–	–	–	–	–	1,586,495	1,586,495
Balances at December 31, 2010	₱2,655,498	₱4,765,917	₱7,421,415	₱19,291,456	₱401,659	(₱161,033)	(₱2,781)	₱26,950,716	₱5,472,486	₱32,423,202
As of January 1, 2009	₱2,655,498	₱4,765,917	₱7,421,415	₱8,593,663	₱401,659	₱–	₱81,102	₱16,497,839	₱1,953,246	₱18,451,085
Net income for the year	–	–	–	4,703,968	–	–	–	4,703,968	762,094	5,466,062
Other comprehensive income	–	–	–	–	–	–	(9,009)	(9,009)	(1,437)	(10,446)
Total comprehensive income	–	–	–	4,703,968	–	–	(9,009)	4,694,959	760,657	5,455,616
Dividends declared	–	–	–	(542,098)	–	–	–	(542,098)	(738,896)	(1,280,994)
Appropriations	–	–	–	–	401,659	–	–	–	–	–
Release of appropriations	–	–	–	–	(401,659)	–	–	–	–	–
Net movement in non-controlling interests	–	–	–	–	–	(161,033)	–	(161,033)	965,594	804,561
Balances at December 31, 2009	₱2,655,498	₱4,765,917	₱7,421,415	₱12,755,533	₱401,659	(₱161,033)	₱72,093	₱20,489,667	₱2,940,601	₱23,430,268

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax from continuing operations	**₱13,622,061**	₱9,986,851	₱5,769,835
Profit before tax from discontinued operations	**–**	711,558	310,575
Profit before tax	**13,622,061**	10,698,409	6,080,410
Adjustments for:			
Depreciation, depletion and amortization (Notes 12, 13, 14, 24 and 25)	**3,093,843**	3,227,322	1,423,278
Equity in net earnings of associates and jointly controlled entity (Note 11)	**(2,185,199)**	(1,893,197)	(1,674,826)
Finance costs (Note 27)	**1,261,885**	1,577,130	545,335
Finance income (Note 26)	**(1,098,176)**	(1,058,041)	(834,473)
Gain on sale of:			
Property, plant and equipment (Note 28)	**(57,565)**	(28,958)	(12,853)
Investment in associates, jointly controlled entity and others (Note 11)	**–**	–	(40,412)
Investment in a subsidiary (Note 40)	**–**	(36,659)	–
Provisions for: (Note 25)			
Doubtful accounts	**15,178**	58,905	76,948
Probable losses on current assets	**–**	88,778	–
Property, plant and equipment	**–**	6,670	–
Noncurrent assets	**–**	–	40,374
Unrealized foreign exchange gains	**18,974**	(69,722)	(197,080)
Gain on reversal of impairment on PPE (Note 28)	**(6,670)**	–	–
Dividend income (Notes 11 and 28)	**(4,547)**	(5,785)	(799)
Unrealized market gain on financial assets at FVPL (Note 5)	**(1,400)**	–	–
Negative goodwill (Notes 28 and 33)	**–**	–	(15,667)
Operating income before changes in working capital	**14,658,384**	12,564,852	5,390,235
Decrease (increase) in:			
Receivables	**1,116,709**	(5,061,392)	2,314,453
Costs and estimated earnings in excess of billings on uncompleted contracts	**(2,888)**	82,264	(235,831)
Inventories	**(5,856,905)**	1,182,676	(180,317)
Other current assets	**(698,297)**	(789,901)	(1,928,559)
Pension asset	**(4,355)**	–	–
Increase (decrease) in:			
Liabilities for purchased land	**(498,574)**	499,176	(88,629)
Accounts and other payables	**1,753,504**	4,618,981	1,449,060
Customers' advances and deposits	**(799,490)**	342,093	2,045,541
Billings in excess of costs and estimated earnings on uncompleted contracts	**163,864**	228,890	160,952
Pension liabilities	**(36,479)**	89,898	(1,389)
Cash generated from operations	**9,795,473**	13,757,537	8,925,516
Interest paid	**(1,251,191)**	(1,739,053)	(493,611)
Interest received	**1,080,363**	1,049,028	905,256
Income taxes paid	**(849,894)**	(728,499)	(525,181)
Net cash provided by operating activities	**8,774,751**	12,339,013	8,811,980

(Forward)

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property, plant and equipment (Notes 13 and 38)	**(₱3,539,342)**	(₱4,410,830)	(₱3,898,493)
Investment in financial asset at FVPL (Note 5)	**(70,000)**	–	–
Investment properties (Note 12)	**(32,138)**	(1,350,730)	(443,536)
Available-for-sale financial assets (Note 6)	**(7,105)**	(12,090)	(36,099)
Investments in associates, jointly controlled entity and others (Note 11)	**(1,300)**	(244,670)	(1,439,318)
Net increase in non-controlling interest	**–**	1,585,207	785,784
Proceeds from disposals of:			
Property and equipment	**76,077**	90,791	899,663
Available-for-sale financial assets (Note 6)	**150**	674	65,053
Investment in subsidiary (Note 40)	**–**	957,526	–
Investments in associates, jointly controlled entity and others (Note 11)	**–**	68,608	–
Dividends received	**703,198**	295,102	1,399
Acquisition of a business (Notes 33 and 38)	**–**	(9,967,288)	(7,158,718)
Net increase in investment in associates	**26,138**	–	–
Increase in other noncurrent assets	**(233,279)**	(115,335)	(105,221)
Net cash used in investing activities	**(3,077,601)**	(13,103,035)	(11,329,486)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Long-term debt	**10,627,665**	15,865,769	10,809,583
Short-term debt	**2,455,720**	4,854,515	902,697
Payments of:			
Long-term debt	**(8,114,551)**	(5,212,831)	(8,141,448)
Short-term debt	**(1,720,312)**	(5,308,098)	(133,988)
Dividends paid to equity holders of DMCI Holdings, Inc.	**(2,627,009)**	(1,327,927)	(542,098)
Dividends paid to non-controlling interest (Note 22)	**(1,575,702)**	(779,955)	(738,896)
Increase (decrease) in:			
Other noncurrent liabilities	**562,351**	(214,937)	384,314
Payable to related parties (Note 21)	**(190,387)**	(430,553)	173,175
Redemption of preferred shares	**(600)**	–	–
Net cash provided by (used in) financing activities	**(582,825)**	7,445,983	2,713,339
NET INCREASE IN CASH AND CASH EQUIVALENTS	**5,114,325**	6,681,961	195,833
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**4,757**	2,415	(2,166)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**9,946,666**	3,262,290	3,068,623
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱15,065,748**	₱9,946,666	₱3,262,290

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

2. Summary of Significant Accounting Policies

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

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

Basis of Consolidation
Basis of consolidation from January 1, 2010
The consolidated financial statements comprise the financial statements of the Group as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011. Under PFRS, it is acceptable to use, for consolidation purposes, the financial statements of subsidiaries for fiscal periods differing from that of the Parent Company if the difference is not more than three months.

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

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

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

Losses within a subsidiary are attributed to the NCI even if that results in a deficit balance.

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

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

Basis of consolidation prior to January 1, 2010
Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

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

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

	2011			2010		
	Direct	**Indirect**	**Effective Interest**	Direct	Indirect	Effective Interest
General Construction:						
D.M. Consunji, Inc. (DMCI) [1]	**100.00%**	**–%**	**100.00%**	100.00%	–%	100.00%
DMCI International, Inc. (DMCII) [2](	**–**	**100.00**	**100.00**	–	100.00	100.00
OHKI-DMCI Corporation (OHKI) [2]	**–**	**100.00**	**100.00**	–	100.00	100.00
DMCI-Laing Construction, Inc. (DMCI-Laing) [2]	**–**	**60.00**	**60.00**	–	60.00	60.00
Beta Electric Corporation (Beta Electric) [2]	**–**	**51.77**	**51.77**	–	51.77	51.77
Raco Haven Automation Philippines, Inc. (Raco) [2]	**–**	**50.14**	**50.14**	–	50.14	50.14
Mining:						
Semirara Mining Corporation (Semirara)	**56.32**	**–**	**56.32**	56.32	–	56.32
DMCI Mining Corporation (DMC)	**100.00**	**–**	**100.00**	100.00	–	100.00
Real Estate Development:						
DMCI Project Developers, Inc. (PDI)	**84.47**	**15.53**	**100.00**	57.36	42.64	100.00
Hampstead Gardens Corporation (Hampstead) [3]	**–**	**100.00**	**100.00**	–	100.00	100.00
Riviera Land Corporation (Riviera) [3]	**–**	**100.00**	**100.00**	–	100.00	100.00
DMCI-PDI Hotels, Inc. (PDI Hotels) [3]	**–**	**100.00**	**100.00**	–	100.00	100.00
DMCI Homes Property Management Corporation (DHPMC) [3]	**–**	**100.00**	**100.00**	–	100.00	100.00

(Forward)

	2011			2010		
	Direct	**Indirect**	**Effective Interest**	Direct	Indirect	Effective Interest
Manufacturing:						
Semirara Cement Corporation (SemCem) *	**100.00**	**–**	**100.00**	100.00		100.00
Oriken Dynamix Company, Inc. (Oriken) [2]	**–**	**89.00**	**89.00**	–	89.00	89.00
Wire Rope Corporation of the Philippines (Wire Rope)	**45.68**	**16.02**	**61.70**	45.68	16.02	61.70
Marketing Arm:						
DMCI Homes, Inc. (DMCI Homes) [3]	**–**	**100.00**	**100.00**	–	100.00	100.00
Power:						
DMCI Power Corporation (DPC) (formerly DMCI Energy Resources Unlimited Inc.) *	**100.00**	**–**	**100.00**	100.00	–	100.00
DMCI Masbate Power Corporation (DMCI Masbate)	**–**	**100.00**	**100.00**	51.00	49.00	100.00
DMCI Calaca Power Corporation	**100.00**	**–**	**100.00**	100.00	–	100.00
Sem-Calaca Power Corporation (SCPC) [4]	**–**	**56.32**	**56.32**	–	56.32	56.32
Southwest Luzon Power Generation Corporation (SLPGC) [4]**	**–**	**56.32**	**56.32**	–	–	–
SEM-Cal Industrial Park Developers, Inc. (SIPDI) [4]**	**–**	**56.32**	**56.32**	–	–	–

* Organized on January 29, 1998 and October 16, 2006 and has not yet started commercial operations.
** Organized on August 31, 2011 and April 24, 2011 and has not yet started commercial operations.
[1] Also engaged in real estate development
[2] DMCI's subsidiaries
[3] PDI's subsidiaries
[4] Semirara's subsidiaries

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

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

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

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

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

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

DMCI Masbate

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

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

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

Transitory Agreement with Maselco

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

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

DMC

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

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

Semirara

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

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

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

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for the following new and amended Philippine Accounting Standards (PAS), PFRS and Philippine Interpretations of IFRIC which were adopted as of January 1, 2011. The following new and amended standards and interpretations did not have any impact on the accounting policies, financial position and performance of the group:

- PAS 24 (Amended), *Related Party Disclosures*
  The amendment clarified the definition of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

- PAS 32, *Financial Instruments: Presentation* (Amendment) - *Classification of Rights Issues*
  The amendment altered the definition of a financial liability in order to classify rights issues and certain options or warrants as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement*
  The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
  The interpretation clarified that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to PFRSs 2010

- PFRS 3, *Business Combinations*
  This amendment clarifies that the Amendments to PFRS 7, *Financial Instruments: Disclosures*, PAS 32, *Financial Instruments: Presentation* and PAS 39, *Financial Instruments: Recognition and Measurement*, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008).

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

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

- PFRS 7, *Financial Instruments: Disclosures*
  This amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. The amendments to quantitative and credit risk disclosures are as follows:
  a. Clarify that only financial asset whose carrying amounts do not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk.
  b. Requires, for all financial assets, to disclose the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk).
  c. Remove the disclosure of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired.
  d. Remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired.
  e. Clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date.

- PAS 1, *Presentation of Financial Statements*
  This Amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the consolidated financial statements.

- PAS 27, *Consolidated and Separate Financial Statements*
  This Amendment clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures* apply prospectively for annual periods beginning on or after July 1, 2009 or earlier when PAS 27 is applied earlier.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
  This Amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

New Standards Issued but not yet Effective
The Group has not adopted the following PFRS and Philippine Interpretations which are not yet effective as of December 31, 2011. The Group will adopt these standards when they become effective. The Group does not expect the adoption of these standards to have a significant impact in the consolidated financial statements, unless otherwise stated.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Effective 2012
- PAS 12*, Income Taxes - Recovery of Underlying Assets* (Amendment)
  The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property,* should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment,* always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

- PFRS 7, *Financial Instruments:Disclosures - Enhanced Derecognition Disclosure Requirements* (Amendment)
  The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011.

Effective 2013

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

- PAS 19, *Employee Benefits* (Amendment)
  Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The Group is currently assessing the full impact of the amendments in reporting actuarial gains or losses.

- PAS 27, *Separate Financial Statements (as revised in 2011)*
  As a consequence of the new PFRS 10, *Consolidated Financial Statements,* and PFRS 12, *Disclosure of Interests in Other Entities,* what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 28, *Investment in Associates and Joint Ventures (as revised in 2011)*
  As a consequence of the new PFRS 11, *Joint Agreements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 7, *Financial Instruments: Disclosures - Offsetting of Financial Assets and Financial Liabilities*
  These amendments require an entity to disclose information about rights of set-off and related arrangements such as collateral agreements. The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statements of financial position;
  c) The net amounts presented in the statements of financial position;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

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

- PFRS 10, *Consolidated Financial Statements*
  PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements,* which addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013. The Group is currently assessing the possible impact of this standard in the consolidated financial statements.

- PFRS 11, *Joint Agreements*
  PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for Jointly Controlled Entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 12, *Disclosure of Interests in Other Entities*
  PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of the production stripping costs as an asset and measurement of the stripping activity asset. This interpretation becomes effective for annual periods beginning on or after January 1, 2013. This interpretation may have an impact on both financial position and performance of the Group.

Effective 2014

- PAS 32, *Financial Instruments: Presentation - Offsetting of Financial Assets and Financial Liabilities*
  These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems such as central clearing house systems which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective 2015

- PFRS 9, *Financial Instruments: Classification and Measurement*
  PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurement of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Cash and Cash Equivalents

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

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

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

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

The Group's financial instruments are classified as AFS financial assets, financial assets at FVPL, loans and receivables and other financial liabilities.

Determination of fair value

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

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

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

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

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

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

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

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

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

"Noncurrent receivables" and Refundable and Security deposits included under "Other noncurrent assets".

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

AFS Financial Assets

AFS financial assets are those which are designated as such or do not qualify to be classified or designated as at FVPL, HTM, or loans and receivables. After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in the consolidated statement of comprehensive income and are reported as "Net unrealized gain on AFS financial assets" in equity. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the consolidated statement of income. Interest earned or paid on the investments is reported as interest income or expense using the EIR. Dividends earned on investments are recognized in the consolidated statement of income when the right to receive payment has been established. The losses arising from impairment of such investments are recognized under "Other expenses" in the consolidated statement of income.

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

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

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

Financial liabilities

Other Financial Liabilities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Derecognition of Financial Assets and Liabilities
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

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

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

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

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

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

Materials-in-transit
Cost is determined using the specific identification basis.

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

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

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

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

Investments in Associates, Jointly Controlled Entity and Others
Investments in associates and jointly controlled entity (investee companies) are accounted for under the equity method of accounting.

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

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

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

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

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

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

Interest in a Joint Venture
The Group has an interest in a joint venture, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognizes its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

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

Investment Properties
Investment properties comprise completed property and property under construction or redevelopment that are held to earn rentals or capital appreciation or both and that are not occupied by the companies in the Group. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties, except land, are stated at cost less accumulated depreciation and amortization and any impairment in value. Land is stated at cost less any impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

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

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

	Years
Buildings and building improvements	5-25
Condominium units	25

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable

amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, depletion and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Investments in associates and jointly controlled entities
After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee companies. The Group determines at each reporting date whether there is any objective evidence that the investment in associates or jointly controlled entities is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value and the carrying value of the investee company and recognizes the difference in the consolidated statement of income.

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

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

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

Business Combinations and Goodwill
Business combinations from 1 January 2010
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses. When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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

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

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

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to January 1, 2010
In comparison to the abovementioned requirements, the following differences applied:

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

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

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

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

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

Related Party Relationships and Transactions
Related party relationship exist when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities, which are under common control with the reporting enterprises and its key management personnel, directors, or its shareholders. In considering each related party

relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Revenue and Cost Recognition

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

Mining

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

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

Electricity sales

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

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

Real estate sales

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

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

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

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

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

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

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

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

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

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

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

Borrowing Costs

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

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

Foreign Currency Translations and Transactions

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

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

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

The Group's share in the associate's translation adjustments, if there are any, are likewise included under the cumulative translation adjustments account in the consolidated statement of financial position.

Commission Expense

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

Pension Expense

The Group has a noncontributory defined benefit retirement plan.

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

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

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

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

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

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

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

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

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

Income Tax

Current tax

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

Deferred tax

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

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

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

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

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

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

Earnings Per Share

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

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

Operating Segment
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group generally accounts for intersegment revenues and expenses at agreed transfer prices. Income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of income after taxes. Financial information on operating segments is presented in Note 34 to the consolidated financial statements.

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

Provision for decommissioning and site rehabilitation costs
The Group is legally required to fulfill certain obligations as required under its Environmental Compliance Certificate (ECC) issued by Department of Environment and Natural Resources (DENR). The Group recognizes the present value of the liability for these obligations and capitalizes the present value of these costs as part of the balance of the related property, plant and equipment accounts which are depreciated, depleted and amortized on a straight-line basis over the EUL of the related property, plant and equipment or the contract period, whichever is shorter. The decommissioning and site rehabilitation costs are determined based on the provisions of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group recognizes the liability for these obligations as "Provision for decommissioning and site rehabilitation" under "Other noncurrent liabilities" in the consolidated statement of financial position (see Note 20).

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

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

3. **Significant Accounting Judgments and Estimates**

The preparation of the consolidated financial statements in conformity with PFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements, as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ for such estimates.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations which have the most significant effect on the amounts recognized in the consolidated financial statements:

Real estate revenue recognition

Selecting an appropriate revenue recognition method for a real estate sale transaction requires certain judgments based on buyer's commitment on sale which may be ascertained through the significance of the buyer's initial payments and completion of development. The buyers' commitment is evaluated based on collections, credit standing on buyers and location of property. Completion of project development is determined on engineer's judgment and estimates on the physical portion of contract work done and that development is beyond the preliminary stage.

Collectibility of the sales price

In determining whether the sales prices are collectible, the Group considers that initial and continuing investments by the buyer of about 20% would demonstrate the buyer's commitment to pay.

Impairment of AFS financial assets

The Group follows the guidance of PAS 39 in determining when an asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; the financial health of and near-term business outlook of the investee, including factors such as normal volatility in share price for quoted equity securities and industry and sector performance, changes in technology and operational and financing cash flow for unquoted equity securities.

Financial assets not quoted in an active market

The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Distinction between investment properties and owner-occupied properties
The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately, the property is accounted for as an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Operating lease commitments - Group as Lessee
The Group has entered into various leases for its occupied offices and mining and transportation equipment . The Group has determined that all significant risks and rewards of ownership are retained by the respective lessors on the offices and equipment it leases under operating leases.

Operating lease commitments - Group as Lessor
The Group has entered into property lease agreements on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties as the Group considered, among others, the length of the lease term compared with the estimated life of the assets.

In determining whether a lease contract is cancellable or not, the Group considered, among others, the significance of the penalty including the economic consequence to the lessee.

Finance lease commitments - Group as Lessee
The Group has entered into finance leases on some of its construction equipment and service vehicle. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the lessor transfers substantially all the risks and benefits incidental to ownership of the leased equipment to the Group thus, it recognized these leases as finance leases.

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

Management's Use of Estimates
The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue recognition
The Group's revenue recognition policies require use of estimates and assumptions that may affect the reported amounts of revenue and receivables.

a.) Mining

The Group's sales arrangement with its customers includes reductions of invoice price to take into consideration charges for penalties and bonuses. These price adjustments depend on the estimated quality of the delivered coal. These estimates are based on final coal quality analysis on delivered coal using American Standards for Testing Materials (ASTM).

There is no assurance that the use of estimates may not result in material adjustments in future periods. Revenue from mining amounted to ₱18.68 billion, ₱16.03 billion and ₱11.60 billion in 2011, 2010 and 2009, respectively.

b.) Construction contracts

The Group's revenue from construction contracts are recognized based on the percentage-of-completion, measured principally on the basis of the estimated completion of a physical proportion of the contract work and by reference to the actual cost incurred to date over the estimated total cost of the project.

There is no assurance that the use of estimates may not result in material adjustments in future periods. Revenue from construction contracts amounted to ₱10.28 billion, ₱10.73 billion, ₱8.00 billion in 2011, 2010 and 2009, respectively.

Allowance for doubtful accounts
The Group maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the debtors' ability to pay all amounts due according to the contractual terms of the receivables being evaluated, the length of relationship with the customer, the customer's payment behavior and known market factors. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis. The Group provides full allowance for receivables that it deems uncollectible.

The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in the allowance for doubtful accounts on receivables would increase recorded operating expenses and decrease total assets.

Provision for doubtful accounts of the Group amounted to ₱15.18 million, ₱58.91 million and ₱76.95 million in 2011, 2010 and 2009, respectively (see Notes 7 and 25). Receivables of the Group are net of allowance for doubtful accounts of ₱171.73 million and ₱164.45 million as of December 31, 2011 and 2010, respectively (see Note 7).

Stock pile inventory quantities
The Group estimates the stock pile inventory of coal by conducting a topographic survey which is performed by in-house surveyors. The survey is conducted on a monthly basis with a reconfirmatory survey at year end. The process of estimation involves a predefined formula which considers an acceptable margin of error of plus or minus 3%. Thus, an increase or decrease in the estimation threshold for any period would differ if the Group utilized different estimates and this would either increase or decrease the profit for the year. The coal inventory as of December 31, 2011 and 2010 amounted to ₱2.51 billion and ₱0.93 billion, respectively (see Note 9).

NRV of inventories
The Group reviews its inventory to assess NRV at least on a semi-annual basis. This requires the Group to make an estimate of the inventories' estimated selling price in the ordinary course of business and costs necessary to make a sale to determine the NRV. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in reserves for inventory write-down would increase recorded operating expenses and decrease current assets.

Inventories of the Group at NRV, net of allowance for inventory obsolescence amounting to ₱63.09 million and ₱62.89 million as of December 31, 2011 and 2010, respectively, amounted to ₱967.30 million and ₱944.89 million as of December 31, 2011 and 2010, respectively (see Note 9).

Estimating decommissioning and site rehabilitation costs
The Group is legally required to fulfill certain obligations under its ECC issued by DENR when it abandons depleted mine pits. These costs are accrued based on in-house estimate, which incorporates estimates of the amount of obligations and interest rates, if appropriate. The Group recognizes the present value of the liability for these obligations and capitalizes the present value of these costs as part of the balance of the related property, plant and equipment accounts, which are being depreciated, depleted and amortized on a straight line basis over the EUL of the related asset or the lease term. Assumptions used to compute the decommissioning and site rehabilitation costs are reviewed and updated annually.

