COVER SHEET

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SEC Registration Number

DMCI HOLDINGS, INC. AND SUBSIDIARIES

(Company's Full Name)

3rd Floor, Dacon Building, 2281 Don Chino Roces Avenue, Makati City

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

(Contract Person)

888-3000

(Company Telephone Number)

1	2		3	1

Month *Day*

(Fiscal Year)

AAFS

(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

Document ID

Cashier

STAMPS

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SGVMC104363

DMCI HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2002 and 2001
and Years Ended December 31, 2002, 2001 and 2000

and

Report of Independent Auditors

SGVMC104363

Report of Independent Auditors

The Stockholders and the Board of Directors
DMCI Holdings, Inc.

We have audited the accompanying consolidated balance sheets of DMCI Holdings, Inc. and Subsidiaries (the Group) as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the Philippines.

The accompanying consolidated financial statements have been prepared assuming that the Group will continue operating in the normal course of business. As discussed in Note 1 to the consolidated financial statements, the operations of the Group have been significantly affected by the present economic downturn that has caused the general decline in the construction and real estate industries. There has been a slowdown in the construction projects that would provide the Group with additional sources of liquidity. As a result of the foregoing conditions, the Group incurred significant losses that resulted in a deficit of ₱898 million and ₱683 million as of December 31, 2002 and 2001, respectively. The Group's interest-bearing obligations amounted to ₱3.3 billion and ₱2.6 billion as of December 31, 2002 and 2001, respectively, and interest expense amounted ₱355 million, ₱345 million and ₱425 million for the years ended December 31, 2002, 2001 and 2000, respectively. These factors, among others, indicate that the Group may face difficulties to continue operating in the normal course of business. Management's plans with regard to these matters are described in Notes 1 and 16. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amounts and classification of liabilities that might result should the Group be unable to continue operating in the normal course of business.

PTR No. 7612545
January 2, 2003
Makati City

April 30, 2003

SGV & Co

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

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Fax: (632) 819-0872
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BOA/PRC Reg. No. 0001

Report of Independent Auditors

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 balance sheets of DMCI Holdings, Inc. and Subsidiaries (the Group) as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the Philippines.

The accompanying consolidated financial statements have been prepared assuming that the Group will continue operating in the normal course of business. As discussed in Note 1 to the consolidated financial statements, the operations of the Group have been significantly affected by the present economic downturn that has caused the general decline in the construction and real estate industries. There has been a slowdown in the construction projects that would provide the Group with additional sources of liquidity. As a result of the foregoing conditions, the Group incurred significant losses that resulted in a deficit of ₱898 million and ₱683 million as of December 31, 2002 and 2001, respectively. The Group's interest-bearing obligations amounted to ₱3.3 billion and ₱2.6 billion as of December 31, 2002 and 2001, respectively, and interest expense amounted ₱355 million, ₱345 million and ₱425 million for the years ended December 31, 2002, 2001 and 2000, respectively. These factors, among others, indicate that the Group may face difficulties to continue operating in the normal course of business. Management's plans with regard to these matters are described in Notes 1 and 16. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amounts and classification of liabilities that might result should the Group be unable to continue operating in the normal course of business.

J. D. CABALUNA
Partner
CPA Certificate No. 36317
Tax Identification No. 102-082-365
PTR No. 7612545
January 2, 2003
Makati City

April 30, 2003

Report of Independent Auditors
On Supplementary Schedules

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

We have audited in accordance with auditing standards generally accepted in the Philippines, the consolidated financial statements of DMCI Holdings, Inc. and Subsidiaries as of and for the year ended December 31, 2002 included in this Form 17-A and have issued our report thereon dated April 30, 2003. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Company's management and are presented for purposes of complying with the Securities Regulation Code Rules 68 and 68.1 and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

J. D. CABALUNA
Partner
CPA Certificate No. 36317
Tax Identification No. 102-082-365
PTR No. 7612545
January 2, 2003
Makati City

April 30, 2003

SGVMC104363

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31	
	2002	2001
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	**₱237,126,624**	₱320,830,350
Receivables - net (Note 4)	**2,739,058,896**	3,006,136,490
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 5)	**27,484,328**	26,865,851
Inventories - net (Note 6)	**623,927,272**	421,102,200
Real estate for sale and development (Note 7)	**3,254,411,757**	3,130,162,931
Other current assets (Note 8)	**94,066,491**	101,335,549
Total Current Assets	**6,976,075,368**	7,006,433,371
Noncurrent Assets		
Noncurrent receivables - net (Note 4)	**680,055,302**	1,273,851,913
Investments - net (Note 9)	**969,650,319**	1,002,997,810
Property, plant and equipment - net (Note 10)	**3,170,083,489**	3,443,453,280
Other assets - net (Note 11)	**565,926,002**	625,776,043
Total Noncurrent Assets	**5,385,715,112**	6,346,079,046
	₱12,361,790,480	₱13,352,512,417
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes payable (Note 12)	**₱1,359,597,221**	₱1,296,205,024
Accounts and other payables (Note 13)	**4,030,858,400**	3,881,458,792
Total Current Liabilities	**5,390,455,621**	5,177,663,816
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 14)	**1,956,464,147**	1,254,491,804
Billings in excess of costs and estimated earnings on uncompleted contracts (Note 5)	**420,375,967**	427,387,206
Other noncurrent liabilities (Note 15)	**303,414,387**	482,711,244
Total Noncurrent Liabilities	**2,680,254,501**	2,164,590,254
	8,070,710,122	7,342,254,070
Minority Interest in Consolidated Subsidiaries	**219,024,700**	291,949,858
Stockholders' Equity (Notes 16 and 22)	**4,072,055,658**	5,718,308,489
	₱12,361,790,480	₱13,352,512,417

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2002	2001	2000
SALES AND SERVICES (Note 22)	**₱3,217,586,192**	₱4,066,021,122	₱4,591,832,963
COSTS OF SALES AND SERVICES (Note 17)	**2,633,993,983**	3,389,501,903	4,057,485,465
GROSS PROFIT	**583,592,209**	676,519,219	534,347,498
OPERATING EXPENSES (Note 17)	**706,432,553**	573,948,852	483,735,588
INCOME (LOSS) FROM OPERATIONS	**(122,840,344)**	102,570,367	50,611,910
OTHERS			
Other charges - net (Note 17)	**217,947,351**	177,339,749	1,894,105,326
Equity in net losses (earnings) of associates and joint ventures - net (Note 9)	**35,208,916**	(16,342,679)	65,386,295
	253,156,267	160,997,070	1,959,491,621
LOSS BEFORE INCOME TAX AND MINORITY INTEREST	**(375,996,611)**	(58,426,703)	(1,908,879,711)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 18)	**(90,533,240)**	(67,104,895)	7,527,406
INCOME (LOSS) BEFORE MINORITY INTEREST	**(285,463,371)**	8,678,192	(1,916,407,117)
MINORITY INTEREST	**70,770,639**	8,860,874	300,285,174
NET INCOME (LOSS) (Note 22)	**(₱214,692,732)**	₱17,539,066	(₱1,616,121,943)
Basic Earnings (Loss) Per Share (Note 19)	**(₱0.10)**	₱0.01	(₱0.77)

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Years Ended December 31		
	2002	2001	2000
CAPITAL STOCK (Note 16)			
Preferred stock - ₱1 par value cumulative and convertible			
Balance at beginning of year	**₱2,400,000**	₱2,400,000	₱2,400,000
Retirement of shares	**(1,111,735)**	–	–
Balance at end of year	**1,288,265**	2,400,000	2,400,000
Common stock - ₱1 par value	**2,255,494,000**	2,255,494,000	2,255,494,000
	2,256,782,265	2,257,894,000	2,257,894,000
ADDITIONAL PAID-IN CAPITAL (Note 16)			
Balance at beginning of year	**4,717,685,929**	4,729,474,553	4,732,946,596
Retirement of shares	**(974,556,074)**	–	–
Reversal of disposal of Universal Rightfield Property Holdings, Inc. shares	**–**	(11,788,624)	(3,472,043)
Balance at end of year	**3,743,129,855**	4,717,685,929	4,729,474,553
DEFICIT			
Balance at beginning of year	**(682,980,679)**	(700,519,745)	1,043,839,598
Net income (loss) (Note 22)	**(214,692,732)**	17,539,066	(1,616,121,943)
Cash dividends declared on preferred shares - 7.2% per share	**–**	–	(128,237,400)
Balance at end of year	**(897,673,411)**	(682,980,679)	(700,519,745)
PREFERRED SHARES HELD IN TREASURY (Note 16)			
Balance at beginning of year	**(574,290,761)**	(574,290,761)	(408,546,492)
Acquisitions of shares	**–**	–	(165,744,269)
Redemption of shares	**(1,431,560,099)**	–	–
Retirement of shares	**975,667,809**	–	–
Balance at end of year	**(1,030,183,051)**	(574,290,761)	(574,290,761)
	₱4,072,055,658	₱5,718,308,489	₱5,712,558,047

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax and minority interest	**(₱375,996,611)**	(₱58,426,703)	(₱1,908,879,711)
Adjustments for:			
Depreciation, depletion and amortization	**571,797,911**	696,542,740	902,805,645
Interest expense	**355,039,024**	344,773,783	425,059,159
Provisions for:			
Doubtful accounts	**178,544,280**	65,928,080	574,440,235
Probable losses	**44,787,767**	–	203,920,034
Decline in value of condominium units	**–**	8,116,977	–
Inventories written-off	**44,270,114**	–	–
Equity in net losses (earnings) of associates and joint ventures	**35,208,916**	(16,342,679)	65,386,295
Loss (gain) on disposals of:			
Investments	**14,692,000**	5,143,417	(23,069,745)
Property, plant and equipment	**11,002,600**	8,833,129	107,077,019
Interest income	**(65,917,126)**	(114,181,378)	(66,507,199)
Reversal of allowance for doubtful accounts	**(22,400,272)**	–	–
Write-offs of deferred charges, various idle and nonoperating assets and capitalized foreign exchange losses	**–**	–	948,425,523
Operating income before changes in working capital	**791,028,603**	940,387,366	1,228,657,255
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**172,560,442**	(275,553,505)	209,921,910
Inventories	**(247,095,186)**	(26,389,268)	(77,203,952)
Real estate for sale and development	**(116,685,001)**	(123,128,533)	(92,485,007)
Other current assets	**(20,786,038)**	55,161,651	49,334,791
Increase (decrease) in:			
Accounts and other payables	**(600,291,493)**	(588,948,036)	(157,769,810)
Billings in excess of costs and estimated earnings on uncompleted contracts - net	**(7,629,716)**	13,939,632	(222,601,867)
Net cash generated from (used in) operations	**(28,898,389)**	(4,530,693)	937,853,320
Interest received	**107,097,746**	24,117,857	66,507,199
Interest paid	**(239,932,022)**	(286,377,806)	(188,819,490)
Income tax paid	**(44,448,977)**	(99,182,447)	(166,270,668)
Net cash provided by (used in) operating activities	**(206,181,642)**	(365,973,089)	649,270,361

