

COVER SHEET

ASO95002283  
SEC Registration Number

DMCI HOLDINGS, INC.

(Company's Full Name)

3RD FLR. DACON BLDG. 2281

PASONGTAMO EXT. MAKATI CITY

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

HERBERT M. CONSUNJI  
Contact Person

888-3000  
Company Telephone Number

(Last Wednesday of July)

12 31  
Month Day

Fiscal Year

SEC Form 17-A  
FORM TYPE

07 26  
Month Day

h  
Annual Meeting

N.A.

Secondary License Type, If Applicable

CFD  
Dept Requiring this Doc

Amended Articles Number / Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

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LCU

Document ID

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, AS AMENDED

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended December 31, 2007.
2. SEC Identification Number AS095-002283 3. BIR Tax Identification No. 004-703-376
4. Exact name of issuer as specified in its charter DMCI Holdings, Inc.
5. Philippines  
Province, Country or other jurisdiction of  
incorporation or organization
6.  (SEC Use Only)  
Industry Classification Code:
7. 3<sup>rd</sup> Floor, Dacon Building, 2281 Pasong Tamo Ext., Makati City 1231  
Address of principal office Postal Code
8. Tel. (632) 888-3000 Fax (632) 816-7362  
Issuer's telephone number, including area code
9. Not applicable  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares, Php 1.00 Par	1,127,747,000
Preferred Shares, Php 1.00 Par	4,480
Common Shares, Php 1.00 Par	150,000,000

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

Yes [ X ] No [ ]

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

Philippine Stock Exchange

Class "A" Shares & Preferred Shares

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [ X ]

No [ ]

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

Yes [ X ]      No [ ]

13. **Php 9,284,564,023.20**

The aggregate market value of the voting stock held by non-affiliates of the registrant

**APPLICABLE ONLY TO ISSUERS INVOLVED IN  
INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS  
DURING THE PRECEDING FIVE YEARS:**

14. Not applicable

Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

**DOCUMENTS INCORPORATED BY REFERENCE**

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(b) Audited Financial Statements as of December 31, 2007

**PART I - BUSINESS AND GENERAL INFORMATION**

**Item 1. Business**

**(Part I, par. (a) of Annex C)**

**DMCI Holdings, Inc.** (the "*Company*") was incorporated on March 8, 1995 as a holding company to consolidate all construction business, construction component companies and related interests of the Consunji Family. It was listed on the Philippine Stock Exchange on December 18, 1995.

In only a few years after incorporation, the Company has expanded its business organization to include four major subsidiaries, namely: D.M. Consunji, Inc. (DMCI), DMCI Project Developers, Inc. (PDI), Atlantic Gulf and Pacific Company of Manila, Inc. (AG&P) and Semirara Mining Corporation [(SMC) (formerly Semirara Coal Corporation)].

**DMCI**, a wholly owned subsidiary, is engaged in general construction services— the Group's core business. It is also engaged in various construction component businesses such as the production and trading of concrete products and electrical and foundation works. Incorporated and founded in 1954, DMCI is currently one of the leaders in the Philippine construction industry, noted for quality projects delivered on time and its pioneering application of advanced engineering methodology. In addition, DMCI, together with its affiliate PDI, is actively engaged in real estate sales and development, launching its housing component - **DMCI Homes**, in early 2002.

**PDI**, another wholly owned subsidiary incorporated in 1995, is engaged in construction business-generating investments primarily through its equity participation in various project and infrastructure development activities. These ventures generate not only investment income but also construction business for DMCI. Currently, PDI, hand in hand with affiliate DMCI, is actively engaged in real estate sales and development.

**AG&P**, a 98%-owned subsidiary, is engaged in heavy fabrication, industrial construction and engineering services. Established in 1900, it is the oldest and largest in the local industry, and caters

largely to major oil and gas companies worldwide. Currently, adverse business conditions prompted the company to undergo a corporate rehabilitation.

**SCC**, a 56%-owned publicly listed company established in 1980 is engaged in the exploration, mining, development and sales of coal resources on Semirara Island in Caluya, Antique. It is currently the Philippines' largest coal-producing company with a guaranteed long-term market by virtue of its supply contract with state-run National Power Corporation (NPC).

**DMCI Power Corporation (DMCI PC)**, a wholly-owned subsidiary of the Company, is engaged in the business of power generation which designs, constructs, invest in, and operate power plants. On January 15, 2007, the National Power Corporation (NPC) awarded to DPC the Masbate Power Generation, one of the small utilities group (SPUG) of NPC. DPC shall take over of the power supply obligation in Masbate with a 15-year Power Supply Agreement with Masbate Electric Cooperative (MASELCO). Masbate Power Generation has a total contract of 13,000 KW of Guaranteed Dependable Capacity (GDC).

**DMCI Mining Corporation (DMCI MC)** is another wholly owned subsidiary engaged in ore and mineral mining and exploration. It was incorporated on May 29, 2007. It has entered into joint venture with Rusina Mining Ltd., a listed company in Australia, in which the Corporation agreed to be the independent contractor to directly undertake the mining operations in the municipalities of Sta. Cruz and Candelaria in Zambales. The mining operation is an open pit extraction of nickel, chromite, and iron laterite for direct shipping.

**DMCI-MPIC Water Company, Inc. (DMWCI)**, is a 50-50 consortium with Metro Pacific Investments Corporation which owns 83.97% equity at Maynilad Water Services, Inc. (MWSI). MWSI bid was issued by the Metropolitan Waterworks and Sewerage System and it was awarded to DMWCI last December 5, 2006.

(1)(c) Any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business. – **None**

(2) Business of Issuer

(a) Description of Registrant

(v) **Competition.** – *Among the publicly listed companies, DMCI Holdings, Inc. is the only holding company which has construction for its primary investment, Its construction business is primarily conducted by wholly owned D.M. Consunji, Inc. (DMCI), which has, for its competitors, numerous construction contracting companies, both local and foreign, currently operating in the country. It has been an acknowledged trend that the state of construction industry depends mainly on prevailing economic conditions. Thus, the currently weak economic growth explains the continued slump in the construction industry. Given this trend, DMCI has been focusing on selected markets where construction demand has remained relatively strong, particularly, in housing and civil works. This is where the company believes it can compete effectively given its strong construction capabilities, equipment and manpower complement, and track record.*

(vi) **Sources and availability of raw materials and the names of principal suppliers;** If the registrant is or is expected to be dependent upon one or a limited number of suppliers for essential raw materials, energy or other items, describe. Describe any major existing supply contracts. – **Not applicable to DMCI Holdings, Inc. For DMCI, it has its own pool of equipment and construction materials supply. For Semirara, it has an existing long term supply contract with National Power Corporation (NPC) for its power plant in Calaca, and with Toledo Power Plant.**

(vii) Disclose how dependent the business is upon a single customer or a few customers, the loss of any or more of which would have a material adverse effect on the registrant and its subsidiaries taken as a whole. Identify any customers that account for, or based upon existing orders will account for, twenty percent (20%) or more of the registrant's sales; Describe any major existing sales contracts – **Not applicable to DMCI Holdings, Inc. For SCC, it has an existing**

**long term supply contract with National Power Corporation (NPC) which accounts for approximately 98% of its revenues.**

(viii) Transactions with and/or dependence on related parties – **Aside from inter-company transactions within the group of companies, and SCC's long term supply contract with NPC, the Company has no known transactions with and/or dependence on related parties.**

(ix) Summarize the principal terms and expiration dates of all patents, trademarks, copyrights, licenses, franchises, concessions, and royalty agreements held; Indicate the extent to which the registrant's operations depend, or are expected to depend, on the foregoing and what steps are undertaken to secure these rights – **Not applicable to DMCI Holdings, Inc. For DMCI, it is and remains a triple-A ("AAA") licensed contractor, given by the Philippine Construction Accreditation Board (PCAB), in consideration of certain minimum requirements such as: (1) financial capacity; (2) equipment capacity; (3) experience of firm; and (4) experience of technical personnel. For SMC, royalty agreements are: (1) Royalty Agreement with the Department of Energy (DOE) – 3% royalty based on FOB Sales; (2) Royalty Agreement with land claimants – P0.50/MT for untitled land and P1.00/MT for titled land.**

(x) Need for any government approval of principal products or services. If government approval is necessary and the registrant has not yet received that approval, discuss the status of the approval within the government approval process – **None at the moment.**

(xi) Effect of existing or probable governmental regulations on the business – **Not applicable to DMCI Holdings, Inc. For DMCI, it is required under Philippine laws to secure construction permits and environmental clearances from appropriate government agencies prior to actually undertaking each project. For SMC, it is required under Philippine laws to secure mining and exploration permits, as well as environmental clearances from appropriate government agencies for its continuing operations.**

(xii) Costs and effects of compliance with environmental laws – **Costs vary depending on the size and nature of a construction project. Failure to comply with the terms of the ECC (environmental compliance certificate) can lead to imposition of fines and temporary cessation of operations.**

## **Item 2. Properties**

### **(Part I, par. (b) of Annex C)**

(B) Give the location and describe the condition of the principal properties (such as real estate, plant and equipment, mines, patents, etc.) that the registrant and its subsidiaries own. If the registrant does not have complete ownership of the property, for example, others also own the property or there is a mortgage or lien on the property, describe the limitations on ownership. Indicate also what properties it leases, the amount of lease payments, expiration dates and the terms of renewal options. Indicate what properties the registrant intends to acquire in the next twelve (12) months, the cost of such acquisitions, the mode of acquisition (i.e. by purchase, lease or otherwise) and the sources of financing it expects to use. - **All properties are owned by the Company unless otherwise indicated as follows:**

<b>Classification</b>	<b>Property</b>	<b>Location</b>
<b>Condo Office</b>	Wynsum Tower – 4 units	Pasig City
<b>Condo Residential</b>	Renaissance Tower 2000 – 1 unit	Pasig City
<b>House &amp; Lot</b>	Baguio South Drive (AG&P property)	Baguio City

<b>Residential Lot</b>	Plantation Estates (Montecito) – 7 lots	Canlubang, Laguna
	Filinvest – 7 lots	Paranaque City
<i>Commercial / Industrial Lot</i>	Mayapa Property	Calamba, Laguna
	Taguig I Bambang & Wawa	Taguig
	Taguig I Hagonoy	Taguig
	Taguig I Ususan	Taguig
<b>Commercial Lot</b>	Carmona Property	Carmona, Cavite
	Carmona-Restrivera	Carmona, Cavite
<i>Industrial Lot</i>	Kasibulan Property	Cainta, Rizal
	Wella Property	Paranaque City
	Cabuyao Property	Cabuyao, Laguna
	Bancal Property	Carmona, Cavite

The Company and its subsidiaries have no immediate intentions to acquire new properties. In fact, it is in the process of improving and liquifying idle and non-operating properties through outright sale and/or development of its properties.

### **Item 3. Legal Proceedings**

Except for the following, none of the directors, executive officers and nominees for election is subject to any pending material legal proceedings.

- (1) Mr. Isidro A. Consunji

*People v. Consunji, et al.*  
*Criminal Case No. Q-02-114052*  
*Regional Trial Court, Quezon City, Branch 85*

This involves a complaint for violation of Article 315 (2) (a) of the Revised Penal Code ("RPC"), as qualified by Presidential Decree ("PD") No. 1689. Private complainants claim to have been induced to buy shares of stock of Universal Leisure Corporation ("ULC"), on the representation that the latter shall develop a project known as "network of 5 world clubs." ULC, however, failed to develop the project. Mr. Isidro A. Consunji's involvement in this case was pursuant to his being the current Chairman of the Board of Directors of ULC and of Universal Rightfield Property Holdings, Inc. ("URPHI"), the mother corporation of ULC.

On June 6, 2005, the trial court granted the public prosecutor's motion to withdraw information. Private complainants' motion for reconsideration was denied on November 29, 2005. Subsequently, private complainants filed a notice of appeal, which was given due course by the trial court on January 19, 2006. Mr. Consunji moved to strike the notice of appeal for being improper, which was granted in an Order dated February 22, 2007.

- (2) Mr. Isidro A. Consunji and Ms. Ma. Edwina C. Laperal

*Reyes, et al. v. Consunji, et al.*

IS No. 02-50443-F  
City Prosecution Office, Mandaluyong City

This involves a complaint for violation of Article 315 (2) (a), (1) (b), and 316 (2) of the RPC, as qualified by PD 1689, based on substantially the same set of facts mentioned in the case quoted above. Mr. Isidro A. Consunji was implicated as signatory to certain material contracts of ULC while Ms. Edwina C. Laperal was implicated as a director and treasurer of Universal Leisure Club, Inc. ("ULCI"). In a Resolution dated November 27, 2002, the complaint was dismissed. Complainants filed a petition for review with the Department of Justice, which petition was dismissed in a Resolution dated May 26, 2004.

*Rodriguez v. Consunji, et al.*  
IS No. 02-50918  
City Prosecution Office, Mandaluyong City

This involves a complaint for violation of Article 315 (1) (b) of the RPC, as qualified by PD 1686, based on substantially the same set of facts discussed above. Mr. Consunji and Ms. Laperal were sued in their capacity as directors and officers of ULC and ULCI. In a Resolution dated November 20, 2002, the complaint was dismissed. Hence, complainant filed a motion for reconsideration dated January 14, 2003, which motion still pends resolution.

*Gonzales v. Consunji, et al.*  
IS No. 03-6480  
City Prosecution Office, Quezon City

This involves a complaint for violation of Article 315 (2) of the RPC, based on substantially the same set of facts set forth above. On June 16, 2003, respondents filed their counter-affidavits before the public prosecutor. Since complainants opted not to file a reply, the case was submitted for resolution.

#### **Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to vote of the security holders during the fourth quarter of the fiscal year covered by this report.

## **PART II - OPERATIONAL AND FINANCIAL INFORMATION**

#### **Item 5. Market for Issuer's Common Equity and Related Stockholder Matters**

(A) Market Price of and Dividends on Registrant's Common Equity and Related Stockholder Matters

(1) Market Information

(a) Identify the principal market or markets where the registrant's common equity is traded. If there is no public trading market, so state - ***Both common and preferred shares of DMCI Holdings, Inc. are traded on the Philippine Stock Exchange.***

(i) If the principal market for the registrant's common equity is a Stock Exchange in the Philippines or a foreign Exchange, state the name of that Exchange and give the high and low sales prices for each quarter within the last two fiscal years and any subsequent interim period for which financial statements are required by SRC Rule 68. – ***See table below***

<b>Common Share Prices</b>		High	Low
2005	First Quarter	3.50	3.35
	Second Quarter	2.44	2.38
	Third Quarter	3.30	3.20
	Fourth Quarter	3.15	2.95
2006	First Quarter	3.55	3.40
	Second Quarter	3.80	3.60
	Third Quarter	3.80	3.75
	Fourth Quarter	6.10	6.00
2007	First Quarter	7.40	7.20
	Second Quarter	9.60	9.10
	Third Quarter	9.20	8.90
	Fourth Quarter	9.80	9.60

<b>Preferred Share Prices</b>		High	Low
2005	First Quarter	775	775
	Second Quarter	775	775
	Third Quarter	775	775
	Fourth Quarter	775	775
2006	First Quarter	1,400	1,400
	Second Quarter	1,400	1,400
	Third Quarter	1,400	1,400
	Fourth Quarter	1,400	1,400
2007	First Quarter	0	0
	Second Quarter	0	0
	Third Quarter	0	0
	Fourth Quarter	0	0

(b) If the information called for by paragraph (A) of this Part is being presented in a registration statement filed pursuant to Section 12 or in an annual report filed pursuant to Section 17 or in an information statement filed pursuant to Section 17.1(b) or in a proxy statement filed pursuant to Section 20 of the Code, respectively, the document shall also include price information as of the latest practicable trading date, and, in the case of securities to be issued in connection with an acquisition, business combination or other reorganization, as of the trading date immediately prior to the public announcement of such transaction. – **Price information as of the latest practicable trading date: As of April 29, 2008: HIGH 6.40, LOW 6.30, CLOSE 6.30, VOLUME 481,000.**

(c) If the information called for by paragraph (A) of this Part is being presented in a registration statement relating to a class of common equity for which at the time of filing there is no established public trading market in the Philippines, indicate the amounts of common equity – ***Not applicable***

(2) Holders

(a) Set forth the approximate number of holders of each class of common equity of the registrant as of the latest practicable date but in no event more than ninety (90) days prior to filing the registration statement. Include the names of the top twenty (20) shareholders of each class and the number of shares held and the percentage of total shares outstanding held by each. - **Number of Shareholders: As of March 31, 2008 the Company had a total of 839 shareholders of which 821 were holders of common shares and 18 were holders of preferred shares.**

**Top 20 Common Shareholders: The list of the Top 20 common shareholders as of March 31, 2008 as contained in Exhibit (2) is herein incorporated by reference.**

(3) Dividends

(a) Discuss any cash dividends declared on each class of its common equity by the registrant for the two most recent fiscal years and any subsequent interim period for which financial statements are required to be presented by SRC Rule 68. – **See below.**

1. On April 7, 1999, the Company paid the semi-annual dividend of 2.5 % for last semester of the second year to the holders of the preferred shares.
2. On October 7, 1999, the Company paid the semi-annual dividend of 3.6 % for the first semester of the third year to the holders of the preferred shares.
3. On April 7, 2000, the Company paid the semi-annual dividend of 3.6% for last semester of the third year to the holders of the preferred shares.
4. On October 7, 2000, the Company paid the semi-annual dividend of 3.6% for the first semester of the fourth year to the holders of the preferred shares.
5. On July 20, 2006, the Company paid cash dividends at the amount of PhP 0.10 per outstanding common share to the shareholders of record of June 30, 2006.
6. On May 28, 2007, the Company paid cash dividends at the amount of Php 0.10 per outstanding common share to the shareholders of record of April 30, 2007

(b) Describe any restrictions that limit the ability to pay dividends on common equity or that are likely to do so in the future. – ***There are no contractual or other restrictions on the Company's ability to pay dividends. However, the ability of the Company to pay dividends will depend upon the amount of distributions, if any, received from the Company's operating subsidiaries and joint venture investments and the availability of unrestricted retained earnings. The Company's operating subsidiaries however are restricted on the declaration and payment of dividends, as limited by negative covenants entered into by the operating subsidiaries with outside parties.***

(4) Recent Sales of Unregistered Securities - **NONE**

## **Item 6. Management's Discussion and Analysis of Plan of Operation.**

### **I. RESULTS OF OPERATIONS**

#### **2007 vs. 2006**

DMCI Holdings, Inc. (the "Company") consolidated operations catapulted as net income increased from P1.383 billion in 2006 to P3.126 billion in 2007. This year's earnings included extraordinary items such as: (1) gain on sale of shares of the coal business amounting to P178 million, (2) write-off of non-performing investments worth P300 million, and (3) an equity share in the negative goodwill, acquisition, financing and other costs from the water investment with a net amount of P1.321 billion. As last year's earnings included a P386 million gain on sale of shares of the coal business, the resulting ordinary net income from recurring operations was still significantly higher from P1 billion in 2006 to P1.918 billion in 2007. First time results from the water investment, progress in the construction business, and the sustained phenomenal growth in the real estate segment were the drivers for the upsurge in the figures.

#### **REAL ESTATE**

The Company's real estate business, headed by 100% owned real estate company DMCI Project Developers, Inc. (PDI) and operated under the brand DMCI Homes, continued to recognize exceptional growth in its operations for the year. 2007 real estate sales and income rose 29% to P2.455 billion and 134% to P671 million from 2006 respectively. Increased sales and an effective higher selling price provided much of the rise in both top line and bottom line figures despite the drop in line revenues from the old projects and the intensified operating expenses.

Sales from new projects: Alta Vista Boracay, Manors at Celebrity Place, Raya Gardens and Rosewood Pointe, accounted for 60% or P1.468 billion of total real estate revenues. Alta Vista Boracay, the Company's only leisure residential project located in world renowned beach getaway Boracay Island, Aklan, Philippines, accounted for 14 units worth P43 million, demonstrating a respectable entry into the leisure housing sector. Typical DMCI Homes projects: the Manors at Celebrity Place, Raya Gardens, and Rosewood Pointe posted 38 housing units and 25 parking slots amounting to P149 million, 171 housing units and 123 parking slots amounting to P414 million, and 374 housing units and 205 parking slots amounting to P862 million respectively, all contributing to the record sales for the year. This was despite a slow down in the sales of existing projects that were more or less sold out (East Ortigas Mansions, Vista De Lago and Bonifacio Heights).

Selling prices for the new projects are marginally higher than the old projects as this year's residential unit mix include high rise units which cost a more than the previous all mid rise unit developments. Also, the Company have taken the opportunity to increase its prices as demand is increasing, which in turn provided better margins and allowed for a realigning of more resources to organizational development and increased marketing/selling activities. The Company still sees its prices as approximately 20% below current market prices for the same quality residential development, an edge it enjoys as a triple A construction company and developer in one.

Consolidated operating expenses were significantly higher in 2007 from 2006 mainly due to the increased marketing and selling activities adopted by the real estate business for the year. It is expected that the operating costs for the real estate division will continue to escalate as expansion and strengthening of its real estate operations will be espoused but should be justified with the appropriate increase in revenues.

Though the residential sector continues to experience an up-trend in business, the Company is aware of the global adversities prevalent in the international real estate sector with the US sub-prime issue causing a seeming recession in the US markets. These adversities may have a harmful effect on the Company's real estate operations through direct US sales. The Company would like to note that its direct US sales only account for approximately 2% of its total sales and the Company has resolved to strengthen its domestic and international sales in the European and Middle Eastern OFW markets. In this regard, the Company is confident that its real estate operations will not be significantly affected by the impeding US market slow down.

Furthermore, the Company has decided to postpone its short to mid term plans to list its real estate business as it moves to maintain its focus on residential development specifically catered to the middle income housing market. Ventures into other real estate opportunities such as office space rentals (eg. for the BPO businesses) and mixed-use community developments have been shelved as of the moment. With the current market situation, the Company believes it is best to stick to its core competence.