The amount and timing of the recorded obligations for any period would differ if different judgments were made or different estimates were utilized. An increase in decommissioning and site rehabilitation costs would increase the recorded operating expenses and increase noncurrent liabilities.

As of December 31, 2011 and 2010, the provision for decommissioning and site rehabilitation amounted to ₱47.58 million and ₱14.73 million, respectively (see Note 20).

Estimating useful lives of investment properties, property, plant and equipment and intangible asset
The Group estimated the useful lives of its property, plant and equipment, investment properties and intangible asset based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, investment properties and intangible assets are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets.

It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned above. A reduction in the estimated useful lives of property, plant and equipment, investment properties and intangible asset would increase depreciation, depletion and amortization expense and decrease noncurrent assets.

The carrying value of property, plant and equipment of the Group amounted to ₱23.42 billion and ₱21.78 billion as of December 31, 2011 and 2010, respectively (see Note 13). The carrying value of investment properties of the Group amounted to ₱0.14 billion and ₱0.12 billion as of December 31, 2011 and 2010, respectively (see Note 12). The carrying value of software cost of the Group amounted to ₱59.31 million and ₱6.35 million, respectively (see Note 14).

Impairment of nonfinancial assets
The Group assesses the impairment of assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

As of December 31, 2011 and 2010, the balances of the Group's nonfinancial assets, net of accumulated depreciation, depletion and amortization and accumulated provisions for impairment losses follow:

	2011	2010
	(Amounts in Thousands)	
Property, plant and equipment (Note 13)	**₱23,419,344**	₱21,781,135
Investments in associates, jointly controlled entities and others (Note 11)	**10,849,383**	9,387,673
Investment properties (Note 12)	**142,159**	116,334
Software cost - net (Note 14)	**59,312**	6,345

Deferred tax assets
The Group reviews the carrying amounts of deferred taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of deferred tax assets to be utilized.

The net deferred tax assets amounted to ₱16.14 million and ₱10.19 million as of December 31, 2011 and 2010, respectively. The unrecognized deferred tax assets of the Group amounted to ₱541.18 million and ₱503.06 million as of December 31, 2011 and 2010, respectively (see Note 29).

Pension and other retirement benefits
The determination of the obligation and cost of retirement and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rates. Actual results that differ from the Group's assumptions are accumulated and

amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

The Group also estimates other employee benefits obligation and expense, including the cost of paid leaves based on historical leave availments of employees, subject to the Group's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

As of December 31, 2011 and 2010, the balances of the Group's net pension assets and liabilities and unrecognized actuarial gains follow (see Note 23):

	2011	2010
	(Amounts in Thousands)	
Net pension assets	**₱4,335**	₱–
Net pension liabilities	**180,305**	216,784
Unrecognized actuarial gains	**942,553**	871,361

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 37).

Fair value of financial instruments
The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates), the amount of changes in fair value would differ if the Group utilized different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect directly the consolidated statements of income and changes in equity.

Financial assets carried at fair value as of December 31, 2011 and 2010 amounted to ₱129.58 million and ₱49.54 million, respectively (see Note 35).

4. **Cash and Cash Equivalents**

This account consists of:

	2011	2010
	(Amounts in Thousands)	
Cash on hand and in banks	**₱6,095,360**	₱4,796,531
Cash equivalents	**8,970,388**	5,150,135
	₱15,065,748	₱9,946,666

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are short-term placements made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group, and earn interest ranging from 1.00% to 4.69% and 1.00% to 4.63% in 2011 and 2010, respectively.

Total finance income earned on cash in banks and cash equivalents amounted to ₱417.38 million and ₱193.15 million and ₱91.86 million in 2011, 2010 and 2009, respectively (see Note 26).

The amount of cash in bank collateralized for the mortgage payable of SCPC amounted to ₱112.27 million and ₱168.81 million as of December 31, 2011 and 2010, respectively (see Note 19).

5. Financial Asset at FVPL

This account consist of peso-denominated investments in quoted equity securities acquired during the year amounting to ₱71.40 million as of December 31, 2011 and with yield of 1.93 in 2011.

Financial assets through FVPL include unrealized marked-to-market gain amounting to ₱1.40 million and dividend income amounting to ₱4.20 million, which are included under "Other income- net" account in the consolidated statements of income (see Note 28).

6. Available-for-Sale Financial Assets

This account consists of:

	201	2010
	(Amounts in Thousands)	
Quoted securities		
Acquisition costs	**₱59,271**	₱52,316
Unrealized loss recognized in equity (Note 36)	**(1,090)**	(2,781)
	58,181	49,535
Unquoted securities		
Acquisition costs	**239,446**	248,196
Less allowance for probable loss	**73,210**	81,960
	166,236	166,236
Less noncurrent AFS - net	**164,507**	–
	1,729	166,236
	₱59,910	₱215,771

Quoted securities
The quoted equity investments include investments in golf and sports club shares. The Group recognized unrealized gain in other comprehensive income amounting to ₱1.69 million, and ₱3.87 million in 2011 and 2010, respectively, and unrealized loss of ₱6.65 million in 2009, (see Note 36).

Unquoted securities
The unquoted shares include investment in Montecito Properties, Inc. (Montecito) a 30% owned company carried at cost less provision for impairment losses. The Group does not have significant influence nor participate during Board meeting. As of December 31, 2011 and 2010, the carrying

amount of the investment in Montecito amounted to ₱164.51 million out of the total amount of unquoted securities of ₱166.24 million as of December 31, 2011 and 2010.

As of December 31, 2011, the Group has a change of intention and is planning to hold the investment in Montecito for more than a year, thus, reclassified as noncurrent.

Unquoted securities include investment in Project Quest Corporation amounting to ₱12.50 million which was fully provided with allowance. In 2011, ₱8.75 million of the Group's investment was returned. Allowance for probable loss amounting to ₱8.75 million has been reversed resulting to an income of the same amount recognized under "Other income" (see Note 28).

7. Receivables

This account consists of:

	2011	2010
	(Amounts in Thousands)	
Trade:		
Real estate	**₱4,822,712**	₱5,652,968
General construction (including retention receivables on uncompleted contracts of ₱1,339.54 million in 2011 and ₱1,135.37 million in 2010)	**1,979,285**	2,310,783
Electricity sales	**2,229,572**	1,825,826
Mining	**1,077,440**	1,474,989
Merchandising and others	**57,740**	51,601
	10,166,749	11,316,167
Receivables from related parties (Note 21)	**452,115**	491,700
Advances to officers and employees	**42,886**	49,549
Other receivables	**356,560**	267,851
	11,018,310	12,125,267
Less allowance for doubtful accounts	**171,733**	164,447
	10,846,577	11,960,820
Less noncurrent receivables - net	**2,438,697**	2,782,287
	₱8,407,880	₱9,178,533

Receivables amounting to ₱15.18 million and ₱58.91 million as of December 31, 2011 and 2010, respectively, were impaired and fully provided with allowance (see Note 25). Movements in the allowance for impairment losses are as follows (amounts in thousands):

2011

	Trade Receivables					
	Real Estate	**General Construction**	**Mining**	**Electricity Sales**	**Others**	**Total**
At January 1	**₱–**	**₱4,414**	**₱7,892**	**₱53,524**	**₱98,617**	**₱164,447**
Provision during the year	–	**2,374**	–	–	**12,804**	**15,178**
Reversal	–	–	**(7,892)**	–	–	**(7,892)**
At December 31	**₱–**	**₱6,788**	**₱–**	**₱53,524**	**₱111,421**	**₱171,733**

2010

	Trade Receivables					
	Real Estate	General Construction	Mining	Electricity Sales	Others	Total
At January 1	₱62,133	₱277,991	₱13,569	₱–	₱84,888	₱438,581
Provision during the year	–	–	–	53,524	5,381	58,905
Reversal	–	–	(5,677)	–	–	(5,677)
Write-off	(2,446)	–	–	–	–	(2,446)
Reclassification	(59,687)	–	–	–	59,687	–
Effect of deconsolidation of a subsidiary	–	(273,577)	–	–	(51,339)	(324,916)
At December 31	₱–	₱4,414	₱7,892	₱53,524	₱98,617	₱164,447

In 2007 and 2006, real estate receivables with a nominal amount of ₱1,016.30 million and ₱603.59 million, respectively, were initially recorded at fair value. The unamortized discount amounted to ₱1.44 million and ₱8.60 million as of December 31, 2011 and 2010, respectively.

Movement in the unamortized discount on real estate receivables is as follows:

	2011	2010
	(Amounts in Thousands)	
Balance at beginning of year	**₱8,604**	₱60,708
Accretion for the year (Note 26)	**(7,160)**	(52,104)
Balance at end of year	**₱1,444**	₱8,604

Trade Receivables

Real estate

Real estate receivables principally consist of amounts arising from sale of residential units and subdivision land for sale and development which are collectible within ten (10) years with interest rates ranging from 14.00% to 19.00%. The corresponding titles to the subdivision units sold under this arrangement are transferred to the buyers only upon full payment of the contract price.

Certain subsidiaries are liable to local commercial banks relative to the discounting of real estate receivables (see Note 19). The purchase agreements provide that the Group should substitute defaulted contracts to sell with other contracts to sell of equivalent value. The carrying value of real estate receivables discounted amounted to ₱1.67 billion and ₱3.15 billion as of December 31, 2011 and 2010, respectively (see Note 19).

In 2011 and 2010, the Group entered into an agreement with Banco de Oro (BDO) to convert the receivables under purchased agreements into a without recourse basis. Total carrying value of trade receivables from real estate sales converted into a without recourse basis amounted to ₱0.94 billion and ₱2.89 billion as of December 31, 2011 and 2010, respectively (see Note 19).

General construction

General construction receivables principally consist of receivables from third-party construction projects. These are normally on a 30 to 60 day term.

Electricity sales

Receivables from electricity sales are claims from power distribution companies for supply and distribution of contracted energy and are generally carried at original invoice amounts less discounts and rebates. These generally have 30-day credit terms.

As of December 31, 2011, electricity sales receivables amounting to ₱1,993.37 million are held as collateral for the mortgage payable of SCPC (see Note 19).

Mining
Receivable from mining pertains to receivables from the sale of coal and nickel ore both to domestic and international markets. These receivables are noninterest-bearing and generally have 30-45 days credit terms.

Merchandising and others
Receivable from merchandise sales and others pertains to receivables from the sale of wires, services rendered and others to various local companies. These receivables are noninterest-bearing and generally have 30-60 days credit terms.

Advances to Officers and Employees
Receivables from employees pertain to salary and other loans granted to the Group's employees that are collectible through salary deduction. These are non-interest bearing and are due within one year.

Other Receivables
Other receivables include the Group's receivables from JV partners and condominium corporations. These receivables are noninterest-bearing and are generally collectible within one year from the reporting date.

8. Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts

The details of the costs, estimated earnings and billings on uncompleted contracts follow:

	2011	2010
	(Amounts in Thousands)	
Total costs incurred	**₱9,525,564**	₱20,379,360
Add estimated earnings recognized	**2,032,217**	5,603,142
	11,557,781	25,982,502
Less total billings (including unliquidated advances from contract owners of ₱1,679.54 million in 2011 and ₱1,617.48 million in 2010)	**11,856,441**	26,120,186
	(₱298,660)	(₱137,684)

The foregoing balances are reflected in the consolidated statements of financial position under the following accounts:

	2011	2010
	(Amounts in Thousands)	
Costs and estimated earnings in excess of billings on uncompleted contracts	**₱452,084**	₱449,196
Billings in excess of costs and estimated earnings on uncompleted contracts	**(750,744)**	(586,880)
	(₱298,660)	(₱137,684)

9. **Inventories**

This account consists of:

	2011	2010
	(Amounts in Thousands)	
At Cost:		
Real estate held for sale and development	**₱12,508,114**	₱10,051,696
Coal inventory	**2,510,754**	931,245
Equipment parts, materials in transit and supplies	**1,368,068**	673,971
Nickel ore	**130,435**	102,740
	16,517,371	11,759,652
At NRV:		
Equipment parts, materials in transit and supplies	**967,304**	944,892
	₱17,484,675	₱12,704,544

Costs of equipment parts, materials and supplies carried at NRV amounted to ₱1,030.39 million and ₱1,007.78 million as of December 31, 2011 and 2010, respectively.

In 2011 and 2010, the Group capitalized borrowing costs amounting to ₱207.98 million and ₱66.83 million, respectively, on all real estate projects that commenced development starting January 1, 2009. The rate used to determine the amount of borrowing costs eligible for capitalization was 7.49% to 8.17% for specific borrowings in 2011 and 9.99% for Group's general borrowing in 2010.

The cost of inventories recognized as expense in the consolidated statement of income amounted to ₱22.67 billion, ₱21.76 billion and ₱14.05 billion for the years ended December 31, 2011, 2010 and 2009, respectively.

As of December 31, 2011 and 2010, equipment parts, materials and supplies amounting to ₱1,001.28 million and ₱549.82 million, respectively, are held as collateral for the mortgage payable of SCPC (see Note 19).

10. **Other Current Assets**

This account consists of:

	2011	2010
	(Amounts in Thousands)	
Advances to suppliers, broker, contractors and mine rights owners	**₱2,361,400**	₱1,654,050
Creditable taxes withheld	**1,213,174**	818,163
Input VAT	**563,014**	700,066
Refundable deposits	**226,962**	244,049
Prepaid expenses	**213,300**	227,317
Security deposits - current portion (Note 14)	–	304,401
Others	**24,413**	9,725
	4,602,263	3,957,771
Less allowance for probable losses (Notes 25 and 28)	**34,947**	88,778
	₱4,567,316	₱3,868,993

Advances to Suppliers, Brokers, Contractors and Mine Rights Owners
Advances to suppliers, brokers and contractors are recouped upon every progress billing payment depending on the percentage of accomplishment. Advances to mine rights owner are noninterest-bearing and are due and demandable.

Advances to Rusina Mining NL (Rusina) by DMC
As of January 29, 2010, DMC received a total of US$1.00 million as partial payment for the US$2.41 million advances to Rusina. Such advances was intended for the acquisition of interest in Zambales Chromite Mining Co., Inc. and Zambales Diverfied Metals Corporation, companies related to DMC's operations. In 2009, DMC withdrew its investment and recognized the payment as a receivable from Rusina. Also in 2009, in line with the agreement of DMC and Rusina for the latter to set a recovery mechanism for DMC's investment, Montemina Resources Corporation (MRC) was established to hold the advances of DMC.

On September 9 and 13, 2010, DMC issued two letters to MRC informing the latter of its breach of the above agreement due to its failure to pay the third tranche of US$1.41 million. Accordingly, DMC recognized a provision for probable losses amounting to ₱61.81 million in 2010. In addition to the aforementioned US$ advances, DMC also provided full allowance on its Peso advances to Rusina which amounted to ₱26.96 million. Total provision for the probable losses on Rusina amounted to ₱88.77 million (see Note 25).

In 2011, DMC wrote-off the advances to Rusina amounting to ₱26.96 million, which was fully provided in 2010. Also, DMC recognized a recovery of previously impaired receivable amounting to ₱26.87 million, resulting to the reversal of the allowance provided in 2010 of the same amount.

Creditable Taxes Withheld
Creditable taxes withheld are attributable to taxes withheld by third parties arising from sales and services that will be applied to future taxes payable.

Input VAT
Input VAT is fully recoverable and can be applied against output VAT.

Refundable Deposits
Refundable deposits pertain to bill deposits and guaranty deposits for utilities that will be recovered within one year.

Prepaid Expenses
Prepaid expenses consist mainly of prepayments for taxes, commissions and insurance. This also includes current portion of prepaid rent.

Security Deposits
Security deposits represent payments to and held by the lessor as security for the faithful and timely performance by the Group of all its obligations and compliance with all provisions of the equipment rental agreement (see Note 37). These deposits shall be returned by the lessor to the Group after deducting any unpaid rental, and/or any other amounts due to the lessor for any damage and expense incurred to put the vehicle in good working condition.

As of December 31, 2011, security deposits amounting to ₱304.40 million was refunded to the Group. There were no additional security deposits made during the year.

As of December 31, 2009, security deposits with a nominal amount of ₱22.20 million were initially recorded at fair value. Movement in the unamortized discount on security deposits follows:

	2011	2010
	(Amounts in Thousands)	
At January 1	**₱169**	₱12,956
Accretion (Note 26)	**(169)**	(12,787)
At December 31	**₱–**	₱169

11. Investments in Associates, Jointly Controlled Entity and Others

The details of the Group's investments in associates, jointly controlled entity and others follow:

	2011	2010
	(Amounts in Thousands)	
Investments - At Equity		
Investments in associates		
Acquisition cost	**₱4,745,001**	₱4,745,001
Accumulated equity in net earnings	**6,063,115**	4,602,705
	10,808,116	9,347,706
Allowance for probable losses	**(6,798)**	(6,798)
	10,801,318	9,340,908
Jointly controlled entity:		
Acquisition cost	**125**	125
Accumulated equity in net earnings	**283**	283
	408	408
	10,801,726	9,341,316
Investment - At Cost	**47,657**	46,357
	₱10,849,383	₱9,387,673

The details of the Group's equity in the net assets of its associates and jointly controlled entity and the corresponding percentages of ownership follow:

	Percentages of Ownership		**Equity in Net Assets**	
	2011	2010	**2011**	2010
Associates:			(Amounts in Thousands)	
DMCI-MPIC Water Co. Inc. (DMWC)	**44.59%**	44.59%	**₱9,951,297**	₱8,457,486
Private Infra Dev Corporation (PIDC)	**33.00**	33.00	**699,611**	735,611
Subic Water and Sewerage Company, Inc. (Subic Water)	**40.00**	40.00	**107,349**	104,750
Bachy Soletanche Philippines Corporation (Bachy)	**49.00**	49.00	**43,061**	43,061
			10,801,318	9,340,908
Jointly Controlled Entity:				
Eco Process & Equipment Philippines, Inc.	**50.00**	50.00	**408**	408
			10,801,726	9,341,316
At Cost				
Balance at beginning of year			**46,357**	56,000
Additions			**1,300**	–
Disposal			–	(9,643)
			47,657	46,357
Total			**₱10,849,383**	₱9,387,673

The following table summarizes the significant financial information of the Group's associates and jointly controlled entity:

2011

	Assets	Liabilities	Revenue	Net income (loss)
		(Amounts in Thousands)		
Associates:				
DMCI-MPIC Water Co. Inc.	**₱69,020,680**	**₱46,127,875**	**₱13,897,035**	**₱4,765,268**
Private Infra Dev Corporation	**6,566,969**	**2,827,758**	**–**	**(29,615)**
Subic Water and Sewerage Company, Inc	**1,022,627**	**348,608**	**409,653**	**192,726**
Bachy Soletanche Philippines Corporation	**85,455**	**5,199**	**–**	**–**
Jointly Controlled Entity:				
Eco Process & Equipment Philippines, Inc.	**1,548**	**236**	**–**	**–**

2010

	Assets	Liabilities	Revenue	Net income
		(Amounts in Thousands)		
Associates:				
DMCI-MPIC Water Co. Inc.	₱59,067,964	₱39,861,616	₱12,049,524	₱4,400,399
Private Infra Dev Corporation	2,363,254	112,459	–	18,158
Subic Water and Sewerage Company, Inc	970,745	318,796	521,030	196,092
Bachy Soletanche Philippines Corporation	85,455	5,199	–	–
Jointly Controlled Entity:				
Eco Process & Equipment Philippines, Inc.	1,548	236	–	–

DMWC

DMWC is a joint venture owned by the Parent Company and Metro Pacific Investments Corporation (MPIC). The Parent Company and MPIC has an equity interest in the form of shares and share entitlements equal to 44.59% and 55.41% , respectively.

On September 13, 2010, the stockholders and the BOD of DMWC concurred and approved the decrease in authorized capital stock to 5,854,800,000 common shares with par value of ₱1.00 per share resulting to an additional paid-in capital of ₱3,030.0 million. On October 19, 2010, the SEC approved the Amended Articles of Incorporation effecting the reduction in authorized capital stock.

On September 6, 2010, the SEC approved Maynilad's equity restructuring to wipe out the deficit as of December 31, 2009 amounting to ₱674.0 million against the Additional Paid-in Capital amounting to ₱775.8 million.

On August 24, 2011, DMWC's BOD approved the appropriation of its retained earnings amounting to ₱2.00 billion for its capital expenditures.

Equity in net earnings in DMWC amounted to ₱2.14 billion in 2011, ₱1.81 billion in 2010 and ₱1.66 billion in 2009.

Concession Agreement of Maynilad

On February 21, 1997, Maynilad entered into a Concession Agreement with the MWSS, a government-owned and controlled corporation organized and existing pursuant to Republic Act (RA) No. 6234 (the Charter), as clarified and amended, with respect to the MWSS West Service Area. The Concession Agreement sets forth the rights and obligations of Maynilad throughout the concession period. The MWSS Regulatory Office acts as the regulatory body of the Concessionaires [Maynilad and the East Concessionaire - Manila Water Company, Inc. (Manila Water)].

Under the Concession Agreement, MWSS grants Maynilad (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under the Charter), the sole right to manage, operate, repair, decommission and refurbish all fixed and movable assets required (except certain retained assets of MWSS) to provide water and sewerage services in the West Service Area for 25 years commencing on August 1, 1997 (the Commencement Date) to May 6, 2022 (the Expiration Date) or the early termination date as the case may be.

Maynilad is also tasked to manage, operate, repair, decommission and refurbish certain specified MWSS facilities in the West Service Area. Legal title to these assets remains with MWSS. The legal title to all property, plant and equipment contributed to the existing MWSS system by Maynilad during the concession period remains with Maynilad until the Expiration Date (or on early termination date) at which time, all rights, titles and interest in such assets will automatically vest to MWSS.

Under the Concession Agreement, Maynilad is entitled to the following rate adjustments:

a. annual standard rate adjustment to compensate for increases in the Consumer Price Index (CPI) subject to rate adjustment limit;

b. Extraordinary Price Adjustment (EPA) to account for the financial consequences of the occurrence of certain unforeseen events subject to grounds stipulated in the Concession Agreement; and

c. rate rebasing (Rate Rebasing) mechanism to allow rates to be adjusted every five (5) years to enable Maynilad to recover expenditures efficiently and prudently incurred, Philippine business taxes and payments corresponding to debt service on concession fees, and Maynilad loans incurred to finance such expenditures.

Extension of Maynilad's Concession Agreement
On September 10, 2009, the MWSS Board of Trustees (BoT) approved the extension of the expiry of its Concession Agreement with Maynilad by an additional fifteen (15) years or from May 7, 2022 to May 6, 2037. Subsequently, on September 16, 2009, the MWSS Administrator wrote the Department of Finance (DoF) to inform them of the MWSS BoT's decision and seek the DoF's written consent to the extension, as well its extension of the Letter of Undertaking covering the government's obligation under the Concession Agreement. On April 22, 2010, the DoF (by authority from the Office of the President of the Republic of the Philippines) approved the extension of the expiry of its Concession Agreement.