(Forward)

	Years Ended December 31		
	2002	2001	2000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposals of:			
Property, plant and equipment	**₱21,785,556**	₱25,978,397	₱22,197,767
Investments	**13,528,692**	73,554,173	40,218,578
Decrease (increase) in:			
Noncurrent receivables	**490,989,135**	216,261,322	(273,946,278)
Investments	**(68,054,085)**	43,148,183	(68,159,369)
Other assets	**(6,601,196)**	(68,012,656)	(76,113,556)
Acquisitions of property, plant and equipment	**(242,021,706)**	(434,862,422)	(398,985,460)
Cash from deconsolidated subsidiary	–	(923,929)	–
Net cash provided by (used in) investing activities	**209,626,396**	(144,856,932)	(754,788,318)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net availments (payments) of:			
Notes payable	**63,392,197**	(149,820,215)	804,700,591
Long-term debt	**(19,642,984)**	398,969,656	(331,883,567)
Redemption of preferred shares	**(109,074,059)**	–	–
Net increase (decrease) in minority interest in consolidated subsidiaries	**(2,154,519)**	14,535,159	23,850,254
Decrease in other noncurrent liabilities	**(19,669,115)**	(137,963,541)	(185,766,477)
Acquisitions of preferred shares	**–**	–	(165,744,269)
Dividends paid - preferred shares	–	–	(129,823,560)
Net cash provided by (used in) financing activities	**(87,148,480)**	125,721,059	15,332,972
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(83,703,726)**	(385,108,962)	(90,184,985)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**320,830,350**	705,939,312	796,124,297
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱237,126,624**	₱320,830,350	₱705,939,312

See accompanying Notes to Consolidated Financial Statements.

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

1. **Corporate Information and Status of Operations**

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

The Company is an investment holding company. Its subsidiaries are primarily engaged in general construction, infrastructure and real estate development, coal mining and manufacturing. (see Note 2).

As of December 31, 2002 and 2001, the Company and its subsidiaries (the Group) had 1,292 and 1,302 employees, respectively.

As shown in the consolidated financial statements, the operations of the Group have been significantly affected by the present economic downturn that has caused the general decline in the construction and real estate industries. There has been a slowdown in the construction projects that would provide the Group with additional sources of liquidity. As a result of the foregoing conditions, the Group incurred significant losses that resulted in a deficit of ₱898 million and ₱683 million as of December 31, 2002 and 2001, respectively. The Group's interest-bearing obligations amounted to ₱3.3 billion and ₱2.6 billion as of December 31, 2002 and 2001, respectively, and interest expense amounted ₱355 million, ₱345 million and ₱425 million for the years ended December 31, 2002, 2001 and 2000, respectively. These factors, among others, indicate that the Group may face difficulties to continue operating in the normal course of business. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amounts and classification of liabilities that might result should the Group be unable to continue operating in the normal course of business.

In view of the foregoing conditions, the Group's management is currently undertaking measures geared towards ensuring the feasibility and profitability of the Group's future operations.

In 2002, as discussed in Note 7, DMCI Property Developers, Inc. (PDI), a wholly owned subsidiary, entered into a joint venture with Constress Philippines, Inc. (Constress), a 50.10% subsidiary, for the development and construction of a housing project on a certain parcel of land owned by Constress. PDI's management is also continuing its efforts to identify certain assets and investments for development and/or disposition to provide PDI with additional sources of liquidity and generate construction projects for D.M. Consunji, Inc. (DMCI).

Semirara Mining Corporation (Semirara), a 74.40%-owned subsidiary, posted an operating income of ₱261 million in 2002 and ₱230 million in 2001 (operating loss of ₱104 million in 2000) with the operation of the Panian mine and the result of the pricing changes in the second amendment to the Coal Supply Agreement (CSA) (see Note 23). In 2002, Semirara also completed its debt restructuring agreements with majority of its creditors (see Notes 12 and 14). Under such agreements, Semirara shall not make any capital expenditure and incur any debt with maturity of more than one year without the consent of the creditors. Also, any related party of Semirara who defaults in its obligation with the respective creditors or is unable to pay its debts as they mature shall constitute an event of default.

Semirara has also expanded its market, selling coal to other coal users like cement plants and other power plants. In February 2003, Semirara is negotiating for a coal supply contract (Contract) with a local power plant for the delivery of coal with a maximum volume of 292,000 metric tons (MT) from March 2003 to December 2003 or approximately a monthly delivery of 26,000 MT of coal. The base price per MT of coal is computed based on a formula as stipulated in the Contract. This base price is subject to adjustment for penalty or bonus which is determined on a per delivery basis, based on a set of coal quality standards also as stipulated in the Contract.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Group be unable to continue operating in the normal course of business.

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in preparing the consolidated financial statements of the Group follow:

Basis of Preparation
The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the Philippines and under the historical cost convention except for certain property, plant and equipment which are carried at adjusted cost.

Use of Estimates
The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the Philippines requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosures of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any change in estimates will be recorded in the consolidated financial statements when determinable.

Adoption of New Accounting Standards

The Group adopted the following Statements of Financial Accounting Standards (SFAS)/International Accounting Standards (IAS) which became effective on January 1, 2002:

- SFAS 16/IAS 16, *Property, Plant and Equipment*;
- SFAS 24/IAS 24, *Related Party Disclosures*;
- SFAS 27/IAS 27, *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*;
- SFAS 28/IAS 28, *Accounting for Investments in Associates*;
- SFAS 31/IAS 31, *Financial Reporting of Interests in Joint Ventures*; and,
- SFAS 36/IAS 36, *Impairment of Assets*.

Adoption of the above new standards in 2002 did not result in restatements of prior year financial statements. Additional disclosures required by the new standards, however, were included in prior year financial statements, where applicable.

New Accounting Standards Effective Subsequent to 2002

The Accounting Standards Council has approved the following accounting standards which will be effective subsequent to 2002 and which are applicable to the Group:

- SFAS 10/IAS 10, *Events After the Balance Sheet Date*, which prescribes the accounting and disclosures related to adjusting and non-adjusting subsequent events. The Group will adopt SFAS 10/IAS 10 in 2003 and, based on current circumstances, does not believe the effect of adoption of these new accounting standards on the financial statements will be material.

- SFAS 37/IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, which provides the criteria for the recognition and bases for measurement of provisions, contingent liabilities and contingent assets. It also specifies the disclosures that should be included with respect to these items. The Group will adopt SFAS 37/IAS 37 in 2003 and, based on current circumstances, does not believe the effect of adoption of these new accounting standards on the financial statements will be material.

- SFAS 38/IAS 38, *Intangible Assets*, which establishes the criteria for the recognition and measurement of intangible assets. Intangible assets that are recognized should be amortized generally over 20 years. The new standard also requires that expenditures on research, start-up, training, advertising and relocation be expensed as incurred. The Group will adopt SFAS 38/IAS 38 in 2003. This will result in a retroactive adjustment to beginning deficit in 2003 of ₱33 million relating to the write-off of start-up costs which is included in the "Other assets" account, under "Others," in the consolidated balance sheets. Comparative prior period financial statements presented will be restated accordingly.

- SFAS 17/IAS 17, *Leases*, which prescribes the accounting policies and disclosures to apply to finance and operating leases. The Group will adopt SFAS 17/IAS 17 in 2004 and, based on current circumstances, does not believe the effect of adoption of these new accounting standards on the financial statements will be material.

Principles of Consolidation
The consolidated financial statements include the financial statements of the Company and the following subsidiaries:

	Effective Percentages of Ownership
General Construction:	
DMCI	100.00
DMCI International, Inc. (DMCII)	100.00
DMCI-Laing Construction, Inc. (DMCI-Laing)	60.00
OHKI-DMCI Corporation (OHKI)	60.00
Beta Electric Corporation (Beta Electric)	50.10
Infrastructure and Real Estate:	
PDI	100.00
Contech Products Corporation (Contech)	100.00
Hampstead Garden Corporation (Hampstead)	60.00
Riviera Land Corporation (Riviera)	51.00
Constress	50.71
Cement Manufacturing:	
Semirara Cement Corporation (SemCem)*	100.00
Coal Mining:	
Semirara	74.40
Manufacturing:	
Contech Products South Corporation (Contech South)	85.00
Wire Rope Corporation of the Philippines (Wire Rope)	61.70

* Organized on January 29, 1998 and has not yet started commercial operations.

DMCI's subsidiaries include DMCII, DMCI-Laing, OHKI, Beta Electric, Contech South and Constress.

PDI's subsidiaries include Contech and Hampstead.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances, except as stated otherwise. All significant intercompany transactions and balances are eliminated in consolidation.

Revenue and Cost Recognition
Construction Contracts
Revenue from construction contracts is recognized under the percentage of completion method of accounting. The stage of completion of construction contracts in progress is based on 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. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which 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 contract costs incurred and estimated earnings recognized. Contract retentions are included as part of construction contracts receivable under the "Receivables" account in the assets section of the consolidated balance sheets.

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

Real Estate Sales
Revenue from real estate sales, which consist primarily of the sale of housing and condominium units, with material obligations under the sales contracts to provide improvements after the property is sold, is accounted for under the percentage of completion method. Under this method, the gross profit is deferred and presented as part of the "Other noncurrent liabilities" account in the liabilities section of the consolidated balance sheets and realized as the related obligations are fulfilled. If any of the criteria under the percentage of completion method is not met, the deposit method is applied until such criterion is met. Under the deposit method, revenue recognition is deferred until the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented as customers' deposits included in the "Accounts and other payables" account in the liabilities section of the consolidated balance sheets. Cancellations of prior year sales and reversals of the related deferred gross profit are charged to operations.

The costs of related housing and condominium units of certain subsidiaries sold before completion of the projects are determined based on the actual costs incurred and project cost estimates as determined by the contractors and technical staff of certain subsidiaries. The estimated future expenditures for the completion of sold residential and condominium units are presented as "Accrued expenses" under the "Accounts and other payables" account in the liabilities section of the consolidated balance sheets.

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 dealers.

Interest Income
Interest income is recognized as it accrues.

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 change in value.