## CONSTRUCTION

The construction business, reported under wholly-owned construction company, D.M. Consunji, Inc. (DMCI), reported improved operations for 2007 compared to 2006. Construction revenues and income for the year reached P2.955 billion and P324 million, up by 69% and 136% respectively. This was caused by increased construction activity from outside contracts and jobs provided by the water business and inclusion of income from assets held for sale (see OTHERS below).

Final works on finished key projects: Subic-Tarlac Express-Deck Fabrication (99% complete), KAMANAVA Floodway civil works (97% complete), and One Adriatico Place residential high-rise development (98% complete) provided a total P846 million in construction revenues for 2007. Work on 2007 new projects, Shangrila Boracay and Robinson Cybergate Tower, with a total contract amount of P1.5 billion, added P866 million in revenues for the year. In addition, DMCI have been able to get almost P518 million worth of construction projects from Maynilad, which already contributed P339 million of recognized construction revenues. Back-log work from third party construction contracts showed an amount of P1.95 billion at the end of 2007.

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

Collections from previously unresolved change orders, the costs of which were already recorded, were finalized and this amount went directly to net income but was counteracted by write-offs of significant construction receivables.

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

Even with the current prospects in the construction sector due to the increased economic activity, the Company is still cautious in allocating significant resources into the construction business. The Company now sees its construction business as a source of competence in its ventures into other industries such as nickel mining and power generation. It is confident however that it can maintain its foothold as one of the leading providers of construction services in the Philippines with the heritage as pioneers in construction technology.

## WATER

2007 is the first year the Company will report results from its investments in the water business. DMCI-MPIC Water Co., Inc., the consortium company with partner Metro Pacific Investments Corp. (MPIC) won the right to acquire 84% share in Maynilad Water Services, Inc. (Maynilad). The Company accounts for this investment under the equity method as it equally owns 50% of DMWC with MPIC and control is jointly shared between the Company and MPIC.

For 2007, the Company registered a net equity in earnings from its investments in the water business amounting to P1.81 billion which includes a P2.12 billion share in the negative goodwill from the acquisition of Maynilad and a P799 million net share in losses due to the financing, acquisition and other costs reported at DMWC. Without these non operational items, income from DMWC's (Maynilad's) recurring operations for 2007 would have amounted to P1.254 billion, a respectable increase of 25% from P1 billion in 2006. The Company's effective share in the recurring income for 2007 and 2006 would be P489 and P390 million respectively. Initial effects from capital expenditures and water system improvement measures being installed by the new owners of Maynilad helped increase in billed volume and improved to some extent non-revenue water (NRW).

Aside from the normal recurring operations from water operations, the Company also enjoys substantial construction business from Maynilad's capital expansion requirements, a key item in the decision to enter into the water sector (see discussion in Construction above). With this, the Company believes that the acquisition of the water business was a sound and strategic move and will be an integral part of its expansion into more stable businesses while staying true to its reputable skills and core competence as engineers and contractors.

## POWER, COAL AND NICKEL MINING

The Company's coal mining business, operated by previously 58% now 52% owned, publicly listed Semirara Mining Corp (SMC), reported almost the same operational results for 2007 compared to 2006. Contributions from the coal segment before minority were at P633 million and P601million for 2007 and 2006 respectively.

Below is SMC's management discussion and analysis of financial condition and results of operations lifted from its 2007 Year-End Financial Report:

**SEMIRARA MINING CORP.**  
**Management Discussion & Analysis of**  
**Results of Operation and Financial Condition for the**  
**Period ended December 31, 2007**

### **Full Years 2006-2007**

#### **I. PRODUCTION**

*Market conditions shaped the pace of operations in 2007. Increased demand from domestic buyers and the breakthrough in the export market drove operations in the current year to maximize coal production. As a result, waste material to coal ratio or strip ratio has gone down to the standard level of 7.82:1 in 2007 from 14.13:1 in 2006.*

*The high strip ratio in 2006 resulted to advance overburden stripping exposing a million metric tons of coal thereby allowing increased coal production despite lower strip ratio in 2007. Consequently, Total Materials moved in 2007 is 17% lower at 32,054,237 bank cubic meters (bcm) than Total Materials movement in 2006 of 38,423,124 bcm. On the*

other hand, Run-of-mine (ROM) coal posted a 45% increase from 2,587,569 metric tons (MTs) in 2006 to a historical high of 3,754,774 MTs this year. Net of waste after washing, the resulting Total Product Coal (TPC) likewise recorded a historical high of 3,462,534 MTs in 2007, posting a growth of 53% from 2,269,959 MTs in the previous year.

Meanwhile, increased coal production necessitated a corresponding improvement in logistic support to maintain efficiency in product handling. The successful diversification to export markets required the upgrading of pier facilities to accommodate 50,000-tonne vessels. Currently, dredging activities at the pier are ongoing to enable these huge vessels to dock for safe berthing and to load coal faster using the conveyor and ship loader line. As a result, export vessels and smaller barges for local deliveries can now be loaded simultaneously, as the new barge loading facility with a rated capacity of 750 MTs/hr which was set up last year is now fully operational to load the smaller vessels.

To complement waste material movement, a second line of in-pit crusher and conveyor system was set up and became fully operational during the first quarter of the year. The increased in capacity is effective in offsetting the negative impact of the continuous increase in oil price, as use of trucks for hauling materials was minimized.

As a consequence of a healthier market demand, current year ended with coal inventory lower by 30% at 423,934 MTs as compared to 2006 end inventory of 606,030.

The increasing coal demand also incited management to plan another expansion program to be able to serve its expanding markets. Towards the end of the current year, the Company negotiated to purchase two units 16 cubic meter excavators, 16 units 100-tonner dumptrucks, and other support mining equipment for delivery in 2008.

Meanwhile, to complement the expanding operations of the Company, management is taking serious efforts to improve the quality in delivering services to customers and other stakeholders. To achieve this, it is currently applying and processing ISO certifications 9001 and 14001 for Quality Management System and Environmental Management System, respectively. Likewise, it also seeks to get Occupational Health and Safety Management System (OSHAS) 18001 certification.

## **II. MARKET**

Learning from the costly experience of dependence in local markets, management intensified its efforts to break through the barriers and penetrate the export markets. Demand for Semirara coal dramatically plummeted in 2006 when natural gas-fired plants were given dispatch priorities. This event made management realize that to sustain growth targets, the Company needed to diversify overseas. Due to quality limitations of Semirara coal vis-à-vis the requirements of existing Philippine coal plants, which were mostly designed to burn higher-quality coal, the onshore demand growth potential for the product is unfavorably limited. Hence, the regional shortage of thermal coal provided the Company a timely window to introduce its coal to the vast export market. After months of marketing and negotiating with potential end-users and traders, the Company made its maiden shipment containing 28,836 MTs of coal to South China in February. The initial shipment was found acceptable in terms of quality. The ensuing months further strengthened the Semirara brand when deliveries to more plants in China, India and Hong Kong were likewise successful. As a result, the Company was overwhelmed with export orders in its maiden year in the international market, that toward the end of the year, some export contract proposals had to be politely declined. With the increasing demand for Semirara coal, the Company was able to successfully negotiate for better prices for subsequent shipments.

*On the local front, the shortage of coal in the region also augured well for the Company as more plants decided to try using Semirara coal. As a result, total local sales posted a 34% increase from 2006 sales volume of 2.076 million MTs to 2.776 million in the current year. With export sales amounting to 798.8 thousand MTs, total sales volume in 2007 registered at 3.575 million MTs, or 72% higher than 2006 volume.*

*Notably, despite recording a 5% growth over the previous year's volume of 1.3 million MTs, 2007 sales to the National Power Corporation (NPC) of 1.365 million MTs reflected a decrease in market share from 63% in 2006 to 38% this year. Added to improving volumes from other power plants, augmented by two new markets, namely Asia Pacific Energy Corp. and Steag State Power Energy, Inc., total sales to power plants reached a record high of 1.867 million MTs in 2007, which posted a 25% growth from the sales to this industry in 2006 of 1.496 million MTs.*

*Demand from the cement industry also recovered in 2007, with sales volume showing a 42% improvement at 754.9 thousand MTs from the previous year's sales of 531.3 thousand MTs.*

*Similarly, sales to industrial users also skyrocketed by 214% from last year's volume of 48.9 thousand MTs to 153.7 thousand MTs, as more small industrial plants were converting from bunker or diesel – fired to coal plants.*

*Meanwhile, exports accounted for 22% of sales in 2007. Of the 798.8 thousand MTs exported, 46% went to China, 44% to India, and the remaining 10% to Hong Kong.*

*On the downside, the steep devaluation of the dollar, which is the currency used to trade coal in the international market, impacted negatively to the Composite Selling Price of Semirara coal. FOB price averaged at P1,784/MT in 2007, which is 19% less than 2006 selling price of 2,212/MT.*

*Looking forward, however, the continuous upsurge in global demand for coal spells well for Semirara coal, in terms of sales volume and prices. Currently, demand and coal prices are continuously inching upward.*

### **III. FINANCE**

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

*Robust market demand translated to higher Coal Revenues in the current year registering a historic level of P6.38 billion, and recording a 39% growth from 2006 Coal Revenues of P4.59 billion. Meanwhile, another P90.7 million was generated from coal handling activities at the Calaca coal yard this year, posting a slight 6% decrease from 2006 Coal Handling Revenues of P96.34 million. Reduced dependence on the NPC - Calaca plants also translated to decreased Coal Handling Revenues, which is a function of Coal deliveries to Calaca, to 1% from 2% share in the Revenue pie last year.*

*Economies of scale from increased production resulted to lower Cost of Coal Sold/MT to P1,453.04 which showed a 17% decrease from 2006 unit cost of P1,754.82. However, with more volumes sold this year, total Cost of Sales escalated by 40% from P3.71 billion in 2006 to P5.19 billion in the current period. Non-Cash component of Cost of Sales remained at 32%, as a result of the accelerated depreciation policy of the Company.*

*The resulting Gross Profit showed a 31% improvement at P1.27 billion from P974.53 million in 2006. However, as a consequence of lower Composite Average Selling*

Price/MT, Gross Profit margin dipped slightly to 20% from 21% in the previous period.

Operating Expenses showed a significant growth of 144% from P133.12 million in 2006 to P324.38 million in the current year. Although government share was maintained to the minimum of 3% of Coal Sales, because of higher Revenues, the absolute amount posted a 38% growth to P191.29 million from P138.27 million in 2006. Meanwhile, General and Administrative Expenses in 2006 recorded a negative figure as a result of the reversal of the Provision of Real Property Taxes amounting to P71.53 million, in accordance with Presidential Decree (PD) 972 exempting the Company from all taxes except income tax. Hence, this mainly contributed to the substantial difference in Operating Expenses between the two comparative periods. General and Administrative Expenses amounting to P133.09 million in the current period consisted of Salaries and Wages of Makati personnel (with noted increase due to formalization of top executive positions which are now properly charged to this account), Office Expenses, Professional Fees, Transportation and Travel Expenses, Representation Costs, and Taxes and Licenses. The cost of transportation and travel as well as representation and other expenses likewise posted an increase in relation to marketing and selling transactions.

On the other hand, Finance Cost recorded a 34% reduction due to lower interest rates applied to decreasing balance on interest-bearing loans which totaled to P1.69 billion as at the end of 2006 to P1.13 billion at yearend 2007. Finance Cost registered at P140.25 million this year compared to the P213.04 million incurred last year.

Meanwhile, Finance Revenue is 26% lower during the current year at P40.30 million from P54.53 million in 2006. This is explained by the lower beginning Cash balance this year used for investments. Cash only started to build up during the second half of the year when export sales stepped up and excess cash were placed in short-term investments

The continued depreciation of the US Dollar against the Peso afforded the Company to continue to book Foreign Exchange Gains amounting to P102.96 million in 2007 from P49.03: USD1 at beginning of the year to P41.28: USD1 at end of the year. This amount is 14% lower than Foreign Exchange Gains of P119.96 million earned in 2006 as dollar-denominated liabilities declined with the regular principal amortization.

Other Income also recorded a significant drop by 91% from P107.61 million in 2006 to P9.42 in the current year as recoveries from insurance claims were lower in 2007 at P4.25 million as compared to 2006 level of P70.21 million. Moreover, more equipment were disposed last year enabling the Company to record more Gains from Sale of Property and Equipment in the previous period.

The resulting Net Income Before Tax showed a modest growth of 6% from P910.47 million in 2006 to P960.77 million in the current period. Provision for Income Tax in the current year correspondingly increased by 6% at P327.97 million from P309.23 in 2006. Net Income After Tax also posted a slight increase of 5% from P601.24 million in 2006 to P633 million this year.

Earnings per Share is 6% higher at P2.28 in 2007 from P2.161 in the previous year.

## **B. Financial Condition, Solvency and Liquidity**

The shipment of more export sales towards the end of the year significantly boosted yearend cash. Export deliveries were covered by sight Letters of Credits. Hence payment collections were done right after the shipment of coal, unlike for local deliveries wherein collection period ranges between 45 to 60 days. Moreover, the Company recouped its Temporary Investments made in 2006 amounting to P300 million in the current period. The resulting 2007 Cash end of P1.65 billion reflected a 223% increase from end 2006 Cash level of P510.44 million.

Meanwhile, net Receivables almost doubled to P1.12 billion from P566.88 million mainly as a consequence of the corresponding surge in Trade Receivables with the increased sales in 2007. Of the amount, 96% were Trade Receivables for both local and export sales. Sales Volume in December reached a historic high of 465,392 MTs, thus explaining the huge accounting of Receivables.

The increase in demand also resulted to decrease in Inventories in 2007. Cost of Coal Inventory went down by 44% from P1.02 billion as at yearend 2006 to P570.81 million at the close of the fiscal year 2007. On the other hand, Cost of Materials and Parts Inventory slightly rose by 7% from P823.38 in 2006 to P881.86 in the current year, apart from increase requirements for rehabilitation activities, importation in transit intended for projects as of end of the year recorded at P104 million. The reduced coal ending inventory contributed to the Total Inventories declined by 21% from P1.84 billion in 2006 to P1.45 billion this year.

Other Current Assets account is mainly comprised of the 5% Input Value Added Tax (VAT) withheld by NPC which amounted to P199.76 million as of end of the current year and P175.34 million last year. However, the Company is reclaiming the amount in accordance with its VAT-exempt status. On 7 March 2007, the Company obtained a ruling from the Bureau of Internal Revenue which reiterated that the sale of coal remains exempt from VAT. While the refund is being processed, this account temporarily boosted Other Current Assets to P187.98 million and P215.24 million in 2006 and 2007, respectively.

Total Current Assets aggregated to P4.43 billion as at the end of 2007, reflecting a 30% growth from 2006 yearend level of P3.41 billion.

On the other hand, Non-Current Assets dropped by 36% from P3.11 billion in 2006 to P1.99 billion in the current period. This is mainly caused by the decrease in net book value of Property, Plant and Equipment by 37% due to depreciation, with very minimal capital expenditures incurred during the year. As mentioned earlier, the Company employs an accelerated depreciation policy. Conversely, towards the end of 2007, the Company made P80.87 million advances for equity interest in power and nickel mining businesses. Meanwhile, Marginal Deposits on equipment and parts purchases amounting to P5.64 million booked in 2006 were wiped out with the arrival of these materials and subsequent reclassification to proper accounts.

The huge decline in Non-Current Assets offset the growth in Current Assets resulting to a slight 1% drop in Total Assets from P6.51 billion in 2006 to P6.42 billion as at the end of the current year.

Similarly, Total Liabilities plunged by a more significant percentage of 18% from P2.20 billion in the previous year to P1.81 billion in 2007. Current Liabilities recorded a minor dip of 1% when increase in Trade and Other Payables from P320.46 million in 2006 to P546.60 million this period due to booking of more Trade Payables on parts under consignment, booked payables to various project contractors and high provision for the last quarter government share offset the reduction of Current Portion of Long-Term Debt.

Non-Current Liabilities on the other hand, recorded a more hefty slump by 43% from P850.66 million last year to P482.05 in the current year. This is mainly attributed to the continuous amortization of loans, which consequently resulted to a decrease in Non-Current portion of Long-Term debt by 44% from P713.06 million to P397.58 million as at the end of 2007. The funding of Pension Liability which caused the reduction of the account from P52.67 million in 2006 to P4.66 million in the current year likewise contributed to the decrease in Non-Current Liabilities.

The improvement in Current Assets, augmented by the decrease in Current Liabilities, resulted to a remarkable increase in Current Ratio by 32% from 2.53:1 in 2006 to 3.34:1 in the current year.

Meanwhile, despite the declaration of Cash Dividends amounting to P333.09 million, similar to the amount of dividends declared in 2006, Stockholders' Equity further strengthened with the recognition of Net Income of P633 million in the current year. The positive bottom line boosted Retained Earnings by 10% from P2.97 billion in 2006 to P3.27 billion as at the end of 2007. Furthermore, Total Stockholders' Equity also posted an increase at P4.61 billion from P4.31 billion at yearend 2006, or a growth by 7%. As a consequence, the Company's Debt-to-Equity ratio further strengthened from 0.51:1 to 0.39:1, showing a 23% improvement.

### C. Performance Indicators

1. **Average Selling Price** – This performance indicator demonstrates the effect of movement in global coal prices on the pricing of Semirara coal. However, this year, the Company set out to penetrate the export market. With the inherent quality limitations of its coal, there was no guarantee that the venture will be fruitful. Hence, in order to provide motivation to new export markets to at least try burning Semirara coal, the Company sold trial shipments at almost break even price. With the success of the diversification strategy however, the Company was able to parallel the upward movement of global coal prices toward the end of the year. On the local front however, the depreciation of the Peso against the US dollar put a dent on the Composite Average Selling Price per MT.
2. **Debt to Equity Ratio** – As an effective gauge of the Company's financial strength, the continuous improvement of this figure boosts the confidence of financial institutions to offer more aggressive financing packages and investors to put more money into the Company. A healthy solvency condition also afforded the Company to consider investment opportunities to further add to its value. Considering its core competencies, the Company is investing in a nickel mine. Also, as a forward integration strategy, it is putting in money to the power industry to augment and guarantee market for Semirara coal.
3. **Capital Expenditures** – After the completion of the capacity expansion program in 2006, Capital Expenditures in 2007 were minimal. However, with the increasing demand from the local markets and new export demands, the Company is planning another capacity expansion activity. Towards the end of the year, orders for one 16-cubic meter excavator and 12 units 100-tonner dump trucks were placed for delivery during the first half of 2008.
4. **Expanded Market** - 2007 is an exciting year for the Company. From a slow market in 2006, the scenario has completely turned around in the current year. Regional demand for coal has suddenly skyrocketed, thus giving Semirara an opportunity to penetrate the international market. This is a huge milestone for the Company since the event finally ended its over-dependence on local

markets. Breaching the export market opens a vast and totally new avenue for growth for the Company. The Company has finally elevated its business to a new and higher platform, and it is gearing up for new challenges.

- 5. Improved Coal Quality** – The new market opportunities of the Company brings forth more challenges to improve the quality of its products to achieve sustainable growth. More importantly, the Company must manage the stability of the quality parameters of its deliveries in order to successfully establish a brand. It is then imperative for management to invest in more quality-enhancing processes to achieve this. Currently, it is finalizing the specifications of a new washing plant to address the ash issue of the product.

As the coal business turns the corner into sustainability with the emergence of its coal exports and improving local demand in 2007, the Company is poised to include the coal business as a strategic partner in entering the power and nickel mining industries. SMC is expected to invest 50 percent into DMCI Power and DMCI Mining, the Company's power and nickel mining arm. With this, the Company and SMC hopes to provide coal business shareholder value thru stability in coal take-up and equipment usage aside from the business prospects in the power and nickel mining industries.

## OTHERS

The Company's consolidated profit and loss for 2007 includes income from assets held for sale worth P149 million, 171% higher than 2006 which was included in the general construction segment (see CONSTRUCTION above).

This asset pertains to investments in AG&P an allied investment in construction. The Company converted its receivables from AG&P worth P957 million into equity, increasing its share from 45% in 2006 to 96% in 2007. With this, AG&P should have been consolidated into the Company's financial statements but subsequently AG&P was identified as an investment for disposal, the sale proceeds of which will be used for new investments in the power sector and the proposed toll road businesses.

AG&P is the oldest construction company in the Philippines specializing in steel fabrication. It currently has major projects for Goro Nickel from New Caledonia composed of modular steel fabrication being done here off shore in the Philippines with the hook-up and commissioning of the said modular steel structures in New Caledonia. The contract amount of this Goro Nickel project is around US\$100 million. Recognized works for 2007 on this project accounted for the significant operations in 2007.

The Company expects to sell AG&P in 2008, the sale of which will be essential to the cash flow requirements of its investments into power and toll roads.

## **2006 vs. 2005**

DMCI Holdings, Inc. (the "Company") reported a consolidated income of P1.383 billion for 2006 compared to P4.181 billion for 2005. The 2006 bottom figure included an extraordinary gain on sale of shares of the coal business amounting to P356 million accounting for a net ordinary income of approximately P1 billion, while the 2005 bottom figure also incorporated a P2.3 billion gain on sale of shares of the coal business for a net ordinary income of P1.9 billion. The decline in net ordinary income can be attributable to the developments in the coal sector but was compensated by the progress in the construction business and the advancements in the real estate unit.

## REAL ESTATE

The Company's real estate business, headed by 100% owned real estate company DMCI Project Developers, Inc. (PDI), continued to experience towering operations for 2006 with respect to 2005. Extraordinary demand from buyers of the Company's real estate projects produced record breaking revenues of P1.9 billion for 2006 from the P1.5 billion posted in 2005.