The significant commitments under the extension follow:

a. to mitigate tariff increases;
b. to increase the share in the current operating budget support to MWSS by 100% as part of the concession fees starting 2010; and
c. to increase total investments.

The DoF further clarified that the extension of the government's Undertaking shall be effective only upon an increase in Maynilad's Performance Bond from US$30 Million to US$90 Million for the third rate Rebasing Period. Subsequently, Maynilad submitted a Performance Bond in the increased amount of US$90 Million to MWSS on May 31, 2010.

7.00 Billion Corporate Notes
On March 23, 2011, Maynilad entered into a ₱7.00 billion Omnibus Notes Facility and Security Agreement from various financing institutions for the purpose of capital expenditure financing. The loan was made available in two equal drawdowns, March 30, 2011 and September 30, 2011. The loan shall be payable in semi-annual installments within ten years to commence at the end of the 36th month after the initial issue date and bears an interest rate per annum equal to the higher of (i) the applicable benchmark rate plus 0.75% per annum, or (ii) 6.5% per annum . The benchmark rate shall be determined by reference to the PDST-F rate.

The abovementioned corporate note contains provisions regarding the maintenance of certain financial ratios such as debt-to-equity ratio and debt service coverage ratio, and maintenance of debt service reserve account. As of December 31, 2011 and 2010, Maynilad has complied with these ratios.

PIDC
PIDC is a consortium of different contractors, primarily engaged in the business of construction, development of various infrastructure projects such as roads, highways, toll roads, freeways, skyways, flyovers, viaducts and interchanges. On February 19, 2008, PIDC was awarded the contract for the financing, design, construction, operation and maintenance of the Tarlac-Pangasinan-La Union Expressway (TPLEX).

As at December 31, 2011, PIDC is planning to increase its authorized capital stock from ₱4.5 billion divided into 4,500,000 shares with par value of ₱1,000.00 to ₱6.50 billion divided into 6,500 common shares with par value of ₱1,000.00 per share. As of December 31, 2011, the Group have no plans of subscribing in PIDC's increase in authorozed capital stock.

On June 2, 2011, PIDC entered into Omnibus Loan Security Agreement (the "Omnibus Agreement") with Banco de Oro Unibank, Inc., Development Bank of the Philippines and Land Bank of the Philippines as Lenders, the Shareholders as the Third Party Mortgagors and Sponsors, BDO Capital and Investment Corporation and Development Bank of the Philippines as Lead Arrangers, BDO Unibank, Inc., Trust and Investments Group as Facility Agent, DSRA & Paying Agend and Collateral Agent.

Breakdown of the syndicated loan is as follows:

	Amount
Banco de Oro Unibank, Inc.	₱7,125,000,000
Development Bank of the Philippines	2,375,000,000
Land Bank of the Philippines	2,000,000,000
	₱11,500,000,000

The Omnibus Agreement was entered into to finance the Project which is to design, construct, operate, and maintain Phase 1 of the Tarlac–Pangasinan-La Union Toll Expressway under the Toll Concession Agreement dated August 28, 2008, between PIDC as Grantee and, the Republic of the Philippines, acting and by through the Department of Public Works and Highways and the Toll Regulatory Board, as Grantor.

Details of the loan follow:

a. Interest: At a floating rate per annum equivalent to the five (5) - year Philippine Dealing System Treasury-Fixing (PDST-F) benchmark yield for treasury securities as published on the PDEx page of Bloomberg (or such successor electronic service provider) at approximately 11:30a.m. (Manila Time) on the banking day prior to each day of Borrowing and with respect to the fifth (5th) year from the date of initial Borrowing and each succeeding interest period thereafter, plus 3% per annum.

b. Repayment: The principal amount shall be payable in twenty-eight (28) quarterly installments commencing on the thirty ninth (39th) month from the initial borrowing date, inclusive of a not more than a three (3) years grace period. Final repayment date is ten (10) years after initial borrowing. The loan may be prepaid voluntarily provided the conditions in the Omnibus Agreement are satisfied.

On September 3, 2009, the BOD approved the Parent Company's additional subscription of 1,449,684 common shares out of PIDC's increase in authorized capital stock of ₱3.50 billion. The Parent Company paid nil in 2011 and ₱244.67 million in 2010 for the said subscription.

Subic Water

On January 22, 1997, PDI subscribed to 3,262,320 shares at the par value of ₱10 per share for an aggregate value of ₱32.62 million in Subic Water, a venture company with Subic Bay Metropolitan Authority (SBMA), a government-owned corporation, Olongapo City Water District, and Cascal Services Limited (a company organized under the laws of England). The agreement executed by the parties on November 24, 1996 stipulated, among others, that PDI shall have an equity participation equivalent to 40% in Subic Water amounting to ₱74.80 million (based on the initial subscribed and paid-in capital of ₱187.00 million). The balance of PDI's committed subscription to Subic Water of ₱38.18 million (net of additional subscriptions payment of ₱4.00 million in 1998) is expected to be paid on or before the second anniversary of the effectivity date. As of December 31, 2011 and 2010, such committed subscription has not yet been paid.

The investment in Subic Water is accounted for as an investment in an associate since there's no joint control among the investors.

Dividends received from the Group's investments in DMWC and Subic Water amounted to ₱624.26 million and ₱74.39 million, respectively, in 2011 and ₱244.59 million and ₱44.73 million, respectively, in 2010. In 2009, dividends received from Subic Water amounted to ₱1.40 million (see Note 21).

12. Investment Properties

The movements in this account follow (amounts in thousands):

2011

	Land	Buildings and Building Improvements	Condominium Units	Total
Cost				
At January 1	**₱38,857**	**₱96,500**	**₱12,210**	**₱147,567**
Additions	**–**	**–**	**32,138**	**32,138**
At December 31	**38,857**	**96,500**	**44,348**	**179,705**
Accumulated Depreciation and Amortization				
At January 1	**–**	**30,748**	**485**	**31,233**
Depreciation and amortization (Note 24)	**–**	**5,777**	**536**	**6,313**
At December 31	**–**	**36,525**	**1,021**	**37,546**
Net Book Value	**₱38,857**	**₱59,975**	**₱43,327**	**₱142,159**

2010

	Land	Buildings and Building Improvements	Condominium Units	Total
Cost				
At January 1	₱2,390,046	₱96,500	₱12,210	₱2,498,756
Additions	1,350,730	–	–	1,350,730
Transfers to real estate held for sale and development	(3,515,176)	–	–	(3,515,176)
Effect of deconsolidation of a subsidiary	(186,743)	–	–	(186,743)
At December 31	38,857	96,500	12,210	147,567
Accumulated Depreciation and Amortization				
At January 1	–	24,971	–	24,971
Depreciation and amortization (Note 24)	–	5,777	485	6,262
At December 31	–	30,748	485	31,233
Net Book Value	₱38,857	₱65,752	₱11,725	₱116,334

The fair value of investment properties, which has been determined based on valuations performed by independent professional qualified appraisers in 2011 and 2010, exceeds its carrying cost. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The aggregate fair value as of the date of appraisal amounted to ₱135.64 million and ₱129.56 million as of December 31, 2011 and 2010, respectively.

The value of the investment properties was arrived at using the Market Data Approach. In this approach, the value of the investment properties is based on sales and listings of comparable property registered in the vicinity. The technique of this approach requires the establishment of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property.

Rental income from investment properties (included under ‘Other income’) amounted to ₱53.81 million, ₱66.96 million and ₱23.77 million in 2011, 2010 and 2009, respectively (see Note 28). Direct operating expenses (included under ‘Operating expenses’ in the consolidated statements of income) arising from investment properties amounted to ₱4.01 million, ₱3.90 million and ₱5.75 million in 2011, 2010 and 2009, respectively (see Note 25).

13. **Property, Plant and Equipment**

The movements in this account follow (amounts in thousands):

2011

	Land and Land Improvements	Power Plant, Buildings and Building Improvements	Construction Equipment, Machinery and Tools	Office Furniture, Fixtures and Equipment	Transportation Equipment	Conventional and Continuous Mining Properties and Equipment	Leasehold Improvements	Construction in Progress	Total
Cost									
At January 1	**₱998,968**	**₱18,294,236**	**₱4,103,495**	**₱260,940**	**₱266,057**	**₱13,387,180**	**₱98,811**	**₱1,268,997**	**₱38,678,684**
Additions	**422,771**	**129,001**	**622,595**	**73,572**	**52,493**	**1,431,444**	**38,907**	**768,559**	**3,539,342**
Transfers from inventory (Note 9)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,607,456**	**1,607,456**
Transfers and retirements/disposals	**85,984**	**660,340**	**(75,184)**	**633**	**(10,764)**	**113,484**	**–**	**(1,563,554)**	**(789,061)**
At December 31	**1,507,723**	**19,083,577**	**4,650,906**	**335,145**	**307,786**	**14,932,108**	**137,718**	**2,081,458**	**43,036,421**
Accumulated Depreciation, Depletion and Amortization									
At January 1	**437,763**	**2,173,659**	**3,182,528**	**248,814**	**185,992**	**10,608,295**	**60,498**	**–**	**16,897,549**
Depreciation, depletion and amortization (Notes 24 and 25)	**21,500**	**941,989**	**474,702**	**25,035**	**31,222**	**2,001,653**	**646**	**–**	**3,496,747**
Transfers and retirements/disposals	**(8)**	**(982)**	**(59,061)**	**(1,257)**	**(9,106)**	**(700,135)**	**–**	**–**	**(770,549)**
Reversal of allowance for impairment (Note 28)	**–**	**(6,670)**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,670)**
At December 31	**459,255**	**3,107,996**	**3,598,169**	**272,592**	**208,108**	**11,909,813**	**61,144**	**–**	**19,617,077**
Net Book Value	**₱1,048,468**	**₱15,975,581**	**₱1,052,737**	**₱62,553**	**₱99,678**	**₱3,022,295**	**₱76,574**	**₱2,081,458**	**₱23,419,344**

2010

	Land and Land Improvements	Power Plant, Buildings and Building Improvements	Construction Equipment, Machinery and Tools	Office Furniture, Fixtures and Equipment	Transportation Equipment	Conventional and Continuous Mining Properties and Equipment	Leasehold Improvements	Construction in Progress	Total
Cost									
At January 1	₱2,433,360	₱18,387,511	₱4,349,791	₱389,046	₱229,923	₱10,275,461	₱98,479	₱1,085,138	₱37,248,709
Additions	286,529	66,151	911,025	55,292	80,047	2,648,097	332	663,736	4,711,209
Transfers from inventory (Note 9)	–	–	–	20,859	–	–	–	525,355	546,214
Transfers and retirements/disposals	(96,217)	519,981	(22,151)	–	(10,266)	463,622	–	(983,603)	(128,634)
Deconsolidation of a subsidiary (Note 40)	(1,624,704)	(679,407)	(1,135,170)	(204,257)	(33,647)	–	–	(21,629)	(3,698,814)
At December 31	998,968	18,294,236	4,103,495	260,940	266,057	13,387,180	98,811	1,268,997	38,678,684
Accumulated Depreciation, Depletion and Amortization									
At January 1	570,346	1,653,355	2,880,391	319,245	159,035	8,988,247	59,900	–	14,630,519
Depreciation, depletion and amortization (Notes 24 and 25)	15,999	874,431	1,012,152	71,491	63,339	1,629,171	598	–	3,667,181
Transfers and retirements/disposals	(31,883)	(1)	(16,425)	–	(9,369)	(9,123)	–	–	(66,801)
Allowance for impairment	–	6,670	–	–	–	–	–	–	6,670
Deconsolidation of a subsidiary (Note 40)	(116,699)	(360,796)	(693,590)	(141,922)	(27,013)	–	–	–	(1,340,020)
At December 31	437,763	2,173,659	3,182,528	248,814	185,992	10,608,295	60,498	–	16,897,549
Net Book Value	₱561,205	₱16,120,577	₱920,967	₱12,126	₱80,065	₱2,778,885	₱38,313	₱1,268,997	₱21,781,135

Depreciation, depletion and amortization expense on property, plant and equipment amounted to ₱3.50 billion, ₱3.67 billion and ₱1.66 billion in 2011, 2010 and 2009, respectively (see Notes 24 and 25).

The construction in progress accounts mostly contains purchased mining equipments that are in transit and various buildings and structures that are under construction as of December 31, 2011 and 2010. Construction in progress also includes capitalized rehabilitation costs for the Unit I of Calaca power plant incurred in 2011, the rehabilitation of which is expected to be completed by early 2012. These are not qualifying assets, as such, no borrowing cost was capitalized in 2011 and 2010.

In January 2011, rehabilitation of Unit II of the Calaca power plant was completed. Related rehabilitation costs that are capitalized as part of the "Power plant and building" amounted to ₱620.29 million.

On July 12, 2010, PSALM issued an Option Existence Notice and granted SCPC the "Option" to purchase parcels of land (Optioned Assets) that form part of the leased premises. SCPC availed the "Option" and paid the Option Price amounting to US$0.32 million or a peso equivalent of ₱14.72 million exercisable within one year from the issuance of the Option Existence Notice.

On May 5, 2011, PSALM granted SCPC's request to assign portion of its Option to Semirara, for the latter to purchase the 82,740 square meter lot covered by TCT No. 115804.

On June 1, 2011, Semirara and SCPC exercised their option to purchase the Option Asset and subsequently entered into Deed of Absolute Sales with PSALM for the total consideration of ₱376.61 million. Consequently, the option price amounting to ₱14.72 million was expensed out under "Operating expenses".

In 2011, 2010 and 2009, the Group sold various equipments at a gain amounting to ₱57.57 million, ₱28.96 million and ₱12.85 million, respectively (see Note 28).

As of December 31, 2011 and 2010, the carrying amount of transportation and construction equipment under finance lease amounted to ₱12.35 million and ₱124.77 million, respectively (see Note 37). Power plant, buildings and building improvements amounting to ₱16.77 billion and ₱15.28 billion are held as collateral to secure the mortgage payable of SCPC as of December 31, 2011 and 2010, respectively (see Note 19).

14. **Other Noncurrent Assets**

The details of other noncurrent assets follow:

	2011	2010
	(Amounts in Thousands)	
Investment in sinking fund (Note 19)	**₱490,789**	₱310,230
5% input VAT withheld - net	**150,127**	150,127
Security deposits (Note 35)	**132,681**	339,022
Prepaid rent (Note 37)	**105,354**	144,204
Deferred input VAT	**92,391**	175,263
Software cost - net	**59,312**	6,345
Others	**15,859**	10,213
	1,046,513	1,135,404
Less current portion of		
Prepaid rent (Note 10)	**6,422**	6,183
Security deposits (Note 10)	**–**	304,401
	6,422	310,584
	₱1,040,091	₱824,820

Investment in sinking fund
In a special meeting of the BOD of SCPC held on March 9, 2010, the BOD of SCPC authorized SCPC to establish, maintain, and operate trust and investment management accounts with Banco de Oro Unibank, Inc., - Trust and Investment Group (BDO). The Omnibus Agreement provided that the Security Trustee shall invest and reinvest the monies on deposit in Collateral Accounts (see Note 19). All investments made shall be in the name of the Security Trustee and for the benefit of the Collateral Accounts. In May 2010, BDO made an initial investment in the Sinking Fund amounting ₱304.81 million. As of December 31, 2011 and 2010, the investment in sinking fund amounted to ₱490.79 million and ₱310.23 million, respectively.

Interest earned from the sinking fund amounted to ₱7.21 million and ₱5.42 million in 2011 and 2010, respectively (see Note 26).

5% input VAT withheld
As a result of the enactment of Republic Act (RA) No. 9337 effective November 1, 2005, National Power Corporation (NPC) started withholding the required 5% input VAT on the VAT exempt coal sales of the Group. On March 7, 2007, the Group obtained a ruling from the Bureau of Internal Revenue (BIR) which stated that the sale of coal remains exempt from VAT. In 2007, the Group filed a total claim for refund of ₱190.50 million from the BIR representing VAT erroneously withheld by NPC from December 2005 to March 2007, which eventually was elevated to the Court of Tax Appeals (CTA). On October 13, 2009, the CTA granted the Group's petition for refund on erroneously withheld VAT initially on December 2005 sales amounting to ₱11.85 million. The Commissioner of BIR moved for reconsideration of the CTA's Decision. On November 21, 2009, the Group filed its comment thereon. Consequently, in 2009, the claim for tax refund was provided with provision for probable loss amounting to ₱40.37 million (see Note 25).

In 2011, the CTA rendered a Decision granting the Group's petition for refund or issuance of tax credit certificate (TCC) in the total amount of ₱178.65 million. The BIR filed a motion for reconsideration which was denied in a Resolution executed by the CTA. Its motion for reconsideration having been denied, the BIR filed for a Petition for Review with the CTA En Banc on the following grounds:

- that the Group failed to substantiate its claim for refund;
- that the sale or importation of coal is no longer exempted from VAT under the Tax Code, as amended by R.A. No. 9337; and
- that the BIR Ruling No. 006-2007 dated March 7, 2007 does not prevent the Government from collecting VAT on the sale of coal by the Group.

The Petition for review remains pending to date. Management has estimated that the refund will be recovered after three (3) to five (5) years.

Prepaid rent
The Group entered into a Land Lease Agreement (LLA) with PSALM for the lease of land in which the plant is situated for a period of twenty-five (25) years. The Group paid US$3.19 million or its peso equivalent of ₱150.57 million as payment for the 25 years of rental (see Notes 33 and 37).

Upon exercise of Semirara's and SCPC's option to purchase the option assets, prepaid rent for the portion of the purchased land amounting to ₱35.49 million was offset against the total purchase price.

Deferred input VAT
This pertains to VAT incurred from acquisition of capital assets.

Software Cost
Movements in software cost account follow:

	2011	2010
	(Amounts in Thousands)	
At Cost		
At January 1	**₱41,457**	₱37,315
Additions	**70,976**	4,142
At December 31	**112,433**	41,457
Accumulated Amortization		
At January 1	**35,112**	16,873
Amortization (Notes 24 and 25)	**18,009**	18,239
At December 31	**53,121**	35,112
Net Book Value	**₱59,312**	₱6,345

15. **Short-term Debt**

This account consists of the following:

	2011	2010
	(Amounts in Thousands)	
Acceptances and trust receipts payable	**₱1,037,365**	₱6,740
Bank loans	**453,283**	753,534
	₱1,490,648	₱760,274

Acceptances and trust receipts payable
Acceptances and trust receipts are used by the Group to facilitate payment for importations of materials, fixed assets and other assets. These are noninterest-bearing and with maturity of less than one (1) year.

Bank loans
The Group's bank loans consist of peso-denominated short-term borrowings from local banks which bear interest ranging from 4.00% to 8.00% and 2.00% to 5.25% in 2011 and 2010, respectively, and are payable on monthly, quarterly and lump sum bases on various maturity dates within the next twelve (12) months after the reporting date.

The Group's agreements with local banks contain some or all of the following restrictions relating to, among others: purchase of issued and outstanding capital stock; disposal of encumbered properties; change in the ownership or management and nature of its business; dividend declaration and distribution; guarantees; incurrence of additional liabilities; and merger and consolidation.

As of December 31, 2011 and 2010, the Group was in compliance with the loan covenants required by the banks.

16. Liabilities for Purchased Land

Liabilities for purchased land represent the balance of the Group's obligations to various real estate property sellers for the acquisition of certain parcels of land. The terms of the deeds of absolute sale covering the land acquisitions provided that such obligations are payable only after the following conditions, among others, have been complied with: (a) presentation by the property sellers of the original transfer certificates of title covering the purchased parcels of land; (b) submission of certificates of non-delinquency on real estate taxes; and (c) physical turnover of the acquired parcels of land to the Group.

In 2010, the Group acquired certain land properties which are payable over a period of three (3) to four (4) years. Such liabilities for purchased land with a nominal amount of ₱530.71 million were recorded at fair value amounting to ₱492.40 million. The fair value is derived using discounted cash flow model using the discount rate ranging from 6.94% to 9.62%, which already includes the 2.00% spread provided by the bank. The unamortized discount amounted to ₱23.40 million and ₱62.02 million as of December 31, 2011 and 2010, respectively. Movements in the unamortized discount follow:

	2011	2010
	(Amounts in Thousands)	
Balance at beginning of year	**₱62,020**	₱89,806
Addition	**–**	38,307
Accretion for the year (see Note 27)	**(38,623)**	(66,093)
	₱23,397	₱62,020

Accretion of ₱38.62 million and ₱66.09 million is recorded as finance cost in 2011 and 2010, respectively (see Note 27).

17. **Accounts and Other Payables**

This account consists of the following:

	2011	2010
	(Amounts in Thousands)	
Trade and other payables		
Suppliers	**₱9,368,741**	₱6,245,915
Subcontractors	**320,399**	679,080
Others	**535,476**	396,538
Output VAT payable	**1,475,956**	1,795,072
Accrued costs and expenses	**1,512,375**	1,742,863
	13,212,947	10,859,468
Less noncurrent portion of trade and other payables (Note 20)	**1,286,998**	757,688
	₱11,925,949	₱10,101,780

Suppliers
Payable to suppliers include liabilities to various foreign and local suppliers for open account purchases of equipment and equipment parts and supplies. These are noninterest bearing and are normally settled on a 30 to 60-day credit terms.

Subcontractors
Subcontractors payable arise when the Group receives progress billing from its subcontractors for the construction cost of a certain project. These subcontractors were selected by the contract owners to provide materials, labor and other services necessary for the completion of a project. These are non-interest bearing and are normally settled on 15-to-60 day terms.

Other Payables
Other payables include payable to nickel mine rights owner and marketing agents. These are noninterest-bearing and are normally settled within one (1) year.

Accrued Costs and Expenses
Accrued costs and expenses consist mainly of accrual of expenses, costs of construction contracts and Semirara's liability to the Department of Energy (DOE). Further analysis is provided below:

	2011	2010
	(Amounts in Thousands)	
Payable to DOE (Note 31)	**₱905,009**	₱1,013,040
Accrued salaries	**171,513**	120,796
Accrued interest	**120,687**	77,663
Withholding and others taxes	**124,187**	172,242
Retention fee	**54,525**	21,445
Accrued rental	**25,790**	239,116
Dividends	**19,422**	2,995
Accrued professional fees	**8,962**	6,635
Others	**82,280**	88,931
	₱1,512,375	₱1,742,863

Others include accruals for contracted services, utilities, supplies advertising, commission and other administrative expenses.

Semirara's liability to the DOE and local government units represents the share of DOE and local government units in the gross revenue from Semirara's coal production (including accrued interest on the outstanding balance) computed in accordance with the coal operating contract between Semirara, DOE and the local government units dated July 11, 1977 as amended on January 16, 1981. The contract is for a maximum period of 35 years (inclusive of the developmental stage and renewals) up to July 2012. Total payable to DOE and local government units amounted to ₱905.01 million and ₱1,031.04 million as of December 31, 2011 and 2010, respectively (see Note 31).

18. **Customers' Advances and Deposits**

The customers' advances and deposits are due to the following:

	2011	2010
	(Amounts in Thousands)	
Real estate customers	**₱1,921,812**	₱2,812,545
Contract owners	**1,604,383**	1,391,098
Coal supply contracts	**112,314**	234,356
	₱3,638,509	₱4,437,999

Contract Owners
Advances from contract-owners pertain to unliquidated down payments which are being recouped upon every progress billing depending on the percentage of accomplishment.