Receivables
Receivables are recognized and carried at the original contract price or invoice amount, less allowance for any uncollectible amount. An estimate for doubtful accounts is made when collection of the full amount is no longer probable or when the amounts anticipated to be received in settlement of such receivables are less than the amounts due. The allowance for doubtful accounts is maintained at a level considered adequate to provide for potential losses on receivables and is determined after a study of the estimated collectibility of receivable balances and evaluation of such factors as aging of the accounts, collection experience in relation to the particular receivables, past and expected loss experiences and specifically identified doubtful accounts.

Inventories
Inventories are valued at the lower of cost or net realizable value, after provision for obsolete items. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The cost of coal inventory is determined by the weighted average production cost method. The cost of equipment parts, materials and supplies is determined substantially by the average cost methods (either by moving average or weighted average production cost). The cost of equipment parts, materials and supplies determined by the first-in, first-out method accounts for 3% of total inventories.

Real Estate for Sale and Development
Real estate for sale and development are carried at the lower of cost or net realizable value. Real estate costs include those costs that relate to the 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. Net realizable value is the selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale. Valuation allowances are provided for real estate for sale and development when the net realizable values of the properties are less than their carrying costs.

Investments
Investments in associates and unincorporated real estate and construction joint ventures are accounted for under the equity method. Under this method, such investments are carried in the consolidated balance sheets at cost plus post-acquisition changes in the Group's share in the net assets of the investees, less any impairment in value. The consolidated statements of income reflect the Group's share of the results of operations of these investees. Unrealized gains arising from intercompany transactions are eliminated to the extent of the Group's interest thereon. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction in the carrying value of the investments.

When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition of losses is discontinued except to the extent of the Group's commitment. When the investees 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.

Investments in shares of stock of companies in which the Group does not exercise significant influence are carried at cost. An allowance is set up for any substantial and presumably permanent decline in the carrying value of these investments.

Investments in land are carried at cost less any impairment in value.

Investments in condominium units are carried at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset ranging from 5 to 25 years.

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

Certain land and land improvements, buildings and building improvements and conventional and continuous mining equipment of Semirara acquired up to April 30, 1997 are stated at adjusted cost (as a result of its quasi-reorganization as of December 31, 1997) (see Note 10) as determined by an independent firm of appraisers as of that date less accumulated depreciation and amortization and any impairment in value. Subsequent additions are stated at cost.

The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets 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 an additional cost of property, plant and equipment.

Depreciation and amortization of property, plant and equipment, except for mining properties, mine exploration and development costs, are calculated on the straight-line basis over the estimated useful life of the asset as follows:

Land improvements	5 to 17 years
Buildings and building improvements	5 to 25 years
Construction equipment, machinery and tools	4 to 10 years
Office furniture, fixtures and equipment	3 to 7 years
Transportation equipment	4 to 5 years
Conventional and continuous mining equipment	2 to 13 years
Leasehold improvements	5 to 7 years

Depletion of mining properties, mine exploration and development costs are calculated based on the units-of-production method.

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

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

Borrowing costs that are directly attributable to the construction and installation of property, plant and equipment are capitalized during the construction and installation period. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the property for its intended use are complete.

Deferred Mining Exploration and Development Costs

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

Stripping Costs

Stripping costs are capitalized based on the difference between the actual stripping ratio (ratio of waste moved to coal mined) and the estimated stripping ratio established in accordance with the survey conducted on the mine. These costs, included under the “Other assets” account in the consolidated balance sheets, are amortized using the units-of-production method.

Preoperating Expenses
Expenses incurred prior to the start of the Group's commercial operations are capitalized and amortized over five years and are presented as part of "Other assets" account in the consolidated balance sheets.

Impairment of Assets
Beginning 2002, an assessment is made at balance sheet date to determine whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to operations in the period in which it arises.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations.

Income Taxes
Deferred income tax is provided using the liability method. Deferred tax assets and liabilities are recognized for the future tax benefits or consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases and carryforward benefit of excess of minimum corporate income tax (MCIT) over normal income tax and net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rates applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled and the carryforward benefit of the MCIT and NOLCO are expected to be applied. A valuation allowance is provided for deferred tax assets when it is more likely than not that some or all of the deferred tax assets will not be realized in the future. Any change in the valuation allowance on deferred tax assets is included in the computation of the provision for deferred income tax for the year.

Construction contracts entered into and started on January 1, 1998 are reported for income tax purposes using the percentage of completion method; whereas, uncompleted contracts already started prior to January 1, 1998 are reported for income tax purposes under the completed contract method under certain conditions.

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

Foreign Currency Transactions and Translations
Transactions denominated in foreign currency are recorded using the exchange rate prevailing as of the date of the transactions. Outstanding foreign currency-denominated assets and liabilities at year end are translated using the closing rate. Exchange gains or losses resulting from rate fluctuations upon actual settlement and from restatement at year end are credited or charged to current operations.

Retirement Costs
Retirement costs are determined using the projected unit credit method or the attained age cost method.

The projected unit credit method reflects the services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Past service costs and unrecognized experience adjustments are amortized over the expected remaining working lives of covered employees.

Under attained age cost method, past service costs, experience adjustments and the effects of changes in actuarial assumptions are amortized over the expected remaining working lives of employees.

Of the consolidated retirement costs, 47% was determined using the projected unit credit method and 53% using the attained age cost method.

Earnings (Loss) Per Share
Basic earnings (loss) per share is calculated by dividing the net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted earnings (loss) per share is calculated by dividing the net income (loss) attributable to common shareholders (after deducting interest on the convertible redeemable preferred shares) by the weighted average number of common shares outstanding during the year (adjusted for the effects of dilutive convertible redeemable preferred shares).

Diluted earnings (loss) per share assumes the conversion of the outstanding preferred shares. When the effect of the conversion of such preferred shares is anti-dilutive, no diluted earnings per share is presented.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	2002	2001
Cash on hand and in banks	**₱203,511,654**	₱151,874,432
Short-term investments	**33,614,970**	168,955,918
	₱237,126,624	₱320,830,350

Cash in bank earns interest at the respective bank deposit rates. Short-term investments are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates.

4. **Receivables**

Receivables are summarized as follows:

	2002	2001
Trade receivables:		
Construction (including retention receivables on uncompleted contracts of ₱557,687,586 in 2002 and ₱742,752,631 in 2001) (see Note 20)	**₱1,655,887,430**	₱2,278,213,440
Real estate (see Note 12)	**116,800,698**	101,419,383
Others (see Notes 12, 14 and 23)	**546,982,944**	346,830,888
Receivable from related parties (see Notes 12, 20 and 25)	**1,232,415,302**	1,571,185,619
Subcontractors and suppliers	**243,550,753**	395,720,107
Other receivables	**363,350,979**	490,464,988
	4,158,988,106	5,183,834,425
Less allowance for doubtful accounts	**739,873,908**	903,846,022
	3,419,114,198	4,279,988,403
Less noncurrent receivables - net	**680,055,302**	1,273,851,913
	₱2,739,058,896	₱3,006,136,490

Receivables from Atlantic, Gulf and Pacific Company of Manila, Incorporated (AG&P)
The receivable from related parties include notes receivable from AG&P, an associate, of ₱732 million which bear interest at a rate equal to that charged by AG&P's creditor banks (see Note 9). The Company waived the 12% penalty which was supposed to be charged on the unpaid loans beyond the 90-day term as provided for in the promissory notes (PNs). Further, the accrual of interest on the notes receivable has been suspended for four years since January 1999 in recognition of AG&P's deteriorating financial condition. The PNs are partly collateralized by a participation in the mortgage trust indenture amounting to ₱143 million covering substantially all of AG&P's real properties. As of December 31, 2002, all of the notes receivable from AG&P have already matured and were due for collection. In view of the financial difficulties AG&P is currently experiencing, the Company has provided an allowance of ₱552 million on its notes receivable from AG&P in 2000 (see Note 9).

Receivables from Universal Rightfield Property Holdings, Inc. (URPHI)
Receivables of DMCI from URPHI, an associate, amounted to ₱595 million and ₱612 million as of December 31, 2002 and 2001, respectively (including ₱512 million in 2002 and ₱524 million in 2001 recorded as part of "Trade - Construction," with the balance of ₱83 million in 2002 and ₱88 million in 2001 included in the "Receivable from related parties" account). These receivables will be settled through the assignment of condominium units and other properties.

5. **Costs, Estimated Earnings and Billings on Uncompleted Contracts**

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

	2002	2001
Total costs incurred	**₱5,073,468,349**	₱7,202,336,060
Add estimated earnings recognized	**421,732,888**	1,108,040,296
	5,495,201,237	8,310,376,356
Less total billings (including unliquidated advances from contract owners of ₱408,664,917 in 2002 and ₱448,727,499 in 2001)	**5,888,092,876**	8,710,897,711
	(₱392,891,639)	(₱400,521,355)

The foregoing balances are reflected in the accompanying consolidated balance sheets under the following accounts:

	2002	2001
Costs and estimated earnings in excess of billings on uncompleted contracts	**₱27,484,328**	₱26,865,851
Billings in excess of costs and estimated earnings on uncompleted contracts	**(420,375,967)**	(427,387,206)
	(₱392,891,639)	(₱400,521,355)

6. **Inventories**

The details of inventories follow:

	2002	2001
Equipment parts, materials and supplies	**₱484,284,495**	₱461,842,820
Coal	**142,475,530**	3,173,231
	626,760,025	465,016,051
Less allowance for inventory obsolescence	**47,565,955**	62,295,787
	579,194,070	402,720,264
Equipment parts, materials and supplies in transit	**44,733,202**	18,381,936
	₱623,927,272	₱421,102,200

7. **Real Estate for Sale and Development**

Real estate for sale and development consists of the following assets:

	2002	2001
Housing and condominium units for sale and development (see Notes 12 and 13)	**₱770,272,535**	₱719,342,564
Land for sale and development (see Note 13)	**2,484,139,222**	2,410,820,367
	₱3,254,411,757	₱3,130,162,931

In accordance with the memorandum of agreement (MOA) originally signed on April 26, 2002, as amended on March 10, 2003, PDI entered into a joint venture with Constress for the development and construction of a housing project on a certain parcel of land owned by Constress (see Note 1). The MOA provided, among others, that: (a) Constress shall contribute a certain parcel of land at an agreed value of ₱132 million; (b) PDI shall make cash contributions amounting to ₱309 million; and, (c) in consideration of their respective contributions, PDI and Constress shall co-own all housing units as well as parking and common areas on a 70%: 30% basis. As of December 31, 2002, total cost incurred by PDI for the real estate project amounted to ₱65 million, which is included as part of the “Housing and condominium units for sale and development” account.