The Company's medium rise condominium community projects continued to be a success as sales from existing projects: East Ortigas Mansions (EOM), Mayfield Park Residences (MPR) went up significantly. Bonifacio Heights, a joint venture project with the Armed Forces of the Philippines (AFP), located in the Fort Bonifacio area of which are exclusively available for AFP personnel, contributed P508 million accounting for a 278% increase in sales from 2005. Moreover, Mahogany Place Subdivision, a horizontal house and/or lot development which is a deviation from the normal medium rise platform proved to be a success to the Company, as it contributed significant revenues amounting to P460 million for the period increasing by 193% from 2005. Heightened marketing activities coupled with the DMCI reputable quality of building can be credited to the increase in sales. The year marked the significant contribution of international community thru the Overseas Filipino Workers (OFWs) as an essential market and opportunity for expansion with approximately 30% of sales were bought by the international market. International marketing is proving to be critical pursuit to be taken into greater summits.

With existing projects reaching almost fully-sold status, the Company is looking to launch new projects to address the dwindling supply of housing units, namely: Raya Gardens Condominiums, a combination of high rise and medium rise development located in Barangay Merville, Paranaque; Rosewood Pointe, a project utilizing the proven medium rise template done in the same design and aesthetics as Mayfield Park Residences, located in Taguig;; and The Manors at Celebrity Place, a mixed town house-medium rise community project located adjacent to the Celebrity Sports Plaza in Loyola Heights, Quezon City. The Company hopes that these new projects will meet the stringent market demand for aesthetically pleasing, high quality, reasonably affordable residential dwellings.

Evident with the Company's efforts to provide the best source of housing for Filipinos and not just to liquidate its land bank, it has entered into a joint-venture with a publicly listed company, Crown Equities, Inc. in the development of Cypress Towers, a high rise condominium project, right smack along C-5, Taguig, 15 minutes away from the Makati Central Business District; and also with Equitable PCI Bank, in the development of Riverfront Residences located in Pasig, a stones throw away from the Ortigas Business Center. The Company through PDI is also lined up with other parties in the possibility of developing their parcels of land using the Company's proven community driven design and build formula.

PDI effected some accounting adjustments that started in the 2<sup>nd</sup> quarter of the 2006 which caused a prospective reduction to revenues and increase in costs from revision of certain accounting treatment and estimates, and compliance to the new accounting standards as indicated in the Philippine Financial Reporting Standards (PFRS). The Company is expecting to further evaluate and possibly retroact the adjustment upon the year-end audit but still pushed through with the booking due as a principle of conservatism. This tapered the escalation in the Company's real estate operations.

General and administrative costs were significantly increased with marketing and selling activities being accelerated by the Company accounting mainly for the increase in consolidated operating expenses. It is expected that the trend with operating costs will continue as expansion and strengthening of its real estate operations will strongly be embarked upon by the Company as it now is convinced of the apparent prospects in the real estate business.

As the Company's housing business is reaching new peaks, the Company is eagerly looking at propelling its real estate business into the next stage of not just providing quality affordable homes to Filipinos but also as a source of income to would be investors with thoughts on launching the real estate business in the public market.

## CONSTRUCTION

The construction segment, operated by wholly-owned construction subsidiary D.M. Consunji, Inc. (DMCI), showed significant progress as it posted an increase in construction gross margins and income for 2006 compared to 2005

Continuous revenues from key projects KAMANAVA Floodway civil works, and the One Adriatico Place residential building helped provide the much needed works. Other notable projects were the Subic-Tarlac Express-Deck Fabrication and the Meneses Corp. Center which also pitched in their fair share of work. The sharp increase in construction gross margins, was mainly due to improved productivity and effectivity in contract management. Revenues from the non-traditional construction operations, specifically from the special business units, namely the Equipment Management Business Unit (EMD), the Ready Mix Concrete Business Unit (RMC), and the Formwork Management Business Unit (FMBU) were also helpful in increase revenues with minimal costs for the construction business. The Company directs this notable development to DMCI's direction towards utilizing and optimizing the specific core competencies and opportunities brought about by its existing construction equipment.

In addition, DMCI booked change orders from previous works of which costs were already recorded. These change orders were agreed and finalized and was subsequently booked in the year allowing for the realization of revenues without costs, further increasing gross margins.

General and administrative expenses slid down for the period compared to last two years as the Company's continuing cost reduction is being sustained, more so with the construction industry becoming more diversified and competitive.

The entry of the Company into the water utility business will also prove helpful to the construction business per se as much of the engineering requirements involved in the improvement of the water utility will be done by DMCI. (see discussion in the Water business below)

As the construction business is maturing and proving to be a challenge nowadays with its retail-competitive nature, the Company is still confident that it can maintain its foothold as one of the leading provider of construction services with the heritage as proud Filipino contractors to the country and the global community.

## POWER & COAL

The Company's coal mining business, operated by now 58%-owned, publicly listed Semirara Mining Corp (SMC), reported significantly lower business results for 2006 as contributions from the coal segment was recorded at P601million, compared to P1,592 million in 2005.

Below is SMC's management discussion and analysis of financial condition and results of operations lifted from the Semirara Mining Corp. 2006 Year-End Financial Report:

**SEMIRARA MINING CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

**For the period ended and as of December 31, 2006**

### **Full Years 2005-2006**

#### **I. PRODUCTION**

*The last fleet of equipment that completed the modernization and expansion program of Semirara Mining Corporation (SMC), which commenced in 2004 to address the growing demand for Semirara coal, arrived in the first half of the current year. Consequently, the completed expansion program has ramped up the capacity of the Company to move materials up to 40 million bank cubic meters (bcm), translating to an annual capacity of 4 million to 4.5 million run-of-mine (ROM) coal. The "economies of scale" at this level is expected to bring down cost of production that will make the company more competitive against imports, at the same time, bring up the company's level of business to the vast potentials of the export market in the region which management looks forward to initiate in 2007.*

*Consequently, 2006 registered the highest material movement in the history of the Company's operations at 38.42 million bcm, registering a 38% increase over the previous year's material movement of 27.88 million bcm. Coupled with the increased capacity, this growth was also spurred by the fact that coal demand was slower in 2006, such that mining activities were largely focused on material movement instead of coal extraction. Management opted to use available capacity removing material burden to fully utilize its production equipment but left stripped coal at the pit for future deliveries. Pre-stripped coal is estimated to amount to 1.3 million Mt's with a market value of at least P2.3 billion as of yearend. This inventory is not recognized in the Company's balance sheet in accordance with the Generally Accepted Accounting Principles. The coal can be easily extracted at minimum cost in the succeeding year. As a result, waste material to coal ratio (or strip ratio) correspondingly demonstrated a significant increase of 76% at 14.13:1, compared to last year's ratio of 8.02:1. This translated to a lower ROM coal production of 2.59 million metric tons (MTs), 19% short compared to 2005 production of 3.19 million MTs. The resulting net total product coal was correspondingly lower at 2.27 million MTs, registering a 21% slump from 2005 net production of 2.89 million MTs. Coal stockpile inventory amounted to 606 thousand MTs with a book value of P1.02 billion as of yearend 2006.*

*Firming up on Quality Improvement, expansion of the coal washing plant was also achieved during the year, while drying facilities were installed to cater to the needs of the cement industry.*

*To further address Cost Reduction, it is worth mentioning that a second Crusher and Conveyor System was laid down to minimize the use of trucks for hauling material handling to reduce fuel cost which is the single biggest cost item. Installed capacity is now up to 30% of total material handling capacity. To run the systems efficiently, the company's 2 x 7.5 MW coal-fired power plants underwent rehabilitation.*

#### **II. MARKET**

*Demand for Semirara coal slumped in 2006. Competition from the natural gas-fired plants as well as entry of cheaper imports limited coal deliveries to power plants. For the year, coal sales volume registered at 2.076 million MTs, 16% lower than last year's 2.479 million MTs.*

*The Calaca Plants of the National Power Corporation (NPC) accounted for 62% of the total coal delivered, translating to 1.294 million MTs. This reflected a 6% increase over the previous year's NPC Calaca sales of 1.225 million MTs. NPC Calaca Plant Number 2 had limited operations in 2005 due to a series of technical problems encountered during the course of its maintenance*

shutdown. Meanwhile, sales to other NPC plants, like Sual and Pagbilao, significantly dropped from 207.14 thousand MTs in 2005 to 5.96 thousand MTs in the current year. Apart from import commitments, the Sual plants encountered problems in the second half of the year, resulting to plant shutdown. On the other hand, Pagbilao was awash with inventory as imported coal intended for Masinloc and Sual were diverted to Pagbilao. Sale to Non-NPC power plants likewise fell from 348.79 thousand MTs to 195.74 thousand MTs this year, thus greatly contributing to the considerable reduction of total consumption of power plants from 1.78 million in 2005 to 1.50 million in 2006.

The drop in the demand for cement likewise resulted to the decrease in the off-take of Semirara coal by cement plants to 531.29 thousand MTs in the current period, from 666.97 thousand MTs in the previous year. The cement market accounted for 26% of the total sales of the Company.

Nevertheless, despite the bleak picture of the power and cement markets, sales to industrial users of Semirara coal increased by 56% to 48.94 thousand MTs in the current period from 31.46 thousand MTs in the previous year. Although the total volume may not be impressive, it is worthy to note that towards the end of the year, the Company started to deliver to small industrial and manufacturing plants who were shifting to coal from more expensive fuels like bunker and diesel. This is a welcome development for the Company since it has been the thrust of management to reduce dependence on a few major customers and to penetrate more non-traditional users of Semirara coal.

Interestingly, during the current year, the Company received several inquiries on the feasibility of exporting coal to China. Towards the end of the period, the Company was finalizing a deal for a test shipment to South China.

Composite price for Semirara coal is almost at the same level as last year, registering a slight increase at P2,211.76/MT compared to the previous year's price of P2,204.67.

### **III. FINANCE**

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

The 16% drop in sales volume correspondingly registered a decrease in Coal Sales from P5.47 billion in 2005 to P4.59 billion in the current period. Meanwhile, with more volume delivered to Calaca this year, Coal Handling Revenues consequently rose by 11% to P96.34 million from P86.51 million last year. The resulting Gross Revenues is P4.69 billion, 16% lower than the previous year's Revenue level of P5.55 billion. Revenue distribution remained at 98% Coal Sales and 2% Coal Handling Revenues.

On the other hand, higher strip ratio resulted to a 12% rise in Cost of Sales from P3.31 billion, which includes Coal Handling Cost of P113.38 million, in 2005 to P3.71 billion this year, inclusive of Coal Handling Cost of P70.36 million. On a per metric ton basis, the impact of advanced stripping is significantly reflected in the 36% increase in Cost of Coal Sold at P1,754.82/MT in 2006 as against last year's reported figure of P1,287.39/MT. Cash costs in the current period comprised 68% of total cost/MT, while depreciation, depletion and amortization comprised 32%. The previous period's cost is composed of 61% cash costs and 39% non-cash costs. More depreciable equipment were acquired related to capacity expansion causing a rise in depreciation cost.

The resulting Gross Profit ratio is considerably lower at 21% this year as against 2005 profitability ratio of 40%. In absolute amounts, the current period's Gross Profit registered a 57% decrease from P2.25 billion in 2005 to P974.53 million this year.

Operating Expenses recorded a substantial reduction of 51% at P133.13 million as at yearend 2006, as compared to the previous period's figure of P271.64 million. Reduced Coal Sales

brought down Government Share by 13% at P138.27 million in 2006 from P158.78 million in 2005. General and Administrative Expenses posted a reduction of 105%, largely as a result of the reversal of the Provision of Real Property Taxes amounting to P73.5 million, in accordance with Presidential Decree (PD) 972 exempting the Company from all taxes except income tax.

Meanwhile, the 80% increase in Financing Cost is attributed to the increased number and value of Letter of Credits opened for the purchase of various parts used for the maintenance program of machineries and equipment, construction of second line in-pit crushing and overburden conveying system, and rehabilitation of the power plants. Moreover, base rates for foreign-denominated loans, which comprised 49% of total loans, increased with the rise in 180-day LIBOR from 3.7650% in 2005 to 5.2963% in 2006, and 90-day SIBOR from 3.5619 % in 2005 to 5.2326% in 2006. Hence, the resulting Financing cost was recorded at P213.04 million in 2006, as against 2005 figure of P118.52 million. It should be noted however that there was a reversal in Accrued Interest Expenses on past due royalty payments for prior years in 2005 amounting to P86.7 million as settlement was reached with the Department of Energy.

Finance Revenue, which reflected interest income on savings accounts and short-term placements and investments, is lower by 1% from P55.11 million in 2005 to P54.53 million in the current year, despite the sizeable reduction in the cash level from P1.33 billion in 2005 to P510.44 million as at yearend 2006.

Meanwhile, the continued strengthening of the Philippine Peso as against the US dollar, which is the currency of all foreign-denominated loans, afforded the Company to recognize Foreign Exchange Gains of P119.96 million from its foreign loans, recording a 22% increase over the previous year's gains of P98.09 million. Of the amount, P34.29 million were Realized and P85.70 million is Unrealized.

Collection of insurance claims amounting to P70.21 million and gains on sale of phased-out mining support equipment amounting to P20.07 million spurred the increase of Other Income account by 24.2x to P107.61 million in 2006 from P4.44 million in the previous year.

The resulting Net Income Before Tax fell by 55% at P910.47 million, which is 19% of Revenues in 2006, from P2.01 billion in 2005 or 36% of Revenues. Provision for Income Tax in the current year amounted to P309.23 million, of which P297.26 million is due and payable in the current year while P11.97 million represents provision for deferred tax liability, total provision is effectively 33.97% of taxable income. On the other hand, 2005 Provision for Income Tax was recorded at P422.61 million, which is only 20.97% of the year's pre-tax income. The effective tax rate in the current period is higher compared to the previous year since 2005 provision included the application of the remaining Net Operating Loss Carry Over (NOLCO) amounting to P455.13 million and Minimum Corporate Income Tax (MCIT) of P67.42 million. Consequently, Net Income After Tax in the current year amounted to P601.24 million, registering a 62% drop from 2005 After-Tax Income of P1.59 billion.

## **B. Financial Condition, Solvency and Liquidity**

Due to adverse market developments, the company failed to meet sales targets in the current year. Consequently, not only did Revenues drop, but cost of coal sold also soared as operations accounted for full costs of pre-stripping activities, in accordance with the consensus of the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) set forth in EITF Issue No. 04-6, Accounting for Stripping Costs Incurred during Production in the Mining Industry. Management opted to fully utilize available capacity by stripping waste, instead of controlling operations to balance stripping activities with coal extraction. As a result, the Company's financial condition has experienced a slight setback in terms of liquidity. However, despite the sluggish market, which is the root cause of reduced profitability, the Company was still able to maintain a healthy cash position and report a sound balance sheet.

Despite the huge drop in profitability, Net Cash Provided by Operating Activities only showed a slight decrease of 8.29% from P1.30 billion in 2005 to P1.19 billion in 2006. This is primarily due to the decrease in Receivables by P608.23 million in the current year compared to an increase in the account by P366.99 million reflected in the previous period and the tempered increase in Inventories by P474.28 million this year as against last year's figure of P811.31 million. Moreover, 2005 reflected a decrease in Accounts and Other Payables of P581.37 million versus the current period's decrease by a smaller amount of P80.31 million as last year's statement recorded complete settlement of some old accounts. These included payment of DOE past due accounts amounting to P193.3 million and payment of Due to Related Parties amounting to P152.7 million incurred in 2004.

As the expansion and modernization program reached its final phase in 2006, P1.5 billion worth of machineries and equipment were purchased during the period. Purchases of new mining equipment worth P1.21 billion and other Capital Expenditures (CAPEX) amounting to P291.19 million was recorded in 2006. The amount, however, is lower than total CAPEX of P1.78 billion in 2005, comprised of various mining equipment amounting to P1.58 billion and P207.71 million other CAPEX. This decline in cash outflow was partly offset when the Company placed P300 million in Temporary Investments with an Affiliate. As a consequence, Net Cash Used in Investing Activities exhibited a drop from P1.18 billion in 2005 to P574.17 million in the current year.

Meanwhile, the Company's Financing Activities recorded a Net Cash Used amounting to P1.44 billion, compared to the previous period's Net Cash Inflow From Financing Activities amounting to P1.18 billion. The previous year recorded cash inflows from proceeds of shares offering amounting to P1.62 billion which shored up cash resources. Although loans repayment amounted to P1.28 billion, higher amounts of loans amounting to P1.2 billion were also availed. On the other hand, the current year's cash flows reflect Repayment of Long-Term Debt of P1.28 billion, but was offset by lower loan borrowings. Furthermore, in 2006 for the first time in its history, the Company paid cash dividends amounting to P333.09 million, thus putting more dent to its cash position.

While 2005 recorded a net cash generation of P1.30 billion, the current year exhibited a Net Decrease in Cash amounting to P821.20 million. As a result, 2006 Cash End is lower at P510.44 compared to 2005 cash level of P1.33 billion.

Correspondingly, Current Assets fell to P3.41 billion as at end 2006 from the P3.95 billion level in the previous year. The Temporary Investment mentioned above is an investment to the parent Company, which has a tenor of 180 days, earning a very attractive rate of 11%. The drop in Trade Receivables from P1.09 billion in 2005 to P505.73 million in the current year mainly accounted for the decrease in Net Receivables from P1.17 billion last year to P566.88 million this year, reflective of the lower sales. Meanwhile, low market demand resulted to an increase in Coal Inventory to P1.02 billion this year accounting for 606 thousand MTs of coal from P552.62 million in the previous year. As a result, Net Inventories rose to P1.84 billion from P1.37 billion as at end 2005. The increase in Other Current Assets is primarily caused by the rise in the amount of Creditable Withholding Taxes on Coal Sales withheld by customers to P175.34 million in the current year from P83.06 million in 2005. This increase is largely due to the government-mandated withholding of 5% VAT by the National Power Corporation which the Company is reclaiming in accordance with its VAT exemptions.

On the other hand, the completion of the last leg of the expansion program brought up Property, Plant and Equipment to P3.10 billion, with additions amounting to P1.50 billion, partially offset by Depreciation, Depletion and Amortization totaling to P1.34 billion. Consequently, Non-Current Assets registered a 4.4% increase from P2.97 billion in 2005 to P3.11 billion as at end of the current year. The decrease in Other Non-Current Assets was mainly driven by the decrease in Marginal Deposits on equipment and parts purchases from P42.82 million in 2005 to P5.64 in the

current year. The resulting Total Assets reflected a 6% drop from P6.93 billion as at end 2005 to P6.51 billion in 2006.

Notwithstanding the modest profitability reported during the current year, the Company was able to significantly trim down its Total Liabilities by 20% from P2.74 billion as at end 2005 to P2.19 billion as at end of the current year. The reclassification of Long-Term Portion of Long-Term Debt to Current Portion posted an increase in the Current account. Also, most loan availments during the year have short-term tenors to take advantage of cheaper financing charges compared to long-term loans, giving due consideration to the Company's overall liquidity. Combined, these resulted to a 15% growth in Total Current Liabilities from P1.17 billion in 2005 to P1.34 billion this year. On the other hand, the payment of Accounts and Other Payables, the settlement of last year's Income Taxes Payable, and the delivery of coal to customers with advance payments tempered the net increase in Total Current Liabilities of P180.3 million.

Total Non-Current Liabilities meanwhile showed a 46% fall from P1.57 billion in 2005 to P850.66 million this year, mainly as a result of the pre-payment of Marubeni loan amounting to \$7.42 million before its maturity and reclassification of Long-Term Debts. Moreover, in accordance with the Philippine Accounting Standards (PAS) 19, the Company continued to acknowledge its liability to fund the retirement benefits of the employees, which resulted to an increase in Pension Liability by 27% from P42.33 million in the previous year to P52.67 million this year.

The adoption of the New IFRS/IAS in the previous year caused changes in accounting standards which compelled the Company to restate prior years' financial statements and recognize certain deferred tax liabilities. Net Deferred Tax Liabilities rose by 19% from P61.83 million in 2005 to P73.79 million as at end 2006.

Although in terms of absolute amounts, the decrease in Total Liabilities recorded at P539.63 million is higher than the reduction in Total Assets by P416.73 million, the reclassification from long-term to current portion of Long-Term Debts and availments of short-term financing resulted to a dip in the Current Ratio from 3.39:1 in 2005 to 2.53:1 this year.

The recognition of net profits in 2006, tempered by the distribution of Stock Dividends of P333.09 million, further boosted the strong equity position of the Company. Meanwhile, a continuation of the shares buyback program which commenced in 2005 increased Cost of Treasury Shares by 38% from P383.63 million in the previous period to P528.89 million as at yearend with the acquisition of additional 5,499,500 common shares costing P145.26 million in 2006. The resulting Total Stockholders' Equity was impressive at P4.31 billion as at end 2006 from P4.19 billion in the previous year, recording a 3% growth. As a consequence, Debt-to-Equity ratio further improved to 0.51 in the current period, compared to last year's ratio of 0.65.

### **C. Performance Indicators**

- 6. Production & Sales Volume** – These two indicators are main drivers of profitability, with direct impact on cost and revenues. In terms of capacity, the Company can already easily serve an increasing demand of up to 4.5 million MTs. Economies of scale should also work in the Company's favor in reducing cost of production. However, production level should be correspondingly matched with demand to achieve optimum cost efficiency. During the current year, low market demand pushed management to continue stripping operation, which in turn adversely affected profitability level. However, it proved to be a wise decision for management, since towards the latter part of the year, several interested buyers were already knocking at the Company's door wanting to explore possibilities of exporting Semirara coal. Subsequently, the Company had a maiden voyage exporting its coal to South China in the first quarter of 2007. As of this writing, it has received more supply proposals from foreign buyers.