Real Estate Customers
Customers' advances and deposits from real estate customers represent reservation fees and initial collections received from customers before the two parties enter into a sale transaction. These were payments from buyers which has not reached the minimum required percentage. When the level of required percentage is reached by the buyer, sale is recognized and these deposits and downpayments will be recognized as revenue and will be applied against the receivable balance.

Coal Supply Contracts
These deposits represent advances from customers of Semirara. These deposits are applied against future coal deliveries which occur within one year from the dates the deposits were made.

19. **Long-term Debt**

Long-term debt pertains to the following obligations:

	2011	2010
	(Amounts in Thousands)	
Bank loans	**₱21,577,213**	₱18,117,573
Finance lease	**12,352**	124,767
Deferred purchase payment	–	774,744
	21,589,565	19,017,084
Less current portion of:		
Bank loans	**3,806,197**	3,102,606
Finance lease	**7,751**	55,756
	3,813,948	3,158,362
	₱17,775,617	₱15,858,722

Details of the bank loans follow (amounts in millions):

Loan Type	Date of Availment	Outstanding Balances 2011	2010	Maturity	Interest Rate	Payment Terms	Covenants/Collaterals
Local bank loans							
Loan 1	Various availments in 2011 and 2010	**₱1,313.18**	₱639.06	Various maturities in 2012 and 2013	1.14 - 1.18% p.a. payable semi-annually in arrears, to be repriced every 6 months	Interest payable semi-annually in arrears, with interest rates inclusive of 10% withholding tax. Payment of interest shall commence on the 6th month and every six months thereafter until fully paid at the prevailing rate.	Unsecured loans
Loan 2	Various availments in 2011 and 2010	**1,028.25**	240.24	Various maturities in 2012 and 2013	0.01%- 1.82% to be repriced over the 90 to 180 days	Interest payable in 90 days; not deducted from proceeds of loans and principal repayable in maturity.	Unsecured loans
Loan 3	August 2011	**925.66**	–	August 2013	1.03% - 1.10% p.a. for the first 90 days. Thereafter, interest will be re-priced on a monthly/quarterly/ semi-annual or annual basis	Interest payable in 90-180 days and principal repayable in maturity.	Proceeds of the loan were restricted for equipment fund and working capital; Financial Covenants: Current Ratio not less than 1:1, Debt-Equity Ratio not exceeding 2:1, Debt-EBITDA Ratio not exceeding 3:1. The Group is in compliance with the above covenants as of December 31, 2011
Loan 4	Various availments in 2011 and 2010	**688.42**	442.08	October 2012	0.80-1.09% p.a. for 92 days, to be repriced every 30 to 180 days	Interest shall be payable on the last day of the current interest period or the 90th day of said period whichever occurs earlier and full payment of principal at maturity.	Unsecured loans
Loan 5	October 2010	**140.29**	701.44	Various maturities in 2012 and 2013	1.16% payable in arrears, to be repriced every 90 days	Interest payable in 90 days; not deducted from proceeds of loans and principal repayable in maturity.	Any monies standing to the credit of the borrower's other account with the bank and any securities, deeds, boxes and parcels and their contents and property of any description held in borrower's name

(Forward)

Loan Type	Date of Availment	Outstanding Balances 2011	2010	Maturity	Interest Rate	Payment Terms	Covenants/Collaterals
Local bank loans							
Loan 6	January 2011	**₱140.29**	₱–	January 2013	Interest rate subject to review and resetting based on the prevailing market rate	Balloon payment of the principal at maturity	Unsecured loans
Mortgage payable	May 20, 2010	**8,365.57**	9,495.16	May 20 2017	PDST-F benchmark yield for 3-month treasury securities + 1.75%	Payable in twenty-five (25) equal consecutive quarterly installments commencing on May 20, 2011	Monies in the Collateral Accounts, supply receivables, proceeds of asset and business continuity insurance obtained by SCPC, project agreements, first-ranking mortgage on present and future real assets and first-ranking chattel mortgage
Corporate notes	Various dates in 2011	**4,951.69**	–	Various maturities from 2012 to 2016	7.22%-7.89%	1% of principal payable for the first four (4) years and 96% on the 5th year	Financial Covenants: Debt-Equity Ratio not exceeding 2:1, Current ratio not exceeding 1.75:1. The Group is in compliance with the above covenants as of December 31, 2011.
Agreement to purchase receivables (with recourse)	Various	**4,018.71**	5,978.33	Various	10%-13% p.a.	Payable in equal monthly installments over a period ranging from 5 to 15 years	Real estate receivables with carrying value of ₱1.67 billion and ₱355.95 million in 2011 and 2010 , respectively.
Working capital loan	Various	**1.60**	617.10	Various	7.5%-10% p.a.	Payable in equal monthlyinstallments over a period more than one year	None
Various car loans	Various	**3.55**	4.16	Various	15.56%-27.14% p.a.	Payable in equal monthly installments	Various Cars with carrying value of ₱5.39 million and ₱7.29 million in 2011 and 2010, respectively.
		₱21,577.21	₱18,117.57				

Mortgage payable
On May 20, 2010, SCPC entered into a ₱9.60 billion Omnibus Loan Security Agreement ("Agreement") with Banco de Oro Unibank, Inc. (BDO Unibank), Bank of Philippine Islands (BPI) and Philippine National Bank (PNB) as Lenders, the Parent Company as Guarantor, BDO Capital and Investment Corporation as Lead Arranger and Sole Bookrunner, BPI Capital Corporation and PNB Capital and Investment Corp. as Arrangers, and BDO Unibank, Inc., Trust and Investments Group as Security Trustee, Facility Agent and Paying Agent.

Breakdown is as follows:

BDO Unibank	₱6,000,000,000
BPI	2,000,000,000
PNB	1,600,000,000
	₱9,600,000,000

The Agreement was entered into to finance the payments made to PSALM pursuant to the APA and LLA, and ongoing plant rehabilitation and capital expenditures.

Details of the loan follow:

a. Interest: At a floating rate per annum equivalent to the three (3) months Philippine Dealing System Treasury-Fixing (PDST-F) benchmark yield for treasury securities as published on the PDEx page of Bloomberg (or such successor electronic service provider at approximately 11:30 a.m. (Manila Time) on the banking day immediately preceding the date of initial borrowing or start of each interest period, as applicable, plus 175 basis points.

b. Repayment: The principal amount shall be payable in twenty-five (25) equal consecutive quarterly installments commencing on the twelfth month from the initial borrowing date. Final repayment date is seven (7) years after initial borrowing.

The loan was drawn in full on May 20, 2010. Capitalized debt issuance cost amounted to ₱110.04 million and is amortized using the EIR method over the loan's term. Amortization of debt issuance cost recognized as part of "Finance cost" account in the consolidated statement of income amounted to ₱22.42 million and ₱5.2 million in 2011 and 2010, respectively (see Note 27).

As security for the prompt and full payment by SCPC, this loan was collateralized by all monies in the Collateral Accounts, supply receivables, proceeds of any asset and business continuity insurance, project agreements and first-ranking mortgage on present and future real assets and first-ranking chattel mortgage on present and future chattels (see Notes 4, 7, 9 and 13).

Corporate notes
In January 2011, PDI signed a fixed corporate notes facility agreement relating to the issuance of 5-year peso denominated notes in the aggregate amount of ₱5.00 billion with local banks. Proceeds of the said notes facility will be used to fund land acquisition, general operations and project development and construction. The notes have been issued in two tranches, redeemable in whole at the end of third year following the issue date of the second tranche note. Payments shall be made in each tranche equal to 1% every year from the issue date and the balance payable at maturity.

Capitalized debt issuance cost amounted to ₱56.08 million and is amortized using the EIR method over the loan's term. Amortization of debt issuance cost recognized as part of "Finance cost" account in the consolidated statement of income amounted to ₱8.19 million (see Note 27).

The ₱5.00 billion corporate notes facility agreement requires PDI to ensure that debt-to-equity ratio will not exceed 2.0 times and current ratio is at least 1.75 times. As of December 31, 2011, PDI is fully compliant with these requirements.

Rollforward of the capitalized debt issuance cost follows:

	2011	2010
	(Amounts in Thousands)	
Beginning at January 1	**₱104,842**	₱–
Additions	**56,079**	110,042
Amortizations (Note 27)	**(30,603)**	(5,200)
Ending at December 31	**₱130,318**	₱104,842

Agreement to purchase receivables
Certain subsidiaries entered into various purchase agreements with financial institutions whereby the subsidiaries assigned its receivables. The purchase agreements provide that the subsidiaries should substitute defaulted contracts to sell with other contracts to sell of equivalent value.

The subsidiaries still retain the assigned receivables in the receivables account and record the proceeds from these sales as loans payable which amounted to ₱4.02 million and ₱5.98 billion as of December 31, 2011 and 2010, respectively (see Note 7).

In 2010, the subsidiaries under the real estate segment entered into a Memorandum of Agreement (MOA) with BDO Unibank, Inc. (the Bank) to purchase from time to time, on a without recourse basis, certain Contract to Sell accounts up to an aggregate amount of ₱3.00 billion. Total amount of receivables sold on a without recourse arrangement amounted to ₱0.94 billion and ₱2.89 billion in 2011 and 2010, respectively.

Working capital loan
The Group availed of various working capital loans including car financing and leasing.

Unused credit lines
The Group has unused credit lines with local banks amounting to ₱5.53 billion and ₱8.10 billion as of December 31, 2011 and 2010, respectively.

Deferred purchase payment
On November 16, 2009, Semirara entered into a Deferred Payment Sale and Purchase Agreement with Marubeni Corporation (MC) for the purchase of various equipment intended for enhancing its mining activities.

The amounts corresponding to the units or pieces of equipment that are shipped to Semirara shall be paid to MC within seven hundred twenty (720) days after the date of the bill of lading for the relevant shipment of such units or pieces of equipment.

The interest rate applicable to each interest period shall be four percent (4.00%) per annum over the rate 180 days BBA LIBOR on two (2) business days prior to the first day of such interest period.

Notwithstanding the provisions for payment of the contract amount as stipulated, Semirara may, with not less than fourteen (14) business days written notice to MC, prior to the next interest payment date, prepay the whole or any part of the respective contract amount on that interest payment date.

During the first quarter of 2011, the deferred purchase payment with MC was fully settled.

During the year, interest expense incurred and capitalized interest related to long-term debt amounted to ₱366.03 million and ₱218.19 million. The average capitalization rates are 7.49% and 8.17% in 2011 and 2010, respectively.

20. **Other Noncurrent Liabilities**

The details of this account consist of:

	2011	2010
	(Amounts in Thousands)	
Accounts payable trade - supplier (Note 17)	**₱1,286,998**	₱757,688
Subscriptions payable	**384,646**	384,646
Provision for decommissioning and site rehabilitation - net	**47,582**	14,732
Others	**13,152**	12,961
	₱1,732,378	₱1,170,027

The rollforward analysis of the provision for decommissioning and site rehabilitation account follows:

	2011	2010
	(Amounts in Thousands)	
At January 1	**₱14,732**	₱17,622
Addition	**31,092**	–
Accretion of interest (Note 27)	**1,758**	774
Adjustment	**–**	(3,664)
At December 31	**₱47,582**	₱14,732

On May 13, 2008, the DOE granted Semirara's request for an extension of its Coal Operating Contract (COC) for another 15-year or until July 14, 2027. Due to the term extension, Semirara has changed the discount rates used in the calculation of the net present value of the provision from 4.11% to 5.35% in 2009 to 1.31% to 8.15% in 2010.

Also, on November 12, 2009, the COC was amended further, expanding its contract area to include portions of Caluya and Sibay islands, covering an additional area of 5,500 hectares and 300 hectares, respectively. Due to these change, Semirara has provided additional provision for decommissioning and site rehabilitation amounting to ₱80.00 million, with a discounted value of ₱31.09 million as of December 31, 2011.

In accordance with the provisions of Philippine Interpretation IFRIC 1, the additions and adjustments were included in the consolidated statements of financial position for the years 2011 and 2010.

21. **Related Party Transactions**

Related parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making the financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Transactions entered into by the Group with related parties are at arm's length and have terms similar to the transactions entered into with third parties. In the regular course of business, the Group's significant transactions with related parties include the following:

(a) DMC-Construction Equipment Resources, Inc. (DMC-CERI), an affiliate, under common stockholder, has transactions with Semirara for services rendered relating to the Semirara's coal operations. These services are for the confirmatory drilling for coal reserve evaluation of identified potential areas, exploratory drilling of other minerals within Semirara Island, dewatering well drilling along cut-off wall of Panian mine and fresh water well drilling for industrial and domestic supply under an agreement. Expenses incurred for said services amounted to ₱52.90 million, ₱59.17 million and ₱166.22 million in 2011, 2010, and 2009, respectively. These are included in Cost of sales under "Cost of coal sales - Outside services" (see Note 24);

    DMC-CERI also provides to Semirara marine vessels for use in the delivery of coal to its various customers. The coal freight billing is on a per metric ton basis plus demurrage charges when delay will be incurred in the loading and unloading of coal cargoes. Expenses (at gross amount) incurred for these services amounted to ₱498.42 million, ₱507.86 million and ₱500.75 million in 2011, 2010 and 2009, respectively, and are included in Cost of sales under "Cost of coal sales - Hauling and shiploading costs" (see Note 24). The reported expense of the Group is net of freight payment by NPC (billing is cost and freight).

    Land lease rental with DMC-CERI amounting to ₱1.70 million and ₱13.74 million were accrued during the periods ended December 31, 2011 and 2010, respectively (see Note 17);

(b) M&S Company, Inc. (M&S), an affiliate under common control, supplies various supplies and materials to Semirara on cash on delivery basis. Semirara's total purchases from M&S amounted to ₱52.83 million, ₱48.07 million and ₱39.01 million in 2011, 2010 and 2009, respectively. M&S also rents out various equipment used in Semirara's operations which amounted to nil, ₱110.70 million and ₱91.49 million in 2011, 2010 and 2009, respectively. This is included in Cost of sales under "Cost of coal sales under Outside services" in the consolidated statements of comprehensive income (see Note 24);

(c) DMC Urban Property Developers, Inc. (UPDI), an affiliate under common stockholder, had transactions with Semirara representing long-term lease on office space and other transactions rendered to Semirara necessary for the coal operations. Office rental expense amounted to ₱6.49 million, ₱6.97 million and ₱7.78 million in 2011, 2010 and 2009, respectively.

(d) DMCI has various construction contracts with Maynilad for the rehabilitation and refurbishment of its water transmission and supply lines. Total construction revenue earned amounted to ₱1,283.62 million, ₱1,197.48 million and ₱1,109.56 million in 2011, 2010 and 2009, respectively.

(e) DMCI Homes, Inc. has a management contract with UPDI to provide general and overall sales and marketing services for the latter's various projects. Total revenue earned from this contract amounted to nil, ₱0.02 million and ₱0.05 million in 2011, 2010 and 2009, respectively.

(f) Dividends received from the Group's investments in DMWC and Subic Water amounted to ₱624.26 million and ₱74.39 million, respectively, in 2011 and ₱244.59 million and ₱44.73 million, respectively, in 2010. In 2009, dividends received from Subic Water amounted to ₱1.40 million (see Note 11). Outstanding payable of the Group to DMWC amounted to ₱234.58 million and ₱233.05 million in 2011 and 2010, respectively.

The consolidated statements of financial position as of December 31, 2011 and 2010 include the following amounts relating to transactions with related parties:

	2011	2010
	(Amounts in Thousands)	
Receivables from related parties (Note 7)		
Entities significantly influenced by certain individuals	**₱451,528**	₱490,949
Joint venture	**587**	751
	₱452,115	₱491,700
Payable to related parties		
Entities significantly influenced by certain individuals	**₱326,997**	₱508,778
Joint venture	**–**	8,606
	₱326,997	₱517,384

Outstanding balances as of December 31, 2011 and 2010, which are unsecured and interest free, are all due within one year. As of December 31, 2011 and 2010, the Parent Company has not made any provision for impairment loss relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Key management personnel of the Group include all directors and senior management. The aggregate compensation and benefits of key management personnel of the Group follows:

	2011	2010	2009
		(Amounts in Thousands)	
Short-term employee benefits	**₱144,418**	₱282,861	₱93,012
Post employment benefits (Note 23)	**17,274**	39,819	8,700
	₱161,692	₱322,680	₱101,712

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's pension plan.

22. **Equity**

The Parent Company's capital stock consists of:

	2011		2010	
	Shares	**Amount**	Shares	Amount
	(Amounts in Thousands)			
Preferred stock - ₱1 par value cumulative and convertible				
Authorized - 180,000				
Issued	**3**	**₱3**	4	₱4
Common stock - ₱1 par value				
Authorized - 5,900,000				
Issued	**2,655,494**	**₱2,655,494**	2,655,494	₱2,655,494

The preferred stock is redeemable, convertible, non-voting, non-participating and cumulative with par value of ₱1.00 per share. The preferred shareholders' right of converting the preferred shares to common shares expired in March 2002.

In 2011, the Parent Company retired 600 preferred shares. The difference between the redemption price amounting to ₱0.60 million was charged against the additional paid-in capital account.

On December 18, 1995, the Parent Company launched its Initial Public Offering where a total of 1.13 billion common shares were offered at an offering price of ₱9.12 per share. As of December 31, 2011, the Parent Company has 737 existing certified shareholders of the 2.66 billion outstanding shares.

<u>Retained Earnings</u>

On December 29, 2011, the BOD authorized the appropriation of ₱3.00 billion from its retained earnings for future capital expenditure, investments and dividend declaration.

On May 31, 2011, the Parent Company declared cash dividends of ₱1.00 per share or ₱2.66 billion to stockholders of record as of June 15, 2011. The said cash dividends were paid on July 7, 2011.

On June 4, 2010, the Parent Company declared cash dividends of ₱0.50 per share or ₱1,327.75 million to stockholders of record as of June 22, 2010. The said cash dividends were paid on July 15, 2010.

On May 21, 2009, the Parent Company declared and distribute cash dividends of ₱0.20 per share or ₱542.10 million to stockholders of record as of June 5, 2009. The said cash dividends were paid on June 30, 2009.

As of December 31, 2011 and 2010, ₱401.66 million of the retained earnings of the subsidiaries are appropriated for future capital investments.

On various dates in 2011, 2010 and 2009, Semirara, Beta and Wirerope declared dividends amounting to ₱3,607.40 million, ₱1,786.22 million and ₱1,681.41 million, respectively, of which dividends to non-controlling interest amounted to ₱1,575.71 million, ₱779.96 million and ₱738.90 million, respectively.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Parent Company's retained earnings available for dividend declaration as of December 31, 2011 and 2010 amounted to ₱6.30 billion and ₱5.83 billion, respectively.

The unappropriated retained earnings include accumulated equity in undistributed net earnings of consolidated subsidiaries, associates and jointly controlled entities accounted for under equity method.of ₱16.92 billion and ₱13.45 billion as of December 31, 2011 and 2010, respectively. These are not available for dividend declaration until declared by the subsidiaries, associates and the jointly controlled entities.

Capital Management
The primary objective of the Group's capital management strategy is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. There were no changes made in the Group's capital management objectives, policies or processes. The Group considers total stockholders' equity as capital. Equity, which the Group considers as capital, pertains to the equity attributable to equity holders of the Group less unrealized gain or loss on AFS financial assets.

The Group is not subject to any externally imposed capital requirements.

23. **Employee Benefits**

Retirement Plans
The Group has both unfunded and funded, noncontributory, defined benefit pension plans covering substantially all of their regular employees. The latest actuarial valuation reports of theretirement plans were made on December 31, 2011.

The following table summarizes the components of net pension expense (included in "Salaries, wages and employee benefits" account) in the consolidated statement of income:

Pension expense

	2011	2010	2009
	(Amounts in Thousands)		
Current service cost	**₱71,510**	₱94,025	₱29,474
Interest cost on benefit obligation	**15,793**	39,801	34,096
Expected return on plan assets	**(10,528)**	(35,473)	(24,171)
Net actuarial loss (gain) recognized during the year	**(1,643)**	(11,308)	16,455
Effect of the asset limit - loss	**98**	–	–
Past service cost - non vested benefit	**615**	2,031	2,031
Amortization of transition obligation recognized during the year	**18**	18	–
Total pension expense	**₱75,863**	₱89,094	₱57,885
Actual return on plan assets	**₱31,400**	₱737,586	₱219,810

Pension income

	2011	2010	2009
	(Amounts in Thousands)		
Current service cost	**₱30,965**	₱–	₱–
Interest cost on benefit obligation	**30,047**	–	–
Expected return on plan assets	**(65,393)**	–	–
Net actuarial gain recognized during the year	**(34,742)**	–	–
Past service cost - non vested benefit	**1,416**	–	–
Total pension income	**(₱37,707)**	₱–	₱–
Actual return on plan assets	**₱178,502**	₱–	₱–

The pension expense amounting to ₱32.50 million in 2009, which pertains to AG&P, are presented under the line item "Income after tax from discontinued operations" in the consolidated statement of income.

Movements in the fair value of plan assets of the Group follow:

	2011	2010	2009
	(Amounts in Thousands)		
Balance at beginning of year	**₱1,246,622**	₱571,315	₱340,067
Expected return on plan assets	**75,921**	35,473	24,171
Actual contributions	**88,781**	–	61,964
Benefits paid	**(3,107)**	(3,198)	(50,559)
Transfer of assets	**(55)**	–	34
Actuarial gain – net	**133,981**	702,111	195,638
Obligations on discontinued operations - sale of subsidiary	–	(59,079)	–
Balance at end of year	**₱1,542,143**	₱1,246,622	₱571,315

Changes in the present value of the defined benefit obligation follow:

	2011	2010	2009
	(Amounts in Thousands)		
Balance at beginning of year	**₱607,842**	₱415,110	₱343,723
Interest cost	**45,839**	39,801	34,096
Current service cost	**102,475**	91,400	29,474
Benefits paid	**(3,162)**	(3,198)	(50,559)
Transfer of obligations	**–**	(471)	34
Actuarial (gain) loss – net	**41,528**	105,012	58,342
Adjustment pertaining to the disposal of a subsidiary	**–**	(39,812)	–
Balance at end of year	**₱794,522**	₱607,842	₱415,110

Net pension liability to be recognized in the consolidated statements of financial position:

	2011	2010	2009
	(Amounts in Thousands)		
Fair value of plan assets	**₱1472,560**	₱1,246,622	₱571,313
Present value of unfunded obligation	**719,771**	607,842	415,110
Excess of fair value of plan assets over present value of unfunded obligation	**752,789**	638,780	156,203
Unrecognized actuarial gain - net	**(942,553)**	(871,361)	(292,118)
Unrecognized past service cost - non vested	**8,684**	10,715	12,746
Unrecognized net transition obligation	**775**	71	–
Liabilities to be recognized in the consolidated statements of financial position	**(₱180,305)**	(₱221,795)	(₱123,169)

Net pension asset to be recognized in the consolidated statements of financial position:

	2011	2010	2009
	(Amounts in Thousands)		
Fair value of plan assets	**₱69,583**	₱–	₱–
Present value of unfunded obligation	**74,751**	–	–
Excess of fair value of plan assets over present value of unfunded obligation	**(5,168)**	–	–
Unrecognized actuarial gain - net	**9,523**	–	–
Asset to be recognized in the consolidated statements of financial position	**₱4,355**	₱–	₱–

The Group does not expects to contribute into the pension fund in 2012.