PDI has a MOA with URPHI effective February 15, 1996 for the development of a certain real estate property. As stipulated in the MOA, PDI contributed certain parcels of land at an agreed valuation of ₱60 million which URPHI shall develop into high-rise, mixed-use condominiums, the cost of which shall be shared equally by URPHI and PDI. PDI has committed to contribute ₱935 million under this MOA. As of December 31, 2002 and 2001, total cost incurred by PDI for the real estate project amounted to ₱329 million, which is included as part of the “Housing and condominium units for sale and development” account.

As of December 31, 2002, housing and condominium units for sale and development with an aggregate carrying value of ₱20 million were mortgaged by DMCI to secure its obligations to certain preferred shareholders of the Company (see Notes 14 and 20).

As of December 31, 2002 and 2001, land for sale and development with an aggregate carrying value of ₱424 million and ₱152 million, respectively, were mortgaged by PDI to guarantee various credit facilities granted to Semirara and secure the obligations of DMCI and PDI to certain preferred shareholders of the Company (see Notes 14 and 20).

Total interest capitalized by the Group as part of real estate for sale and development amounted to ₱8 million in 2002 and 2001.

8. Other Current Assets

Other current assets consist of the following:

	2002	2001
Prepaid expenses	**₱26,975,137**	₱18,498,508
Deferred income tax (see Note 18)	**16,565,874**	42,957,581
Value added input taxes	**10,930,509**	27,173,927
Creditable taxes withheld	**6,684,651**	8,348,040
Deposits and others	**32,910,320**	4,357,493
	₱94,066,491	₱101,335,549

9. **Investments**

The details of this account follow:

	2002	2001
Investments in Associates - At Equity:		
Acquisition cost:		
Balance at beginning of year	**₱693,728,465**	₱1,019,101,405
Additions during the year	**43,750,000**	560,000
Disposals and transfers during the year	**–**	(325,932,940)
Balance at end of year	**737,478,465**	693,728,465
Accumulated equity in net losses:		
Balance at beginning of year	**(399,310,773)**	(390,507,494)
Equity in net earnings (losses) during the year	**(36,828,006)**	191,638
Disposals and transfers during the year	**–**	(8,994,917)
Balance at end of year	**(436,138,779)**	(399,310,773)
	301,339,686	294,417,692
Allowance for probable losses	**(35,910,514)**	(35,910,514)
	265,429,172	258,507,178
Investments - At Cost:		
Balance at beginning of year	**150,267,866**	151,358,471
Additions and transfers during the year	**476,255**	4,819,500
Disposals during the year	**(63,068,643)**	(5,910,105)
Balance at end of year (subscriptions payable on which amounted to ₱3,750,000 - see Note 15)	**87,675,478**	150,267,866
	353,104,650	408,775,044
Real Estate Joint Venture:		
At equity:		
Acquisition cost	**32,000,000**	32,000,000
Accumulated equity in net losses	**(6,664,189)**	(6,664,189)
Allowance for probable losses	**(20,889,954)**	(20,889,954)
	4,445,857	4,445,857
At cost	**31,260,000**	31,260,000
	35,705,857	35,705,857
Equity in Accumulated Earnings of Unincorporated Construction Joint Ventures	**60,900,258**	59,281,168
Real Estate Properties:		
Land	**437,543,501**	408,995,499
Condominium units - net of accumulated depreciation of ₱11,408,678 in 2002 and ₱9,020,708 in 2001	**82,396,053**	90,240,242
	519,939,554	499,235,741
	₱969,650,319	₱1,002,997,810

Consolidated depreciation on condominium units amounted to ₱2 million in 2002, 2001 and 2000 (see Note 17).

The details of the Group’s equity in the net assets of its associates, unincorporated construction and real estate joint ventures and the corresponding percentages of ownership follow:

	Percentages of Ownership	Equity in Net Assets	
		20	20
Associates:			
Montecito Properties, Inc.		**₱176,385,79**	₱198,786,07
Bachy Soletanche Philippines Corporation		**47,183,8**	40,052,8
Vulcan Materials Corporation (Vulcan)		**18,442,3**	
Systems Powermark Corporation		**11,874,6**	3,000,0
URPHI		**6,095,3**	6,095,3
Obayashi Philippines Corporation (OPC)		**3,800,7**	6,007,7
Eco Process & Equipment Phils., Inc.		**1,108,3**	883,5
Raco-Haven Automation Philippines, Inc.		**538,2**	3,681,6
Subic Water and Sewerage Company, Inc. (Subic Water)			
AG&P			
		₱265,429,17	₱258,507,17
Unincorporated Construction Joint Ventures:			
DMCI/WPC		**₱38,399,39**	₱37,778,27
Obayashi – DMCI		**12,793,8**	11,795,8
Subic Water Construction Joint Venture		**9,707,0**	9,707,0
		₱60,900,25	₱59,281,16
Real Estate Joint Venture:			
Diamond Bay Tower Project		**₱4,445,85**	₱4,445,85

Investments in Associates - At Equity

Vulcan

As of December 31, 2001, DMCI’s accumulated equity in the net losses of Vulcan equaled the carrying amount of its related investment. In 2002, DMCI exercised its pre-emptive right to subscribe to additional shares, resulting in a retention of its equity ownership in Vulcan of 49%.

OPC

On January 15, 2001, OPC’s application for its increase in authorized capital stock was approved by the Securities and Exchange Commission (SEC). The increase was paid by way of stock dividends and new stock subscriptions by certain majority shareholders. DMCI, however, waived its pre-emptive right to subscribe to additional shares; resulting in a dilution of its equity ownership in OPC from 56% in 2000 to only 39.55% in 2001. As a result of the foregoing, OPC’s financial position and results of operations were deconsolidated from the 2001 consolidated financial statements. On March 24, 2003, OPC’s Board of Directors (BOD) approved the cessation of OPC’s operations effective April 30, 2003. The activities of OPC after this date will consist mainly of collection of receivables, disposition of assets and payment of liabilities.

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 ₱33 million in Subic Water, a joint venture company with Subic Bay Metropolitan Authority (a government-owned corporation), Olongapo City Water District, and Cascal Services Limited (a company organized under the laws of England). The joint venture 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 ₱75 million (based on the initial subscribed and paid-in capital of ₱187 million). The balance of PDI's committed subscription to Subic Water of ₱38 million (net of additional subscription payment of ₱4 million in 1998) is expected to be paid on or before the second anniversary of the said effective date. As of April 30, 2003, such committed subscription has not yet been paid.

As of December 31, 2002 and 2001, PDI's accumulated equity in the net losses of Subic Water equaled the carrying amount of its related investment.

AG&P
The MOA entered into by the Company together with Buenaventura, Filamor and Echauz (BFE), AGP Industrial Corporation and Marubeni Philippines Corporation on October 10, 1996 (amended on October 29, 1996) provided, among others, that the Company and BFE, subject to their business judgement, shall extend such advances, credit facilities or other funds to AG&P totalling ₱800 million, to be secured by AG&P's real estate properties, to enable AG&P to pay its trade creditors, or otherwise service its debt obligations. As of December 31, 2002 and 2001, the Company's advances to AG&P which were presented as "Related parties" under the "Receivables" account in the consolidated balance sheets amounted to ₱732 million (see Note 4). A corresponding allowance for the noncollection of such advances of ₱552 million was provided in 2000 (see Note 4).

On December 1, 2000, BFE assigned in favor of the Company its shareholdings in AG&P equivalent to 260,091 Class A shares and 71,817 Class B shares as payment for its liability amounting to ₱18 million; resulting in an increase of the Company's equity ownership in AG&P from 39.40% in 1999 to 46% in 2000.

On January 31, 2002, AG&P filed a rehabilitation plan (after the approval of AG&P's stockholders and BOD on January 29, 2002) with the Regional Trial Court (RTC) of Batangas City. On February 21, 2002, the RTC issued a stay order prohibiting AG&P from selling, encumbering, transferring or disposing any of its properties in any manner except in the ordinary course of business. This stay order also included the enforcement of all claims against AG&P.

On July 30, 2002, AG&P filed an updated rehabilitation plan. The plan was subsequently approved by the RTC on March 11, 2003 that included, among others, the settlement of the Company's claims from AG&P.

As of December 31, 2002 and 2001, the Company's accumulated equity in the net losses of AG&P equaled the carrying amount of its related investment.

Investments - At Cost

Asian Hospital, Inc. (AHI)

In 2002, the Company transferred and conveyed its AHI shares at an agreed value of ₱36 million to a preferred shareholder as payment for the redemption by the Company of 32,000 preferred shares under Option C of the Exchange Offer (see Notes 16 and 26).

Celebrity Sports Plaza, Inc. (Celebrity)

Certain proprietary club shares owned by PDI with a total cost of ₱7 million were used as collateral to guarantee the credit facilities granted to Celebrity.

Unincorporated Construction Joint Ventures

As of December 31, 2002 and 2001, the unincorporated construction joint ventures, which were entered into by DMCI with its joint venture partners, have sufficient working capital for their operations. Accordingly, no fund contributions were required from DMCI and its joint venture partners as provided for by the related joint venture agreements.

Real Estate Properties

DMCI's investments in real estate properties with an aggregate carrying value of ₱264 million and ₱235 million as of December 31, 2002 and 2001, respectively, were used as collateral under real estate mortgages to secure the indebtedness of Semirara and Contech South to local banks and a foreign supplier (see Notes 14 and 20).

Also, an investment in real estate property of DMCI with a carrying value of ₱54 million as of December 31, 2002 is being offered as payment to a foreign supplier of Semirara. As of April 30, 2003, no agreement has been finalized.