7. **Average Selling Price** – This is another profitability driver. Semirara being the single largest coal producer in the country, producing more than 92% of total local output practically comprise the whole coal industry in the country. Hence, it benchmarks its selling price to global coal prices. Notably, it has inherent advantage over landed cost of imported coal, which includes freight cost and 12% Value Added Tax (VAT). By virtue of PD 972, the Company is VAT-exempt. On the other hand, pricing of Semirara coal to local customers is vulnerable to foreign exchange movements.
8. **Capital Expenditures** – The Company's growth potential depends on its ability to timely increase its capacity to meet growing demand. There is an increased global demand for mining equipment as the mining industry has become more active in the recent years. As a result, delivery lead time of mining equipment is at least 6 months. More often, delivery period is 18 months. Hence, Capital Expenditures should be a major factor in planning and strategizing to balance financial strength and growth.
9. **Debt to Equity (D/E) Ratio** – The mining industry is capital intensive. The ability of the company to raise funds to finance its operations and acquisition requirements largely depends on its financial strength. The D/E Ratio is a good indicator of the Company's financial condition. Over the years, the company has remarkably improved its D/E Ratio, such that the current year set a new record of 0.51, a further improvement of the previous year's already sound D/E ratio of 0.65.
10. **Improved Coal Quality** – The Company's thrust to improve and expand its market should be complimented with efforts to improve acceptability of its product by continuously enhancing coal quality. This need is further underscored by the opening of the export market to Semirara Coal. In this light, the Company has continuously exerted efforts to enhance the value of its product. The inherent characteristics of Semirara coal may only limit its potential, but other quality parameters can still be improved by incorporating additional processes, such as coal washing/drying to improve ash content and lower moisture.

With current adversities in the coal business, the Company is strongly pursuing expansion into the power sector as it recently won the bid in the NPC off-grid Small Power Utility Group (SPUG) project in Masbate Island. Likewise, the Company is also in the application stage for its plan to build and maintain a coal-fired power plant in Concepcion Iloilo. As the Company's enters into the power industry, it hopes that diversification and forward integration will provide for a more stable domestic consumption for Semirara coal. With 2006 not being the best year for the coal sector, the Company is optimistic in other opportunities to further diversify and support its coal mining business. Coal exports, the power sector and other mineral mining opportunities among others are what the Company believes that if successful, can bring back its coal business to higher highs.

## WATER

Late in 2006, the Company, along with Metro Pacific Investments Corp. (MPIC)., won in its bid to acquire Maynilad Water Services, Inc. (Maynilad). The Company initially invested the amount of P3 billion pesos to this venture and is expecting significant contributions to be included in succeeding year's consolidated operations. The Company also expects that significant engineering requirements of this newly acquired business will be done by its construction unit and as such will help in the whole consolidated business.

## II. FINANCIAL CONDITION

## **2007 vs. 2006**

The Company's financial condition for the period improved as total assets as of year end 2007 increased by P8.5 billion or 41% from year end 2006 balances.

Cash more than doubled from 2006 mainly coming from net cash provided by operations and equity issuances and net cash usage for debt payments and additional equipment purchases. The Company's fund raising activities was completed in the second quarter of 2007 and was done as a follow-up capital issuance envisioned to strengthen its investments in the water business.

Total receivables (current and non-current) went up 7% as a result of heightened sales in the real estate and coal businesses.

Requirements in the real estate business accounted for the increase in consolidated inventories for the group. The Company has started to build new projects and accelerate work on its existing ones, providing a significant rise in its real estate inventory. Some long term investment properties were also reclassified to real estate inventory, as these properties were determined to be for development in the near future, further adding to the increase in inventories (and causing the reduction in investment properties). Coal take-up from improved local demand and coal exports reduced coal inventory in 2007. Construction materials also increased from 2006 balances.

Investments were up as a result of the Company's investment in the water sector which included a negative goodwill in 2007.

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

Accounts & other payables increased marginally as a result of trade operations and accruals. Customers' deposits increased significantly due mainly to payments made by real estate buyers for uncompleted units prevalent in high rise condominium units, the full completion of which takes around 24 months compared to the 6-9 months it takes to complete the mid rise units. These customers' deposits represent deferred revenues to be recognized as receivable payments upon full completion.

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

Paid up capital increased due to new equity issued in 2007. The proceeds of the equity issuance were used to strengthen its investment in the water business thru debt payments and additional investments. The Company issued an additional 400 million shares at an average price of P7/share.

Current ratio was same levels from 2.20 as of end 2006 to 2.21 as of end 2007 showing the Company's current debt repayment capability remains healthy and well within industry averages. Debt to equity ratio was improved from 0.68 to 0.78 indicating. This is a result mainly of debt payments made in both the parent level and the coal mining business. The Company notes that the debt to equity ratio is below 1, indicating a strong owner base leverage and is in a very good gearing position. The debt to equity ratio was also well within industry averages as the Company strives to maintain its financial risk position relative to the interest of its stockholders.

### **2006 vs. 2005**

The Company's financial condition for the period improved as total assets at the end of 2006 increased by 21% from 2005.

Cash decreased as the Company's investment in the Maynilad acquisition was booked late in the year. The investment had an initial cash cost to the Company of P3 billion. Despite this cash from operations for the period posted positive figures showing the continuing upbeat results from the different businesses of the Company.

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

The current slowdown in coal deliveries coupled by increased mining operations allowed for an inventory build up explaining significantly the increase in the Company's consolidated inventory. Although sales were up in the real estate business, the Company has decided to build up inventory and increase work in its existing projects, accounting for additional growth to total inventory. Some long term investment properties were also reclassified to real estate inventory, as these properties were determined in 2006 to be used for development in the near future, adding to the increase in inventories and reduction in investment properties.

SMC's acquired additional equipment as it reached its final phase in its expansion. This accounted mostly for the increase in property plant and equipment.

Accounts & other payables grew by 18%. Payables to suppliers mainly from the construction segment grew 28% due to the improved business. Also, customers deposits from the real estate sales that have yet to be realized went up 10 times manifesting the growth in the Company's housing business. Moreover, pre-selling has been contributing the increase in these customers deposit, evident of the Company's continuing success and recognition as reliable and guaranteed builders in the property development business.

Long term liabilities grew as SMC's plant expansion was financed mainly by long term loans. In addition, the Company acquired local bank financing to fund half of its P3 billion initial investment in the Maynilad acquisition. Subsequently, as of April 2007, the Company have already paid up this local bank loan.

Current ratio decreased from 2.52 in 2005 to 2.41 significantly affected by the increase in current payables and the initial cash investment for the Maynilad acquisition. Despite this current debt repayment capability is still healthy and well within industry averages. Debt to equity ratio slightly increased from 0.66 to 0.77 indicating a slight rise in the risk position for the Company's stockholders vs. its creditors. The Company notes however that the debt to equity ratio is still below 1, indicating a strong owner base leverage. The debt to equity ratio was also within industry averages as the Company strives to maintain its financial risk position relative to the interest of its stockholders (current ratio average per industry: Mining-1.78, Construction-1.29; Real Estate-1.84; debt to equity ratio average: Construction-2.05; Mining/Quarrying-2.08; Real Estate-0.32; reference: Business World Top 1000 Corporations in the Philippines. 2005, Volume19).

### **III. KEY PERFORMANCE INDICATORS**

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

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

#### CHANGE IN COAL SALES

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

#### CHANGE IN REAL ESTATE SALES

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

#### CHANGE IN CONSTRUCTION REVENUE

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

#### CHANGE IN NET INCOME

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

#### CURRENT RATIO

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

#### DEBT TO EQUITY RATIO

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

## Item 7. Financial Statements

The Financial Statements incorporated herein by reference to the attached audited financial statements.

## Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

There has been no change or disagreements with certifying accountants.

## PART III - CONTROL AND COMPENSATION INFORMATION

### Item 9. Directors and Executive Officers of the Issuer

(1) Identify Directors, Including Independent Directors, and Executive Officers

<u>Name</u>	<u>Position</u>	<u>Age</u>
DAVID M. CONSUNJI	Chairman of the Board of Directors	86
CESAR A. BUENAVENTURA	Vice-Chairman of the Board	78
ISIDRO A. CONSUNJI	President	59
CRISTINA C. GOTIANUN	Asst. Treasurer	53
HERBERT M. CONSUNJI	Director/Vice President & CFO	55
JORGE A. CONSUNJI	Director	56
VICTOR A. CONSUNJI	Director	57
EVARISTO T. FRANCISCO	Director (Independent)	80
VICTOR S. LIMLINGAN	Director (Independent)	64
NOEL A. LAMAN	Corporate Secretary	68
MYRA C. REINOSO	Vice President for Finance	51

**David M. Consunji** is the Founder and Chairman of the Board of Directors of D.M. Consunji, Inc. Mr. Consunji is also Chairman of the Board of Directors of Dacon Corporation, and Semirara Mining Corporation. Mr. Consunji served as the Secretary of the Department of Public Works, Transportation and Communications from August 1971 to 1975. Awards and recognition received by Mr. Consunji include (i) named Meralco Awardee in Engineering and Applied Sciences, 1994; (ii) recipient of the Civil Engineer Diamond Jubilee Award presented by the University of the Philippines Alumni Engineers in 1985; (iii) One of the Ten Outstanding Civil Engineers in 1982 by the Philippine Institute of Civil Engineers; (iv) recipient of Doctor of Laws, honoris causa, University of the Philippines in 1993; (v) named Outstanding Citizen of the City of Manila for Engineering in 1979; and (vi) named Management Association of the Philippines Awardee in 1996.

**Cesar A. Buenaventura, O.B.E.**, is the Managing Partner of Buenaventura, Echauz and Partners (BEP) Financial Services, a financial advisory firm. He is currently Vice Chairman of DMCI Holdings, Inc.; and of Montecito Properties, Inc.; Chairman of Atlantic Gulf & Pacific Company of Manila (AG&P); and Director of Pilipinas Shell Petroleum Corporation, Philippine American Life Insurance Company, AG&P Company of Manila, Inc., Montecito Properties, Inc., iPeople, Inc., D.M. Consunji, Inc., and Semirara Mining Corporation, Nextstage, Inc., PetroEnergy Resources Corp., Paysetter Holdings, Inc., and Paysetter International, Inc. He is the Founding Chairman of Pilipinas Shell Foundation, Inc.; President of the Benigno S. Aquino Foundation; Member of the Board of Trustees of Asian Institute of Management and Founding Member, Board of Trustees, Makati Business Club. Mr. Buenaventura served as Chief Executive Officer of the Shell Group of Companies in 1975 until his retirement in 1990. He was appointed Member of the Monetary Board of the Central Bank of the Philippines (representing the Private Sector) and Member of the Board of Directors of the Philippine International Convention Center in 1981, a

position he held up to 1987. He was a Member of the Board of Regents of the University of the Philippines from 1987 to 1994. He is a past Director of Philippine National Bank, Ayala Corporation, First Philippine Holdings Corporation, Philippine Airlines, Inc.; and a former Senior Adviser of Jardine Davies, Inc. He was chosen Management Man of the Year in 1985 by MAP and in January 1991, he was personally granted the award of Honorary Officer of the Order of the British Empire by her Majesty Queen Elizabeth II.

**Isidro A. Consunji** is a Director of D.M. Consunji, Inc.. His other positions include: Chairman of the Board of Directors of Universal Rightfield Property Holdings, Inc., and Beta Electric Corporation; Director of DMCI Holdings, Inc., DMCI Project Developers, Inc., and Maynilad Water Services, Inc. President of Dacon Corporation, DMCI Project Developers, Inc., and DMCI Holdings, Inc.

**Herbert M. Consunji** is a Partner in H.F. Consunji & Associates. Mr. Consunji's other positions include: Chairman of Subic Water and Sewerage Company, Inc., Director of DMCI Project Developers, Inc., Semirara Mining Corporation, Maynilad Water Services, Inc., DMCI Mining Corporation, DMCI Power Corporation; Director and President of Village Parks, Inc.

**Jorge A. Consunji** is the President of D.M. Consunji, Inc. His other positions include: President of DMC Construction Equipment Resources, Inc., and Royal Star Aviation, Inc.; Chairman of the Board of Wire Rope Corp. of the Phils.; Director of DMCI Holdings, Inc., Maynilad Water Services, Inc., Dacon Corp., South Davao Development Co., Inc., Semirara Mining Corp., and Beta Electric Corp.

**Victor A. Consunji** is the Chairman of the Board of Directors and President of Sirawai Plywood and Lumber Corporation, Prominent Fruits, Inc., and Rubber Industries Corporation of the Philippines. His other positions include: Director of Conbros Shipping Corporation; President of South Davao Development Company, Inc., Eagle Cattle Ranch, Inc., Sirawan Food Corporation, and Semirara Mining Corporation; Director of D.M. Consunji, Inc., Ecoland Properties Development Corporation, and DMC Construction Equipment Resources, Inc., and Vice President of Dacon Corporation.

**Evaristo T. Francisco** served as a Member of the Board of Director of D.M. Consunji, Inc. from 1988-2001 and held various positions in Pilipinas Shell as Board of Director, Vice President for Marketing, Personnel and Public Affairs, Sales and other overseas work for Shell International Petroleum Co. Mr. Francisco has served the Company as Independent Director for seven years (since 2001).

**Victor S. Limlingan.** Mr. Limlingan is currently a Director of Sika Philippines, Landco Pacific Corporation, R. Jorge Group of Companies and a government corporation funded by the New Zealand government, Bukidnon Forest Incorporated. He is currently with the Center for Development Management where he is undertaking research on strategies for development and development finance. He also owns and manages Regina Capital Development Corporation, a member of the Philippine Stock Exchange. In 2000, he became Chairman and majority owner of Cristina Travel Corporation. Dr. Limlingan has served the Company as Independent Director for two years (2006)

**Ma. Edwina C. Laperal** is the Treasurer of DMCI Holdings, Inc., Dacon Corporation, DMCI Urban Property Developers, Inc.; DMCI Project Developers, Inc., and D.M. Consunji, Inc.

**Cristina C. Gotianun** is a Director of Dacon Corporation, D.M. Consunji, Inc. and Kalinan Timber Corporation. Her other positions include: Director for Finance of DMCI Project Developers, Inc., and General Manager of Sirawai Food Corporation.

**Myra C. Reinoso** is the Vice President for Finance of DMCI Holdings, Inc. She recently joined the Company last October 15, 2007. She held various positions in the Development Bank of the Philippines (DBP) from 1979 to 2007, in which her last post was the First Vice President and Head of the Area Management Office for North Luzon. She also worked with the National Economic Development Authority from 1977-1979.

**Noel A. Laman** is the Chairman of the Executive Committee and the Senior Partner of Castillo Laman Tan Pantaleon & San Jose. His other positions include: Chairman of the Board of Directors of Manpower Resources of Asia, Inc., and Sealanes Marine Services (each being a part of the DCL Group of Companies); He is a Director and Corporate Secretary of various companies in the pharmaceutical and food industry, some of whom are GlaxoSmithKline Philippines, Inc, Boehringer Ingelheim (Phils.), Inc., Solvay Pharma Inc., Philippines, and Merck, Inc. He is an active member of the Intellectual Property Association of the Philippines, the Intellectual Property Foundation, the Philippine Bar Association, and serves as resource person of various foreign chambers of commerce on corporate law and intellectual property law.

Currently, there are no director or executive officer share options relating to the capital of the Company.

(2) Identify Significant Employees –

- (a) The following are the significant employees of the Registrant who are not executive officers but who are expected by Registrant to make a significant contribution to the business:

Significant Employees	Position held in Registrant	Age
Ma. Luisa C. Austria	Administrative / Accounting Officer	55
Aldric G. Borlaza	Finance Officer	30

Ms. Ma. Luisa C. Austria will continue to hold the position of Administrative and Accounting Officer of the Registrant, and Mr. Aldric G. Borlaza will continue to serve as the Finance Officer of the Registrant for the year 2008-2009.

- (b) Brief descriptions of the business experience of the above significant employees of the Registrant:

**Ma. Luisa C. Austria** is a former Accounting Supervisor of D. M. Consunji, Inc. (1989 to 1996). She is now the Administrative/Accounting Officer of the Registrant and has been holding said position for twelve (12) years

**Aldric G. Borlaza** worked for three (3) months in SGV, Assurance or External Audit group, involving basic audit of accounting controls, documents and paper trail as well as basic preparation of Audited Financial Statements (January 2002 to March 2002).

**Term of office.** The term of office of Ms. Austria is approximately twelve (12) years. Mr. Borlaza has been serving the company for six (6) years since April of 2002.

- (3) Family Relationships - Describe any family relationships up to the fourth civil degree either by consanguinity or affinity among directors, executive officers, or persons nominated or chosen by the registrant to become directors or executive officers. – **See below:**

<u>Name</u>	<u>Relationship</u>
David M. Consunji	Father of Isidro A. Consunji, Jorge A. Consunji, Victor A. Consunji, Cristina C. Gotianun and Ma. Edwina C. Laperal

Isidro A. Consunji, Jorge A. Consunji, Victor A. Consunji, Cristina Gotianun, and Ma. Edwina C. Laperal

Children of David M. Consunji

Herbert M. Consunji

Nephew of David M. Consunji and cousin of Isidro A. Consunji, Jorge A. Consunji, Victor A. Consunji, Cristina C. Gotinanun, and Ma. Edwina C. Laperal

(4) Involvement in Certain Legal Proceedings - *None of the directors, executive officers and nominees for election is subject to any pending material legal proceedings*

(a) Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time - **NONE**

(b) Any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses - **NONE**

(c) Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities - **NONE**

(d) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated – **NONE**

## Item 10. Executive Compensation

### ANNUAL COMPENSATION

Name	Principal Position	Salary	Bonus	<u>Other annual compensation</u>
David M. Consunji	Chairman of the Board of Directors			
Cesar A. Buenaventura	Vice – Chairman of the Board of Directors			
Isidro A. Consunji	President/Chief Executive Officer			
Cristina C. Gotianun	Asst. Treasurer			
Edwina C. Laperal	Treasurer			
Herbert M. Consunji	Vice President & Chief Financial Officer			
	YEARS			
	2006	P 10,088,390.00		P 348,500.00
	2007	P 19,116,320.60		P 2,761,958.23
	2008*	P 19,116,320.60		P 2,761,958.23
	<b>TOTAL:</b>	P 48,321,031.20	P --	P 5,872,416.46
	YEARS			
All other directors and executive officers as a group unnamed	2006	P 3,946,940.01		P 273,600.00
	2007	P 4,665,293.75		P 1,125,078.21
	2008*	P 4,665,293.75		P 1,125,078.21
	<b>TOTAL:</b>	P 13,277,527.51	P --	P 2,523,756.42

*\*Approximate figures*

## Item 11. Security Ownership of Certain Beneficial Owners and Management

Beneficial Ownership of Directors of the Corporation as of **March 31, 2008**

<u>Title of Class</u>	<u>Name of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Common	David M. Consunji	8,142,254.00	0.306619%
Common	Cesar A. Buenaventura	200,000.00	0.007531%
Common	Isidro A. Consunji	1,000.00	0.000037%
Common	Victor A. Consunji	86,682,558.00	3.264272%
Common	Jorge A. Consunji	86,682,770.00	3.264280%
Common	Herbert M. Consunji	1,600.00	0.000038%
Common	Evaristo T. Francisco	100.00	0.000003%
Common	Victor S. Limlingan	1,000.00	0.000037%

**AGGREGATE OWNERSHIP OF ALL DIRECTORS AS A GROUP**

**181,711,282.00**

**6.842843%**

Owners owning 5% or more of the voting stocks of the Corporation as of **March 31, 2008**

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Amount/Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Common	Dacon Corporation (Fil) c/o Isidro A. Consunji 2281 Pasong Tamo Ext. Makati City	1,020,359,329.00	38.424464%
Common	PCD Nominee Corp. (For) G/F Makati Stock Exchange Bldg., 6767 Ayala Ave., Makati City	713,157,749.00	26.855935%
Common	PCD Nominee Corp. (Fil) G/F Makati Stock Exchange Bldg., 6767 Ayala Ave., Makati City	586,636,026.00	22.091408%

Below is the list of the individual beneficial owners under PCD account who holds more than 5% of the voting securities of Registrant.

<b>Name</b>	<b>No. of shares held</b>	<b>Percentage in class</b>
Hongkong & Shanghai Bank Corp. Ltd	502,338,158	18.9169%
PCIB Securities, Inc.	403,767,315	15.2050%
Standard Chartered	166,762,700	6.2799%

#### **Item 12. Certain Relationships and Related Transactions**

The details of the relationship and related party transactions are contained in notes as contained in the Financial Statements and is incorporated herein by reference to said Financial Statements.

### **PART IV – CORPORATE GOVERNANCE**

#### **Item 13. Corporate Governance**

1. The Company has adopted the Manual on Corporate Governance and complied therewith the leading practices and principles on good corporate governance.
2. The Company has adopted and complied with the guidelines and leading practices and principles of the Manual on Corporate Governance;
3. The Company has participated in the recent Corporate Governance Survey directed by the Securities and Exchange Commission on its Memorandum Circular No. 2 Series 2007.

4. The Independent Directors of the Company have submitted their Certificate of Qualifications as required by Securities and Exchange Commission in the promotion of meaningful compliance with Section 38 of the Securities Regulation Code (SRC);
5. There are no major deviations from the adopted Manual on Corporate Governance;
6. The Corporation has set up all committees set forth under the Manual of Corporate Governance to strictly adhere with the rules governing the Manual.

## **PART V - EXHIBITS AND SCHEDULES**

### **Item 14. Exhibits and Reports on SEC Form 17-C**

**(a) Exhibits** - See accompanying index to exhibits

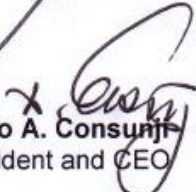
**(b) Reports on SEC Form 17-C** - The list of the reports from the preceding period December 31, 2007 is herein incorporated by reference.

(9) Material Contracts – ***NONE***


**SIGNATURES**


Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on \_\_\_\_\_, 2008.