The amounts for the current and the previous four periods follow:

	2011	2010	2009	2008	2007
	(Amounts in Thousands)				
Present value of defined benefit obligation	**₱794,522**	₱607,842	₱399,801	₱328,414	₱337,317
Fair value of plan assets	**1,542,143**	1,246,622	571,315	340,067	430,073
Excess of fair value of plan assets over present value of unfunded obligation	**747,621**	638,780	171,514	11,653	92,756
Experience adjustments on plan obligation	**71,434**	(29,410)	6,254	(85,486)	1,664
Experience adjustments on plan assets	**133,908**	704,694	164,737	(209,130)	68,458

The assumptions used to determine pension benefits of the Group follow:

	2011	2010	2009
Discount rate	**6.08% to 6.75%**	5.82% to 10.82%	8.60% to 11.26%
Salary increase rate	**3.00% to 10.00%**	3.00% to 12.00%	3.00% to 10.75%
Expected rate of return on plan assets	**6.00% to 6.50%**	6.00% to 12.00%	6.00% to 7.00%

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

As of December 31, 2011 and 2010, the Group's plan assets consist primarily of the following:

	2011	2010
Cash and cash equivalents	**3.00%**	0.61%
Debt instruments	**2.00**	17.08
Investments in stocks	**75.00**	82.08
Other assets	**20.00**	0.23
	100.00%	100.00%

24. **Costs of Sales and Services**

Details of cost of sales and services follow:

	2011	2010	2009
		(Amounts in Thousands)	
Cost of Sales			
Fuel and lubricants	**₱4,242,030**	₱2,144,741	₱1,737,553
Cost of real estate inventory	**4,004,240**	4,720,585	4,332,143
Materials and supplies	**1,821,355**	2,948,473	2,424,436
Depreciation and amortization (Notes 12, 13 and 14)	**1,797,211**	1,337,876	849,003
Outside services (Note 21)	**1,410,563**	2,913,780	2,138,272
Hauling, shiploading and handling costs (Note 21)	**1,198,572**	652,237	492,715
Direct labor	**622,215**	405,183	336,837
Production overhead	**456,211**	596,642	311,936
Others	**151,324**	67,740	102,124
	15,703,721	15,787,257	12,725,019
Cost of Services			
Materials and supplies	**6,515,312**	6,479,986	3,334,848
Outside services (Note 21)	**2,751,187**	2,007,267	2,072,238
Direct labor	**1,638,495**	1,093,714	1,736,942
Spot purchases	**1,500,978**	1,771,760	141,150
Production overhead	**1,171,005**	1,095,915	403,099
Depreciation and amortization (Notes 12, 13 and 14)	**1,097,976**	1,783,664	492,591
Fuel and lubricants	**997,184**	415,376	11,084
Hauling, shiploading and handling costs (Note 21)	**6,955**	13,584	3,114
Others	**46,167**	155,360	175,610
	15,725,259	14,816,626	8,370,676
	₱31,428,980	₱30,603,883	₱21,095,695

Depreciation, depletion and amortization included in the consolidated statement of income follow:

	2011	2010	2009
		(Amounts in Thousands)	
Included in:			
Mining	**₱1,797,211**	₱1,337,876	₱849,319
Energy sales	**776,589**	793,300	168,633
Construction contracts	**321,387**	990,364	323,680
Operating expenses (Note 25)	**198,656**	105,782	81,646
	₱3,093,843	₱3,227,322	₱1,423,278

	2011	2010	2009
		(Amounts in Thousands)	
Depreciation, depletion and amortization of:			
Property, plant and equipment (Note 13)	**₱3,496,747**	₱3,667,181	₱1,664,037
Investment properties (Note 12)	**6,313**	6,262	5,747
Other noncurrent assets (Note 14)	**18,009**	18,239	14,672
	₱3,521,069	₱3,691,682	₱1,684,456

Depreciation, depletion and amortization adjusted in ending inventories amounted to ₱0.43 million, ₱0.46 million and ₱0.26 million in 2011, 2010 and 2009, respectively.

Salaries, wages and employee benefits included in the consolidated statement of income follow:

	2011	2010	2009
		(Amounts in Thousands)	
Presented under:			
Costs of construction contracts	**₱1,170,311**	₱1,008,525	₱1,907,831
Operating expenses (Note 25)	**973,829**	755,513	456,863
Costs of mining	**608,734**	398,932	366,772
	₱2,752,874	₱2,162,970	₱2,731,466

25. **Operating Expenses**

This account consists of:

	2011	2010	2009
		(Amounts in Thousands)	
Government share (Note 31)	**₱1,497,356**	₱1,325,106	₱450,152
Salaries, wages and employee benefits (Notes 23 and 24)	**973,829**	755,513	456,863
Taxes and licensess	**677,460**	307,613	287,434
Commission	**503,946**	480,694	316,456
Advertising and marketing	**337,092**	338,133	248,718
Outside services	**211,478**	301,546	152,021
Depreciation and amortization (Notes 12, 13, 14 and 24)	**198,656**	105,782	81,646
Rent (Note 37)	**104,834**	73,452	35,729
Repairs and maintenance	**94,728**	67,047	28,790
Communication, light and water	**75,686**	62,891	37,718
Insurance	**68,172**	66,199	13,807
Entertainment, amusement and recreation	**62,395**	66,021	35,500
Association dues	**50,276**	33,356	15,665
Transportation and travel	**47,292**	72,974	21,991
Supplies	**46,954**	52,346	46,780
Organizational cost	**20,221**	–	–
Provision for doubtful accounts (Note 7)	**15,178**	58,905	76,948
Provision for over-nomination (Note 37)	**–**	383,294	–
Probable losses on:			
Other current assets (Note 10)	**–**	88,778	–
Property, plant and equipment (Note 13)	**–**	6,670	–
Other noncurrent assets (Note 14)	**–**	–	40,374
Miscellaneous	**220,354**	108,810	83,451
	₱5,205,907	₱4,755,130	₱2,430,043

26. **Finance Income**

Finance income is derived from the following sources:

	2011	2010	2009
		(Amounts in Thousands)	
Interest on:			
Real estate installment receivables	**₱666,258**	₱794,576	₱658,932
Short-term placements (Note 4)	**328,309**	93,473	80,727
Bank savings account (Note 4)	**89,070**	99,680	11,134
Invesment from sinking fund (Note 14)	**7,210**	5,421	–
Accretion on unamortized discount on real estate receivables (Note 7)	**7,160**	52,104	63,056
Accretion on unamortized discount on security deposits (Note 10)	**169**	12,787	20,624
	₱1,098,176	₱1,058,041	₱834,473

27. **Finance Costs**

The finance costs are incurred from the following:

	2011	2010	2009
		(Amounts in Thousands)	
Long-term borrowings	**₱1,103,810**	₱1,438,076	₱509,333
Bank loans and short-term borrowings	**87,091**	66,987	856
Accretion on unamortized discount on liabilities on purchased land and provision for decommissioning and site rehabilitation (Notes 16 and 20)	**40,381**	66,867	33,998
Amortization of debt issuance costs (Note 19)	**30,603**	5,200	1,148
	₱1,261,885	₱1,577,130	₱545,335

28. **Other Income (Expenses)**

This account consists of:

	2011	2010	2009
		(Amounts in Thousands)	
Forfeitures and cancellation of contracts	**₱160,145**	₱108,672	₱16,830
Gain on sale of property, plant and equipment - net (Note 13)	**57,565**	28,958	12,853
Management fee	**55,308**	5,605	–
Rental income (Note 12)	**53,807**	66,962	23,767
Foreign exchange gain (loss) - net	**(46,567)**	177,715	52,570
Recoveries from insuarance claims	**35,180**	5,069	–
Dividend income	**4,547**	5,785	799
Commission income	**–**	35	205
Negative goodwill (Note 33)	**–**	–	15,667
Others	**112,888**	89,146	(99,345)
	₱432,873	₱487,947	₱23,346

Others account include insurance claims, unrealized marked-to-market gains and others.

29. Income Tax

The provision for income tax shown in the consolidated statements of income consists of:

	2011	2010	2009
		(Amounts in Thousands)	
Final	**₱78,879**	₱38,612	₱11,635
Current	**763,135**	660,474	506,132
Deferred	**503,141**	330,049	83,353
	₱1,345,155	₱1,029,135	₱601,120

The components of net deferred tax assets as of December 31, 2011 and 2010 follow:

	2011	2010
	(Amounts in Thousands)	
Deferred tax assets on:		
Deferred organizational cost	**₱6,060**	₱–
Allowance for:		
Doubtful accounts	**3,969**	951
Inventory obsolescence	**1,727**	1,727
Probable losses	**159**	159
Pension liabilities	**2,799**	5,619
Unrealized foreign exchange loss	**908**	930
Excess of tax over book income pertaining to construction contracts and real estate sales	**706**	225
NOLCO	**11**	3,524
MCIT	**–**	3,599
	16,339	16,734
Deferred tax liabilities on:		
Unamortized discount on payable to landowners	**(15)**	(115)
Others - net unrealized gain	**(184)**	(6,428)
	(199)	(6,543)
	₱16,140	₱10,191

The components of net deferred tax liabilities as of December 31, 2011 and 2010 follow:

	2011	2010
	(Amounts in Thousands)	
Deferred tax assets on:		
Pension liabilities	**₱28,189**	₱18,407
Allowance for:		
Doubtful accounts	**21,421**	21,421
Probable losses	**7,648**	7,648
Unamortized discount on receivables	**434**	2,582
	57,692	50,058

(Forward)

	2011	2010
	(Amounts in Thousands)	
Deferred tax liabilities on:		
Excess of book over tax income pertaining to construction contracts and real estate sales	**(₱973,488)**	(₱479,232)
Capitalized interest on real estate for sale and development deducted in advance	**(76,320)**	(26,984)
Unamortized transaction cost on loans payabale	**(14,367)**	–
Unamortized discount on payable to landowners	**(766)**	(12,252)
Incremental cost of property, plant and equipment	**(565)**	(7,847)
Unrealized marked to market gain	**(420)**	–
Unamortized prepaid rent	**(225)**	(157)
Others - net unrealized gain	–	(20,352)
	(1,066,151)	(546,824)
	(₱1,008,459)	(₱496,766)

The Group has the following deductible temporary differences, NOLCO and MCIT that are available for offset against future taxable income or tax payable for which deferred tax assets have not been recognized:

	2011	2010
	(Amounts in Thousands)	
Allowance for probable losses on noncurrent assets	**₱129,132**	₱135,802
Pension liabilities	**103,329**	57,901
NOLCO	**77,910**	73,300
Provision for decommissioning and site rehabilitation	**74,736**	14,732
Allowance for doubtful accounts	**72,426**	75,202
Allowance for probable losses on current assets	**57,131**	145,908
Unrealized forex loss	**26,475**	–
MCIT	**24**	46
Organizational costs	**20**	–
Unamortized discount on security deposits	–	169
	₱541,183	₱503,060

The deferred income tax effects of the above deductible temporary differences for which no deferred tax assets are recognized amounted to ₱162.35 million and ₱150.92 million as of December 31, 2011 and December 31, 2010, respectively. Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used.

The Group assesses the unrecognized deferred tax assets and will recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

The reconciliation of the statutory income tax rate to the effective income tax rate follows:

	2011	2010	2009
Statutory income tax rate	**30.00%**	30.00%	30.00%
Adjustments for:			
Tax-exempt income	**(15.62)**	(14.95)	(12.10)
Nondeductible (nontaxable) equity in net losses (earnings) of associates and jointly controlled entities	**(4.81)**	(5.69)	(8.71)
Nondeductible expenses	**0.50**	1.25	0.20
Interest income subjected to final tax at a lower rate - net	**(0.34)**	(0.21)	(0.11)
Nondeductible interest expense	**0.12**	0.05	0.10
Changes in unrecognized deferred tax assets	**0.03**	(0.07)	1.26
Non taxable dividend income	**(0.01)**	(0.02)	(0.01)
Gain on sale of investments in shares of stock subjected to final tax	–	(0.06)	(0.21)
Effective income tax rate	**9.87%**	10.30%	10.42%

Board of Investments (BOI) Incentives

New Developer of Mass Housing Project

In 2011 and 2010, the BOI issued in favor of PDI a Certificate of Registration as a New Developer of Mass Housing Project for several of its real estate projects in accordance with the Omnibus Investment Code of 1987. Pursuant thereto, the projects has been granted an Income Tax Holiday (ITH) for a period of four (4) years.

Expanding Producer of Coal

On September 26, 2008, the BOI issued in favor of Semirara a Certificate of Registration as an Expanding Producer of Coal in accordance with the provisions of the Omnibus Investments Code of 1987. Pursuant thereto, Semirara shall be entitled to for six (6) years. Semirara shall initially be granted a four (4) year ITH. The additional two (2) year ITH shall be granted upon submission of completed or on-going projects in compliance with its Corporate Social Responsibility (CSR), which shall be submitted before the lapse of its initial four (4) year ITH.

New Operator of the 600-MW Calaca Coal-Fired Power Plant

On April 19, 2010, SCPC was registered with the BOI as New Operator of the 600-MW Calaca Coal-Fired Power Plant on a Non-Pioneer Status in accordance with the provisions of the Omnibus Investments Code of 1987. Pursuant thereto, SCPC shall enjoy income tax holiday for four (4) years from April 2011 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH incentives shall be limited to the revenue generated from the sales of electricity of the 600 MW Batangas Coal-Fired Thermal Power Plant. On January 7, 2011, the BOI approved SCPC's request for an earlier application of the ITH to be effective January 1, 2010.

30. **Basic/Diluted Earnings Per Share**

The following table presents information necessary to calculate basic earnings per share on net income attributable to equity holders of the Parent Company (in thousands except basic earnings per share):

Basic/Diluted, Income for the Year

	2011	2010	2009
		(Amounts in Thousands)	
Net income	**₱9,595,451**	₱7,867,283	₱4,703,968
Divided by weighted average number of common shares	**2,655,494**	2,655,494	2,655,494
Basic earnings per share	**₱3.61**	₱2.96	₱1.77

Basic/Diluted, Income from Continuing Operations

	2011	2010	2009
		(Amounts in Thousands)	
Net income	**₱9,595,451**	₱7,201,534	₱4,411,712
Divided by weighted average number of common shares	**2,655,494**	2,655,494	2,655,494
Basic earnings per share	**₱3.61**	₱2.71	₱1.66

Basic/Diluted, Income from Discontinued Operations
EPS on post-tax income from discontinued operations attributable to equity holders of the Parent Company as of December 31:

	2010	2009
Income from discontinued operations	₱677,345	₱297,347
Less income from discontinued operations attributable to minority interests	11,596	5,091
	665,749	292,256
Weighted average number of common shares for basic EPS	2,655,494	2,655,494
Basic EPS	₱0.25	₱0.11

The assumed conversion of the Group’s preferred shares has no dilutive effect. Accordingly, no diluted earnings per share is presented in 2011, 2010 and 2009.

31. **Coal Operating Contract with DOE**

Semirara has a Coal Operating Contract with DOE dated July 11, 1977, as amended on January 16, 1981, for the exploration, development, mining and utilization of coal over Semirara Island, Antique under the terms and conditions provided therein and pursuant to the provisions of Presidential Decree No. 972, otherwise known as the Coal Development Act of 1976. The contract is for a maximum period of 35 years (inclusive of the developmental stage and renewals) up to July 2012. The contract also provides for the manner and basis of sharing the gross proceeds from coal production between the Semirara and DOE.

On May 13, 2008, the DOE granted Semirara's request for an extension of its COC for another 15-years or until July 14, 2027. On November 12, 2009, the COC was amended further, expanding its contract area to include portions of Caluya and Sibay islands, Antique, covering an additional area of 5,500 hectares and 300 hectares, respectively.

In return for the mining rights granted to Semirara, the Government is entitled to receive annual royalty payments consisting of the balance of the gross income after deducting operating expenses, operator's fee and special allowance. Semirara's provision for DOE's share (including accrued interest computed at 14% per annum on outstanding balance) under this contract and to the different local government units in the province of Antique, under the provisions of the Local Government Code of 1991, amounted to ₱1,479.97 million and ₱1,325.11 million as of December 31, 2011 and 2010, respectively. The liabilities amounting to ₱905.01 million and ₱1,013.04 million, as of December 31, 2011 and 2010, respectively, are included under the "Accounts and other payables" account in the consolidated statement of financial position (see Note 17).

In 2002, the DOE, through the Energy Resources Development Bureau, approved the exclusion of coal produced and used solely by Semirara to feed its power plant in determining the amount due to DOE.

32. Investment in DMFB Joint Venture

DMFB Joint Venture (the Joint Venture) is a joint venture agreement between DMCI and First Balfour Inc. (FBI). The Joint Venture was formed on January 18, 2008 for the purpose of entering into a construction contract with Light Rail Transit Authority (LRTA). The Joint Venture is unincorporated and is not registered with the Philippine SEC. However, the Joint Venture was registered with the Bureau of Internal Revenue on May 27, 2008 as builder of constructions or parts, civil engineering. The Joint Venture's principal place of business is at 3rd Floor, NIA Bldg. A, EDSA corner NIA Road 1, Barangay Pinyahan, Quezon City.

On May 16, 2008, the Joint Venture was declared as the winning bidder for the construction and completion of the LRT Line 1 North Extension Project (the Project).

The respective financial interest of the Parties in the Joint Venture shall be 51% to DMCI and 49% to FBI. It shall be adjusted from time to time based on the ratio of the Parties' respective aggregate capital contribution. Irrespective of the financial contribution, management should be of unanimous decision.

The Group's share of the Joint Venture's assets and liabilities are as follows:

	2011	2010
	(Amounts in Thousands)	
Current assets	**₱96,390**	₱376,814
Current liabilities	**75,971**	267,107
	₱20,419	₱109,707

The Group's share of the Joint Venture's profits are as follows:

	2011	2010
	(Amounts inThousands)	
Revenue	**₱591**	₱209,446
Construction cost	–	66,942
Operating expenses	–	22,555
	–	89,497
	₱591	₱119,949

Exemption to Corporate Income Tax
Persuant to Section 22 (Paragraph B) of the Tax Code of 1997, the term "corporation" shall include partnerships, no matter how created or organized, joint stock companies, joint accounts, associations or insurance companies; but does not include general professional partnerships and a joint venture or consortium formed for the purpose of undertaking construction project. Such being the case, the Joint Venture formed as a result of joint venture agreement between DMCI and First Balfour, Inc. (the Parties) for the construction of LRT Line 1 North Extension Project, is not subject to the corporate income tax.

33. **Acquisition of Calaca Power Plant**

On July 8, 2009, PSALM selected the Parent Company as the winning bidder for the sale of the 600-megawatt Batangas Coal-Fired Thermal Power Plant (the Power Plant) located in San Rafael Calaca, Batangas.

Pursuant to the provision of the Asset Purchase Agreement (APA), PSALM, agreed to sell and transfer to the Parent Company the Power Plant on an "as is where is" basis. The agreed Purchase Price amounting to US $368.87 million was for the acquisition of 2 x 300-megawatt (MW) Batangas Coal-Fired Thermal Power Plant from PSALM as of December 2, 2009.

In an Amendment, Accession and Assumption Agreement dated December 2, 2009, DMCI-HI assigned all of its rights and obligations under the APA and the LLA to SCPC. PSALM consented to the said assignment. Closing under the APA was achieved on December 2, 2009, upon which control, possession, risk of loss or damage of and the obligation to operate the Purchased Assets, and the rights to its revenues were turned over to SCPC. However, legal title to the Purchased Assets will transfer to SCPC only upon full payment of the purchase price. As the assignee in the APA and LLA, the SCPC acquired the rights and obligations enumerated in the APA and LLA for a consideration amounting to ₱54.34 million.

On December 2, 2009, the total cash payments made to PSALM are broken down as follow:

a. ₱6.62 billion in peso equivalent using the exchange rate of ₱47.12 representing 40% down payment for US$351.0 million purchase price of the Power Plant; and
b. ₱0.49 billion in peso equivalent using the exchange rate of ₱47.20 representing payment for US$10.39 million advance rental payment for the 25-year lease of the premises underlying the Power Plant and for purchase orders for parts and services for the Power Plant.

Below are the significant provisions of the APA:

a. All liabilities, obligations, taxes, fees, fines or penalties pertaining to the Power Plant and operating contracts accruing or incurred prior to closing date, regardless of the date when the demand for payment or assessment is made, shall be for the account of PSALM.
b. SCPC must hire as contractual employees all of the separated NPC employees for a period of five (5) months.
c. During the deferred payment period, SCPC shall at the end of each fiscal year, maintain a debt service ratio of at least 1.1:1.0 and debt-equity ratio not exceeding 2.5:1.0.
d. Should there be (i) Semirara coal; (ii) diesel fuel and (iii) bunker fuel on site on closing date, SCPC shall pay PSALM the value of those based on the price paid by NPC for the same.

As embedded in the APA, the Parent Company will also enter into a LLA with PSALM for the lease of land in which the Power Plant is situated, for the period of 25 years, renewable for another period of 25 years, upon mutual agreement of both Parties. Refer to Note 14.

Other provision of the Agreement includes:

a. The Parent Company undertakes that it shall own at least 57% of the voting capital of Semirara; and
b. SCPC shall be a wholly owned subsidiary of Semirara.

A breach of any of the above shall constitute a breach by the Parent Company of the APA.

Relative to the assignment of the APA and LLA by the Parent Company to SCPC, total consideration recognized by SCPC as due to Parent Company amounted to ₱54.34 million.

In a letter dated December 18, 2009, PSALM claims an additional amount of ₱9.55 million representing the difference between the US$ to Peso exchange rate used for the 40% down-payment of the purchase price, ₱47.13, versus the ₱47.20 US$ to Peso exchange rate PSALM alleges to be in accordance with the APA. The assessed amount was accrued in 2009 as additional acquisition cost allocated to “Property, plant and equipment”. Subsequently, the amount was paid by the Group on February 8, 2010.

The principal amount of the Deferred Payment is equivalent to 60% of the purchase price for the Power Plant. The Deferred Payment will be paid to PSALM via 14 equal semi-annual payments beginning June 2, 2010 with an interest rate of 11% per annum, compounded semi-annually. Under the APA, upon prior written notice to PSALM, and on the condition that SCPC is not in breach of any of its substantial obligations to PSALM under the APA and LLA, SCPC may prepay any portion of the Deferred Balance in Philippine Pesos (see Note 13).

Under a Memorandum of Agreement dated December 2, 2009 between PSALM and SCPC, the amounts of ₱288.39 million representing parts identified as required to achieve 350 MW capability of the Power Plant and ₱247.55 million as unawarded purchase orders will be deducted from the principal amount of the Deferred Balance.