10. Property, Plant and Equipment

Property, plant and equipment are classified as follows:

	Land and Land Improvements	Buildings and Building Improvements	Construction Equipment Machinery and Tools	Office Furniture Fixtures and Equipment	Transportation Equipment	Conventional and Continuous Mining Equipment
Cost						
Beginning balance	**₱824,043,467**	**₱1,111,969,794**	**₱2,837,264,433**	**₱163,529,851**	**₱136,022,566**	**₱4,363,981,511**
Additions	**1,228,798**	**56,178,961**	**1,944,742**	**3,898,550**	**3,817,825**	**261,759,432**
Transfers (disposals)	**(149,060)**	**–**	**(184,731,752)**	**(1,418,664)**	**(19,507,297)**	**40,328,794**
Ending balance	**825,123,205**	**1,168,148,755**	**2,654,477,423**	**166,009,737**	**120,333,094**	**4,666,069,737**
Accumulated Depreciation Depletion and Amortization						
Beginning balance	**292,058,166**	**669,727,799**	**2,510,846,379**	**154,092,461**	**117,174,724**	**2,760,279,480**
Depreciation, depletion and amortization	**13,094,703**	**41,214,172**	**106,479,225**	**7,787,186**	**7,482,743**	**360,064,194**
Disposals	**–**	**–**	**(177,700,861)**	**(1,418,664)**	**(15,962,543)**	**–**
Ending balance	**305,152,869**	**710,941,971**	**2,439,624,743**	**160,460,983**	**108,694,924**	**3,120,343,674**
Net Book Value	**₱519,970,336**	**₱457,206,784**	**₱214,852,680**	**₱5,548,754**	**₱11,638,170**	**₱1,545,726,063**

(Forward)

	Mining Properties, Mine Exploration and Development Costs	Leasehold Improvements	Construction in Progress	2002 Total	2001
Cost					
Beginning balance	**₱503,388,113**	**₱59,120,394**	**₱112,149,192**	**₱10,111,469,321**	₱9,986,435,813
Additions	**–**	**–**	**–**	**328,828,308**	762,159,574
Transfers (disposals)	**–**	**–**	**(62,392,245)**	**(227,870,224)**	(637,126,066)
Ending balance	**503,388,113**	**59,120,394**	**49,756,947**	**10,212,427,405**	10,111,469,321
Accumulated Depreciation Depletion and Amortization					
Beginning balance	**128,135,022**	**35,702,010**	**–**	**6,668,016,041**	6,575,834,905
Depreciation, depletion and amortization	**25,026,812**	**8,260,908**	**–**	**569,409,943**	694,495,676
Disposals	–	–	**–**	**(195,082,068)**	(602,314,540)
Ending balance	**153,161,834**	**43,962,918**	**–**	**7,042,343,916**	6,668,016,041
Net Book Value	**₱350,226,279**	**₱15,157,476**	**₱49,756,947**	**₱3,170,083,489**	₱3,443,453,280

The assets of Semirara, which are carried at adjusted cost (arising from its quasi-reorganization) and are included in property, plant and equipment, follow:

	Land and Land Improvements	Buildings and Building Improvements	Conventional and Continuous Mining Equipment	2002 Total	2001
At Adjusted Cost	**₱146,388,235**	**₱486,594,149**	**₱581,857,987**	**₱1,214,840,371**	₱1,214,840,371
Accumulated Depreciation and Amortization on Adjusted Cost					
Beginning balance	**96,360,235**	**234,220,486**	**293,251,919**	**623,832,640**	562,765,503
Depreciation and amortization	**7,501,724**	**26,442,730**	**27,624,330**	**61,568,784**	61,067,137
Ending balance	**103,861,959**	**260,663,216**	**320,876,249**	**685,401,424**	623,832,640
Net Book Value At Adjusted Cost	**₱42,526,276**	**₱225,930,933**	**₱260,981,738**	**₱529,438,947**	₱591,007,731

Land and land improvements with an aggregate carrying value of ₱316 million and ₱188 million as of December 31, 2002 and 2001, respectively, and construction equipment with a carrying value of ₱1 million and ₱6 million as of December 31, 2002 and 2001, respectively, which are owned by DMCI, were used as collateral to secure the indebtedness of Semirara to local banks and a foreign supplier and the obligations of DMCI to certain preferred shareholders of the Company (see Notes 14 and 20). Also, the land and land improvements of Constress with a carrying value of ₱1 million as of December 31, 2002 were mortgaged to secure the bank loan of PDI (see Notes 14 and 20).

Semirara's conventional and continuous mining equipment with a carrying value of ₱253 million and ₱321 million as of December 31, 2002 and 2001, respectively, were pledged as collateral under chattel mortgages to further secure the indebtedness of Semirara to the local banks and a foreign supplier (see Note 14).

Consolidated depreciation, depletion and amortization on property, plant and equipment (including depreciation on the adjusted cost of ₱62 million in 2002, ₱61 million in 2001 and ₱70 million in 2000) amounted to ₱569 million in 2002, ₱694 million in 2001 and ₱901 million in 2000 (see Note 17).

11. **Other Assets**

The details of other assets follow:

	2002	2001
Deposits in North Luzon Railways Corporation (Northrail)	**₱300,000,000**	₱300,000,000
Deferred stripping and development cost - net	**156,575,921**	153,815,930
Deferred income tax (see Note 18)	**24,583,634**	19,060,684
Prepaid expenses	**11,526,630**	11,526,630
Funds held by custodian bank	–	71,974,187
Others	**73,239,817**	69,398,612
	₱565,926,002	₱625,776,043

Deposits in Northrail of ₱300 million represent contributions made by PDI relative to a joint venture with the Bases Conversion Development Authority (BCDA) (a government-owned corporation), Philippine National Railways and a consortium of foreign investors and local partners which would undertake the construction of a multi-phase double-track railway system. The covering joint venture agreement provided, among others, the incorporation of Northrail, the primary purpose of which is to construct, operate and manage such railway system. The contributions made by the joint venture partners are committed to be converted into equity upon the privatization of Northrail.

In 2001, due to the uncertainty surrounding the privatization of Northrail, PDI decided to pull out of the joint venture. As of April 30, 2003, PDI is still negotiating with BCDA for the recovery of its contribution to Northrail, which the Group's management believes is fully recoverable.

Effective January 1, 2002, Semirara changed the estimated waste to coal stripping ratio based on the estimates of Semirara's technical department as approved by Semirara's BOD in November 2002.

As of December 31, 2001, the Company has a Custodianship Agreement with a local bank wherein the Company maintains a sinking fund account which amounted to ₱72 million, comprised of cash or money market instruments gradually set aside in order to cover the redemption of the 2,400,000 redeemable, convertible preferred shares on April 7, 2002. The annual deposits to the sinking fund are in accordance with an approved schedule of payments. In 2002, the fund was applied as payment to certain shareholders for the Company's redemption of preferred shares under Option D of the Exchange Offer (see Note 16).

12. Notes Payable

Notes payable consist of the following:

	2002	2001
Bank loans	**₱661,437,194**	₱748,162,802
Payable to related parties (see Note 20)	**82,250,574**	133,978,629
Current portion of long-term debt (see Note 14):		
Bank loans	**143,004,764**	18,323,632
Acceptances and trust receipts payable	**219,067,585**	281,004,679
Notes payable	**253,837,104**	54,735,282
Other payables	**–**	60,000,000
	₱1,359,597,221	₱1,296,205,024

The Group's bank loans consist of peso denominated short-term borrowings from local banks which bear interest at prevailing market rates and are payable on monthly, quarterly and lump sum bases on various maturity dates in 2003. These bank loans are generally unsecured, except for the following:

(a) The bank loan of DMCI amounting to ₱11 million in 2002 and ₱4 million in 2001 is secured by a real estate mortgage over DMCI's related condominium units (see Note 7), a deed of assignment over DMCI's related real estate receivables (see Note 4) and a suretyship agreement executed by DMCI pursuant to a receivable purchase agreement entered into by DMCI with a local bank in relation to DMCI's real estate sale financing;

(b) The bank loans of PDI amounting to ₱50 million in 2002 and 2001 are secured by a real estate mortgage over URPHI's commercial condominium property and a corporate guarantee issued by the Company (see Note 20);

(c) The bank loan of PDI amounting to ₱26 million in 2002 and ₱11 million in 2001, pursuant to a receivable purchase agreement entered into by PDI with a local bank in connection with the sale of PDI's club shares in Celebrity (see Note 4). The agreement provides for the submission and delivery of the said club shares and the related post-dated checks issued by Celebrity; and,

(d) The bank loan of Semirara amounting to ₱137 million in 2001 was collateralized by chattel mortgages over floating vessels of DMC Construction Equipment Resources, Inc. (DMC CERI), a related party, a continuing suretyship issued by the Company and assignment of trade receivables from National Power Corporation (NPC), a major customer, up to the extent of the loan (see Notes 4 and 20). In 2002, however, this loan was restructured (see Note 14).

The Group's agreements with such 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.

13. **Accounts and Other Payables**

This account consists of the following:

	2002	2001
Payable to suppliers	**₱559,513,155**	₱770,113,140
Payable to subcontractors	**436,933,791**	462,108,444
Accrued expenses	**862,007,859**	1,117,907,188
Acceptances and trust receipts payable	**48,069,079**	93,209,451
Payable to Department of Energy (DOE) and local government units	**243,918,218**	212,138,793
Payable to property sellers	**274,083,329**	289,737,787
Customers' deposits	**134,840,834**	134,651,968
Dividends payable	**26,819,010**	32,455,890
Due to related parties (see Note 20)	**1,151,328,325**	511,077,079
Other payables (see Note 18)	**293,344,800**	258,059,052
	₱4,030,858,400	₱3,881,458,792

Payable to DOE and Local Government Units
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 also provides for the manner and basis of sharing the gross proceeds from coal production between Semirara and DOE. Semirara's liabilities to DOE (including accrued interest computed at 14% per annum on the 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 ₱244 million and ₱212 million as of December 31, 2002 and 2001, respectively. The contract is for a maximum period of 35 years (inclusive of the developmental stage and renewals) up to July 2012.

In 2002, 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.

Payable to Property Sellers
Payable to property sellers represents the balance of PDI's obligations to various real estate property sellers for the acquisition of certain parcels of land and residential condominium units (see Note 7). 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 PDI.

Customers' Deposits

A significant portion of customer's deposits amounting to ₱101 million as of December 31, 2002 and 2001 represents the balance of NPC's payments for the unlifted coal totaling 150,000 MT of Selectively Mined Coal (Select) priced at ₱179 million which formed part of the minimum contracted quantity that NPC agreed to purchase for the year 1990 under the CSA (see Note 23) between Semirara and NPC. Semirara has a MOA with NPC, entered into on September 28, 1990, whereby Semirara agreed to provide NPC 150,000 MT Select coal or its ROM coal equivalent, free of shipping cost to NPC, over a period of seven consecutive years in equal tonnage beginning 1993 or when Calaca II power plant starts operations, whichever was earlier. The total coal lifted under such MOA totalled to 68,249 MT of Select coal equivalent or its peso equivalent of ₱78 million as of December 31, 2002 and 2001.