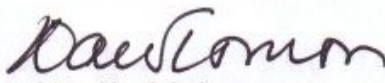
By:

  
**Isidro A. Consunji**  
 President and CEO

  
**Herbert M. Consunji**  
 Director and Chief Finance Officer

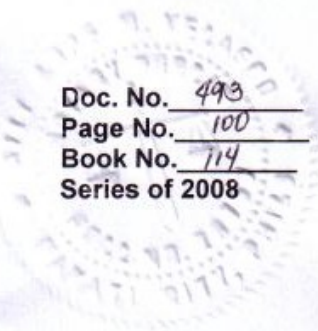
  
**Aldric G. Borlaza**  
 Finance Officer

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


  
**Atty. Noel A. Laman**  
 Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this APR 28 2008 day of \_\_\_\_\_ 2008 affiants exhibiting to me his/their Residence Certificates, as follows:

NAMES	RES. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
Isidro A. Consunji	19491997	1-18-08	Makati
Herbert M. Consunji	11502325	01-11-08	Paranaque
Aldric G. Borlaza	19336235	02-27-08	Makati
Ma. Luisa C. Austria	07781717	01-14-08	Manila
Atty. Noel A. Laman	19288801	01-24-08	Makati



Doc. No. 493  
 Page No. 100  
 Book No. 114  
 Series of 2008

  
**ATTY. LOPE M. VELASCO**  
 Notary Public  
 Until Dec. 31, 2009  
 PTR O.R. No. 6238211 – Mla. 01/02/08  
 IBP O.R. No. 712488 – Mla. 12/20/07  
 TIN 212-965-989  
 Roll No. 28757 02

**INDEX TO EXHIBITS  
FORM 17-A**

<b>Number</b>	<b>Particulars</b>
1	List of the Top 20 shareholders of the Company
2	List of reports filed under SEC Form 17-C

**DMCI HOLDINGS, INC.**  
**List of Top 20 Stockholders**  
**March 31, 2008**

Rank	Name/Address	Citizenship	Class	Number of Shares	Percentage
1	DACON CORPORATION C/O DMCI HOLDINGS, 3RD/F DACON BLDG., 2281 PASONG TAMO, MAKATI CITY	FILIPINO	A	1,020,359,329.00	38.424464
2	PCD NOMINEE CORPORATION G/F MAKATI STOCK EXCHANGE BLDG., 6767 AYALA AVE., MAKATI CITY	FOREIGNER	A	713,157,749.00	26.855935
3	PCD NOMINEE CORPORATION G/F MAKATI STOCK EXCHANGE BLDG., 6767 AYALA AVE., MAKATI CITY	FILIPINO	A	586,636,026.00	22.091408
4	CRISTINA C. GOTIANUN DMCI HOLDINGS, INC. 3F DACON BLDG., 2281 PASONG TAMO EXT., MAKATI CITY	FILIPINO	A	105,615,712.00	3.977253
5	JORGE A. CONSUNJI DMCI HOLDINGS, INC. 3F DAON BLDG., 2281 PASONG TAMO EXT., MAKATI CITY	FILIPINO	A	86,682,770.00	3.26428
6	VICTOR A. CONSUNJI DMCI HOLDINGS, INC. 3/F DACON BLDG., 2281 PASONG TAMO EXT., MAKATI CITY	FILIPINO	A	86,682,558.00	3.264272
7	DMCI RETIREMENT PLAN C/O DMCI HOLDINGS, 3F DACON BLDG., 2281 PASONG TAMO, MAKATI CITY	FILIPINO	A	19,980,000.00	0.752402
8	DAVID M. CONSUNJI 4688 PASAY ROAD DASMARINAS VILLAGE MAKATI METRO MANILA	FILIPINO	A	8,142,254.00	0.306619
9	MA. EDWINA C. LAPERAL DMCI HOLDINGS, INC. 3F DACON BLDG., 2281 PASONG TAMO EXT., MAKATI CITY	FILIPINO	A	5,412,400.00	0.203819
10	DMCI RETIREMENT FUND 2281 PASONG TAMO EXTENSION MAKATI CITY	FILIPINO	A	2,600,000.00	0.09791
11	ANTONIO C. JOSUE #58 BERBENIA ST., TAHANAN VILLAGE, PARANAQUE, METRO MANILA	FILIPINO	A	2,150,000.00	0.080964
12	PACITA N. LEE #69 GORORDO AVE., CEBU CITY 6000	FILIPINO	A	1,100,000.00	0.041424
13	LOURDES BUENAVENTURA UNIT 27, 58 MCKINLEY FORBES PARK, MAKATI CITY	FILIPINO	A	700,000.00	0.02636
14	ALLIED BANKING CORPORATION MERCHANT BANKING DIVISION, ALLIED BANKING CORP (ABC) MEZANINE FLR ALLIED BANK CTR. 6754 AYALA AVE., MAKATI CITY	FILIPINO	A	695,000.00	0.026172
15	MA. EDWINA/MIGUEL DAVID C. LAPERAL DMCI HOLDINGS, INC. 3F DACON BLDG., 2281 PASONG TAMO EXT., MAKATI CITY	FILIPINO	A	550,000.00	0.020712
16	EDGARDO MARCOS DE VERA 11F PACIFIC STAR BLDG., SEN. GIL PUYAT, COR. MAKATI AVE., MAKATI CITY	FILIPINO	A	520,000.00	0.019582
17	YNTALCO REALTY DEVT. CORPORATION	FILIPINO	A	500,000.00	0.018829

C/O PCI CAPITAL CORPORATION

18	BENIGNO DELA VEGA #56 TINIO ST., MANDALUYONG CITY	FILIPINO	A	410,000.00	0.01544
19	LOURDES BUENAVENTURA UNIT 27, 58 MCKINLEY FORBES PARK, MAKATI CITY	FILIPINO	A	400,000.00	0.015063
20	MARY O. CO 2F DMCI PLAZA 2281 CHINO ROCES AVE., MAKATI CITY	FILIPINO	A	400,000.00	0.015063
TOTAL TOP 20 ==>				=====	=====
				2,642,693,798.00	99.517973
				=====	=====
OTHER STOCKHOLDERS ==>				=====	=====
				12,800,202.00	0.482027
				=====	=====
TOTAL OUTSTANDING ==>				=====	=====
				2,655,494,000.00	100
				=====	=====

**DMCI Holdings, Inc.**

Summary of Submittals of SEC Form 17-C  
For the Year 2007

<b>Nature of Report</b>	<b>Dates</b>
Monthly report on Preferred Shares as of December 31, 2006	January 3, 2007
Certification of Compliance with the Manual on Corporate Governance	January 9, 2007
Masbate Power Generation Notice of Award	January 19, 2007
Signing of the Completion Certificate of DMCI-MPIC Water Company with its acquisition to the 83.9% Maynilad Water Services, Inc. stake	January 24, 2007
Results of Board of Director's Meeting	January 25, 2007
Monthly report on Preferred Shares Redemption for January 2007	February 8, 2007
Elected Directors of Maynilad Water Services, Inc.	February 9, 2007
Changes in related party shareholdings	February 14, 2007
Memorandum of Agreement between the Corporation and Fil-Asian Strategic Resources and Properties Corp.	March 5, 2007
Changes in shareholdings of director and officer	March 6, 2007
Monthly report of Preferred Shares redemption for the month of February	March 6, 2007
Monthly report on Preferred Shares redemption for the month of March	April 2, 2007
Changes in shareholdings of officer	April 3, 2007
Declaration of Cash Dividends	April 3, 2007
Changes in shareholdings of director	April 11, 2007
Changes in shareholdings of director	April 24, 2007
Amended report on the changes in shareholdings of Director	May 4, 2007
Monthly report on Preferred Shares redemption for the month of April	May 4, 2007

Signing of Power Supply Agreement with Masbate Electric Cooperative	May 7, 2007
Joint Venture Agreement of the Corporation with Rusina Mining Limited	May 9, 2007
Acquisition of DMC shares by Dacon Corporation	May 11, 2007
Acquisition of DMC shares by Dacon Corporation	May 15, 2007
Acquisition of DMC shares by Dacon Corporation	May 15, 2007
Joint Venture Agreement between subsidiary and Asia Energy Development Co. Pte. Ltd	May 15, 2007
Acquisition of DMC shares by Dacon Corporation	May 17, 2007
Announcement of Annual Stockholders' Meeting and Record date	May 25, 2007
Changes in shareholdings of director	May 29, 2007
Changes in shareholdings of officer	May 31, 2007
Monthly report on Preferred Shares redemption for the month of May	June 4, 2007
SEC approval of the incorporation of the subsidiary	June 5, 2007
Changes in shareholdings of officer	June 15, 2007
Changes in shareholdings of officer	June 18, 2007
Acquisition of DMC shares by Dacon Corporation	June 18, 2007
Acquisition of DMC shares by Dacon Corporation	June 20, 2007
Changes in shareholdings of officer	June 20, 2007
Changes in shareholdings of officer	June 22, 2007
Acquisition of DMC shares by Dacon Corporation	June 22, 2007
Monthly report on Preferred Shares redemption for the month of June	July 2, 2007
Results of annual stockholders'/organizational meetings	July 25, 2007
Monthly report on Preferred Shares redemption for the month of July	August 1, 2007
Election of Committee members and officers	August 7, 2007
Certification on Qualifications of Independent Directors	August 7, 2007

Change in shareholdings of director	August 24, 2007
Monthly report on Preferred Shares redemption for the Month of August	September 3, 2007
Approval of the Board of Directors regarding conversion of advances Into equity	September 18, 2007
Monthly report on Preferred Shares redemption for the Month of September	October 3, 2007
Monthly report of Preferred Shares redemption for the Month of October	November 6, 2007
Board of Director's meeting results	November 14, 2007
Cross-sale/assignment of 5,149,425 SCC shares to Dacon Corp.	December 5, 2007
Monthly report on Preferred Shares redemption for the month of November	December 5, 2007



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

3rd floor  
DACON Building  
2281 Don Chino Roces Ave.  
(formerly Pasong Tamo Ext.)  
Makati City 1231, Philippines

(632) 888 • 3000  
Facsimile  
(632) 816 • 7362  
E-Mail  
dmci@dmcinet.com

The management of **DMCI HOLDINGS, INC.** is responsible for all information and representations contained in the financial statements for the years ended December 31, 2007 and 2006. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

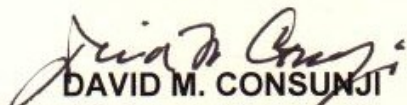
The management likewise discloses to the company's audit committee and to its external auditor:


- (i) All significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data;
- (ii) Material weaknesses in the internal controls; and
- (iii) Any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

SYCIP GORRES VELAYO & CO., the independent auditors appointed by the stockholders, has examined the financial statements of the company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

Signed under oath by:

  
**DAVID M. CONSUNJI**  
Chairman of the Board

  
**ISIDRO A. CONSUNJI**  
President & Chief Executive Officer

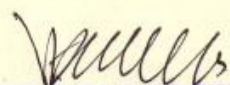
  
**HERBERT M. CONSUNJI**  
Vice President & Chief Finance Officer

Subsidiaries  
D.M. Consunji, Inc.  
DMCI Project  
Developers, Inc.  
Atlantic, Gulf &  
Pacific Company  
of Manila, Inc.  
Semirara Mining  
Corporation

SUBSCRIBED AND SWORN to before me this APR 28 2008 day of \_\_\_\_\_ 2008 in Makati City, affiant exhibiting to me their Community Tax Certificates which are as follows:

DAVID M. CONSUNJI	19488777	January 18, 2008	Makati City
ISIDRO A. CONSUNJI	19491997	January 18, 2008	Makati City
HERBERT M. CONSUNJI	11502325	January 11, 2008	Parañaque

Doc. No. 492  
Page No. 100  
Book No. 114  
Series of 2008

  
**ATTY. LOPE M. VELASCO**

NOTARY PUBLIC

Until Dec. 31, 2009

PTR O.R. No. 6238211 – Mla. 01/02/08

IBP O.R. No. 712488 – Mla. 12/20/07

TIN 212-965-989

Roll No. 28757 02



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of DMCI Holdings, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2007 and 2006, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2007, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' Responsibility

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

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

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



**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2007 and 2006, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2007 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

*Jessie D. Cabaluna*

Jessie D. Cabaluna

Partner

CPA Certificate No. 36317

SEC Accreditation No. 0069-AR-1

Tax Identification No. 102-082-365

PTR No. 0017580, January 3, 2008, Makati City

April 24, 2008



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

	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 4 and 35)	₱3,539,647,599	₱1,251,911,185
Available-for-sale financial assets - net (Notes 5 and 35)	202,673,060	259,591,510
Receivables - net (Notes 6, 23 and 35)	2,860,779,922	3,837,332,900
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 7)	140,681,468	17,016,194
Inventories - net (Note 8)	6,375,959,003	4,714,825,303
Other current assets (Note 9)	568,933,917	379,056,837
Total Current Assets	13,688,674,969	10,459,733,929
Noncurrent assets held for sale (Note 21)	2,976,608,671	-
	<b>16,665,283,640</b>	<b>10,459,733,929</b>
<b>Noncurrent Assets</b>		
Noncurrent receivables - net (Notes 6, 23 and 35)	1,983,314,250	687,640,695
Investments in associates, jointly controlled entities and others - net (Note 10)	5,055,376,680	3,170,873,740
Investment properties - net (Note 12)	2,057,446,353	2,279,058,851
Property, plant and equipment - net (Note 13)	2,933,158,199	3,375,910,498
Deferred tax assets (Note 30)	207,507,492	219,867,967
Other noncurrent assets - net (Note 14)	161,118,901	405,868,058
Total Noncurrent Assets	12,397,921,875	10,139,219,809
	<b>₱29,063,205,515</b>	<b>₱20,598,953,738</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Bank loans (Notes 15 and 35)	₱40,310,953	₱53,810,969
Current portion of liabilities for land purchased (Note 16)	169,088,537	109,600,945
Accounts and other payables (Notes 17 and 35)	2,766,998,825	2,293,463,302
Current portion of long-term debt (Notes 19 and 35)	1,843,238,927	1,489,583,736
Billings in excess of costs and estimated earnings on uncompleted contracts (Note 7)	30,887,799	20,565,739
Customers' deposits (Note 18)	1,271,183,687	732,944,117
Income tax payable (Note 30)	58,968,314	43,891,708
Total Current Liabilities	6,180,677,042	4,743,860,516
Liabilities directly associated with noncurrent assets held for sale (Note 14)	2,327,975,504	-
	<b>8,508,652,546</b>	<b>4,743,860,516</b>

(Forward)



	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Notes 19 and 35)	<b>₱2,022,066,905</b>	₱3,139,782,380
Liabilities for land purchased - net of current portion (Note 16)	<b>433,851,564</b>	280,791,418
Payable to related parties (Notes 23 and 35)	<b>450,685,775</b>	447,501,228
Deferred tax liability (Note 30)	<b>273,440,703</b>	263,768,032
Pension liabilities (Note 24)	<b>127,411,427</b>	47,171,177
Other noncurrent liabilities (Notes 20 and 35)	<b>16,955,199</b>	15,888,611
Total Noncurrent Liabilities	<b>3,324,411,573</b>	4,194,902,846
Total Liabilities	<b>11,833,064,119</b>	8,938,763,362
Equity attributable to equity holders of the DMCI Holdings, Inc.		
Paid-up capital	<b>7,421,640,006</b>	4,659,283,306
Retained earnings	<b>7,701,472,463</b>	5,103,727,748
Net unrealized gain (loss) on available-for-sale financial assets (Note 5)	<b>(35,880,000)</b>	39,872,880
Preferred shares held in treasury	-	(1,100,000)
	<b>15,087,232,469</b>	9,801,783,934
Minority interests		
Minority interests - net of interest attributable to noncurrent assets held for sale	<b>2,121,837,524</b>	1,858,406,442
Minority interests attributable to noncurrent assets held for sale	<b>21,071,403</b>	-
Total Equity	<b>17,230,141,396</b>	11,660,190,376
	<b>₱29,063,205,515</b>	₱20,598,953,738

*See accompanying Notes to Consolidated Financial Statements.*



**DMCI HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

For the year ended December 31, 2007									
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT									
	Capital Stock (Note 22)	Additional Paid-in Capital (Note 22)	Total Paid-up Capital (Note 22)	Retained Earnings (Note 22)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 5)	Preferred Shares Held in Treasury (Note 22)	Total	ATTRIBUTABLE TO MINORITY INTERESTS	TOTAL EQUITY
As of January 1, 2007	₱2,255,499,480	₱2,403,783,826	₱4,659,283,306	₱5,103,727,748	₱39,872,880	(₱1,100,000)	₱9,801,783,934	₱1,858,406,442	₱11,660,190,376
Cancellation/retirement of issued preferred shares (Note 22)	(1,000)	(1,099,000)	(1,100,000)	-	-	1,100,000	-	-	-
Issuance of additional common shares)	400,000,000	2,363,456,700	2,763,456,700	-	-	-	2,763,456,700	-	2,763,456,700
Net income for the year	-	-	-	2,840,094,115	-	-	2,840,094,115	286,832,064	3,126,926,179
Change in fair value of assets	-	-	-	-	(35,880,000)	-	(35,880,000)	-	(35,880,000)
Transferred to profit and loss	-	-	-	-	(39,872,880)	-	(39,872,880)	-	(39,872,880)
Dividends	-	-	-	(242,349,400)	-	-	(242,349,400)	(138,859,093)	(381,208,493)
Increase in minority interests	-	-	-	-	-	-	-	136,529,514	136,529,514
<b>Balances at December 31, 2007</b>	<b>₱2,655,498,480</b>	<b>₱4,766,141,526</b>	<b>₱7,421,640,006</b>	<b>₱7,701,472,463</b>	<b>₱(35,880,000)</b>	<b>₱-</b>	<b>₱15,087,232,469</b>	<b>₱2,142,908,927</b>	<b>₱17,230,141,396</b>

For the year ended December 31, 2006									
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT									
	Capital Stock (Note 22)	Additional Paid-in Capital (Note 22)	Total Paid-up Capital (Note 22)	Retained Earnings (Note 22)	Net Unrealized Gain on Available- for-Sale Investments (Note 5)	Preferred Shares Held in Treasury (Note 22)	Total	ATTRIBUTABLE TO MINORITY INTERESTS	TOTAL EQUITY
As of January 1, 2006	₱2,255,638,480	₱2,593,474,326	₱4,849,112,806	₱4,193,977,659	₱2,402,067	(₱187,210,650)	₱8,858,281,882	₱1,621,315,883	₱10,479,597,765
Cancellation/retirement of issued preferred shares (Note 22)	(139,000)	(189,690,500)	(189,829,500)	-	-	189,829,500	-	-	-
Redemption of preferred shares (Note 22)	-	-	-	-	-	(3,718,850)	(3,718,850)	-	(3,718,850)
Net income for the year	-	-	-	1,135,299,489	-	-	1,135,299,489	247,271,762	1,382,571,251
Change in fair value of assets (Note 7)	-	-	-	-	37,470,813	-	37,470,813	-	37,470,813
Dividends	-	-	-	(225,549,400)	-	-	(225,549,400)	-	(225,549,400)
Decrease in minority interests	-	-	-	-	-	-	-	(10,181,203)	(10,181,203)
<b>Balances at December 31, 2006</b>	<b>₱2,255,499,480</b>	<b>₱2,403,783,826</b>	<b>₱4,659,283,306</b>	<b>₱5,103,727,748</b>	<b>₱39,872,880</b>	<b>(₱1,100,000)</b>	<b>₱9,801,783,934</b>	<b>₱1,858,406,442</b>	<b>₱11,660,190,376</b>



For the year ended December 31, 2005

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT							ATTRIBUTABLE TO MINORITY INTERESTS	TOTAL EQUITY
	Capital Stock	Additional Paid-in Capital	Total Paid-up Capital	Retained Earnings	Net Unrealized Gain on Available- for-Sale Investments	Preferred Shares Held in Treasury	Total		
As of January 1, 2005									
as previously reported	₱2,255,836,240	₱2,827,839,006	₱5,083,675,246	₱643,926,308	–	(₱239,096,300)	₱5,488,505,254	₱173,986,410	₱5,662,491,664
PAS 39 adjustments (Note 2)	–	–	–	(41,459,151)	2,402,067	–	(39,057,084)	–	(39,057,084)
Balance at January 1, 2005									
as restated	2,255,836,240	2,827,839,006	5,083,675,246	602,467,157	2,402,067	(239,096,300)	5,449,448,170	173,986,410	5,623,434,580
Cancellation/retirement of issued preferred shares	(197,760)	(234,364,680)	(234,562,440)	–	–	234,562,440	–	–	–
Redemption of preferred shares	–	–	–	–	–	(182,676,790)	(182,676,790)	–	(182,676,790)
Net income for the year	–	–	–	3,591,510,502	–	–	3,591,510,502	589,134,270	4,180,644,772
Increase in minority interest	–	–	–	–	–	–	–	858,195,203	858,195,203
<b>Balances at December 31, 2005</b>	<b>₱2,255,638,480</b>	<b>₱2,593,474,326</b>	<b>₱4,849,112,806</b>	<b>₱4,193,977,659</b>	<b>₱2,402,067</b>	<b>(₱187,210,650)</b>	<b>8,858,281,882</b>	<b>₱1,621,315,883</b>	<b>₱10,479,597,765</b>