The fair value of the identifiable assets and liabilities as at the date of acquisition were (amounts in thousands):

	Fair value recognized on acquisition
Property, plant and equipment (Note 13)	₱16,211,370
Materials and supplies (Note 9)	618,340
Coal (Note 9)	273,936
Prepaid rent (Note 10)	150,568
Fuel and diesel (Note 9)	86,705
Net assets acquired	17,340,919
Negative goodwill arising on acquisition	(15,667)
Total cost	₱17,325,252

Total consideration transferred relating to the acquisition follows (amounts in thousands):

Cash consideration	₱7,104,375
Payable to PSALM	9,770,448
Transaction cost	450,429
Total cost	₱17,325,252

The valuation of the property, plant and equipment and materials and supplies was completed in April 2010 and showed that the fair value at the date of acquisition was ₱16.21 billion, an increase of ₱514.34 million compared with the provisional value as of December 31, 2009.

The 2009 comparative information has been restated to reflect this adjustment. There was recognition of negative goodwill arising on the acquisition of ₱15.67 million. The decreased depreciation charge on the buildings from the acquisition date to December 31, 2009 was ₱20.76 million.

34. Operating Segments

Business Segment Information

For management purposes, the Group is organized into six (6) major business units that are largely organized and managed separately according to industry.

Construction - engaged in various construction component businesses such as production and trading of concrete products, handling steel fabrication and electrical and foundation works.

Coal mining - engaged in the exploration, mining and development of coal resources on Semirara Island in Caluya, Antique and nickel extraction in Zambales.

Real estate - focused in mid-income residential development carried under the brand name DMCI Homes.

Power - engaged in the business of a generation company which designs, constructs, invest in, and operate power plants.

Water - recognized through a consortium with MPIC (the "Consortium") and operated through Maynilad, the water utility for the west portion of Metro Manila.

Others - includes the Parent Company and other industry (i.e., manufacturing).

No operating segments have been aggregated to form the above reportable operating segments. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on revenue, earnings before interest, income taxes and depreciation and amortization (EBITDA) and operating profit or loss, and is measured consistently in the consolidated financial statements.

Group financing (including finance costs and finance income) and income taxes are also managed per operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Business Segments

The following tables present revenue, net income (loss) and depreciation, depletion and amortization information regarding business segments for the years ended December 31, 2011, 2010 and 2009 and property, plant and equipment additions, total assets and total liabilities for the business segments as of December 31, 2011, 2010 and 2009:

Year ended December 31, 2011 (Amounts in Thousands)

	Construction	Coal Mining	Nickel Mining	Real Estate Development	Power	Water	Parent Company and Others	Total
Revenue	₱10,277,235	₱16,230,531	₱2,451,697	₱8,251,128	₱10,420,559	₱–	₱171,435	₱47,802,585
Other income (expense) – net	42,609	73,894	23,030	264,402	22,488	2,195,061	(3,412)	2,618,072
	10,319,844	16,304,425	2,474,727	8,515,530	10,443,047	2,195,061	168,023	50,420,657
Cost of sales and services	8,282,533	8,563,516	1,206,001	4,080,030	6,243,269	–	132,753	28,508,102
General and administrative expense (before depreciation and amortization)	200,803	1,848,654	89,682	1,734,535	1,018,544	–	115,032	5,007,250
	8,483,336	10,412,170	1,295,683	5,814,565	7,261,813	–	247,785	33,515,352
EBITDA	1,836,508	5,892,255	1,179,044	2,700,965	3,181,234	2,195,061	(79,762)	16,905,305
Other income (expenses)								
Finance income (cost) (Notes 26 and 27)	65,653	10,634	(1,852)	(73,801)	(318,222)	–	153,879	(163,709)
Depreciation and amortization (Notes 24 and 25)	(385,054)	(1,720,687)	(99,232)	(71,369)	(841,118)	–	(2,075)	(3,119,535)
Pretax income	1,517,107	4,182,202	1,077,960	2,555,795	2,021,894	2,195,061	72,042	13,622,061
Provision for income tax (Note 29)	355,816	(16,428)	160,826	761,062	34,438	–	49,441	1,345,155
Net income	₱1,161,291	₱4,198,630	₱917,134	₱1,794,733	₱1,987,456	₱2,195,061	₱22,601	₱12,276,906
Net income attributable to non-controlling interest	₱44,384	₱1,819,305	₱–	₱–	₱810,527	₱–	₱7,239	₱2,681,455
Net income attributable to equity holders	₱1,116,907	₱2,379,325	₱917,134	₱1,794,733	₱1,176,929	₱2,195,061	₱15,362	₱9,595,451
Segment Assets								
Cash	₱3,869,815	₱3,752,017	₱891,150	₱2,874,883	₱1,474,432	₱–	₱2,203,450	₱15,065,747
Receivables	2,405,930	1,059,972	80,921	5,012,655	2,225,904	–	61,195	10,846,577
Inventories	149,424	2,997,851	128,624	12,503,426	1,668,518	–	36,832	17,484,675
Investment in associates and joint venture	50,682	–	–	39,222	–	–	10,759,479	10,849,383
Property, plant and equipment	1,226,695	3,706,971	262,057	657,338	17,562,225	–	4,058	23,419,344
Others	1,826,366	1,041,187	217,650	2,252,971	1,107,437	–	51,858	6,497,469
	₱9,528,912	₱12,557,998	₱1,580,402	₱23,340,495	₱24,038,516	₱–	₱13,116,872	₱84,163,195
Segment Liabilities								
Customers' advances and deposits	₱1,483,233	₱18,481	₱93,833	₱2,042,961	₱–	₱–	₱–	₱3,638,508
Loans payable	56,812	4,719,695	140,288	8,970,373	9,152,807	–	27,471	23,067,446
Finance lease payable	12,351	–	–	–	–	–	–	12,351
Others	5,099,292	4,600,538	354,023	2,254,396	2,647,482	–	712,271	15,668,002
	₱6,651,688	₱9,338,714	₱588,144	₱13,267,730	₱11,800,289	₱–	₱739,742	₱42,386,307
Other disclosures								
Acquisition of land for future development	₱–	₱–	₱–	₱1,438,978	₱376,605	₱–	₱–	₱1,815,583
Property, plant and equipment additions (Note 13)	₱635,117	₱2,065,988	₱188,037	₱300,356	₱347,790	₱–	₱2,053	₱3,539,341

Year ended December 31, 2010 (Amounts in Thousands)

	Construction	Coal Mining	Nickel Mining	Real Estate Development	Power	Water	Parent Company and Others	Total
Revenue	₱10,729,337	₱14,070,569	₱1,959,316	₱7,704,893	₱8,948,308	₱–	₱71,386	₱43,483,809
Other income (expense) - net	14,228	295,558	(20,188)	177,748	(3,661)	1,887,153	30,306	2,381,144
	10,743,565	14,366,127	1,939,128	7,882,641	8,944,647	1,887,153	101,692	45,864,953
Cost of sales and services	7,815,370	8,563,782	1,099,523	4,776,281	5,188,491	–	48,050	27,491,497
General and administrative expense (before depreciation and amortization)	292,912	1,704,476	106,765	1,355,238	1,044,417	–	136,386	4,640,194
	8,108,282	10,268,258	1,206,288	6,131,519	6,232,908	–	184,436	32,131,691
EBITDA	2,635,283	4,097,869	732,840	1,751,122	2,711,739	1,887,153	(82,744)	13,733,262
Other income (expenses)								
Finance income (cost) (Notes 26 and 27)	(11,321)	(164,953)	776	76,981	(463,480)	–	42,908	(519,089)
Depreciation and amortization (Notes 24 and 25)	(1,001,224)	(1,360,752)	(26,878)	(33,037)	(803,929)	–	(1,502)	(3,227,322)
Pretax income	1,622,738	2,572,164	706,738	1,795,066	1,444,330	1,887,153	(41,338)	9,986,851
Provision for income tax (Note 29)	357,122	(4,691)	142,390	509,067	(30,097)	–	55,344	1,029,135
Income before income from discontinued operations	1,265,616	2,576,855	564,348	1,285,999	1,474,427	1,887,153	(96,682)	8,957,716
Post-tax income from discontinued operations	–	–	–	–	–	–	677,345	677,345
Net income	₱1,265,616	₱2,576,855	₱564,348	₱1,285,999	₱1,474,427	₱1,887,153	₱580,663	₱9,635,061
Net income attributable to non-controlling interest	₱24,028	₱1,115,157	₱–	₱–	₱627,811	₱–	₱782	₱1,767,778
Net income attributable to equity holders	₱1,241,588	₱1,461,698	₱564,348	₱1,285,999	₱846,616	₱1,887,153	₱579,881	₱7,867,283
Segment Assets								
Cash	₱775,793	₱2,809,336	₱728,269	₱1,865,692	₱1,223,755	₱–	₱2,543,821	₱9,946,666
Receivables	2,361,454	1,347,863	136,477	6,275,379	1,785,535	–	665	11,907,373
Inventories	125,632	1,738,922	89,864	10,047,008	683,627	–	19,491	12,704,544
Investment in associates and joint venture	116,993	–	–	–	–	8,562,236	708,444	9,387,673
Property, plant and equipment	752,589	3,702,161	163,058	428,445	16,488,501	–	5,970	21,540,724
Others	1,568,934	1,750,486	334,552	1,984,712	774,814	–	100,367	6,513,865
	₱5,701,395	₱11,348,768	₱1,452,220	₱20,601,236	₱20,956,232	₱8,562,236	₱3,378,758	₱72,000,845
Segment Liabilities								
Customers' advances and deposits	₱1,391,098	₱211,423	22,933	₱2,812,545	₱–	₱–	₱–	₱4,437,999
Loans payable	139,138	3,247,406	–	6,253,335	10,000,157	–	12,555	19,652,591
Finance lease payable	124,767	–	–	–	–	–	–	124,767
Others	4,015,657	3,549,673	724,160	4,304,758	1,440,178	–	622,524	14,656,950
	₱5,670,660	₱7,008,502	₱747,093	₱13,370,638	₱11,440,335	₱–	₱635,079	₱38,872,307
Other disclosures								
Acquisition of land for future development (Note 13)	₱–	₱–	₱–	₱1,350,730	₱–	₱–	₱–	₱1,350,730
Property, plant and equipment additions (Note 13)	₱991,847	₱3,324,920	₱163,058	₱134,754	₱93,886	₱–	₱2,744	4,711,209

Year ended December 31, 2009 (Amounts in Thousands)

	Construction	Coal Mining	Nickel Mining	Real Estate Development	Power	Water	Parent Company and Others	Total
Revenue	₱7,999,066	₱11,500,193	₱101,937	₱6,963,108	₱443,493	₱–	₱260,054	₱27,267,851
Other income (expense) - net	(178,056)	(60,485)	4,184	83,018	216,134	1,674,873	(1,084)	1,738,584
	7,821,010	11,439,708	106,121	7,046,126	659,627	1,674,873	258,970	29,006,435
Cost of sales and services	6,538,775	7,722,659	113,458	4,756,934	419,709	–	197,957	19,749,492
General and administrative expense (before depreciation and amortization)	254,905	715,136	42,949	1,172,899	44,422	–	118,086	2,348,397
	6,793,680	8,437,795	156,407	5,929,833	464,131	–	316,043	22,097,889
EBITDA	1,027,330	3,001,913	(50,286)	1,116,293	195,496	1,674,873	(57,073)	6,908,546
Other income (expenses)								
Finance income (cost) (Notes 26 and 27)	(18,752)	19,299	478	307,619	(77,920)	–	58,414	289,138
Depreciation and amortization (Notes 24 and 25)	(325,420)	(1,046,621)	758	(51,111)	(2,330)	–	(3,125)	(1,427,849)
Pretax income	683,158	1,974,591	(49,050)	1,372,801	115,246	1,674,873	(1,784)	5,769,835
Provision for income tax (Note 29)	174,802	27,145	198	352,943	36,159	–	9,873	601,120
Income before income from discontinued operations	₱508,356	₱1,947,446	(₱49,248)	₱1,019,858	₱79,087	₱1,674,873	(₱11,657)	₱5,168,715
Post-tax income from discontinued operations	–	–	–	–	–	–	297,347	297,347
Net income	₱508,356	₱1,947,446	(₱49,248)	₱1,019,858	₱79,087	₱1,674,873	₱285,690	₱5,466,062
Net income attributable to non-controlling interest	₱11,601	₱733,808	₱–	₱–	₱10,811	₱–	₱5,874	₱762,094
Net income attributable to equity holders	₱496,755	₱1,213,638	(₱49,248)	₱1,019,858	₱68,276	₱1,674,873	₱279,816	₱4,703,968
Segment Assets								
Cash	₱474,109	₱481,921	₱64,618	₱1,210,587	₱10,728	₱–	₱613,818	₱2,855,781
Receivables	1,631,613	752,738	112,941	4,245,375	491,197	–	37,046	7,270,910
Inventories	503,754	1,983,780	51,643	6,979,981	999,387	–	38,993	10,557,538
Investment in associates and joint venture	721,899	45,650	–	–	–	6,979,839	–	7,747,388
Property, plant and equipment	3,127,493	2,270,454	18,505	393,889	16,553,276	–	5,928	22,369,545
Others	3,242,461	830,695	3,641	3,545,684	219,538	–	125,517	7,967,536
	₱9,701,329	₱6,365,238	₱251,348	₱16,375,516	₱18,274,126	₱6,979,839	₱821,302	₱58,768,698
Segment Liabilities								
Customers' advances and deposits	₱2,399,423	₱1,207	₱–	₱1,695,276	₱–	₱–	₱–	₱4,095,906
Loans payable	972,561	1,267,555	–	4,202,965	9,571,203	–	3,218,115	19,232,399
Finance lease payable	99,000	–	–	–	–	–	–	99,000
Others	3,740,085	2,480,958	87,636	4,042,809	804,375	–	690,270	11,846,133
	₱7,211,069	₱3,749,720	₱87,636	₱9,941,050	₱10,375,578	₱–	₱3,908,385	₱35,273,438
Other disclosures								
Acquisition of land for future development (Note 12)	₱–	₱–	₱–	₱433,431	₱–	₱–	₱–	₱433,431

The Group's management reporting and controlling systems use accounting policies that are the same as those described in Note 2 in the summary of significant accounting policies under PFRS.

The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as “EBITDA” in the management and reporting system.

EBITDA is the measure of segment profit (loss) used in segment reporting and comprises gross profit, selling and general administrative expenses, research and non-capitalized development costs, other operating income (expense), net, as well as other financial income (expense), net.

Intersegment revenue is generally recorded at values that approximate third-party selling prices.

Segment assets principally comprise all assets. The industrial business segments' assets exclude income tax assets, assets from defined benefit plans and certain financial assets.

Segment liabilities principally comprise all liabilities. The industrial business segments' liabilities exclude income tax liabilities, liabilities from defined benefit plans and certain financial liabilities.

Geographic Information

Analysis of sales and revenue by geographical location

The financial information about the operations of the coal mining as of December 31, 2011, 2010 and 2009 reviewed by the management follows:

Customer Location	**2011**	2010	2009
		(Amounts in Thousands)	
Revenue			
Local	**₱9,041,168**	₱7,816,713	₱7,252,952
Export	**7,160,713**	8,926,588	4,247,241
	₱16,201,881	₱16,743,301	₱11,500,193

Substantially all revenue from external customers are from open cut mining and sales of thermal coal. Local and export classification above is based on the geographic location of the customer. All non-current assets other than financial instruments are located in the Philippines.

Sales to power company amounted to ₱7.01 billion, ₱2.37 billion and ₱4.30 billion for the years ended December 31, 2011, 2010 and 2009, respectively. All these revenue were from the Coal mining segment.

35. Financial Instruments

Fair Value of Financial Instruments
The table below presents a comparison by category of carrying amounts and estimated fair values of all the Group's financial instruments as of December 31, 2011 and 2010 (amounts in thousands):

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Loans and Receivables				
Cash and cash equivalents				
Cash on hand and in banks	**₱6,095,360**	**₱6,095,360**	₱4,796,531	₱4,796,531
Cash equivalents	**8,970,388**	**8,970,388**	5,150,135	5,150,135
Receivables - net				
Trade				
Real estate	**4,822,712**	**6,679,789**	5,652,968	7,267,264
General construction	**1,972,497**	**1,972,497**	2,306,369	2,306,369
Coal mining	**1,077,440**	**1,077,440**	1,467,097	1,467,097
Electricity sales	**2,176,048**	**2,176,048**	1,772,302	1,772,302
Merchandising and others	**57,740**	**57,740**	51,601	51,601
Receivable from related parties	**452,115**	**452,115**	491,700	491,700
Advances to officers and employees	**42,886**	**42,886**	49,549	49,549
Other receivables	**245,139**	**245,139**	169,234	169,234
Security deposits	**132,681**	**132,681**	339,022	339,022
Refundable deposits	**226,962**	**226,962**	244,049	244,049
	26,271,968	**28,129,045**	22,490,557	24,104,853
AFS investments				
Quoted securities	**58,181**	**58,181**	49,535	49,535
Unquoted securities	**166,236**	**166,236**	166,236	166,236
	224,417	**224,417**	215,771	215,771
Financial asset at FVPL	**71,400**	**71,400**	–	–
	₱26,567,785	**₱28,424,862**	₱22,706,328	₱24,320,624
Other Financial Liabilities				
Accounts and other payables	**₱11,925,949**	**₱11,925,949**	₱10,101,780	₱10,101,781
Liabilities for purchased land	**931,933**	**881,087**	1,391,884	1,288,909
Payable to related parties	**326,997**	**326,997**	517,384	517,384
Short-term and long-term debt - including current portion	**23,080,213**	**24,683,985**	19,777,358	21,908,553
Other noncurrent liabilities	**1,732,378**	**1,732,378**	1,170,027	1,170,027
	₱37,997,470	**₱39,550,396**	₱32,958,433	₱34,986,654

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Financial assets
The fair values of cash and short-term receivables approximate their carrying amounts as of reporting dates due to the short-term nature of the transactions.

The fair values of real estate receivable are calculated by discounting expected future cash flows at applicable rates for similar instruments using the remaining terms of maturity. The discount rate used in 2011 and 2010 ranged from 15.12% to 16.50% and 13.16% to 16.00%, respectively.

Security deposits (related to Semirara's Operating Leases) - As of December 31, 2010, the fair values of the security deposits approximate their carrying amounts since these are already receivable within the year. As of December 31, 2011, security deposits has been fully collected.

AFS quoted equity securities and financial assets at FVPL - Fair values are based on quoted prices published in markets.

Refundable deposits are carried at cost since these are mostly deposits to a utility company as a consequence of its subscription to the electricity services of the said utility company needed for the Group's residential units.

Security deposits other than those pertaining to operating leases and unquoted AFS financial assets - In the absence of a reliable basis of determining fair values due to the unpredictable nature of future cash flows and the lack of suitable methods in arriving at a reliable fair value, these security deposits are carried at cost less impairment allowance, if any.

Financial liabilities
The fair values of accounts and other payables and accrued expenses and payables to related parties approximate their carrying amounts as of reporting dates due to the short-term nature of the transactions.

Estimated fair value of long-term fixed rate loans and liabilities for purchased land are based on the discounted value of future cash flows using the applicable rates for similar types of loans with maturities consistent with those remaining for the liability being valued. For floating rate loans, the carrying value approximates the fair value because of recent and regular repricing (quarterly) based on market conditions.

Fair Value Hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at December 31, 2011 and 2010, the Group's AFS financial assets amounting to ₱58.18 million and ₱49.54 million, respectively (see Note 6), and financial assets at FVPL amounting to ₱71.40 million in 2011 are carried at fair value based on Level 1 (see Note 5). There were no transfers among levels 1, 2 and 3 in 2011 and 2010.

Financial Risk Management Objectives and Policies
The Group's principal financial instruments comprise interest-bearing loans and borrowings. The main purpose of these financial instruments is to raise financing for its operations and capital expenditures. The Group has various other financial assets and liabilities, such as receivables and payables which arise directly from its operations.

The main risks arising from the use of financial instruments are equity price risk, market price risk, foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's BOD reviews and approves policies for managing each of these risks and they are summarized below.

The sensitivity analyses have been prepared on the following bases:

- Equity price risk - movements in equity indices
- Market Price risk - movements in one-year historical coal prices
- Interest rate risk - market interest rate on unsecured bank loans
- Foreign currency risk - yearly movement in the foreign exchange rates

The assumption used in calculating the sensitivity analyses of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at December 31, 2011 and 2010.

Equity price risk
Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments.

The effect on equity as a result of a change in fair value of quoted equity instruments held as financial asset at FVPL as of December 31, 2011 due to a reasonably possible change in equity indices, with all other variables held constant, will have an increase on equity by ₱0.50 million if equity indices will increase by 1%. An equal change in the opposite direction would have decreased equity by the same amount.

The effect on equity (as a result of a change in fair value of quoted equity instruments held as AFS investments as of December 31, 2011 due to a reasonably possible change in equity indices, with all other variables held constant, will have an increase on equity by ₱24.01 million if equity indices will increase by 15%. An equal change in the opposite direction would have decreased equity by the same amount.

The effect on equity (as a result of a change in fair value of quoted equity instruments held as AFS investments as of December 31, 2010 due to a reasonably possible change in equity indices, with all other variables held constant, will have an increase on equity by ₱18.02 million if equity indices will increase by 15%. An equal change in the opposite direction would have decreased equity by the same amount.

Market price risk
Market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The price that the Group can charge for its coal is directly and indirectly related to the price of coal in the world coal market. In addition, as the Group is not subject to domestic competition in the Philippines, the pricing of all of its coal sales is linked to the price of imported coal. World thermal coal prices are affected by numerous factors outside the Group's control, including the demand from customers which is influenced by their overall performance and demand for electricity. Prices are also affected by changes in the world supply of coal and may be affected by the price of alternative fuel supplies, availability of shipping vessels as well as shipping costs. As the coal price is reset on a periodic basis under coal supply agreements, this may increase its exposure to short-term coal price volatility.

There can be no assurance that world coal prices will be sustained or that domestic and international competitors will not seek to replace the Group in its relationship with its key customers by offering higher quality, better prices or larger guaranteed supply volumes, any of which would have a materially adverse effect on the Group's profits.

To mitigate this risk, the Group continues to improve the quality of its coal and diversify its market from power industry, cement industry, other local industries and export market. This will allow flexibility in the distribution of coal to its target customers in such manner that minimum target average price of its coal sales across all its customers will still be achieved (i.e., domestic vs local). Also, in order to mitigate any negative impact resulting from price changes, it is the Group's policy to set minimum contracted volume for customers with long term supply contracts for each given period (within the duration of the contract) and pricing is negotiated on a monthly basis to even out the impact of any fluctuation in coal prices, thus, protecting its target margin. The excess volumes are allocated to spot sales which may command different price than those contracted already since the latter shall follow pricing formula per contract. Nevertheless, on certain cases temporary adjustments on coal prices with reference to customers following a certain pricing formula are requested in order to recover at least the cost of coal if the resulting price is abnormally low vis-à-vis cost of production (i.e., abnormal rise in cost of fuel, forex).

Below are the details of the Group's coal sales to the domestic market (excluding those to the power-generating companies) and to the export market:

	2011	2010
Domestic market	**41.14%**	29.24%
Export market	**37.27**	57.36
as a percentage of total coal sales volume		

The following table shows the effect on income before income tax should the change in the prices of coal occur based on the inventory of the Group as of December 31, 2011 and 2010, with all other variables held constant. The change in coal prices is based on 1-year historical price movements.