14. Long-term Debt

Long-term debt pertains to the following obligations:

	2002	2001
Long-term:		
Bank loans	**₱684,785,332**	₱443,248,304
Acceptances and trust receipts payable	**397,441,099**	329,965,247
Notes payable to:		
Preferred shareholders	**571,228,721**	–
Foreign supplier	**423,485,656**	441,606,194
Payable to a foreign supplier	**495,432,792**	393,735,652
	2,572,373,600	1,608,555,397
Less current portion of (see Note 12):		
Bank loans	**143,004,764**	18,323,632
Acceptances and trust receipts payable	**219,067,585**	281,004,679
Notes payable	**253,837,104**	54,735,282
	615,909,453	354,063,593
	₱1,956,464,147	₱1,254,491,804

Bank Loans

The Group's bank loans consist of peso denominated long-term borrowings from local banks which are mostly secured, as shown below:

(a) The bank loan drawn by PDI amounting to ₱70 million in 2002, which bears interest at prevailing market rates, is payable in various maturity dates up to 2007 and is secured by a real estate mortgage over Constress' land and land improvements (see Notes 10 and 20);

(b) Semirara's bank loans amounting to ₱462 million and ₱348 million as of December 31, 2002 and 2001, respectively, include a peso-denominated loan from a local bank with interest at prevailing market rates that has been outstanding since 1998 and was payable in 11 equal quarterly installments starting June 2000 up to December 2002. This loan was used to refinance certain short-term loans and liabilities under letters of credit issued by such bank and was secured by a deed of suretyship of the Company and a deed of undertaking executed by the Company on December 4, 1998 (see Note 20), whereby the Company undertook and obligated itself in favor of the local bank not to sell, reduce, assign, pledge or transfer its shares in Semirara for as long as Semirara's loan with the local bank is outstanding.
On June 15, 2001, Semirara and the local bank agreed to restructure this loan. After the restructuring, the loan now bears interest at 91-day T-bill rate + 3.25% and is payable in 19 equal quarterly amortizations or six years from the date of availment, including an 18-month grace period. The loan is secured by real estate mortgages over PDI's land for sale and development, DMCI's investments in real estate properties and URPHI's condominium properties and a suretyship agreement issued by DMCI (see Notes 7, 9 and 20). The agreement also provides for the maintenance of a financial ratio at a certain level.

In 2002, Semirara's bank loans also include a loan reclassified from the "Notes payable" account under the current liabilities section of the consolidated balance sheets in accordance with the restructuring agreement with a local bank (see Note 12). The loan now bears interest at 91-day T-Bill rate plus 5% per annum spread and is payable in 11 quarterly installments starting June 2002 until December 2004. Further, this loan is covered by the same collateral originally agreed upon by Semirara with such local bank as mentioned in Note 12. The agreement also provided for the maintenance of Semirara's operational deposit account with the said bank and the conditional waiver of penalties amounting to ₱13 million, which was accrued as of December 31, 2002. In the event of default, said penalties shall automatically be reinstated to form part of the obligation to be called due and demandable; and,

(c) Contech South's outstanding bank loan amounting to ₱73 million in 2002 and ₱69 million in 2001 was obtained to partly finance the second phase of its hollow-core wall panel manufacturing project. The loan bears interest at the prevailing market rates and is payable in 16 equal quarterly installments, starting 2001 until 2003. The loan is secured by a real estate mortgage over DMCI's investment in real estate properties (see Notes 9 and 20), a first lien chattel mortgage over certain machinery and equipment acquired out of the proceeds of the loan (see Note 10), a continuing suretyship by the Company (see Note 20) and endorsement or assignment in favor of the creditor bank of any insurance policies covering the mortgaged assets.

<u>Acceptances and Trust Receipts Payable</u>
The Group's acceptances and trust receipts payable include Semirara's liabilities under a three-year deferred usance letters of credit obtained from local banks for the acquisition of various mining equipment. These liabilities with interest at prevailing market rates were payable in various annual installments until October 2001 and were secured by a surety agreement by the Company, chattel mortgages over DMCI's construction equipment and real estate mortgages over DMCI's investment in real estate properties and land and land improvements (see Notes 9, 10 and 20).

In 2001, the trust receipts and acceptances payable with a local bank were restructured and the loan now bears interest at 18.50%, is payable until October 2007 and is covered by the same collateral originally agreed upon by Semirara with such local bank.

In 2002, the restructuring agreements with two other local banks have been finalized. The loan with one of the local banks now bears interest at 91 day T-bill rate + 3.25%, and is payable in 19 quarterly installments until December 2008. The agreement with this local bank also provided that, should the spin-off of Semirara's assets and liabilities to its wholly owned subsidiary ("NewCo"), which is in the process of incorporation, push through, the term loan shall be assumed by NewCo and the annual capital expenditures for the first 3 years shall not exceed ₱223 million. The other restructured loan now bears interest at prevailing market rates, is payable in 18 equal quarterly installments starting February 2003 until May 2007. Semirara's loans with the two local banks are secured by real estate mortgages over DMCI's investments in real estate properties and land and land improvements, chattel mortgages over Semirara's conventional and continuous mining equipment and a surety agreement issued by the Company (see Notes 9, 10 and 20).

<u>Notes Payable</u>
The Group's long-term notes payable include outstanding peso denominated obligations of the Company, DMCI and PDI to certain preferred shareholders of the Company amounting to ₱44 million, ₱489 million and ₱38 million, respectively, which are payable in various maturity dates starting February 2007 until April 2009, pursuant to loan agreements evidenced by PNs dated April 7, 2002 entered into by the Company, DMCI and PDI in connection with the redemption of 510,555 preferred shares under Options A and B of the Exchange Offer (see Notes 16, 20 and 26). The obligations of DMCI and PDI are secured by real estate mortgages over DMCI's and PDI's real estate for sale and development, DMCI's land and land improvements and certain real estate properties of other related parties (see Notes 7, 10 and 20), while the obligations of the Company are unsecured.

In 2002, the details of the foregoing PNs are presented below.

Prevailing interest rate of the 91-day T-bill plus a spread of up to 2%, payable in quarterly payments in arrears	₱295,292,936
Fixed interest at 13%, payable in quarterly payments in arrears	272,244,885
Fixed interest at 13% for the first 5 years; prevailing interest rate of the 91-day T-bill plus a spread of up to 3% for the last 2 years, payable in quarterly payments in arrears	3,690,900
	₱571,228,721

The loan agreements on the long-term notes payable of the Group with such preferred shareholders also provide for some or all of the following restrictions relating to, among others: encumbrances on the properties; change in the nature of business; change in the ownership or management; merger or consolidation; loans, investments and advances; articles of incorporation and by-laws; and, maintenance of financial ratios at certain levels.

The Group's long-term notes payable also include Semirara's foreign currency-denominated long-term obligations of about ₱423 million (US$8 million) in 2002 and ₱442 million (US$9 million) in 2001 to a foreign supplier arising from acquisitions of certain mining equipment, parts and supplies (see Note 10). The PNs, with interest at prevailing market rates, were payable in various installments up to May 2003. Further, such PNs were collateralized by an unconditional and irrevocable letter of guarantee issued by the Company (see Note 20) and an assignment agreement whereby Semirara assigned to the supplier its right to receive payment from NPC in case there is default in any of its payments (see Note 4).

On December 19, 2001, Semirara and this foreign supplier finalized the debt restructuring agreement for such obligations. These notes now bear interest based on SIBOR + 3.75% and are payable in 18 consecutive quarterly installments until December 15, 2006. Further, the PNs are secured by real estate mortgages over DMCI's investments in real estate properties, chattel mortgages over DMCI's construction equipment and Semirara's conventional and continuous mining equipment and a letter of guarantee issued by the Company (see Notes 9, 10 and 20). The agreement also provided for the maintenance of a financial ratio at a certain level.

Payable to a Foreign Supplier

The Group's payable to a foreign supplier represents Semirara's foreign currency-denominated long-term obligations amounting to about US$10 million in 2002 and US$8 million in 2001 arising from the acquisition of conventional mining equipment (see Notes 10 and 26). This obligation bears interest at 8.25% plus establishment fee of 2.75% and commitment fee of 1% and is payable for five (5) years in 10 equal semi-annual installments after the 12-month grace period. Title to the mining equipment amounting to ₱489 million in 2002 and ₱394 million in 2001 will pass to Semirara only upon full settlement of its obligation. The amount due is secured by a corporate guarantee issued by the Company (see Note 20) and the visibility of the CSA (see Note 23) evidencing a 10-year contract for a supply of up to 2,400,000 MT of coal per year.

15. Other Noncurrent Liabilities

The details of this account consist of:

	2002	2001
Deferred income tax (see Note 18)	**₱277,806,177**	₱437,433,919
Deferred revenue	**21,858,210**	29,656,748
Subscriptions payable (see Note 9)	**3,750,000**	3,750,000
Others	–	11,870,577
	₱303,414,387	₱482,711,244

16. **Capital Stock**

The changes in the number of shares follow:

	2002	2001
Preferred stock - ₱1 par value cumulative and convertible		
Authorized	**100,000,000**	100,000,000
Issued		
Balance at beginning of year	**2,400,000**	2,400,000
Retirement of shares	**(1,111,735)**	–
Balance at end of year	**1,288,265**	2,400,000
Common stock - ₱1 par value		
Authorized	**5,900,000,000**	5,900,000,000
Issued	**2,255,494,000**	2,255,494,000
Preferred shares held in treasury		
Balance at beginning of year	**(729,416)**	(729,416)
Redemption of shares	**(1,327,444)**	–
Retirement of shares	**1,111,735**	–
Balance at end of year	**(945,125)**	(729,416)

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

Option A - Secured 5-Year Term Loan
Redemption of preferred shares through the issuance of PNs by the Company, DMCI or PDI at a valuation of ₱1,000 per share, equivalent to the original issue price of the preferred shares. The PNs, which are value dated April 7, 2002, shall be subject to a floating interest rate based on prevailing 91-day T-bill rate plus a 2% spread; and shall be secured by a mortgage on certain real estate properties owned by the Company and/or its subsidiaries and related parties.

As of December 31, 2002, DMCI issued PNs amounting to ₱309 million in favor of the Company for the redemption of 308,700 preferred shares under Option A (see Notes 20 and 26).

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

As of December 31, 2002, the Company, DMCI and PDI issued PNs amounting to ₱44 million, ₱193 million and ₱38 million, respectively, for the redemption of 201,855 preferred shares under Option B (see Notes 20 and 26).

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

As of December 31, 2002, the Company redeemed 603,879 preferred shares under Option C in exchange for AHI shares (see Note 9), certain construction equipment owned by DMCI amounting to ₱50 million and other certain assets of the Company and/or its subsidiaries amounting to ₱586 million in favor of Dacon Corporation, a major stockholder (see Notes 20 and 26).

Option D - Cash Payment
Redemption of preferred shares for cash at a price of ₱775 per share, equivalent to the closing market price of such preferred shares on April 1, 2002 up to a maximum of ₱72 million (cap) (see Note 11). Should the total amount of all the preferred shares of the holders electing this option exceed the cap, the ₱72 million shall be allocated among all accepting shareholders on a pari passu basis; with the remaining preferred shares to be purchased under any of Options A, B or C.

As of December 31, 2002, the Company redeemed 213,010 preferred shares under Option D.

In 2002, the Company, DMCI and PDI have redeemed a total of 1,327,444 outstanding preferred shares under the Exchange Offer.