*See accompanying Notes to Consolidated Financial Statements.*



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

	<b>Years Ended December 31</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>REVENUE</b>			
Coal sales	<b>₱6,466,700,620</b>	₱4,687,694,870	₱5,552,892,725
Real estate sales	<b>2,455,167,228</b>	1,905,080,720	1,508,478,092
Construction contracts	<b>2,954,719,610</b>	1,746,748,032	2,790,475,944
Merchandise sales and others	<b>568,564,114</b>	362,079,443	177,634,429
	<b>12,445,151,572</b>	8,701,603,065	10,029,481,190
<b>COSTS OF SALES AND SERVICES (Note 25)</b>			
Coal sales	<b>5,193,989,609</b>	3,713,161,109	3,305,420,022
Real estate sales	<b>1,258,497,532</b>	1,130,883,288	1,021,634,826
Construction contracts	<b>2,288,033,926</b>	1,324,265,776	2,547,425,062
Merchandise sales and others	<b>441,883,273</b>	335,404,802	40,630,100
	<b>9,182,404,340</b>	6,503,714,975	6,915,110,010
<b>GROSS PROFIT</b>	<b>3,262,747,232</b>	2,197,888,090	3,114,371,180
<b>OPERATING EXPENSES (Note 26)</b>	<b>1,523,488,008</b>	1,121,010,338	944,779,655
	<b>1,739,259,224</b>	1,076,877,752	2,169,591,525
<b>OTHER INCOME (CHARGES)</b>			
Equity in net earnings of associates, jointly controlled entities and others (Note 10)	<b>1,826,237,948</b>	(27,608,828)	4,036,652
Finance income (Note 27)	<b>366,996,843</b>	357,997,191	206,378,552
Gain on sale of investments	<b>178,975,915</b>	356,049,626	2,464,865,776
Finance costs (Note 28)	<b>(444,742,891)</b>	(351,688,635)	(220,019,630)
Other income - net (Note 29)	<b>(212,310,353)</b>	378,124,001	93,717,145
<b>INCOME BEFORE INCOME TAX</b>	<b>3,454,416,686</b>	1,789,751,107	4,718,570,020
<b>PROVISION FOR INCOME TAX (Note 30)</b>	<b>476,899,995</b>	462,627,803	566,875,731
<b>INCOME BEFORE INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE</b>	<b>2,977,516,691</b>	1,327,123,304	4,151,694,289
<b>INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE - net of tax (Note 21)</b>	<b>149,409,488</b>	55,447,947	28,950,483
<b>NET INCOME</b>	<b>₱3,126,926,179</b>	₱1,382,571,251	₱4,180,644,772
<b>NET INCOME ATTRIBUTABLE TO</b>			
Equity holders of DMCI Holdings, Inc.	<b>₱2,840,094,115</b>	₱1,135,299,489	₱3,591,510,502
Minority interests	<b>286,832,064</b>	247,271,762	589,134,270
	<b>₱3,126,926,179</b>	₱1,382,571,251	₱4,180,644,772
<b>BASIC/DILUTED EARNINGS PER SHARE (Note 31)</b>			
Income before income associated with noncurrent assets held for sale attributable to equity holders of DMCI Holdings, Inc.	<b>₱1.18</b>	₱0.50	₱1.59
Net income attributable to equity holders of DMCI Holdings, Inc.	<b>₱1.18</b>	₱0.50	₱1.59

*See accompanying Notes to Consolidated Financial Statements.*



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

	<b>Years Ended December 31</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱3,603,826,174</b>	₱1,845,199,054	₱4,747,520,503
Adjustments for:			
Depreciation, depletion and amortization (Notes 12, 13 and 25)	<b>1,679,972,724</b>	1,419,254,315	1,341,042,862
Finance expense (Note 28)	<b>444,742,891</b>	351,688,635	220,019,630
Write-off of other noncurrent assets	<b>300,000,000</b>	-	-
Recovery of provision for doubtful accounts	-	-	(3,432,945)
Provisions for:			
Inventory obsolescence (Note 8)	-	39,787,613	-
Doubtful accounts (Note 26)	<b>4,434,241</b>	105,840,759	92,323,339
Probable losses on investments	<b>(39,872,880)</b>	103,388,649	-
Foreign exchange losses - net	-	(85,605,985)	(74,911,051)
Equity in net losses (earnings) of associates and jointly controlled entities (Note 10)	<b>(1,826,237,948)</b>	(27,839,119)	(32,987,135)
Gain on disposals of:			
Property and equipment	-	(379,301,077)	(2,673,349,780)
Investments	-	-	-
Interest income (Note 27)	<b>(366,996,843)</b>	(357,997,191)	(206,378,552)
Dividend income (Note 29)	<b>(3,937,366)</b>	(6,972)	(5,777,090)
Pension expense (Note 24)	<b>166,018,128</b>	31,126,773	21,218,673
Operating income before changes in working capital	<b>3,961,949,121</b>	3,045,535,454	3,425,288,454
Decrease (increase) in:			
Receivables	<b>493,966,461</b>	(433,729,309)	406,754,149
Inventories	<b>256,534,211</b>	(506,131,780)	(587,453,307)
Costs and estimated earnings in excess of billings	<b>(123,665,274)</b>	7,962,640	94,361,673
Real estate for sale and development	<b>(1,705,120,173)</b>	(1,389,358,769)	(187,635,193)
Other current assets	<b>(189,877,080)</b>	(235,879,358)	(78,620,610)
Increase (decrease) in:			
Accounts and other payables	<b>868,041,135</b>	(123,202,098)	(239,964,548)
Customer's deposits	<b>538,239,570</b>	659,075,659	(59,663,472)
Billings in excess of costs and estimated earnings on uncompleted contracts	<b>10,322,060</b>	1,678,010	(129,589,246)
Contribution to pension liability	<b>(85,777,878)</b>	-	-
Cash generated from operations	<b>4,024,612,153</b>	1,025,950,449	2,643,477,900
Interest received	<b>366,996,843</b>	421,148,736	226,214,603
Interest paid	<b>(444,742,891)</b>	(321,433,930)	(254,152,784)
Income taxes paid	<b>(439,790,243)</b>	(812,154,035)	(60,779,082)
Net cash provided by operating activities	<b>3,507,075,862</b>	313,511,220	2,554,760,637

(Forward)



	<b>Years Ended December 31</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM INVESTING</b>			
<b>ACTIVITIES</b>			
Decrease (increase) in:			
Investments in associates, jointly controlled entities and others	<b>₱13,531,843</b>	(₱2,734,369,225)	(₱432,018,220)
Noncurrent receivables	<b>(1,295,673,555)</b>	324,907,718	287,561,694
Investment properties	<b>218,128,932</b>	674,115,305	(69,189,461)
Other noncurrent assets	<b>(56,103,874)</b>	13,080,898	(67,806,532)
Proceeds from disposals of:			
Available-for-sale investments (Note 5)	<b>21,038,450</b>	510,088,533	–
Property and equipment	–	23,425,061	15,914,131
Additions to:			
Available-for-sale investments (Note 5)	–	(17,602,963)	(762,406,309)
Property, plant and equipment (Note 13)	<b>(1,232,883,828)</b>	(818,017,618)	(1,271,881,508)
Dividends received	<b>3,937,366</b>	–	5,777,090
Net cash used in investing activities	<b>(2,328,024,666)</b>	(2,024,372,291)	(2,294,049,115)
<b>CASH FLOWS FROM FINANCING</b>			
<b>ACTIVITIES</b>			
Availments of long-term debt	<b>1,248,442,770</b>	2,919,140,201	1,181,042,796
Payments of long-term debt	<b>(2,012,503,054)</b>	(1,965,530,632)	(1,048,212,512)
Payments of bank loans	<b>(763,357,235)</b>	(132,039,359)	(621,836,130)
Redemption of preferred shares	–	(2,618,850)	(190,354,750)
Dividends paid	<b>(381,208,493)</b>	(243,007,220)	(22,301,149)
Proceeds from:			
Bank loans	<b>749,857,219</b>	71,191,728	332,610,023
Additional subscriptions to capital stock	<b>2,763,456,700</b>	–	1,623,018,435
Sale of treasury shares	–	–	6,113,600
Payment on acquisition of shares held in treasury	–	–	(383,633,460)
Increase (decrease) in:			
Payable to related parties	<b>(497,069,277)</b>	294,453,909	595,428,053
Other noncurrent liabilities	<b>1,066,588</b>	71,471,488	–
Net cash provided by financing activities	<b>1,108,685,218</b>	1,013,061,265	1,471,874,906
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>1,251,911,185</b>	1,949,710,991	217,124,563
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>₱3,539,647,599</b>	₱1,251,911,185	₱1,949,710,991

See accompanying Notes to Consolidated Financial Statements.



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

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1. Corporate Information**

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

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

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

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

##### Basis of Preparation

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

##### Statement of Compliance

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

##### Basis of Consolidation

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

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

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

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

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

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

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

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

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

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

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

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



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

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

*Semirara Mining Corporation (Semirara)*

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

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

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

Changes in Accounting Policies

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

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

- PFRS 7, *Financial Instruments: Disclosures*
- Philippine Accounting Standards (PAS) 1, *Amendment - Presentation of Financial Statements*
- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*



The principal effects of these changes are as follows:

*PFRS 7, Financial Instruments: Disclosures*

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

The Group adopted the amendment to the transitional provisions of PFRS 7, as approved by the Financial Reporting Standards Council of the Philippines, which gives transitory relief with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments. Accordingly, the Group does not need to present comparative information for the disclosures required by paragraphs 31- 42 of PFRS 7, unless the disclosure was previously required under PAS 32. Adoption of PFRS 7 resulted in additional disclosures, which are included throughout the consolidated financial statements. These disclosures include presenting the different classes of loans and receivables (see Note 6), rollforward of allowance for doubtful accounts (see Note 6), credit quality of financial assets (see Note 35), aging of past due but not impaired financial assets (see Note 35), and sensitivity analysis as to changes in interest and foreign exchange rates (see Note 35).

*PAS 1, Amendment - Presentation of Financial Statements*

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

*Philippine Interpretation IFRIC 8, Scope of PFRS 2*

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

*Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives*

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



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

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

Future Changes in Accounting Policies

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

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

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

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

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

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

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

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

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



IFRS 8, *Operating Segments (Effective for annual periods beginning on or after January 1, 2009)* This Amendment was issued as part of the convergence project with the United States (US) Financial Accounting Standards Board. This new standard replaces PAS 14, *Segment Reporting* and adopts a management approach to segment reporting as required in the US Standard SFAS 131 - *Disclosures about Segments of an Enterprise and Related Information*. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the consolidated balance sheet and consolidated statement of income and entities will need to provide explanations and reconciliations of the differences. The Group will assess the impact of the adoption of this standard.

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

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

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

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

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

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

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

Based on Maynilad’s preliminary estimates, the adoption of IFRIC 12 will result in an increase in total assets and total liabilities as of January 1, 2008 of ₱1.4 billion and ₱9.3 billion, respectively, and a decrease in retained earnings by ₱7.9 billion (net of tax effect of ₱2.8 billion). With the Parent Group’s effective equity interest of 42% in Maynilad, the estimated effect of adopting IFRIC 12 will be a decrease in retained earnings as of January 1, 2008 of ₱73.3 billion (net of tax effect).



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

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

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

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

#### Cash and Cash Equivalents

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

#### Financial Instruments

##### *Date of recognition*

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

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

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

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

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



*Determination of fair value*

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

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

*Day 1 profit*

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

*Loans and receivables*

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

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

*AFS financial assets*

AFS financial assets are those non-derivative financial assets that are designated as AFS FA or are not classified in any of the three preceding categories. After initial measurement, AFS FA are measured at fair value with unrealized gains or losses being recognized directly in equity under net unrealized gain on AFS financial assets. account When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the consolidated statement of income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the consolidated statement of income when the right to receive has been established. The Group's AFS financial assets pertain to quoted and unquoted securities (see Note 5).



*Other financial liabilities*

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

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

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

Impairment of Financial Assets

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

*Loans and receivables*

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

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



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

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

*Assets carried at cost*

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

*AFS financial assets*

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

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

Offsetting

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



### Derecognition of Financial Assets and Liabilities

#### *Financial assets*

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

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

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

#### *Financial liabilities*

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

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

### Inventories

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

#### *Coal inventory*

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



*Materials-in-transit*

Cost is determined using the specific identification basis.

*Spare parts and other supplies*

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

*Real estate held for sale and development*

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

Noncurrent Assets Held for Sale

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

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

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

Investments in Associates, Jointly Controlled Entities and Others

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

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



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

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

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

#### Investment Properties

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

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

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

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

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



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

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

Property, Plant and Equipment

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

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

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

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

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

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

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



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

*Decommissioning and site rehabilitation costs*

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

Mine Exploration and Development Costs

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

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

Intangible Assets

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

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



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

#### Impairment of nonfinancial assets

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

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

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

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

#### Treasury Shares

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

#### Revenue and Cost Recognition

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

##### *Construction contracts*

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



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

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

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

#### *Real estate*

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

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

#### *Interest income*

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

#### *Coal sales*

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



*Rendering of services*

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

*Merchandise Sales*

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

*Dividend income*

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

*Rental income*

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

Borrowing Costs

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

Foreign Currency Transactions

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

Retirement Cost

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

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



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

### Leases

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

#### *Group as a lessee*

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

#### *Group as a lessor*

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

### Income Tax

#### *Current tax*

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

#### *Deferred tax*

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

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

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



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

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

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

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

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

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

#### Earnings Per Share

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

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



### Segment Reporting

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

### Provisions

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

### Contingencies

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

### Subsequent Events

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

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## 3. **Significant Accounting Estimates, Judgments and Assumptions**

### Judgments

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

#### *Revenue recognition*

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

#### a.) Coal

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



There is no assurance that the use of estimates may not result in material adjustments in future periods. Revenue from coal sales amounted to ₱6.5 billion, ₱4.7 billion and ₱5.6 billion for the years ended December 31, 2007, 2006 and 2005, respectively.

b.) Real estate

Selecting an appropriate revenue recognition method for a particular sale transaction requires certain judgments based on the sufficiency of the investment of the buyer among others. Revenue from real estate sales amounted to ₱2.46 billion, ₱1.91 billion and ₱1.51 billion for the years ended December 31, 2007, 2006 and 2005, respectively.

c.) Construction

The Group's revenue from construction contracts are recognized based on the percentage-of-completion, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

There is no assurance that the use of estimates may not result in material adjustments in future periods. Revenue from construction contracts amounted to ₱2.95 billion, ₱1.75 billion and ₱2.79 billion for the years ended December 31, 2007, 2006 and 2005, respectively.

*Distinction between investment properties and owner-occupied properties*

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

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

*Operating lease commitments*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties and accounts for them as operating leases.

Estimates and Assumptions

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



*Allowance for doubtful accounts*

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

The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in the allowance for impairment losses on receivables would increase recorded operating expenses and decrease total assets. Provision for doubtful accounts of the Group amounted to ₱4.43 million, ₱105.84 million and ₱92.32 million in 2007, 2006 and 2005, respectively (see Note 26). Receivables of the Group, net of allowance for doubtful account of ₱80.76 million and ₱130.17 million as of December 31, 2007 and 2006, respectively, amounted to ₱4.84 billion and ₱4.52 billion as of December 31, 2007 and 2006, respectively (see Note 6).

*Stock pile inventory quantities*

The Group estimates the stock pile inventory of coal by conducting a topographic survey which is performed by in-house surveyors. The survey is conducted on a monthly basis with a reconfirmatory survey at year end. The process of estimation involves a predefined formula which considers an acceptable margin of error of plus or minus 3%. Thus, an increase or decrease in the estimation threshold for any period would differ if the Group utilized different estimates and this would either increase or decrease the profit for the year. The coal inventory as of December 31, 2007 and 2006 amounted to ₱570.81 million and ₱1,017.02 million, respectively (see Note 8).

*NRV of Materials, Parts and Supplies*

The Group reviews its inventory to assess NRV at least on a semi-annual basis. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in reserves for inventory write-down would increase recorded operating expenses and decrease current assets.

Provision for inventory obsolescence amounted to ₱39.79 million in 2006 (see Notes 8 and 26). Inventories of the Group, net of allowance for inventory obsolescence amounting to ₱63.03 million and ₱99.76 million as of December 31, 2007 and 2006, respectively, amounted to ₱6,375.96 million and ₱4,714.83 million as of December 31, 2007 and 2006, respectively (see Note 8).

*Estimating decommissioning and site rehabilitation costs*

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



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

As of December 31, 2007 and 2006, the Provision for decommissioning and site rehabilitation has a carrying value of ₱12.21 million and ₱11.14 million, respectively (see Note 20).

*FV of FI*

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

The fair value of financial assets as of December 31, 2007 and 2006 amounted to ₱9.46 billion and ₱7.31 billion, while the fair value of financial liabilities amounted to ₱7.88 billion and ₱6.89 billion, respectively (Note 35).

*Estimating useful lives of property, plant and equipment, investment properties and mining rights acquisition cost*

The Group estimated the useful lives of its property, plant and equipment, investment properties and mining rights acquisition cost based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, investment properties and mining rights acquisition cost are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets and change in the estimated production units. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned above. A reduction in the estimated useful lives of property, plant and equipment, investment properties and mining rights acquisition cost would increase depreciation, depletion and amortization expense and decrease noncurrent assets.

The carrying value of property, plant and equipment of the Group amounted to ₱2.93 billion and ₱3.38 billion as of December 31, 2007 and 2006, respectively (see Note 13). The net book value of investment properties of the Group amounted to ₱2.06 billion and ₱2.28 billion as of December 31, 2007 and 2006, respectively (see Note 12).



*Impairment of nonfinancial assets*

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

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

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

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

As of December 31, 2007 and 2006, the balances of the Group's nonfinancial assets, net of accumulated depreciation, depletion and amortization and accumulated provisions for impairment losses follow:

	2007	2006
Property, plant and equipment (see Note 13)	<b>₱2,933,158,199</b>	₱3,375,910,498
Investments in associates, jointly controlled entities and others (see Note 10)	<b>4,983,579,845</b>	3,196,535,117
Investment properties (see Note 12)	<b>2,057,446,353</b>	2,279,058,851

*Deferred tax assets*

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

The deferred tax assets amounted to ₱207.51 million and ₱219.87 million as of December 31, 2007 and 2006, respectively. The unrecognized deferred tax assets of the Group amounted to ₱10.04 million and ₱24.62 million as of December 31, 2007 and 2006, respectively (see Note 30).



*Pension and other retirement benefits*

The determination of the obligation and cost of retirement and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rates (see Note 24). Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

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

As of December 31, 2007 and 2006, the balances of the Group's net pension liabilities and unrecognized actuarial gain or loss follow (see Note 24):

	2007	2006
Pension liabilities	₱127,411,427	₱47,171,177
Unrecognized actuarial gain	268,860,502	76,525,534

*Contingencies*

The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 36).

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**4. Cash and Cash Equivalents**

This account consists of:

	2007	2006
Cash on hand and in banks	₱823,987,335	₱724,603,701
Cash equivalents	2,715,660,264	527,307,484
	<b>₱3,539,647,599</b>	<b>₱1,251,911,185</b>

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates.



## 5. Available-for-Sale Financial Assets

This account consists of:

	2007	2006
<b>Quoted securities</b>		
Balance at beginning of year	<b>₱56,084,471</b>	₱38,831,508
Additions	<b>39,000,000</b>	17,252,963
Disposal	<b>(29,602,103)</b>	-
Balance at end of year	<b>65,482,368</b>	56,084,471
Net unrealized gain (loss)	<b>(35,880,000)</b>	39,872,880
	<b>29,602,368</b>	95,957,351
<b>Unquoted securities</b>		
Balance at beginning of year	<b>280,482,460</b>	790,220,993
Additions	-	350,000
Disposals	<b>(2,023,119)</b>	(521,548,185)
Balance at end of year	<b>278,459,341</b>	269,022,808
Less Allowance for probable loss	<b>(105,388,649)</b>	(105,388,649)
	<b>173,070,692</b>	163,634,159
	<b>₱202,673,060</b>	₱259,591,510

The quoted equity investments include investments in golf and sports club shares.

Movements in the net unrealized gain (loss) on AFS financial assets are as follows:

	2007	2006
Balance at beginning of year	<b>₱39,872,880</b>	₱2,402,067
Income (loss) recognized in equity during the year	<b>(35,880,000)</b>	37,470,813
Gain removed from equity and recognized in profit and loss	<b>(39,872,880)</b>	-
Balance at end of year	<b>(₱35,880,000)</b>	₱39,872,880

Movements in the allowance for probable loss on unquoted AFS financial assets are as follows:

	2007	2006
Balance at beginning of year	<b>₱105,388,649</b>	₱2,000,000
Provision for probable losses for the year (see Note 26)	-	103,388,649
Balance at end of year	<b>₱105,388,649</b>	₱105,388,649

Unquoted equity investments classified as AFS financial assets are carried at cost less any accumulated impairment losses, as their fair values cannot be reliably measured.

The disposal of unquoted AFS financial assets in 2006 represents withdrawal made by the Group from its Investment Management Account which consisted of private bonds and mutual funds. The proceeds from the withdrawal were used to finance the acquisition of Maynilad. No gain or loss was recognized on this transaction.



*Montecito*

On October 9, 2003, the Regional Trial Court (RTC) of Calamba City issued a stay order prohibiting Montecito from selling, encumbering, transferring or disposing any of its properties in any manner except in the ordinary course of business. In connection with this, a Rehabilitation Plan was prepared which includes, among others, the following:

- (a) Restructuring of loans due to various banks subject to the following: (i) repayment of principal and capitalized interest over a term of 7 years, with a 2-year grace period; and (ii) fixed interest rate of 9.5% for 7 years and possibility of settling outstanding debt through dacion en pago or friendly foreclosure;
- (b) Reconfiguration of unsold regular lots to smaller lot sizes; and
- (c) Change in Montecito's existing payment terms for contracts receivables from 4 years to 3 years.

On April 25, 2005, the RTC approved the revised rehabilitation plan with as follows:

- (a) Reduction of debt in full or in part, via dacion en pago for creditor banks;
- (b) The North-South Spine Road shall be completed on or before July 31, 2005;
- (c) Atlantic Gulf & Pacific shall improve the site facilities to attract foreign interests/investors;
- (d) The two year grace period on principal on the restructured bank loans shall start on July 1, 2005; and
- (e) Interest expense on the restructured loans shall be made current starting July 1, 2005.

On May 26, 2006, Montecito and a certain creditor bank entered into a Memorandum of Agreement (MOA) for the settlement of the outstanding obligation of Montecito with the creditor bank. Under the MOA, the creditor bank will foreclose certain parcels of land mortgaged with the creditor bank with a carrying value of ₱329.50 million as of December 31, 2004. After the foreclosure, the obligation and related interests of the creditor bank as of May 22, 2006 shall be fully extinguished. Any interest due on the obligation during the period of May 22, 2006 to May 31, 2006 computed at the rate of 5% per annum and interest, if any, which may be due thereafter, at a rate which may agreed upon by Montecito and the creditor bank but not to exceed 9.5% per annum shall be settled by Montecito before the date of public auction.