Based on ending coal inventory	**Effect on income before income tax**	
Change in coal prices	**2011**	2010
	(Amounts inThousands)	
Increase by 30%	**₱915,762**	₱344,913
Decrease by 30%	**(915,762)**	(344,913)

Based on coal sales volume	**Effect on income before income tax**	
Change in coal prices	**2011**	2010
	(Amounts inThousands)	
Increase by 30%	**₱6,019,117**	₱5,022,990
Decrease by 30%	**(6,019,117)**	(5,022,990)

Foreign currency risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group does not have any foreign currency hedging arrangements.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their Philippine peso equivalents as of December 31, 2011 and 2010 follows (amounts in thousands):

	2011				
	U.S. Dollar	**Japanese Yen**	**UK Pounds**	**Euro**	**Php Equivalent**
Assets					
Cash and cash equivalents	**$46,740**	**¥2,739**	**£117**	**€43**	**₱2,060,982**
Trade receivables					
Coal mining	**2,897**	**–**	**–**	**–**	**127,004**
	$49,637	**2,739**	**117**	**43**	**2,187,986**
Liabilities					
Accounts and other payables	**3,352**	**–**	**–**	**–**	**146,952**
Long-term debt (including current portion)	**119,690**	**–**	**–**	**–**	**5,247,210**
	123,042	**–**	**–**	**–**	**5,394,162**
Net foreign currency denominated assets (liabilities)	**($73,405)**	**¥2,739**	**£117**	**€43**	**(₱3,206,176)**

	2010				
	U.S. Dollar	Japanese Yen	UK Pounds	Euro	Php Equivalent
Assets					
Cash and cash equivalents	$60,714	¥2,886	£–	€ –	₱2,663,260
Trade receivables					
Coal mining	15,951	–	–	–	699,292
	76,665	2,886	–	–	3,362,552
Liabilities					
Accounts and other payables	15,768	–	–	–	691,269
Long-term debt (including current portion)	68,143	–	–	–	2,987,389
	83,911	–	–	–	3,678,658
Net foreign currency denominated assets (liabilities)	($7,246)	¥2,886	£–	€–	(₱316,106)

The exchange rates used to restate the Group's foreign currency-denominated assets and liabilities as of December 31, 2011 and 2010 follow:

	2011	2010
US Dollar - Philippine Peso	**₱43.84 to US$1.00**	₱43.84 to US$1.00
Japanese Yen - Philippine Peso	**₱0.56 to ¥1.00**	₱0.54 to ¥1.00
UK Pounds - Philippine Peso	**₱67.75 to £1.00**	₱68.03 to £1.00
Euro - Philippine Peso	**₱56.73 to €1.00**	–

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and equity on December 31, 2011 and 2010 (amounts in thousands).

2011

	Basis Pts	**Effect on Profit**	**Effect on Equity**
In Peso per U.S. Dollar			
Increase	**2**	**(₱146,810)**	**(₱102,767)**
Decrease	**(2)**	**146,810**	**102,767**
In Peso per Japanese Yen			
Increase	**2**	**5,478**	**3,835**
Decrease	**(2)**	**(5,478)**	**(3,835)**

(Forward)

	Basis Pts	**Effect on Profit**	**Effect on Equity**
In Peso per UK Pounds			
Increase	**8**	**₱234**	**₱164**
Decrease	**(8)**	**(234)**	**(164)**
In Peso per Euro			
Increase	**8**	**86**	**60**
Decrease	**(8)**	**(86)**	**(60)**

2010

	Basis pts	Effect on Profit	Effect on Equity
In Peso per U.S. Dollar			
Increase	2	(₱14,492)	(₱10,144)
Decrease	(2)	14,492	10,144
In Peso per Japanese Yen			
Increase	2	5,772	4,040
Decrease	(2)	(5,772)	(4,040)

The movement in sensitivity analysis is derived from current observations on fluctuations in foreign currency exchange rates.

The Group recognized foreign exchange loss of ₱46.57 million and ₱177.72 million foreign exchange gain for the years ended December 31, 2011 and 2010, respectively, arising from the translation of the Group's cash and cash equivalents, trade receivables and long-term debt.

Credit risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group's maximum exposure to credit risk for the components of the statement of financial position at December 31, 2011 and 2010 is the carrying amounts except for real estate receivables. The Group's exposure to credit risk arises from default of the counterparties which include certain financial institutions, real estate buyers, subcontractors, suppliers and various electric companies. Credit risk management involves dealing only with recognized, creditworthy third parties. It is the Group's policy that all counterparties who wish to trade on credit terms are subject to credit verification procedures. The Treasury Department's policy sets a credit limit for each counterparty. In addition, receivable balances are monitored on an ongoing basis. The Group's financial assets are not subject to collateral and other credit enhancement except for real estate receivables and mining receivables from export sales. As of December 31, 2011 and 2010, the Group's exposure to bad debts is not significant.

Real estate contracts
Credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. The Group also undertakes supplemental credit review procedures for certain installment payment structures. The Group's stringent customer requirements and policies in place contributes to lower customer default. Customer payments are facilitated through various collection modes including the use of postdated checks. The credit risk for real estate receivable is also mitigated as the Group has the right to cancel the sales contract and takes possession of the subject house without need for any court action in case of default in payments by the buyer. This risk is further mitigated because the corresponding title to the subdivision units sold under this arrangement is transferred to the buyers only upon full payment of the contract price. Real estate receivables with carrying value of ₱4.82 billion and ₱5.65 billion as of December 31, 2011 and 2010, respectively, are guaranteed by collaterals with fair value of ₱7.59 billion and ₱12.95 billion, respectively. This resulted to a net exposure of ₱0.85 billion and ₱1.54 billion for

2011 and 2010, respectively. Financial effect of collaterals for the said real estate receivables amounted to ₱3.97 billion and ₱4.11 billion in 2011 and 2010, respectively.

Electricity sales
The Group earns substantially all of its revenue from the Wholesale Electricity Spot Market (WESM) and from various electric companies. WESM and the various electric companies are committed to pay for the energy generated by the power plant facilities.

Under the current regulatory regime, the generation rate charged by the Group to WESM is not regulated but is determined in accordance with the WESM Price Determination Methodology (PDM) approved by the Energy Regulatory Commission (ERC) and are complete pass-through charges to WESM. PDM is intended to provide the specific computational formula that will enable the market participants to verify the correctness of the charges being imposed. Likewise, the generation rate charged by the Group to various electric companies is not subject to regulations and are complete pass-through charges to various electric companies.

Mining
The Group evaluates the financial condition of the local customers before deliveries are made to them. On the other hand, export sales are covered by sight letters of credit issued by foreign banks subject to the Group's approval, hence, mitigating the risk on collection.

The Group generally offers 80% of coal delivered payable within thirty (30) days upon receipt of billing and the remaining 20% payable within 15 days after receipt of final billing based on final analysis of coal delivered.

Construction contracts
The credit risk for construction receivables is mitigated by the fact that the Group can resort to carry out its contractor's lien over the project with varying degrees of effectiveness depending on the jurisprudence applicable on location of the project. A contractor's lien is the legal right of the Group to takeover the projects-in-progress and have priority in the settlement of contractor's receivables and claims on the projects-in-progress and have priority in the settlement of contractor's receivables and claims on the projects in progress is usually higher than receivables from and future commitments with the project owners. Trade and retention receivables from project owners are normally high standard because of the creditworthiness of project owners and collection remedy of contractor's lien accorded contractor in certain cases.

With respect to the credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group transacts only with institutions or banks that have proven track record in financial soundness.

Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

The table below shows the gross maximum exposure to credit risk for the components of the statement of financial position.

	2011	2010
	(Amounts in Thousands)	
Cash and cash equivalents		
Cash in banks	**₱5,995,566**	₱4,782,977
Cash equivalents	**8,970,388**	5,150,135
Available-for-sale financial assets		
Quoted securities	**58,181**	49,535
Unquoted securities	**166,236**	166,236
Receivables		
Trade		
Real estate	**4,822,712**	5,652,968
General construction	**1,972,497**	2,306,369
Mining	**969,026**	884,966
Electricity sales	**2,176,048**	1,772,302
Merchandising and others	**57,740**	51,601
Receivable from related parties	**452,115**	491,700
Advances to officers and employees	**42,886**	49,549
Other receivables	**245,139**	169,234
Security deposits	**132,681**	339,022
Refundable deposits	**226,962**	244,049
Total credit risk exposure	**₱26,288,177**	₱22,110,643

As of December 31, 2011 and 2010, the credit quality per class of financial assets that were neither past due nor impaired is as follows (amounts in thousands):

2011

	Neither past due nor impaired			**Past due or Individually**	
	Grade A	**Grade B**	**Grade C**	**Impaired**	**Total**
Cash in bank and cash equivalents	**₱14,965,954**	**₱–**	**₱–**	**₱–**	**₱14,965,954**
Available-for-sale financial assets					
Quoted	**58,181**	–	–	–	**58,181**
Unquoted	–	**166,236**	–	–	**166,236**
Receivables					
Trade					
Real estate	**2,437,083**	**760,075**	**616,671**	**1,008,883**	**4,822,712**
General construction	**1,457,503**	–	–	**521,782**	**1,979,285**
Mining	**943,590**	**114,945**	–	**18,905**	**1,077,440**
Electricity sales	**2,176,048**	–	–	**53,524**	**2,229,572**
Merchandising	**57,740**	–	–	–	**57,740**
Receivable from related parties	**452,115**	–	–	–	**452,115**
Advances to officers and employees	**10,802**	**31,659**	–	**425**	**42,886**
Other receivables	**235,530**	**4,915**	–	**116,115**	**356,560**
Security deposits	**132,681**	–	–	–	**132,681**
Refundable deposits	**226,962**	–	–	–	**226,962**
Total	**23,154,189**	**1,077,830**	**616,671**	**1,719,634**	**26,568,324**
Allowance for:					
General construction	–	–	–	**6,788**	**6,788**
Electricity sales	–	–	–	**53,524**	**53,524**
Others	–	–	–	**111,421**	**111,421**
Total allowance	–	–	–	**171,733**	**171,733**
Net amount	**₱23,154,189**	**₱1,077,830**	**₱616,671**	**₱1,547,901**	**₱26,396,591**

2010

	Neither past due nor impaired			Past due or Individually	
	Grade A	Grade B	Grade C	Impaired	Total
Cash in bank and cash equivalents	₱9,933,112	₱–	₱–	₱–	₱9,933,112
Available-for-sale financial assets					
Quoted	49,535	–	–	–	49,535
Unquoted	–	166,236	–	–	166,236
Receivables					
Trade:					
Real estate	1,589,169	1,227,004	1,001,593	1,835,202	5,652,968
General construction	1,092,909	–	–	1,217,874	2,310,783
Mining	1,013,930	347,713	–	113,346	1,474,989
Electricity sales	1,772,302	–	–	53,524	1,825,826
Merchandising	51,601	–	–	–	51,601
Receivable from related parties	491,700	–	–	–	491,700
Advances to officers and employees	33,901	15,223	–	425	49,549
Other receivables	133,744	34,828	–	99,279	267,851
Security deposits	339,022	–	–	–	339,022
Refundable deposits	244,049	–	–	–	244,049
Total	16,744,974	1,791,004	1,001,593	3,319,650	22,857,221
Allowance for:					
General construction	–	–	–	4,414	4,414
Mining	–	–	–	7,892	7,892
Electricity sales	–	–	–	53,524	53,524
Others	–	–	–	98,617	98,617
Total allowance	–	–	–	164,447	164,447
Net amount	₱16,744,974	₱1,791,004	₱1,001,593	₱3,155,203	₱22,692,774

Cash and Cash Equivalents
Cash and cash equivalents are short-term placements and working cash fund placed, invested or deposited in foreign and local banks belonging to top ten (10) banks in the Philippines in terms of resources and profitability. These financial assets are classified as Grade A due to the counterparties' low probability of insolvency.

AFS Financial Assets
The Group's AFS financial assets are classified as Grade B because these assets are susceptible to untoward consequences due to the current financial positions of counterparties.

Receivables
Included under Grade A are accounts considered to be of high value and are covered with coal supply, power supply, and construction contracts. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits. Grade B accounts are active accounts with minimal to regular instances of payment default, due to collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly. The Group determines financial assets as impaired when probability of recoverability is remote and in consideration of lapse in period which the asset is expected to be recovered.

For real estate receivables, advances to officers and employees and other receivables, Grade A are classified as financial assets with high credit worthiness and probability of default is minimal. While receivables under Grade B and C have favorable and acceptable risk attributes, respectively, with average credit worthiness.

Receivable from related parties are considered Grade A due to the Group's positive collection experience.

Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables. Receivable balances are monitored on an ongoing basis to ensure timely execution of necessary intervention efforts, such as raising the case to the Group's legal department. Regular monitoring of receivables resulted to manageable exposure to bad debts.

Security and Refundable Deposits
Security and refundable deposits are classified as Grade A since these are to be refunded by the lessor and utility companies at the end of lease term and holding period, respectively, as stipulated in the agreements.

As of December 31, 2011 and 2010, the aging analysis of the Group's financial assets presented per class follows (amounts in thousands):

2011

	Past due but not impaired					Impaired	
	<30 days	30-60 days	61-90 days	91-120 days	>120 days	Assets	Total
Receivables							
Trade							
Real estate	₱133,231	₱79,859	₱34,621	₱754,237	₱6,934	₱–	₱1,008,882
General construction	–	280,700	87,300	146,994	–	6,788	521,782
Mining	–	10,647	8,258	–	–	–	18,905
Electricity sales	–	–	–	–	–	53,524	53,524
Advances to officers and employees	–	425	–	–	–	–	425
Other receivables	–	–	–	4,694		111,421	116,115
Total	₱133,231	₱371,631	₱130,179	₱905,925	₱6,934	₱171,733	₱1,719,633

2010

	Past due but not impaired					Impaired	
	<30 days	30-60 days	61-90 days	91-120 days	>120 days	Assets	Total
Receivables							
Trade							
Real estate	₱234,228	₱136,374	₱108,226	₱1,049,508	₱306,866	₱–	₱1,835,202
General construction	350,748	160,697	272,061	429,954	–	4,414	1,217,874
Mining	–	91,602	–	13,852	–	7,892	113,346
Electricity sales	–	–		–	–	53,524	53,524
Advances to officers and employees	425	–	–	–	–	–	425
Other receivables	–	6,607	–	8,729	–	83,943	99,279
Total	₱585,401	₱395,280	₱380,287	₱1,502,043	₱306,866	₱149,773	₱3,319,650

The repossessed lots and residential houses are transferred back to inventory under the account Real estate for sale and held for development and are held for sale in the ordinary course of business. The total of these inventories is ₱593.61 million and ₱154.75 million in 2011 and 2010, respectively. The Group performs certain repair activities on the said repossessed assets in order to put their condition at a marketable state. Costs incurred in bringing the repossessed assets to its marketable state are included in their carrying amounts.

The Group did not accrue any interest income on impaired financial assets.

Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations.

A significant part of the Group's financial assets that are held to meet the cash outflows include cash equivalents and accounts receivables. Although accounts receivables are contractually collectible on a short-term basis, the Group expects continuous cash inflows through continuous production and sale of coal and power generation. In addition, although the Group's short-term deposits are collectible at a short notice, the deposit base is stable over the long term as deposit rollovers and new deposits can offset cash outflows.

Moreover, the Group considers the following as mitigating factors for liquidity risk:
- It has available lines of credit that it can access to answer anticipated shortfall in sales and collection of receivables resulting from timing differences in programmed inflows and outflows.
- It has very diverse funding sources.
- It has internal control processes and contingency plans for managing liquidity risk. Cash flow reports and forecasts are reviewed on a weekly basis in order to quickly address liquidity concerns. Outstanding trade receivables are closely monitored to avoid past due collectibles.
- The Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues both on-shore and off-shore which is included in the Group's corporate planning for liquidity management.

The following table summarizes the maturity profile of the Group's financial assets and liabilities as of December 31, 2011 and 2010, based on contractual undiscounted cash flows. The table also analyses the maturity profile of the Group's financial assets in order to provide a complete view of the Group's contractual commitments (amounts in thousands).

2011

	On Demand	Within 1 year	1-2 years	2-3 years	3-4 years	Total
Loans and Receivable						
Cash and cash equivalents	₱13,858,426	₱1,107,528	₱–	₱–	₱–	₱14,965,954
Receivables						
Trade:						
Real estate	1,565,323	687,009	459,866	1,467,655	1,181,615	5,361,468
General construction	1,396,034	583,251	–	–	–	1,979,285
Coal mining	1,050,611	26,829	–	–	–	1,077,440
Electricity sales	887,566	1,342,006	–	–	–	2,229,572
Merchandising	57,740	–	–	–	–	57,740
Receivable from related parties	449,925	2,190	–	–	–	452,115
Advances to officers and employees	38,398	4,488	–	–	–	42,886
Other receivables	617,766	–	–	–	–	617,766
Security deposits	–	–	–	–	–	–
Refundable deposits	356,560	–	–	–	–	356,560
	20,278,349	3,753,301	459,866	1,467,655	1,181,615	27,140,786
AFS financial assets						
Quoted securities	–	58,181	–	–	–	58,181
Unquoted securities	–	166,236	–	–	–	166,236
	–	224,417	–	–	–	224,417
Financial assets at FVPL	71,400	–	–	–	–	71,400
Total undiscounted financial assets	₱20,349,749	₱3,977,718	₱459,866	₱1,467,655	₱1,181,615	₱27,436,603

(Forward)

	On Demand	Within 1 year	1-2 years	2-3 years	3-4 years	Total
Other Financial Liabilities						
Short-term debt	**₱1,490,647**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,490,647**
Accounts payable and other payables	**10,587,003**	**–**	**1,338,946**	**–**	**–**	**11,925,949**
Liabilities for purchased land	**473,821**	**208,777**	**151,828**	**66,507**	**31,000**	**931,933**
Payable to related parties	**52,120**	**274,877**	**–**	**–**	**–**	**326,997**
Long-term Debt						
Term loan facility						
US$32.00 million loan with interest payable in arrears, to be repriced every 90 days	**810**	**140,778**	**–**	**–**	**–**	**141,588**
US$29.26 million loan with interest payable semi-annually in arrears, to be repriced every 6 months	**7,628**	**649,524**	**675,016**	**–**	**–**	**1,332,168**
US$15.70 million loan with interest payable in arrears, to be repriced every 30 to 180 days	**3,461**	**447,369**	**246,064**	**–**	**–**	**696,894**
US$23.45 million loan with interest payable in arrears, to be repriced every 3 months	**5,533**	**246,646**	**791,123**	**–**	**–**	**1,043,302**
$21.11 million deferred purchase payment at 4% interest p.a. over the rate 180 days	**4,985**	**4,985**	**932,310**	**–**	**–**	**942,280**
₱9.60 billion at PDST-F benchmark yield for 3-month treasury securities +1.75%	**25,446**	**1,477,733**	**1,568,361**	**–**	**–**	**3,071,540**
Various local bank loans 7.5% to 10%	**-**	**804**	**–**	**–**	**–**	**804**
Various car loans 15.56% to 27.14%	**–**	**3,313**	**–**	**–**	**–**	**3,313**
Agreement to purchase - 7.0% to 13.75%	**–**	**1,759**	**2,722**	**–**	**–**	**4,481**
Finance lease 6.00% to 6.57%	**–**	**7,782**	**4,570**	**–**	**–**	**12,352**
Other noncurrent liabilities	**–**	**–**	**–**	**–**	**–**	**–**
Total undiscounted financial liabilities	**12,651,454**	**3,464,347**	**5,710,940**	**66,507**	**31,000**	**21,924,248**
Liquidity gap	**₱7,698,295**	**₱513,371**	**(₱5,251,074)**	**₱1,401,148**	**₱1,150,615**	**₱5,512,355**

2010

	On Demand	Within 1 year	1-2 years	2-3 years	3-4 years	Total
Loans and Receivable						
Cash and cash equivalents	₱8,782,977	₱1,163,689	₱–	₱–	₱–	₱9,946,666
Receivables						
Trade:						
Real estate	–	2,860,740	631,079	522,077	1,639,072	5,652,968
General construction	–	2,310,783	–	–	–	2,310,783
Coal mining	–	1,474,989	–	–	–	1,474,989
Electricity sales	–	1,825,826	–	–	–	1,825,826
Merchandising	–	51,601	–	–	–	51,601
Receivable from related parties	–	491,700	–	–	–	491,700
Advances to officers and employees	–	49,549	–	–	–	49,549
Other receivables	–	253,177	–	–	–	253,177
Security deposits	–	304,401	–	–	–	304,401
Refundable deposits	–	244,049	–	–	–	244,049
	8,782,977	11,030,504	631,079	522,077	1,639,072	22,605,709
AFS financial assets						
Quoted securities	–	49,535	–	–	–	49,535
Unquoted securities	–	172,668	–	–	–	172,668
	–	222,203	–	–	–	222,203
Total undiscounted financial assets	₱8,782,977	₱11,252,707	₱631,079	₱522,077	₱1,639,072	₱22,827,912

	On Demand	Within 1 year	1-2 years	2-3 years	3-4 years	Total
Other Financial Liabilities						
Short-term debt	₱–	₱753,534	₱–	₱–	₱–	₱753,534
Accounts payable and other payables	–	9,064,396	–	–	–	9,064,396
Liabilities for purchased land	–	703,651	268,952	195,393	286,290	1,454,286
Payable to related parties	–	517,384	–	–	–	517,384
Long -term Debt						
Term loan facility						
US$16.00 million loan with interest payable in arrears, to be repriced every 90 days	–	–	714,934	–	–	714,934
US$14.58 million loan with interest payable semi-annually in arrears, to be repriced every 6 months	–	–	651,305	–	–	651,305
US$10.08 million loan with interest payable in arrears, to be repriced every 30 to 180 days	–	–	490,538	–	–	490,538
US$5.48 million loan with interest payable in arrears, to be repriced every 3 months	–	–	244,280	–	–	244,280
$17.62 million deferred purchase payment at 4% interest p.a. over the rate 180 days	–	–	775,377	–	–	775,377
₱9.60 billion at PDST-F benchmark yield for 3-month treasury securities +1.75%	–	1,382,622	1,752,278	1,709,599	5,653,301	10,497,800
Various local bank loans 7.5% to 10%	9,995	541,784	18,891	13,883	39,290	623,843
Various car loans 15.56% to 27.14%	2,192	1,871	1,210	675	228	6,176
Agreement to purchase - 7.0% to 13.75%	2,049,924	948,196	586,387	652,358	2,993,030	7,229,895
Finance lease 6.00% to 6.57%	–	55,756	46,007	23,004	–	124,767
Other noncurrent liabilities	–	–	757,688	–	–	757,688
Total undiscounted financial liabilities	2,062,111	13,969,194	6,307,847	2,594,912	8,972,139	33,906,203
Liquidity gap	₱6,720,866	(₱2,716,487)	(₱5,676,768)	(₱2,072,835)	(₱7,333,067)	(₱11,078,291)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

The following table demonstrates the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates, with all variables held constant, through the impact on floating rate borrowings.