As of December 31, 2002 and 2001, dividends in arrears for preferred shares amounted to ₱130 million.

As of December 31, 2002, the outstanding obligations of the Company, DMCI and PDI relative to the issuance of PNs to certain preferred shareholders of the Company amounted to ₱44 million, ₱489 million and ₱38 million, respectively (see Notes 14 and 20).

As of April 30, 2003, the Company, DMCI and PDI have redeemed 1,359,144 preferred shares (including 31,700 preferred shares which were subsequently redeemed through the following: 100 shares under Option C and 31,600 shares under Option D).

17. Costs and Expenses and Other Charges

Cost of sales and services consists of:

	2002	2001	2000
Construction contracts (see Note 20)	**₱1,305,984,905**	₱2,116,337,561	₱3,058,522,992
Coal sales (see Note 23)	**1,095,479,441**	969,566,108	740,229,087
Real estate sales	**216,391,961**	263,733,459	197,925,966
Merchandise sales	**16,137,676**	39,864,775	60,807,420
	₱2,633,993,983	₱3,389,501,903	₱4,057,485,465

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

	2002	2001	2000
Included in:			
Coal sales	**₱391,889,005**	₱314,461,652	₱329,975,770
Construction contracts	**141,034,378**	333,847,711	509,502,689
Operating expenses	**38,874,528**	48,233,377	63,327,186
	₱571,797,911	₱696,542,740	₱902,805,645

Operating expenses consist of the following:

	2002	2001	2000
Provision for probable losses	**₱223,332,047**	₱74,045,057	₱31,507,346
Salaries, wages and employee benefits (see Note 21)	**149,131,566**	138,633,231	128,196,019
Inventories written-off	**44,270,114**	–	–
Depreciation and amortization	**38,874,528**	48,233,377	63,327,186
Outside services	**36,281,100**	34,266,659	40,630,161
Shipping, hauling and shiploading costs	**34,430,953**	61,418,877	59,450,721
Government share	**27,052,157**	42,340,648	24,489,712
Rental	**22,427,700**	22,490,337	21,131,431
Advertising	**22,140,948**	31,410,124	11,879,557
Taxes and licenses	**22,090,673**	24,168,796	35,471,155
Communications, light and water	**11,735,700**	12,989,562	12,994,273
Repairs and maintenance	**11,187,363**	11,554,401	8,527,881
Miscellaneous	**63,477,704**	72,397,783	46,130,146
	₱706,432,553	₱573,948,852	₱483,735,588

Other charges consist of the following:

	2002	2001	2000
Interest expense (see Notes 12 and 14)	**₱355,039,024**	₱344,773,783	₱425,059,159
Foreign exchange loss (gain) - net	**31,958,010**	(11,217,725)	(96,072,115)
Loss on sale of assets	**25,694,600**	13,976,546	84,007,274
Interest income	**(65,917,126)**	(114,181,378)	(66,507,199)
Reversal of provision for doubtful accounts, penalty charges and other reserves	**(22,400,272)**	–	(20,680,696)
Rental income	**(18,719,184)**	–	–
Indent commission	**(10,140,607)**	(7,915,263)	(6,323,330)
Amortization of excess of net assets acquired over cost of investment	**–**	–	(83,836,921)
Provision for probable losses on assets and other charges	–	–	746,852,923
Nonrecurring charges	–	–	948,425,523
Miscellaneous	**(77,567,094)**	(48,096,214)	(36,819,292)
	₱217,947,351	₱177,339,749	₱1,894,105,326

In 2000, the BOD of Semirara approved the write-off of deferred charges and various idle and nonoperating assets amounting to ₱843 million and capitalized foreign exchange losses of ₱105 million for a total nonrecurring charges of ₱948 million effective as of March 31, 2000.

18. Income Taxes

The components of the Group's deferred tax assets and liabilities as of December 31, 2002 and 2001 follow:

	2002	2001
Deferred tax assets on:		
NOLCO	**₱477,576,599**	₱773,044,621
Allowance for:		
Doubtful accounts	**257,623,410**	250,755,811
Inventory obsolescence	**15,221,105**	20,662,592
Probable losses on investments	**7,245,511**	7,245,511
Contingencies	**7,037,574**	7,037,574
Probable losses on assets	**1,727,792**	28,523,130
Accrued expenses	**32,979,196**	18,647,111
MCIT carryforward benefit	**22,148,128**	12,292,346
Accrued retirement costs	**17,278,901**	17,988,772
Unrealized foreign exchange loss	**12,981,081**	–
Excess of tax over book basis of deferred gross profit on real estate sales	**1,261,340**	504,288
	853,080,637	1,136,701,756
Less valuation allowance	**809,765,311**	1,067,467,552
	43,315,326	69,234,204

(Forward)

	2002	2001
Deferred tax liabilities on:		
Income on uncompleted construction contracts	**(₱278,799,278)**	(₱438,371,317)
Excess of book over tax basis of deferred gross profit on real estate sales	**(1,773,618)**	(605,478)
Capitalized interest on real estate for sale and development	**(1,482,261)**	(921,525)
Unrealized foreign exchange gain	**–**	(6,274,976)
Others	**(247,244)**	(43,079)
	(282,302,401)	(446,216,375)
	(₱238,987,075)	(₱376,982,171)

The net current and noncurrent components of deferred tax assets and liabilities are included in the following accounts in the consolidated balance sheets:

	2002	2001
Other current assets (see Note 8)	**₱16,565,874**	₱42,957,581
Other assets (see Note 11)	**24,583,634**	19,060,684
Accounts and other payables	**(2,330,406)**	(1,566,517)
Other noncurrent liabilities (see Note 15)	**(277,806,177)**	(437,433,919)
	(₱238,987,075)	(₱376,982,171)

Deferred income tax liability amounting to ₱2.3 million and ₱1.6 million as of December 31, 2002 and 2001 respectively, is included in the "Other payables" account under the "Accounts and other payables" account in the liabilities section of the consolidated balance sheets (see Note 13).

The provision for (benefit from) income tax shown in the consolidated statements of income consists of:

	2002	2001	2000
Current	**₱47,461,856**	₱51,562,200	₱166,270,668
Deferred	**(137,995,096)**	(118,667,095)	(158,743,262)
	(₱90,533,240)	(₱67,104,895)	₱7,527,406

The reconciliation of the benefit from income tax computed at the statutory income tax rate to the provision for (benefit from) income tax shown in the consolidated statements of income for the years ended December 31, 2002, 2001 and 2000 follows:

	2002	2001	2000
Benefit from income tax computed at the statutory income tax rate	**(₱120,318,916)**	(₱18,696,545)	(₱610,841,508)
Adjustments to income tax expense (benefit) resulting from:			
Nondeductible depreciation expense on incremental cost	**19,702,010**	19,541,482	24,107,494
Nondeductible (nontaxable) equity in net losses (earnings) of associates and joint ventures	**11,784,961**	(61,324)	23,479,015
Nondeductible loss on sale of investments in shares of stock	**4,701,440**	274,724	45,056,000
Nontaxable income on reversal of allowance for doubtful accounts	**(7,168,086)**	–	–
Interest income subjected to final tax at a lower rate - net	**(1,735,624)**	(4,966,938)	(7,760,370)
Income from construction contracts already Subjected to 8% final tax	–	(73,362,772)	(62,281,596)
Write-off of deferred charges, various idle and nonoperating assets and capitalized foreign exchange losses	–	–	107,367,787
Nondeductible provision for probable losses on investments	–	–	47,867,221
Others - net	**(39,314,499)**	17,184,283	(27,159,737)
	(132,348,714)	(60,087,090)	(460,165,694)
Less valuation allowance on deferred tax assets	**41,815,474**	(7,017,805)	467,693,100
Provision for (benefit from) income tax	**(₱90,533,240)**	(₱67,104,895)	₱7,527,406

19. Basic Earnings (Loss) Per Share

The following table presents information necessary to calculate basic earnings (loss) per share [in thousands except basic earnings (loss) per share]:

	2002	2001	2000
Net income (loss)	**(₱214,693)**	₱17,539	(₱1,616,122)
Less dividends on preferred stock	**–**	–	128,237
Net income (loss) applicable to common stock	**(₱214,693)**	₱17,539	(₱1,744,359)
Weighted average number of common shares	**2,255,494**	2,255,494	2,255,494
Basic earnings (loss) per share	**(₱0.10)**	₱0.01	(₱0.77)

The assumed conversion of the Company's preferred shares has no dilutive effect in 2002, 2001 and 2000. Accordingly, no diluted earnings per share is presented in the accompanying consolidated statements of income for such years.

20. Related Party Transactions

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

(a) Comprehensive Surety, Corporate and Letters of Guarantee issued by the Company together with DMCI in favor of certain third parties for various credit facilities granted to and for full performance of certain obligations by certain subsidiaries (see Notes 12, 14 and 24);

(b) Certain assets of the Company's subsidiaries, associates and other related parties placed under accommodation mortgages to secure the indebtedness of the Group, its associates and other related parties (see Notes 7, 9, 10, 12 and 14);

(c) Interest and noninterest bearing cash and operating advances made by the Group to and from various associates and other related parties (see Notes 4, 12, 13 and 25);

(d) Issuances of PNs and transfers of certain construction equipment by DMCI and PDI in favor of certain preferred shareholders for the redemption of preferred shares (see Notes 14, 16 and 26); and,

(e) Redemption of preferred shares by the Company under Options B and C in exchange for a PN amounting to ₱44 million in favor of DMCI Retirement Fund and other certain assets of the Company and/or its subsidiaries amounting to ₱586 million in favor of Dacon (see Notes 14, 16 and 26).

The consolidated balance sheets include the following amounts resulting from transactions with associates and other related parties:

	2002	2001
Trade receivables - construction - net (see Note 4)	**₱511,928,687**	₱617,347,896
Receivable from related parties - net (see Note 4)	**₱1,232,415,302**	₱1,571,185,619
Payable to related parties (see Note 12)	**₱82,250,574**	₱133,978,629
Due to related parties (see Note 13)	**₱1,151,328,325**	₱511,077,079

21. Retirement Plan

DMCI and Semirara have funded and formal noncontributory defined retirement plans covering their regular employees. Total retirement costs charged to operations by DMCI and Semirara amounted to ₱20 million in 2002, ₱16 million in 2001 and ₱25 million in 2000 which were included as part of "Salaries, wages and employee benefits" under the "Operating expenses" account in the consolidated statements of income (see Note 17).