## 6. Receivables

This account consists of:

	2007	2006
Trade:		
Real estate	<b>₱2,753,686,371</b>	₱1,883,601,265
General construction (including retention receivables on uncompleted contracts of ₱283.07 million in 2007 and ₱239.14 million in 2006)	<b>534,090,850</b>	631,597,549
Coal mining	<b>1,066,938,992</b>	374,230,827
	<b>4,354,716,213</b>	2,889,429,641
Receivable from related parties (see Note 23)	<b>303,614,528</b>	1,100,674,021
Advances to suppliers, brokers and contractors	<b>9,071,244</b>	348,634,631
Advances to officers and employees	<b>11,848,505</b>	6,701,554
Other receivables	<b>245,601,436</b>	309,703,369
	<b>4,924,851,926</b>	4,655,143,216
Less allowance for doubtful accounts	<b>80,757,754</b>	130,169,621
	<b>4,844,094,172</b>	4,524,973,595
Less noncurrent receivables - net	<b>1,983,314,250</b>	687,640,695
	<b>₱2,860,779,922</b>	₱3,837,332,900

Trade receivables amounting to ₱80.76 million and ₱130.73 million as of December 31, 2007 and 2006, respectively, were impaired and fully provided for. Movements in the allowance for doubtful accounts are as follows:

### 2007

	Trade Receivables				
	Real estate	General construction	Coal mining	Others	Total
<b>At January 1</b>	<b>₱3,649,878</b>	₱92,433,584	₱26,902,850	₱7,183,309	₱130,169,621
Charge for the year	7,585,777	-	-	197,377	7,783,154
Write-offs	<b>(3,224,964)</b>	(53,970,057)	-	-	(57,195,021)
Interest accrued on impaired receivables	-	-	-	-	-
<b>At December 31</b>	<b>₱8,010,691</b>	₱38,463,527	₱26,902,850	₱7,380,686	₱80,757,754

	Trade Receivables				
	Real estate	General Construction	Coal mining	Others	Total
Individually impaired	<b>₱8,010,691</b>	₱38,463,527	₱26,902,850	₱7,380,686	₱80,757,754
Collectively impaired	-	-	-	-	-
<b>Total</b>	<b>₱8,010,691</b>	₱38,463,527	₱26,902,850	₱7,380,686	₱80,757,754
Gross amounts of loans, individually determined to be impaired, before deducting any individual assessed impairment allowance.	<b>₱8,010,691</b>	₱38,463,527	₱26,902,850	₱7,380,686	₱80,757,754



**2006**

	Trade Receivables				
	Real estate	General Construction	Coal mining	Others	Total
<b>At January 1</b>	₱62,884,717	₱38,463,527	₱26,902,850	₱6,276,894	₱134,527,988
Charge for the year	2,486,063	53,970,057	-	906,415	57,362,535
Write-offs	(61,720,902)	-	-	-	(61,720,902)
Interest accrued on impaired receivables	-	-	-	-	-
<b>At December 31</b>	<b>₱3,649,878</b>	<b>₱92,433,584</b>	<b>₱26,902,850</b>	<b>₱7,183,309</b>	<b>₱130,169,621</b>
Individually impaired	₱3,649,878	₱92,433,584	₱26,902,850	₱7,183,309	₱130,169,621
Collectively impaired	-	-	-	-	-
<b>Total</b>	<b>₱3,649,878</b>	<b>₱92,433,584</b>	<b>₱26,902,850</b>	<b>₱7,183,309</b>	<b>₱130,169,621</b>
Gross amounts of loans, individually determined to be impaired, before deducting any individual assessed impairment allowance.	₱3,649,878	₱92,433,584	₱26,902,850	₱7,183,309	₱130,169,621

As of December 31, 2007 and 2006, real estate receivables with a nominal amount of ₱1,350.38 million and ₱455.59 million, respectively, were initially recorded at the fair value. The unamortized discount amounted to ₱197.17 million and ₱127.62 million as of December 31, 2007 and 2006, respectively.

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

	2007	2006
Balance at beginning of year	<b>₱127,623,298</b>	₱-
Additions	<b>151,321,632</b>	159,529,122
Accretion for the year	<b>(81,776,493)</b>	(31,905,824)
<b>Balance at end of year</b>	<b>₱197,168,437</b>	<b>₱127,623,298</b>

**Trade receivable**

*Real estate*

Real estate receivables principally consist of amounts arising from sale of real estate subdivision units which are collectible within 10 years with interest at prevailing market rates. The corresponding titles to the subdivision units sold under this arrangement are transferred to the buyers only upon full payment of the contract price.

Certain subsidiaries are liable to local commercial banks relative to the discounting of real estate receivables (see Note 15). As of December 31, 2007 and 2006, total real estate receivables with carrying amount of ₱1,889.37 million and ₱615.6 million, respectively, was used to secure the Group's bank loans (see Note 19). The purchase agreements provide that the Group should substitute defaulted contracts to sell with other contracts to sell of equivalent value. The carrying value of real estate receivables discounted amounted to ₱743.78 million in 2007 and ₱637.25 million in 2006.

*General construction*

General construction receivable principally consist of receivables from third-party construction projects.



*Mining*

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

Advances to suppliers, brokers and contractors

Advances to suppliers, brokers and contractors are recouped upon every progress billing payment depending on the percentage of accomplishment.

Receivable from related parties

Receivable from related parties are due and demandable.

*Receivables from AG&P*

On January 31, 2002, AG&P filed a petition for rehabilitation (after approval of AG&P's stockholders and BOD on January 29, 2002) with the 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.

On November 14, 2007, the BOD approved the conversion of the Company's advances to AG&P in the amount of ₱957.82 million into equity consisting of 957,821,328 common shares, with a par value of P1.00 per share which shall come from the present unissued authorized capital stock of and increase in capital stock of AG&P.

*Receivables from Universal Rightfield Property Holdings, Inc. (URPHI)*

The receivables from URPHI arose from the construction agreements with the Group for the development of Pioneer Highlands and Dansalan projects.

On January 28, 2004, DMCI, as a creditor of URPHI, initiated a petition for rehabilitation of URPHI with the RTC of Mandaluyong City. On February 17, 2004, the RTC issued a stay order prohibiting URPHI from selling, encumbering, transferring or disposing any of its properties in any manner except in the ordinary course of business. The rehabilitation plan, subject to the approval of the court included among others, the settlement of DMCI's claims from URPHI.

In 2006, the Group provided a valuation allowance on its outstanding receivable from URPHI which amounted to ₱213.62 million. In 2007, the Group has written off its outstanding claims from URPHI.



## 7. Costs, Estimated Earnings and Billings on Uncompleted Contracts

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

	2007	2006
Total costs incurred	₱773,218,949	₱336,468,965
Add estimated earnings recognized	43,813,560	90,207,432
	<b>817,032,509</b>	426,676,397
Less total billings (including unliquidated advances from contract owners of ₱22.56 in 2007 and ₱23.31 million in 2006)	707,238,840	430,225,942
	<b>₱109,793,669</b>	(₱3,549,545)

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

	2007	2006
Costs and estimated earnings in excess of billings on uncompleted contracts	₱140,681,468	₱17,016,194
Billings in excess of costs and estimated earnings on uncompleted contracts	(30,887,799)	(20,565,739)
	<b>₱109,793,669</b>	(₱3,549,545)

## 8. Inventories

This account consists of:

	2007	2006
At Cost:		
Real estate held for sale and development	₱4,701,981,393	₱2,784,313,482
Coal inventory	570,806,557	1,017,024,549
Nickel ore	90,838,320	-
Equipment parts, materials and supplies in transit	107,316,068	57,095,396
At NRV:		
Equipment parts, materials and supplies	905,016,665	856,391,876
	<b>₱6,375,959,003</b>	₱4,714,825,303

Equipment parts, materials and supplies at NRV amounted to ₱968.04 million and ₱956.15 million as of December 31, 2007 and 2006, respectively.

Inventories written off in 2006 amounted to ₱39.79 million.

The Group did not capitalize any borrowing costs related to its real estate held for sale and development since the funds used to develop these properties were internally generated.



## 9. Other Current Assets

This account consists of:

	2007	2006
Creditable taxes withheld	₱256,909,900	₱216,776,141
Value added input tax (input Vat)	170,913,900	131,471,126
Prepaid expenses	61,691,117	29,625,744
Others	79,419,000	1,183,826
	<b>₱568,933,917</b>	<b>₱379,056,837</b>

Input vat is fully recoverable. This can be applied against output VAT tax.

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

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

	2007	2006
<b>Investments - At Equity</b>		
Investments in associates		
Acquisition cost:		
Balance at beginning of year	₱471,415,660	₱492,101,021
Disposals	-	(20,685,361)
Balance at end of year	471,415,660	471,415,660
Accumulated equity in net losses:		
Balance at beginning of year	(316,600,771)	(344,622,851)
Equity in net income during the year	20,608,428	28,022,080
Balance at end of year	(295,992,343)	(316,600,771)
	175,423,317	154,814,889
Allowance for probable losses	(44,621,969)	(44,621,969)
	130,801,348	110,192,920
Jointly controlled entities:		
Acquisition cost	3,032,125,000	32,125,000
Additions during the year	-	3,000,000,000
	3,032,125,000	3,032,125,000
Accumulated equity in net earnings:		
Balance at beginning of year	44,023,350	44,445,660
Equity in net income (losses) during the year	1,805,744,512	(422,310)
Balance at end of year	1,849,767,862	44,023,350
	4,881,892,862	3,076,148,350
Allowance for probable losses	(25,467,530)	(25,467,530)
	4,856,425,332	3,050,680,820
<b>Investment - At Cost</b>		
Balance at beginning of year	10,000,000	10,000,000
Additions during the year	58,150,000	-
Balance at end of year	68,150,000	10,000,000
	<b>₱5,055,376,680</b>	<b>₱3,170,873,740</b>



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

	Percentages of Ownership		Equity in Net Assets	
	2007	2006	2007	2006
<b>Associates:</b>				
Bachy Soletanche Philippines Corporation (Bachy)	49.00%	49.00%	₱43,106,317	₱42,890,723
Vulcan Materials Corporation (VMC)	-	49.00	-	-
Obayashi Philippines Corporation (OPC)	39.55	39.55	-	1,078,532
Subic Water and Sewerage Company, Inc. (Subic Water)	40.00	40.00	87,695,031	66,223,665
AG&P (see Note 21)	98.00	46.00	-	-
			<b>130,801,348</b>	110,192,920
<b>Jointly Controlled Entities:</b>				
DMCI-MPIC Water Co. Inc. (see Note 11)	50.00	50.00	4,805,666,500	3,000,000,000
DMCI/WPC Joint Venture	50.00	50.00	39,181,239	39,181,239
Obayashi-DMCI Joint Venture	40.00	40.00	1,730,226	1,730,226
Eco Process & Equipment Philippines, Inc.	50.00	50.00	408,538	330,526
Subic Water Construction Joint Venture	50.00	50.00	9,438,829	9,438,829
			<b>4,856,425,332</b>	3,050,680,820
<b>At Cost</b>				
Balance at beginning of year			10,000,000	10,000,000
Additions			58,150,000	
			<b>68,150,000</b>	10,000,000
<b>Total</b>			<b>₱5,055,376,680</b>	₱3,170,873,740

#### Investments in Associates - At Equity

##### *Subic Water*

On January 22, 1997, PDI subscribed to 3,262,320 shares at the par value of ₱10 per share for an aggregate value of ₱32.62 million in Subic Water, a 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 agreement executed by the parties on November 24, 1996 stipulated, among others, that PDI shall have an equity participation equivalent to 40% in Subic Water amounting to ₱74.80 million (based on the initial subscribed and paid-in capital of ₱187.00 million). The balance of PDI's committed subscription to Subic Water of ₱38.00 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 December 31, 2007 and 2006, such committed subscription has not yet been paid.

##### *Vulcan*

On January 3, 2007, the BOD approved the sale of DMCI's 49% shareholdings in Vulcan in favor of Vulcan Industrial & Mining Corporation (Vulcan). On January 15, 2007, DMCI executed a Deed of Assignment with Vulcan, whereby the DMCI transferred and conveyed to Vulcan 700,700 shares in Vulcan with a total par value of ₱70.07 million for and in consideration of ₱70.07 million.



*Tarlac-La Union Toll Expressway Project (TLEX)*

On September 26, 2007, DMCI entered into a Shareholders' Agreement along with other members of the Philippine Contractors Association, to which the Shareholders agree to establish a corporation to generally engage in and to undertake construction, operation and maintenance of the Tarlac La Union Toll Expressway Project of the DPWH and to perform such other activities related to the construction, operation and maintenance, or a combination of undertakings which are within the capabilities of the Consortium members.

On October 3, 2007, Private Infra Dev Corporation was incorporated and registered with the SEC.

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**11. Acquisition of Maynilad Water Services Inc. (Maynilad)**

In November 2006, the Company, together with Metro Pacific Investment Corporation (MPIC) formed a 50:50 joint-venture company called DMCI-MPIC Water Company, Inc. (DMCI-MPIC).

On December 5, 2006, through a public bidding, DMCI-MPIC won the right to acquire Metropolitan Waterworks Sewerage Systems (MWSS) 84% interest in Maynilad Water Services Inc. (MWSI). MWSI holds an exclusive concession, granted by MWSS on behalf of the Philippine Government, to provide water and sewerage services in the west zone of Metro Manila.

The transaction was completed on January 10, 2007 with the delivery by MWSS and DMCI-MPIC of all closing requirements as required in the bid.

In addition, DMCI-MPIC: (i) provided financial assistance to MWSI in the amount of ₱1,510.0 million (US\$31.0 million); (ii) will contribute additional equity to MWSI for funding its requirement for its capital expenditure, repayment to its existing creditors, and /or concession fees to MWSS which amounts to ₱21,803.6 million (US\$444.7 million) over a period of three years; and, (iii) established a performance bond in an amount of ₱588.3 million (US\$12.0 million) in respect of MWSI's obligations under the concession.

The Group adopted equity method of accounting for the financial results of DMCI-MPIC since the Group does not exercise control over DMCI-MPIC.

The provisional impact of this acquisition on the financial position of the Group (subjected to further assessment of the fair value of share of identifiable assets acquired and liabilities and contingent liabilities assumed) is summarized as follows:

Consideration/investment cost	₱1,116,394
Net assets of Maynilad	
Cash and cash equivalents	821,184
Short-term investments, trade and other receivables and other current assets	1,300,097
Other noncurrent assets	309,326
Concession assets	9,913,065

(Forward)



Property, plant and equipment	₱4,567,856
Trade and other payables	(1,529,539)
Interest-bearing loans	(3,641,095)
Deferred credits	(690,276)
Payable to MWSS	(2,717,478)
Pension liability and other noncurrent liabilities	(476,993)
Concession fees payable	(2,961,255)
Contingent liabilities	(891,491)
Deferred tax liabilities	(764,627)
<u>Total net assets acquired at fair values*</u>	<u>3,238,774</u>
<u>Negative goodwill</u>	<u>₱2,122,380</u>

*\*Amounts in thousands and are based on computed fair values of Maynilad net assets at 42%.*

The amount of the excess of the net identifiable assets and liabilities over the fair value of the business combination (negative goodwill) of ₱4.2 billion was recognized in the consolidated statement of income of DMCI-MPIC.

Equity in net earnings in DMCI-MPIC amounted to ₱1.81 billion in 2007 (share in provisional goodwill ₱2.12 billion and equity in net loss of ₱0.31 billion).

On January 19, 2007, SEC approved all corporate actions of Maynilad required by Clause 2 of the Debt Capital and Restructuring Agreement (DCRA), as more specifically described in the succeeding paragraphs, for the full implementation thereof. These corporate actions approved by the SEC in relation to the Capital Restructuring are as follows:

- a. decrease in the authorized capital stock of Maynilad through a reduction in the par value of its shares from ₱100 to ₱1 per share and the surrender of the shares of Benpres Holdings Corporation (BHC) and Suez Environnement (Suez Env);
- b. increase in the authorized capital stock of Maynilad to ₱1.48 billion comprising of 1,475,000,000 shares with a par value of ₱1.00 per share, with DMCI-MPIC subscribing to 1,238,476,000 Class A common shares [inclusive of 88,500,000 Employees' Stock Option Plan (ESOP) shares representing 6% of the outstanding capital stock of Maynilad upon the effective date of the increase in capital of the Company], and Lyonnaise Asia Water (Holdings) Pte Ltd (LAWL) subscribing to an additional 225,520,000 Class B common shares (plus an additional paid-in capital of ₱56.0 million), paid for by way of conversion of debt to equity, in compliance with paragraphs a, b, c, d, e and f of Clause 2.6 of the DCRA;
- c. confirmation of valuation under Section 62 of the Corporation Code for the issuance by Maynilad of 7,600,000 shares out of the unsubscribed portion of its authorized capital stock, paid for by way of conversion of debt to equity in relation to the subscriptions of DMCI-MPIC and LAWL;



- d. creation of additional paid-in capital (APIC) aggregating ₱2.0 billion resulting from the write-off of BHC of its advances amounting to ₱658.0 million (or equivalent to approximately US\$12 million) and from the write-off by the Suez Group [Suez Env and LAWL, excluding Ondeo Services Philippines, Inc. (OSPI)] of its loans and advances amounting to ₱1.4 billion (or equivalent to approximately US\$25.0 million), which write-offs have been confirmed in writing by BHC and the Suez Group on December 22, 2006 and January 4, 2007, respectively, in compliance with paragraphs a, b and c of Clause 2.4 of the DCRA;
- e. equity restructuring to wipe out the previously reported deficit of Maynilad as of December 31, 2005 amounting to ₱7.0 billion (such amount was retroactively adjusted to ₱6.5 billion in 2006 as discussed below) against the APIC amounting to ₱2.1 billion and reduction surplus amounting to ₱5.2 billion resulting from the decrease in capital, in compliance with Clause 2.5 of the DCRA, subject to the condition that the remaining APIC of ₱342.0 million shall not be used to wipe out losses that may be incurred in the future without prior SEC approval; and
- f. corresponding amendments to the Articles of Incorporation of Maynilad to reflect the decrease and increase in capital stock of the Company, in compliance with paragraphs a and b of Clause 19.2 of the DCRA.

In full implementation and completion of the Capital Restructuring in accordance with the directive of the Rehabilitation Court, the corresponding certificates of stock evidencing the subscription of DMCI-MPIC and the additional subscription of LAWL have been duly issued by Maynilad and recorded in its stock and transfer book on January 19, 2007. Upon the completion of the Capital Restructuring on January 19, 2007, all the nominees of MWSS (pursuant to the Proxy) as well as two (2) directors of Suez Env have also effectively resigned.

As of December 31, 2007, the capital structure of Maynilad after the completion of the Capital Restructuring is as follows:

Shareholder	Class	Total Subscription (No. of Shares)	%
DMCI-MPIC*	Class A Common	1,149,976,000	77.97
DMCI-MPIC	ESOP	88,500,000	6.00
Metrobank	Class A Common	524,000	.03
LAWL*	Class B Common	236,000,000	16.00
	All classes	1,475,000,000	100.00

*\*including directors' qualifying shares*

Instead of exercising its right under the DCRA to subscribe to 83.97% of the shares of the Maynilad in consideration for the conversion of its receivables to equity as part of the Capital Restructuring, MWSS opted to assign such subscription right to a private investor. After a process of competitive public bidding conducted by MWSS from June 2006 to January 2007, DMCI-MPIC was designated by MWSS as its assignee. Such assignment was effected by MWSS (MWSS Assignment) through an Assignment & Assumption Agreement executed by MWSS and



DMCI-MPIC on December 27, 2006, which was acknowledged by Maynilad on the same date. Also on the same date, Maynilad, DMCI-MPIC and LAWL executed the Debt Conversion & Subscription Agreement which governed the agreement of the parties on the conversion of debt to equity required in connection with the Capital Restructuring. The MWSS Assignment became effective on January 10, 2007 (Closing Date).

#### Rehabilitation Exit Plan

On August 9, 2007, Maynilad entered into the Prepayment and Settlement Agreement (PSA) with the Sponsor, the Lenders under the DCRA, Suez, Suez Env and the MWSS. The PSA prescribed the procedure for the full prepayment of the USD Tranche, SBLC Tranche, Peso Tranche (collectively referred to as the Facility), Suez Loan and MWSS (with respect to Tranche A2 Concession Fees and Recognized Tranche B Concession Fees), to be funded from cash contribution to be provided by the Sponsor to Maynilad (see Note 14), for the purpose of enabling Maynilad to successfully effect an early exit from corporate rehabilitation. The PSA further sets out the procedure for the settlement of approved claims of contractors and suppliers and the resolution of the disputed claims of MWSS and Suez Env.

As mentioned, the PSA was executed to enable Maynilad to effect an early exit from corporate rehabilitation. As this rehabilitation exit will result in the termination of the 2005 Rehabilitation Plan and the DCRA, certain transitional arrangements, including those relating to the second Rate Rebasing, the Service Obligations of Maynilad as well as the recovery or compensation of foreign exchange losses or gains relating to the full prepayment of Maynilad's USD Concessionaire

Loans, the Tranche A2 Concession Fees and the Recognized Tranche B Concession Fees (as defined below) were deemed necessary. Thus, contemporaneously with the signing of the PSA, Maynilad entered into the TCA with MWSS for the purpose of providing for these transitional arrangements which will apply from and after the termination of the DCRA and the 2005 Rehabilitation Plan.

The TCA also prescribes the procedure for the resolution of the dispute between MWSS and Maynilad on MWSS' pending claims for additional Tranche B Concession Fees and for the 364-day Treasury Bill rate penalty interest under Section 6.9 of the Concession Agreement.

The terms and conditions of the TCA were thereafter acknowledged by the Republic of the Philippines, acting through Finance Secretary Margarito B. Teves in an acknowledgment letter dated January 7, 2008.

On August 16, 2007, Maynilad, together with the Lenders, Suez, Suez Env, OSPI and MWSS filed the Joint Omnibus Motion dated August 14, 2007 (Joint Omnibus Motion) praying for the Rehabilitation Court's approval of the PSA and seeking further the termination of the rehabilitation proceedings on account of the successful implementation of the 2005 Rehabilitation Plan following the implementation of the requirements of the PSA, citing that upon such implementation, Maynilad shall have already completed both the Capital Restructuring and the Debt Restructuring which are the key elements mandated by the 2005 Rehabilitation Plan for the rehabilitation of Maynilad and the restoration of its financial viability.