	Change in basis points	Effect on income before income tax	Effect on equity
		(Amounts in Thousands)	
2011			
Dollar floating rate borrowings	+100	(₱934)	(₱654)
	-100	934	654
Peso floating rate borrowings	+100	(₱85,075)	(₱59,552)
	-100	85,075	59,552
2010			
Dollar floating rate borrowings	+100	(₱461)	(₱323)
	-100	461	323
Peso floating rate borrowings	+100	(₱97,357)	(₱68,150)
	-100	97,357	68,150

The assumed movement in basis points for interest rate sensitivity analysis is based on the Group's historical changes in market interest rates on unsecured bank loans.

36. Other Comprehensive Income

The Group does not recognize income tax on the components of other comprehensive income as presented in the following table (amounts in thousands):

	Other Comprehensive Income					
	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 6)	**Cumulative Translation Adjustment**	**Revaluation increment in nonfinancial assets**	**Total**	**Attributable to Parent Company**	**Attributable to minority interests**
As of January 1, 2011	**(₱2,781)**	**₱–**	**₱–**	**(₱2,781)**	**(₱2,781)**	**₱–**
Other comprehensive income:						
Unrealized gain on AFS financial assets (Note 6)	**1,691**			**1,691**	**1,691**	**–**
Balances at December 31, 2011	**(₱1,090)**	**₱–**	**₱–**	**(₱1,090)**	**(₱1,090)**	**₱–**

	Other Comprehensive Income					
	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 6)	Cumulative Translation Adjustment	Revaluation increment in nonfinancial assets	Total	Attributable to Parent Company	Attributable to minority interests
As of January 1, 2010	(₱6,649)	₱25	₱80,005	₱73,381	₱72,093	₱1,288
Other comprehensive income:						
Transfer to statement of income due to disposal of a subsidiary	–	(25)	(80,005)	(80,030)	(78,742)	(1,288)
Unrealized gain on AFS financial assets (Note 6)	3,868	–	–	3,868	3,868	–
	3,868	(25)	(80,005)	(76,162)	(74,874)	(1,288)
Balances at December 31, 2010	(₱2,781)	₱–	₱–	(₱2,781)	(₱2,781)	₱–

	Other Comprehensive Income					
	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 6)	Cumulative Translation Adjustment	Revaluation increment in nonfinancial assets	Total	Attributable to Parent Company	Attributable to minority interests
As of January 1, 2009	₱–	₱3,822	₱80,005	₱83,827	₱82,477	₱1,350
Other comprehensive income:						
Exchange differences on translating foreign operations	–	(3,797)	–	(3,797)	(3,735)	(62)
Unrealized loss on AFS financial assets (Note 6)	(6,649)	–	–	(6,649)	(6,649)	–
	(6,649)	(3,797)	–	(10,446)	(10,384)	(62)
Balances at December 31, 2009	(₱6,649)	₱25	₱80,005	₱73,381	₱72,093	₱1,288

37. **Contingencies and Commitments**

<u>Contingencies</u>

Provision for probable legal claims

The Group is contingently liable for lawsuits or claims filed by third parties which are either pending decision by the courts or are under negotiation, the outcomes of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments.

Provision for billing disputes

On October 20, 2010, SCPC filed a Petition for dispute resolution ("Petition") before the ERC against NPC and PSALM involving over-nominations made by NPC during the billing period January to June 2010 beyond the 169,000 kW MERALCO allocation of SCPC, as provided under the Schedule W of the APA.

In its Petition, SCPC sought to recover the cost of energy (a) sourced by SCPC from WESM in order to meet NPC's nominations beyond the 169,000 kW MERALCO contracted demand, or (b) procured by NPC from the WESM representing energy nominated by NPC in excess of the 169,000 kW limit set in Schedule W, cost of which was charged by PSALM against SCPC. In relation to this, NPC withheld the payments of MERALCO and remitted to SCPC the collections net of the cost of the outsourced energy.

SCPC has likewise sought to recover interest on the withheld MERALCO payments collected by PSALM that is unpaid to SCPC as of due date, to be charged at the rate of 11% computed from the date of the SCPC's extrajudicial demand until full payment by PSALM.

During the preliminary conference scheduled on November 25, 2010, the ERC's hearing officer directed the parties to explore the possibility of settling the dispute amicably. As the parties failed to arrive at a compromise during the prescribed period, hearings resumed with the conduct of preliminary conference last February 23, 2011, without prejudice to the result of any further discussions between the parties for amicable settlement. A series of hearing was conducted on March 22, 2011 and April 4, 2011, where witnesses were presented to testify on the dispute resolution. Within a period of thirty (30) days from April 4, 2011, the parties were directed to submit, simultaneously, their respective offers of evidence and memorandum. After the submission of said documents, the case will be deemed submitted for ERC's deliberation and decision.

SCPC made a provision for the total amount withheld by NPC, which amounted to ₱383.29 million (see Note 25). Though a provision has already been made, SCPC has not waived its right to collect the said amount in case the outcome of the dispute resolution would be a favorable settlement for SCPC. The provision will be reversed and an income would be recognized in the "Other income" account upon collection of the said receivable.

As of April 23, 2011, ERC has not yet issued a resolution for the abovementioned dispute.

Lease Commitments

Operating Lease - As Lessor

The Group entered into lease agreements with third parties covering its investment property portfolio (see Note 12). The lease agreements provide for a fixed monthly rental and is renewable under the terms and condition agreed with the lessees.

As of December 31, 2011 and 2010, future minimum lease receivables under the aforementioned operating lease (in thousands) are as follows:

	2011	2010
Within one year	**₱5,816**	₱15,026
After one year but not more than five years	**5,971**	9,301
More than five years	**823**	1,555
	₱12,610	₱25,882

Operating Lease - As Lessee

The Group leases portion of its office premises and various mining and transportation equipments that are renewed under the terms and condition agreed with the lessors.

As of December 31, 2011 and 2010, future minimum lease payments under the above mentioned operating lease (in thousands) are as follows:

	2011	2010
Within one year	**₱3,073**	₱69,742
After one year but not more than five years	**9,218**	12,290
	₱12,291	₱82,032

Also as discussed in Note 14, the Group entered into a Land Lease Agreement with PSALM for the lease of land in which the plant is situated, for a period of 25 years, renewable for another 25 years with the mutual agreement of both parties. The Group paid US$3.19 million or its peso equivalent ₱150.57 million as payment for the 25 years of rental.

Part of the agreement, the Group has the option to buy the Optioned Assets. Optioned assets are parcels of land that form part of the leased premises which the lessor offers for the sale to the lease for which the lessor issues an Option Existence Notice (OEN).

In the event that the lessor issues an OEN and SCPC buys the option assets in consideration for the grant of the option, the land purchase price should be equivalent to the highest of the following and / or amounts: (i) assessment of the Provincial Assessors of Batangas Province; (ii) the assessment of the Municipal or City Assessor having jurisdiction over the particular portion of the leased premises; (iii) the zonal valuation of Bureau of Internal Revenue or, (iv) 21.00 per square meter (dollar). Valuation basis for 1 to 3 shall be based on the receipt of PSALM of the option to exercise notice. The exchange rate to be used should be the Philippine Dealing Exchange rate at the date of receipt of PSALM of the OEN.

On July 12, 2010, PSALM issued an OEN and granted SCPC the "Option" to purchase the Optioned Assets that form part of the leased premises. SCPC availed of the "Option" and paid the Option Price amounting to US$0.32 million or a peso equivalent of ₱14.72 million exercisable within one year from the issuance of the OEN.

The Group was also required to deliver and submit to the lessor a performace security amounting to ₱34.83 million in the form of Stand by Letter of Credits (SBLC). The performance security shall be maintained by the Group in full force and effect continuously without any interruption until the Performance Security expiration date. The Performance Security initially must be effective for the period of one year from the date of issue, to be replaced prior to expiration every year thereafter and shall at all times remain valid.

On May 5, 2011, PSALM granted SCPC's request to assign portion of its option to the Semirara for the latter to buy the 82,740 square meters lot covered by TCT No. 115804.

On June 1, 2011, Semirara and SCPC exercised its option to purchase the Option Asset and subsequently entered into Deed of Absolute Sales with PSALM for the total consideration of ₱376.61 million.

Finance Lease - As Lessee
During 2011 and 2010, the Group has entered into finance lease agreements for some of its service vehicles and equipment used in its construction activities. The said leased assets are capitalized and depreciated over their estimated useful lives of four (4) years and five (5) years, respectively (see Note 13). Finance lease facilities amounting to ₱12.35 million and ₱124.77 million in 2011 and 2010, respectively, were approved at 6.50% and 6.28% interest.

As of December 31, 2011 and 2010, the future minimum lease payments under finance lease and the present value of the net minimum lease payments follows:

	2011	2010
Within one year	**₱8,366**	₱60,810
After one (1) year but not more than five (5) years	**4,663**	71,302
Total minimum lease payments	**13,029**	132,112
Less finance charges	**678**	7,345
Present value of minimum lease payment	**₱12,351**	₱124,767

Commitment on Electricity Sales Contracts
The APA included a number of Transition Supply Contracts (TSC) to distribution utilities and large load customers located in close proximity to the Purchased Assets. The volume of energy demand for each of the customers is reflected in their respective TSC. The electricity pricing in the said TSC is tied to the NPC's Luzon Time of Use (TOU) rate approved by the ERC which is adjustable by changes in foreign exchange and fuel cost. The said tariff, even if adjustable, is subject to ERC's approval before the same could be implemented. Assignment of Sun Power Corporation's TSC was not accepted by SCPC at the closing date due to anticipated loss once accepted. Assigned TSC were renewed on various dates in 2010, except for High Street Corporation.

Capital Commitments
For the year 2011, the Group has capital commitments on acquisition of mining equipment amounting to ₱841.07 million in relation to its income tax holiday registration with the BOI.

38. **Note to Consolidated Statements of Cash Flows**

The Group's significant noncash investing and financing activities follow:

	2011	2010
	(Amounts in Thousands)	
Transfers from inventory	**₱1,607,456**	₱529,048
Transfers from investment properties	**250,000**	–
Acquisition of conventional and other mining equipment on account (Note 13)	–	300,380

Discontinued operations affected the Group cash flow statements as follows (amounts in thousands):

Net cash used in operating activities	(₱1,205,765)
Net cash provided by investing activities	2,613,699
Net cash used in financing activities	(450,408)
Change in cash and cash equivalents	₱957,526

39. **Other Matters**

a. **Electric Power Industry Reform Act (EPIRA)**

In June 2001, the Congress of the Philippines approved and passed into law R.A. No. 9136, otherwise known as the EPIRA, providing the mandate and the framework to introduce competition in the electricity market. EPIRA also provides for the privatization of the assets of NPC, including its generation and transmission assets, as well as its contract with Independent Power Producers (IPPs). EPIRA provides that competition in the retail supply of electricity and open access to the transmission and distribution systems would occur within three years from EPIRA's effective date. Prior to June 2002, concerned government agencies were to establish WESM, ensure the unbundling of transmission and distribution wheeling rates and remove existing cross subsidies provided by industrial and commercial users to residential customers. The WESM was officially launched on June 23, 2006 and began commercial operations for Luzon. The ERC has already implemented a cross subsidy removal scheme. The inter-regional grid cross subsidy was fully phased-out in June 2002. ERC has already approved unbundled rates for Transmission Company (TRANSCO) and majority of the distribution utilities.

Under EPIRA, NPC's generation assets are to be sold through transparent, competitive public bidding, while all transmission assets are to be transferred to TRANSCO, initially a government-owned entity that was eventually being privatized. The privatization of these NPC assets has been delayed and is considerably behind the schedule set by the DOE. EPIRA also created PSALM, which is to accept transfers of all assets and assume all outstanding obligations of NPC, including its obligations to IPPs. One of PSALM's responsibilities is to manage these contracts with IPPs after NPC's privatization. PSALM is also responsible for privatizing at least 70% of the transferred generating assets and IPP contracts within three years from the effective date of EPIRA.

In August 2005, the ERC issued a resolution reiterating the statutory mandate under the EPIRA law for the generation and distribution companies, which are not publicly listed, to make an initial public offering (IPO) of at least 15% of their common shares. Provided, however, that generation companies, distribution utilities or their respective holding companies that are already listed in the Philippine Stock Exchange (PSE) are deemed in compliance. SCPC was already compliant with this requirement given that the Parent Company is a publicly listed company.

WESM
With the objective of providing competitive price of electricity, the EPIRA authorized DOE to constitute an independent entity to be represented equitably by electric power industry participants and to administer and operate WESM. WESM will provide a mechanism for identifying and setting the price of actual variations from the quantities transacted under contracts between sellers and purchasers of electricity.

In addition, the DOE was tasked to formulate the detailed rules for WESM which include the determination of electricity price in the market. The price determination methodology will consider accepted economic principles and should provide a level playing field to all electric power industry participants. The price determination methodology was subject to the approval of the ERC.

In this regard, the DOE created Philippine Electricity Market Corporation (PEMC) to act as the market operator governing the operation of WESM. On June 26, 2006, WESM became operational in the Luzon grid and adopts the model of a "gross pool, net settlement" electricity market.

b. **Clean Air Act**

On November 25, 2000, the Implementing Rules and Regulations (IRR) of the Philippine Clean Air Act (PCAA) took effect. The IRR contains provisions that have an impact on the industry as a whole and on SCPC in particular, that need to be complied with within 44 months (or until July 2004) from the effectivity date, subject to the approval by DENR. The power plant of SCPC uses thermal coal and uses a facility to test and monitor gas emissions to conform with Ambient and Source Emissions Standards and other provisions of the Clean Air Act and its IRR. Based on SCPC's initial assessment of its power plant's existing facilities, SCPC believes that it is in full compliance with the applicable provisions of the IRR of the PCAA as of December 31, 2011.

c. **Contract for the Fly Ash of the Power Plant**

On October 20, 1987, NPC and Pozzolanic Australia Pty, Ltd. ("Pozzolanic") executed the Contract for the Purchase of Fly Ash of the Power Plant (the "Pozzolanic Contract"). Under the Pozzolanic Contract, Pozzolanic was given the right to sell, store, process, remove or otherwise dispose of all fly ash produced at the first unit of the Power Plant. It was also granted the first option to purchase fly ash, under similar terms and conditions, from the second unit of the Power Plant that NPC may construct. It may also exercise the exclusive right of first refusal to purchase fly ash from any new coal-fired power plants which will be put up by NPC.

The Pozzolanic Contract is effective for a period of five consecutive five-year terms from its signing, or a period of 25 years from October 20, 1987 or until 2012, subject to cancellation by NPC upon default or any breach of contract by Pozzolanic. At the end of each five-year term, the parties will agree to assess and evaluate the Pozzolanic Contract, and if necessary, revise, alter, modify the same upon their mutual consent.

The Government has determined the provision of the Pozzolanic Contract which grants Pozzolanic the exclusive right of first refusal to purchase fly ash from the second unit of the Power Plant and from any coal-fired power plant put up by NPC after the execution of the Pozzolanic Contract as invalid. This is the subject of a case filed by Pozzolanic and pending before the regional trial court of Quezon City as of December 31, 2011.

d. **Power Supply Agreement with Manila Electric Company (MERALCO)**

On December 20, 2011, SCPC entered into a new power supply agreement with MERALCO, a distributor of electric power, which took effect on December 26, 2011 and shall have a term of seven (7) years, which may be extended by the parties for another three (3) years.

SCPC will be providing MERALCO with an initial contracted capacity of 210 MW and will be increased to 420 MW upon the commercial operation of the plant's Unit 1.

e. **Transitory Agreement with Masbate Electric Cooperative Inc. (Maselco) and DMCI Masbate**

Pending the construction of the coal-fired thermal power plant, the implementation of the terms under PSA was held in abeyance between the parties. In lieu of the PSA, on March 3, 2010, Maselco and DMCI Masbate entered into a Transitory Agreement, which shall have a term of five (5) years commencing on July 26, 2010, wherein Maselco shall avail of the generating capacity of DMCI Masbate using the bunker-fired power plant and diesel generation sets and shall pay for such energy output according to the approved Socially Acceptable Generation Rate (SAGR) of ₱5.1167/kWh.

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

On July 22, 2010, the Energy Regulatory Commission issued an Order provisionally approving the Transitory Agreement and the Company's availment of ME Subsidy from the UC-ME. The provisional authority triggered the commercial operation of the Company.

f. **Reinstated and Amended Subsidy Agreement between National Power Corporation, Masbate Electric Cooperative Inc. and DMCI Masbate Power Corporation**

On October 27, 2010, in line with the Transitory Agreement with Maselco, the Company, NPC and Maselco signed the Reinstated and Amended Subsidy Agreement. This agreement will entitle the Company to avail of the ME Subsidy while the Transitory Agreement is effective. Moreover, this agreement includes an additional provision pertaining to Financing of Power Station and an amendment of a provision pertaining to Payment of Subsidy Fee and True-Up Adjustments.

g. **MOA with Benguet Corp Nickel Mines, Inc. (BNMI)**

In March 2010, the DMCI Mining Corporation and BNMI, an affiliate of BC, agreed to establish and maintain a Mine Rehabilitation Fund as a reasonable environmental deposit to ensure the availability of funds for its satisfactory compliance with the commitments and performance of activities stipulated in its EPEP/AEPEP during a specific project phase.

40. Sale of AG&P

On December 22, 2010 (closing date), the Parent Company sold AG&P to AGPPHI representing 98.19% of the AG&P's total issued and outstanding capital stock. The total consideration of ₱1.75 billion was received and a net gain of ₱36.66 million was recognized as a result of the consummation of the sale.

The operating results of AG&P from January 1, 2010 until closing date and December 31, 2009 are presented below (in thousands):

	2010	2009
Revenue from construction contracts	₱3,058,807	₱2,442,977
Finance, equity in net earnings and other income	90,204	226,810
	3,149,011	2,669,787
Cost of construction contracts	2,059,962	1,861,904
General administrative expenses	373,764	452,108
Interest and other financing charges	40,386	45,200
Benefit from income tax	34,213	13,228
	2,508,325	2,372,440
Income from discontinued operations	₱640,686	₱297,347

Income after tax from discontinued operations consists of the following:

	2010	2009
Gain from sale of discontinued operations	₱36,659	₱–
Net income from discontinued operations	640,686	297,347
After tax income from discontinued operations	₱677,345	₱297,347

The following are the net assets of AG&P as of December 22, 2010 (in thousands):

Current assets:	
Cash and cash equivalents	₱792,474
Available-for-sale financial assets	7,255
Costs and estimated earnings in excess of billings on uncompleted contracts	74,294
Receivables	308,803
Inventories	171,432
Other current assets	32,341
Noncurrent assets:	
Investments in associates and jointly controlled entities	139,107
Investment properties	186,742
Property, plant and equipment	2,358,794
Pension asset	19,029

(Forward)

Current liabilities:	
Accounts and other payables	(₱1,478,860)
Income tax payable	(981)
Current portion of long-term debt	(100,408)
Noncurrent liabilities:	
Long-term debt - net of current portion	(350,000)
Deferred tax liabilities	(323,731)
Share in:	
Revaluation increment	(78,717)
Minority interest	(44,750)
Cumulative translation adjustment	517
Net assets	₱1,713,341

41. **Event After the Reporting Period**

a. *Execution of deed of assignment for the land owned by the Semirara in exchange of the SLPGC's common shares*
   On February 22, 2012, Semirara and SLPGC executed a deed of assignment for the land owned by Semirara in exchange of common shares of SLPGC. The land, with an area of 82,740 square meters, more or less, was purchased by Semirara from PSALM on July 25, 2011. The current zonal value of the land is ₱1,025.00 per square meter or a total of ₱84.81 million based on the zonal values of properties in Batangas where the land is located. SLPGC has issued 84.81 million common shares at a par value of ₱1.00 per share or a total of ₱84.81 million in exchange of the said land subject to terms and conditions as follow:

   - that the SEC filing fee and documentary stamp tax due on the issuance of shares of stocks and other related expenses shall be for the account of Semirara;
   - that any and all expenses which may be incurred in connection with the transfer of Transfer Certificate of Title (TCT) covering the land shall be for the sole account of Semirara;
   - that any and all expenses, taxes and costs which may be incurred in the filing with the BIR confirming the transfer of land in favor of the SLPGC in exchange of shares of stocks shall be for the account of Semirara; and
   - that upon execution of the deed of assignment, SLPGC shall have the right to create any security interest on the land in order to secure any loan which the SLPGC may obtain from certain banks or other financing institutions.

b. *Execution of Omnibus Loan and Security Agreement (the "Omnibus Agreement") between SLPGC and BDO Unibank., BPI, and China Banking Corporation (CBC)*
   On February 24, 2012, SLPGC entered into a ₱11.50 billion Omnibus Agreement with BDO, BPI and CBC as Lenders, Semirara as the Pledgor, BDO Capital and Investment Corporation as the Lead Arranger and Sole Bookrunner, BPI Capital Corporation and CBC as Co-Lead Arrangers and BDO Unibank, Inc. - Trust and Investments Group as the Facility Agent, Security Trustee, Registrar and Paying Agent.

Breakdown of the syndicated loan follows:

	Amount
BDO Unibank	₱6,000,000,000
BPI	3,000,000,000
CBC	2,500,000,000
	₱11,500,000,000

The Omnibus Agreement was entered into to finance the engineering, procurement, and construction of a two 150 mega-watt coal-fired thermal power plant located in Calaca, Batangas.

Details of the loan follow:

a. Interest: At a floating rate equivalent to the Philippine Dealing System Treasury-Fixing (PDST-F) plus a spread of 100 basis points (bps) or the Bangko Sentral ng Pilipinas (BSP) overnight rate, provided that, if the BSP Special Deposit Accounts (SDA) rate is 50 bps or more below BPS overnight rate, applicable interest will be 90% of BSP overnight rate, provided however that, if 90% of the BSP overnight rate is lower than the equivalent of PDST-F plus a spread of 100 bps, then the applicable interest rate shall be equivalent to PDST-F plus a spread of 100bps. SLPGC shall have one-time option to shift the floating interest rate to the fixed interest rate provided that the conditions in the Omnibus Agreement are satisfied.

b. Repayment: The principal amount shall be paid in twenty-seven (27) equal consecutive quarterly installments, each such installment to be paid on a principal repayment date, with the last installment to be paid on the final principal repayment date. The loan may be prepaid voluntarily provided that the conditions in the Omnibus Agreement are satisfied.

The advances of each lender shall be evidenced by a promissory note. Each note shall be dated as of the drawdown date and payable to the order of such lender in the amount of the advance evidenced thereby. The first drawdown is expected to be on or before March 25, 2012 in an amount of not less than ₱500.00 million.

As security for the timely payment of the loan and prompt observance and performance of all the provisions of the Omnibus Agreement, the loan was collateralized by first-ranking real estate mortgage on future real assets and first-ranking chattel mortgage on the future chattels. Further, 67% of issued and outstanding shares of SLPGC owned by Semirara were also pledged in this loan.

42. Approval of Consolidated Financial Statements

The consolidated financial statements of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 were endorsed for approval by the Audit Committee and authorized for issue by the BOD on April 23, 2012.