As of April 1, 2002, the date of DMCI's recent actuarial valuation, the actuarial accrued retirement benefits amounted to ₱131 million while the fair market value of the plan assets amounted to ₱37 million, resulting in an unfunded past service cost liability of ₱94 million. The principal actuarial assumptions used to determine the retirement benefits were an investment yield and discount rate of 10% per year; annual salary increases of 10%; and, normal retirement age of 60 years or 30 years of service, whichever comes earlier. Actuarial valuations are made at least every two years.

Semirara's latest actuarial valuation, on the other hand, dated December 31, 1999 disclosed accrued retirement benefits amounting to ₱25 million, while the fair value of the plan net assets amounted to ₱7 million resulting in an unfunded retirement benefits of ₱18 million. The principal actuarial assumption used to determine retirement benefits was a uniform rate of 10% for discount, salary increases and return on plan assets. Valuation is made at least every three years.

Beta Electric, which does not have any formal retirement plan for its regular employees, provides for estimated retirement benefits in accordance with Republic Act No. 7641 to qualified employees. Retirement expense accrued by Beta Electric for the years ended December 31, 2002, 2001 and 2000 amounted to ₱3 million, ₱1 million and ₱1 million, respectively (see Note 17). Based on the actuarial estimates for Beta Electric as of December 31, 1998 which was computed under the attained age normal method, the unfunded past service costs amounted to ₱2 million. The principal actuarial assumptions used to determine the retirement benefits were an investment yield of 12% per year compounded annually, annual salary increases of 10%, and normal retirement age of 60 years.

22. Business Segment Information

Financial information by segment is reported on the basis used internally for evaluating segment performance and allocating resources among operating segments.

The industry segments where the Group operates are: general construction, infrastructure and real estate development, coal mining, manufacturing and others.

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, 2002, 2001 and 2000 and total assets and total liabilities for the business segments as of December 31, 2002 and 2001 (in thousands):

	Revenue			Net Income (Loss)		
	2002	2001	2000	**2002**	2001	2000
Parent Company	**₱–**	₱–	₱–	**(₱25,371)**	(₱15,062)	(₱727,488)
General Construction	**1,343,032**	2,272,696	3,400,781	**(232,183)**	34,771	460,060
Infrastructure and Real						
Estate Development	**328,982**	389,779	332,352	**49,072**	60,141	8,232
Coal Mining	**1,517,087**	1,360,356	770,559	**6,377**	(21,913)	(1,368,039)
Manufacturing	**28,485**	43,190	88,141	**(12,588)**	(40,398)	11,113
	₱3,217,586	₱4,066,021	₱4,591,833	**(₱214,693)**	₱17,539	(₱1,616,122)

	Depreciation, Depletion and Amortization			Total Assets		Total Liabilities	
	2002	2001	2000	**2002**	2001	**2002**	2001
Parent Company	**₱1,287**	₱1,124	₱2,574	**₱333,379**	₱439,234	**₱894,006**	₱259,542
General Construction	**141,034**	333,848	509,503	**3,344,583**	5,268,538	**2,254,641**	1,547,847
Infrastructure and Real							
Estate Development	**30,932**	45,401	58,337	**4,961,469**	4,067,954	**1,584,898**	1,904,820
Coal Mining	**391,889**	314,462	329,976	**3,412,775**	3,245,078	**3,089,141**	3,383,232
Manufacturing	**6,656**	1,708	2,416	**309,584**	331,708	**248,024**	246,813
	₱571,798	₱696,543	₱902,806	**₱12,361,790**	₱13,352,512	**₱8,070,710**	₱7,342,254

23. CSA with NPC

Semirara has a CSA (see Notes 1, 13, 14 and 17) with NPC dated May 19, 1995, whereby Semirara agreed to sell and NPC agreed to buy from Semirara the local coal requirements of its 2 x 300 megawatt coal-fired power plants at Calaca, Batangas (Calaca I & II). As provided for in the CSA, the annual contracted quantities follow: (a) 600,000 MT to a maximum of 900,000 MT commencing on July 1, 1995 until March 31, 1996; (b) 1,050,000 MT to a maximum of 1,500,000 MT, after March 31, 1996 until March 31, 1997 or until Unong mine is declared depleted by Semirara. Since the Unong mine was not declared depleted by Semirara on March 31, 1997, the annual minimum contracted quantity of 1,050,000 was reduced to 900,000 MT starting April 1, 1997. However, upon its declaration that the Unong mine is depleted, Semirara shall supply NPC and NPC shall buy from Semirara an annual minimum quantity of 700,000 MT up to a maximum quantity of 1,200,000 MT of coal.

The CSA also provided for, among others, the pricing determination where the base price per MT of coal is computed based on a formula stipulated in the CSA. This base price is subject to adjustment for penalty or bonus which is determined on a per delivery basis, based on a set of coal quality standards also as stipulated in the CSA. The CSA is effective for 15 years up to May 2010.

On January 1, 2002, the second amendment to the CSA has been finalized. The amendments made, among others, follow:

(a) supply of a revised annual minimum quantity of 1,200,000 MT up to a maximum quantity of 2,400,000 MT of coal, which was stipulated in the first amendment to the CSA dated January 15, 2001;

(b) NPC to be entitled to an additional 3% discount in the event that its aggregate liftings in any given year exceeds 1,100,000 MT up to 2,400,000 MT of coal. Discount computation shall start on the month its aggregate liftings exceeds 1,100,000 MT of coal;

(c) conversion of the mode of delivery from FOB-Semirara to C&F-Calaca to simplify the payment and rescheduling of coal deliveries to Calaca I and Calaca II;

(d) maintenance by Semirara, at its own expense, of a minimum coal running inventory of at least 100,000 MT that meets the applicable coal specifications set forth in the second amendment of the CSA and ready in all aspects for loading and delivery to Calaca I and Calaca II;

(e) limitation in the coal's sulfur content to 1.0% in compliance with the Clean Air Act and reduction in its ash specification to 20% to minimize coal handling problems;

(f) inclusion of certain bases of NPC's exercise of its rights to reject and/or stop coal deliveries by Semirara to NPC, consequences of coal rejection in terms of title and risk of loss to coal delivered, relief from payment by NPC, and removal of delivered coal from NPC premises; and remedies for Semirara in the event NPC exercises such rights;

(g) changes in (i) the pricing periods to a 3-month period which shall commence respectively at the beginning of a calendar quarter namely: January 1, April 1, July 1, and October 1; and (ii) the computation of the base price of Semirara's coal delivery including the determination of the initial and final base prices, to consider the volatile foreign exchange situation and the price of all NPC imported coal for Calaca plant during the pricing period;

(h) changes in the computation of the adjustment for penalty or bonus from the base price per MT;

(i) requirement for Semirara and NPC to reconcile payments made for coal deliveries for the immediate preceding pricing period within 30 calendar days from determination of the final base price by issuing a debit memo to the other;

(j) deletion of the CSA provision requiring NPC to make an equity investment in Semirara in the event that the aggregate deliveries of coal meeting the coal specifications taken by NPC within any calendar year is less than 900,000 MT; and,

(k) inclusion of the provision allowing Semirara and the new owner or operator of Calaca I and Calaca II, in the event that Calaca I and Calaca II are privatized or its operation and maintenance is turned over to the private sector in conformity with the provisions of the Build-Operate-Transfer Law, as amended, or such other enabling statute, to review the provisions of the CSA, provided that in the conduct of such review, the prevailing policy on the development of the country's indigenous energy resources as set forth in the DOE Act of 1992 including changes thereto shall be observed.

Semirara's receivables from NPC arising from this agreement amounted to ₱222 million and ₱220 million as of December 31, 2002 and 2001, respectively, and is included in the "Receivables" account, under "Trade - Others," in the consolidated balance sheets (see Note 4).

24. Contingencies

DMCI and Beta Electric are contingently liable for contractor's guarantees arising in the ordinary course of business, including letters of guarantee for performance, surety and warranty bonds for various construction projects amounting to ₱518 million as of December 31, 2002. In addition, the Company together with DMCI issued various corporate guarantees in 2002 to secure the credit facilities granted to certain subsidiaries by various creditors, and to secure the performance and guarantee bonds for various projects awarded to the Company's subsidiaries (see Note 20).

There are pending legal cases against the Group and its officers as of December 31, 2002 that are being contested by the Group and its legal counsels. The management of the Group and its officers and their legal counsels believe that the final resolutions of these claims will not have a material effect on the financial position and operating results of the Group.

25. Commitments

PDI signed a MOA with a third party dated November 25, 1997 whereby PDI committed to make cash contributions to a real estate joint venture project totaling ₱375 million in a manner and after fulfillment of certain conditions precedent as defined in the MOA. As of April 30, 2003, no contribution has been made by PDI.

In accordance with a shareholders' loan agreement among the shareholders of Monarca Greenworld Corporation (Monarca), an associate, PDI agreed to make available interest-bearing loans of up to ₱133 million to finance the development of a real estate project of Monarca. As of December 31, 2002 and 2001, PDI's loans to Monarca under this agreement amounted to ₱33 million and is included in the "Receivables" account, under "Receivable from related parties," in the consolidated balance sheets (see Notes 4 and 20).

The Group leases a portion of its office premises that are renewed under such terms and conditions agreed upon with the lessors. The approximate minimum annual rentals on such leases after December 31, 2002 are not material to the Group's results of operations.

As of December 31, 2002, DMCI and Beta Electric have unused letters of credit amounting to ₱109 million.

26. Note to Consolidated Statements of Cash Flows

Noncash investing and financing activities follows:

	2002	2001	2000
Redemption of preferred shares from Dacon by the Company on account (see Notes 16 and 20)	**₱585,756,008**	₱–	₱–
Redemption of preferred shares by the following subsidiaries in exchange for PNs (see Notes 16 and 20):			
DMCI	**502,130,000**	–	–
PDI	**37,811,220**	–	–
Acquisitions of conventional and other mining equipment on account	**136,980,042**	393,735,652	–
Transfer of AHI shares to a preferred shareholder as payment for the redemption of preferred shares by the Company (see Note 9)	**50,276,000**	–	–
Transfer of DMCI's construction equipment for the redemption of preferred shares (see Notes 16 and 20)	**50,173,440**	–	–
Redemption of preferred shares by the Company in exchange for a PN (see Notes 16 and 20)	**44,694,065**	–	–
Payments of notes and accounts payable in exchange for properties	–	29,500,000	–
Deconsolidated balances of OPC:			
Operating assets	–	20,675,101	–
Investments	–	2,131,963	–
Property, plant and equipment	–	1,748,271	–
Other assets	–	94,900	–
Accounts and other payables	–	17,087,667	–
Billings in excess of costs and estimated earnings on uncompleted contracts	–	1,811,561	–

27. Reclassification of Accounts

Certain accounts in the 2001 consolidated financial statements were reclassified to conform with the 2002 presentation of accounts.

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