On December 19, 2007, the Rehabilitation Court issued an Order approving the PSA and declaring that Maynilad has successfully implemented the 2005 Rehabilitation Plan on the date it has implemented the "Full Prepayment" and the "Settlement" as set forth in the PSA and has satisfied



all other payment requirements under Clause 5 of the PSA, all in accordance with the terms of the PSA, and that accordingly, the rehabilitation proceedings are terminated, effective on such date, pursuant to the last sentence of Section 27 of Rule 4 of the Interim Rules of Procedure on Corporate Rehabilitation upon issuance by the Rehabilitation Court of a subsequent Order confirming the termination of the rehabilitation proceedings after submission by Maynilad and the Receiver of separate sworn certifications on the said implementation of the PSA and submission of proof of payment of the proper filing/docket fees. The Rehabilitation Court further resolved the disputed claims of the Suez Group and MWSS in favor of Maynilad, ruling that no amount is due to the said claimants for their respective disputed claims, upholding the recommendations of the Receiver.

After receiving the Monetary Board approval of the proposed prepayment under the PSA, Maynilad implemented the full prepayment of the Facility, Suez Loan, Tranche A2 Concession Fees and the Recognized Tranche B Concession Fees pursuant to the PSA on January 16, 2008. Further, on January 17, 2008, Maynilad implemented the full settlement of the discounted amount of approved claims of contractors/suppliers who have granted Maynilad a 10% discount prior to the effective date of the PSA and satisfied all other payment requirements under Clause 5 of the PSA. Through a Manifestation with Motion (for Issuance of Order Confirming Termination of Corporate Rehabilitation Proceedings) dated January 18, 2008, Maynilad submitted to the Rehabilitation Court the required sworn certification on the implementation of the PSA. The Receiver also submitted on such date to the Rehabilitation Court the required sworn certification on Maynilad's implementation of the PSA.

On February 6, 2008, the Rehabilitation Court finally issued the Order confirming the termination of Maynilad's corporate rehabilitation proceedings on account of its successful implementation of the 2005 Rehabilitation Plan, in accordance with Section 27 of Rule 4 of the Interim Rules of Procedure on Corporate Rehabilitation. In view of the immediately executory nature of orders issued by the Rehabilitation Court, Maynilad is considered officially out of corporate rehabilitation on the date of such confirmation order, which is February 6, 2008.

#### Pending Case on Maynilad's Corporate Rehabilitation Proceedings

A case involving two consolidated petitions previously filed by certain so called public interest groups and other persons claiming to be interested parties questioning the Rehabilitation Court's approval of Maynilad's 2005 Rehabilitation Plan and issuance of order barring such petitioners from participating in the rehabilitation proceedings, remains pending before the Second Division of the Supreme Court. However, Maynilad believes that the termination of its rehabilitation proceedings has now rendered this case moot and academic and is set to formally apprise the Supreme Court of such matter.

#### Pending Case Assailing the Approval and Implementation of the ₱30.19 Rebased Tariff of Maynilad

A complaint with prayer for the issuance of a cease and desist order against Maynilad, MWSS and the MWSS-RO was filed by certain civil society groups before the National Water Resources Board (NWRB) contesting the approval by the MWSS Board of Trustees of the MWSS-RO resolution approving the rebased tariff of ₱30.19 per cubic meter (all-in average tariff) effective January 1, 2005 for Maynilad. The complaint alleges, among others, that the increase in the water tariff rate was without adequate public consultation and sufficient basis and that the application filed by Maynilad for the said rate increase had no imprimatur from the Receiver. Claiming that



the NWRB had no jurisdiction to hear and decide the aforesaid complaint, Maynilad and MWSS filed separate motions to dismiss, which were both denied. The NWRB has yet to rule on the said complaint. Following the denial of its motion to dismiss, Maynilad filed a petition for certiorari with the Court of Appeals. Alleging grave abuse of discretion on the part of the NWRB, Maynilad claims that there is no law conferring any power upon the NWRB to assume jurisdiction over disputes relating to water tariff rates for MWSS' concessionaires and that the powers of the Public Service Commission were not transferred to the NWRB. In a decision dated May 28, 2007, the Court of Appeals dismissed Maynilad's petition for certiorari and declared that the NWRB is empowered to review the subject all-in average tariff rate of ₱30.19 per cubic meter. Maynilad has sought a reconsideration of the said decision. In a subsequent development, MWSS filed a motion seeking to intervene in the certiorari proceedings. On February 20, 2008, the Court of Appeals denied Maynilad's motion for reconsideration and MWSS' motion for intervention. MWSS filed a motion for reconsideration of the denial of its motion for intervention, which is currently pending. Maynilad is set to file with the Supreme Court its petition for review to assail the rulings of the Court of Appeals in this case.

## 12. Investment Properties

The movement of this account follow:

	2007	2006
Land	<b>₱1,981,054,403</b>	₱2,242,788,671
Condominium units - net of accumulated depreciation of ₱1.36 million in 2007 and ₱1.02 million in 2006	<b>61,565,187</b>	680,000
Buildings and improvements - net of accumulated depreciation of ₱13.35 million in 2007 and ₱12.05 million in 2006	<b>14,826,763</b>	35,590,180
	<b>₱2,057,446,353</b>	₱2,279,058,851

The movement in the land account in 2007 and 2006 represents transfer to real estate held for sale and development.

Depreciation expense on investment properties amounted to ₱3.48 million, ₱3.76 million, and ₱2.63 million in 2007, 2006 and 2005, respectively (see Note 25).

The aggregate fair value of the Group's investment properties amounted to ₱3.7 billion and ₱2.61 billion as of December 31, 2007 and 2006, respectively. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm's length transaction at the date of valuation.

Consolidated rental income from investment properties amounted to ₱19.91 million, ₱12.17 million and ₱5.15 million for the years ended December 31, 2007, 2006 and 2005, respectively (Note 29).



### 13. Property, Plant and Equipment

The movements in this account follow:

2007

	Land and Land Improvements	Buildings and Building Improvements	Construction Equipment, Machinery and Tools	Office Furniture, Fixtures and Equipment	Transportation Equipment	Conventional and Continuous Mining Properties and Equipment	Leasehold Improvements	Construction in Progress	Total
<b>Cost</b>									
At January 1	₱418,315,199	₱1,272,801,474	₱2,103,503,026	₱222,312,987	₱166,323,809	₱8,622,629,442	₱59,025,858	₱396,180,421	₱13,261,092,216
Additions	269,168,181	5,409,657	547,933,592	20,250,488	39,748,627	184,058,221	533,462	184,247,985	1,251,350,213
Transfers and retirements/ disposals	729,999	162,515,663	(84,777,836)	(46,772)	(10,623,451)	125,702,625	–	(352,166,682)	(158,666,454)
At December 31	688,213,379	1,440,726,794	2,566,658,782	242,516,703	195,448,985	8,932,390,288	59,559,320	228,261,724	14,353,775,975
<b>Accumulated Depreciation Depletion and Amortization</b>									
At January 1	371,550,279	850,087,487	1,913,341,735	197,774,394	125,416,294	6,368,004,721	59,006,808	–	9,885,181,718
Depreciation, depletion and amortization	24,496,695	65,835,975	106,894,297	14,719,905	18,080,810	1,445,426,828	181,617	–	1,675,636,127
Transfers and retirements/ disposals	–	(2,332,199)	(84,776,870)	(29,285)	(10,546,662)	(42,515,053)	–	–	(140,200,069)
At December 31	396,046,974	913,591,263	1,935,459,162	212,465,014	132,950,442	7,770,916,496	59,188,425	–	11,420,617,776
<b>Net Book Value</b>	<b>₱292,166,405</b>	<b>₱527,135,531</b>	<b>₱631,199,620</b>	<b>₱30,051,689</b>	<b>₱62,498,543</b>	<b>₱1,161,473,792</b>	<b>₱370,895</b>	<b>₱228,261,724</b>	<b>₱2,933,158,199</b>



2006

	Land and Land Improvements	Buildings and Building Improvements	Construction Equipment, Machinery and Tools	Office Furniture, Fixtures and Equipment	Transportation Equipment	Conventional and Continuous Mining Properties and Equipment	Leasehold Improvements	Construction in Progress	Total
<b>Cost</b>									
At January 1	₱407,548,987	₱1,162,755,821	₱1,993,132,680	₱198,484,396	₱146,035,786	₱7,465,825,565	₱58,757,352	₱222,140,384	₱11,654,680,971
Additions	805,909	3,397,412	119,352,923	27,137,537	21,643,296	1,109,577,187	268,506	409,110,828	1,691,293,598
Transfers and retirements/ disposals	9,960,303	106,648,241	(8,982,577)	(3,308,946)	(1,355,273)	47,226,690	–	(235,070,791)	(84,882,353)
At December 31	418,315,199	1,272,801,474	2,103,503,026	222,312,987	166,323,809	8,622,629,442	59,025,858	396,180,421	13,261,092,216
<b>Accumulated Depreciation</b>									
<b>Depletion and Amortization</b>									
At January 1	343,240,575	803,445,859	1,886,407,441	189,430,169	111,938,423	5,163,910,458	58,945,120	–	8,557,318,045
Depreciation, depletion and amortization	28,309,704	46,641,628	35,915,050	11,576,035	14,466,235	1,275,602,077	61,688	–	1,412,572,417
Transfers and retirements/ disposals	–	–	(8,980,756)	(3,231,810)	(988,364)	(71,507,814)	–	–	(84,708,744)
At December 31	371,550,279	850,087,487	1,913,341,735	197,774,394	125,416,294	6,368,004,721	59,006,808	–	9,885,181,718
Net Book Value	₱46,764,920	₱422,713,987	₱190,161,291	₱24,538,593	₱40,907,515	₱2,254,624,721	₱19,050	₱396,180,421	₱3,375,910,498



The assets of Semirara (included in the above movement analysis) as of December 31, 2007, which are carried at deemed cost follow:

	Land and Land Improvements	Buildings and Building Improvements	Conventional and Continuous Mining Properties and Equipment	Total
At Deemed Cost	₱146,388,235	₱486,594,149	₱581,857,987	₱1,214,840,371
Accumulated Depreciation, Depletion and Amortization on Adjusted Cost				
At January 1	117,254,786	304,679,148	386,984,295	808,918,229
Depreciation, depletion and amortization	15,003,445	61,754,990	44,104,106	120,862,541
At December 31	132,258,231	366,434,138	431,088,401	929,780,770
Net Book Value at Deemed Cost	₱14,130,004	₱120,160,011	₱150,769,586	₱285,059,601

Certain conventional and continuous mining equipment items have been pledged as collaterals to secure the indebtedness of Semirara to local banks.

Depreciation, depletion and amortization expense on property, plant and equipment amounted to ₱1.68 billion, ₱1.41 billion and ₱1.34 billion in 2007, 2006 and 2005, respectively (see Note 25).

In 2005, as a result of periodic review of the estimated useful lives (EUL) and depreciation and amortization method of items of property and equipment, Semirara came to the conclusion that there has been a significant change in the expected pattern of economic benefits and that these items would be useful for a shorter period than the previous EUL. Accordingly, Semirara revised the EUL of certain conventional machineries and equipment and continuous mining system from 5 to 3 years. These changes have been accounted for as changes in accounting estimates. The changes increased depreciation, depletion and amortization expense by about ₱488 million for the year ended December 31, 2005.

#### 14. Other Noncurrent Assets

The details of other noncurrent assets follow:

	2007	2006
Refundable deposits (Note 35)	₱142,846,122	₱80,218,125
Deposits in North Luzon Railways Corporation (Northrail)	–	300,000,000
Others	18,272,779	25,649,933
	<b>₱161,118,901</b>	<b>₱405,868,058</b>

Deposits in Northrail of ₱300.00 million represents contributions made by the Group 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 increase in capitalization of Northrail, the primary purpose of which is to construct, operate and manage such railway system. The deposits on subscriptions made by the joint venture partners are committed to be converted into equity upon the approval of increase in capital stock of Northrail.



In 2001, due to the uncertainty surrounding the Northrail project, the Subsidiary decided to pull out of the joint venture. In 2006, a claim has been filed and is still pending with the court for the recovery of its contribution to the Northrail Project as of December 31, 2007.

In 2007, the subsidiary decided to write-off the deposits in the Northrail project.

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## 15. Bank Loans

The Group's bank loans in 2007 and 2006 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 within the next 12 months after the balance sheet dates. The bank loans are generally unsecured which are secured by a real estate mortgage over the Group's housing and condominium units; a deed of assignment on certain real estate receivables of PDI, DMCI and Hampstead (see Note 6); corporate guarantee and suretyship agreement issued by the Company and DMCI; and PDI, DMCI and Hampstead's customers' post-dated checks.

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

As of December 31, 2007 and 2006, the Group was in compliance with the loan covenants required by the banks.

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## 16. Liabilities for Purchased Land

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

In 2007, the Group acquired certain land properties which are payable over a period of 3 to 4 years. Such liabilities for purchased land with a nominal amount of ₱514 million were initially recorded at fair value resulting to a discount of ₱78.16 million upon. The fair value is derived using discounted cash flow model using the discount rate ranging from 5.00% to 5.21% with effective interest rate ranging from 7.21% to 8.37%. The unamortized discount amounted to ₱68.49 million as of December 31, 2007.

Accretion of ₱9.68 million is recorded as interest expense in 2007.



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## 17. Accounts and Other Payables

This account consists of the following:

	2007	2006
Trade and other payables		
Suppliers	₱942,711,573	₱818,439,749
Subcontractors	249,023,378	224,554,744
Others	284,011,042	269,561,118
Accrued costs and expenses	1,291,252,832	980,907,691
	<b>₱2,766,998,825</b>	<b>₱2,293,463,302</b>

### Suppliers

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

### Subcontractor

Subcontractor payable arises when the Group receives progress billing from its subcontractors for the construction cost of a certain project. These subcontractors were selected by the contract owners to provide materials, labor and other services necessary for the completion of a project.

### Accrued cost and expenses

Accrued costs and expenses consist mainly of accrual of expenses, costs of construction contracts and Semirara's liability to Department of Energy (DOE).

Semirara's liability to DOE and local government units represents the share of DOE and local government units in the gross revenue from Semirara's coal production (including accrued interest on the outstanding balance) computed in accordance with the coal operating contract between Semirara and DOE and local government units dated July 11, 1997 as amended on January 16, 1981. The contract is for a maximum period of 35 years (inclusive of the developmental stage and renewals) up to July 2012. Total payable to DOE and local government units amounted to ₱53.56 million and ₱28.51 million in 2007 and 2006, respectively.

The provision, shown under other income, that was previously recognized for a pending claim amounting to ₱71.53 million was reversed in 2006. The management strongly believes that there will be no material outflow of Semirara's resources relative to said claim due to claimant's inaction after Semirara apprised claimant of the basis of Semirara's legal position.



## 18. Customers' Deposits

The customers' deposits are due to the following:

	2007	2006
Real estate customers	₱1,262,248,616	₱714,048,132
Coal supply contract	8,867,023	18,895,985
Others	68,048	-
	<b>₱1,271,183,687</b>	<b>₱732,944,117</b>

### Real estate customers

Customers' deposits represent reservation fees and initial collections received from customers. These will be recognized as revenues and will be applied against the receivable balance when it reached 20% of the total collection.

### Coal supply contracts

These deposits represent advances from customers of Semirara, mainly, NPC. These deposits are applied against future coal deliveries which occur within one year from the dates the deposits were made. The deliveries are in accordance with the existing coal supply agreements (CSA) and/or memorandum of agreements (MOA) (see Note 32).

## 19. Long-term Debt

Long-term debt pertains to the following obligations:

	2007	2006
Long-term:		
Bank loans	₱3,522,254,632	₱3,906,983,116
Acceptances and trust receipts payable	343,051,200	713,489,588
Payable to foreign suppliers	-	8,893,412
	<b>3,865,305,832</b>	<b>4,629,366,116</b>
Less current portion of:		
Acceptances and trust receipts payable	343,051,200	713,489,588
Bank loans	1,500,187,727	767,200,736
Payable to foreign suppliers	-	8,893,412
	<b>1,843,238,927</b>	<b>1,489,583,736</b>
	<b>₱2,022,066,905</b>	<b>₱3,139,782,380</b>

The maturities of long-term debt as of December 31, 2007 follow:

Due in:	
2008	₱1,843,238,927
2009	827,472,301
2010	405,216,685
2011	211,514,413
2012 and thereafter	577,863,506
	<b>₱3,865,305,832</b>



Details of the long-term debt follow:

*Semirara*

Loan Type	Date of Availment	Outstanding Balance		Maturity	Interest Rate	Payment Terms	Covenants/Collaterals
		2007	2006				
(In Million)							
<b>Local bank loans</b>							
Loan 1	September 30, 2005	₱120.67	₱179.81	October 5, 2009	9% fixed p.a.	Payable in 48 equal monthly installments commencing on November 5, 2005	Secured by collaterals on mining equipment (Note 8)
Other loans	Various in 2007	258.35	-	Various in 2007 and 2008	8% fixed p.a.	Various	None
<b>Foreign bank loans</b>							
Loan 1	December 14, 2005	193.54	306.50	November 30, 2010	Based on SIBOR plus 1.95% p.a.	Repriceable and payable in 16 equal quarterly installments to commence 2 months after the draw down dates	Unconditional and irrevocable guarantee issued by Komatsu Asia and Pacific Pte Ltd. and other covenants
Other loans	Various availments in 2004 and 2005	304.52	510.14	Various maturities in 2009 and 2010	Based on 6-month USD LIBOR plus 1.5% p.a.	Payable in 10 equal consecutive semi-annual instalments, the first of which was due and payable 6 months after the starting point	Unconditional and irrevocable guarantee issued by the Company (Note 19)
		877.08	996.45				
<b>Payable to foreign suppliers</b>							
Supplier 1	December 31, 2005	-	6.44	December 4, 2007	5.7% p.a. compounded quarterly	Payable in 8 equal quarterly installments	None
Supplier 2	August 20, 2004	-	2.45	September 15, 2006	5% p.a. compounded monthly	Payable in 18 equal monthly installments	Unconditional and irrevocable guarantee issued by the Company (Note 19)
		8.89					
<b>Various Letters of Credits</b>	Various dates of availments	291.51	713.49	Various maturities in 2008	Interest ranging from 8% to 11% p.a.	Payable within 1 year	None
		₱1,168.59	₱1,718.83				

*The Company*

**Local bank loan**

Equitable PCI Bank	October 23, 2006	₱-	₱1,500.00	October 23, 2014	3-month MART1 plus 3% spread plus GRT	Payable in 28 equal monthly installments to commence at the end of the first quarter from initial drawdown date	Real estate receivables and investments in shares of stocks of Semirara
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*Other Subsidiaries*

**Other borrowings**

Various	Various	₱2,696.72	₱1,410.54	Various	10% to 13% p.a.	Payable in equal monthly installments over a period ranging from 5 to 15 years	Real estate receivables
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**TOTAL** ₱3,865.31    ₱4,629.37



(a) Semirara

The other covenants in loan 1 under the foreign bank loans require the Semirara to seek prior written notice to the lender in respect of any financial indebtedness for loans or credit extended by the sEMIRARA to an affiliate and directors and officers in excess of US\$3 million and US\$1 million, respectively, or their equivalent in other currencies.

(b) The Company

During the year, the Company borrowed ₱1,500.00 million from BDO (Lender) to partially finance its share of the total purchase price in its joint bid to acquire Maynilad Water Services, Inc. (MWSI). As security for the prompt and full payment by the the Company, real estate receivables amounting to ₱750.00 million were pledged as collateral. Further, the Company investments in shares of stocks in Semirara shares were also mortgaged to secure the ₱1,500.00 million loan.

The Company and the Lender agreed that the real estate receivables pledged shall be at 110% cover, based on outstanding balance while the cover on the Semirara shares shall be at 200%, based on latest market price or 100.00 million shares, whichever is higher. As of March 8, 2007, the Company paid ₱1,148.17 million to the Lender.

(c) Sale of real estate receivables by other subsidiaries

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

The subsidiaries still retain the sold receivables in the receivables account and record the proceeds from these sales as loans payable which amounted to ₱615.62 million and ₱555.00 million as of December 31, 2007 and 2006, respectively. These loans bear fixed interest rates ranging from 10% to 13% and are payable on equal monthly installments over a period ranging from 5 to 15 years depending on the terms of the related installment contracts receivable.

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## 20. Other Noncurrent Liabilities

The details of this account consist of:

	2007	2006
Provision for decommissioning and site rehabilitation	<b>₱12,205,199</b>	₱11,138,611
Subscriptions payable	<b>4,750,000</b>	4,750,000
	<b>₱16,955,199</b>	₱15,888,611



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## 21. Noncurrent Assets Held for Sale

### *AG&P*

As of December 31, 2001, the Group's accumulated equity in net losses of AG&P equalled the carrying amount of its investment. The Group discontinued the recognition of its share of further losses in AG&P as it is not committed to provide financial support to the latter. Unrecognized share in net income of AG&P amounted to ₱27.21 million as of December 31, 2006.

On January 31, 2002, AG&P filed a petition for rehabilitation (after the approval of AG&P's stockholders and BOD on January 29, 2002) with the 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.

On March 11, 2003, the RTC approved AG&P's updated rehabilitation plan that included, among others, the settlement of the Group's claims from AG&P.

On March 31, 2003, Philippine National Bank (PNB), AG&P's creditor, filed a Motion for Reconsideration with the court for the modification of the updated rehabilitation plan due to, among others, the non-viability of the proposed transfer of the 20 hectares at Batangas Fabrication Yard (BFY) to PNB via a dacion en pago payment scheme with option to repurchase and to lease it back for 5 years with exclusivity provision. In addition, PNB suggested to the court the following modifications to the updated rehabilitation plan:

- (a) AG&P should remit to PNB a part of the advance rentals AG&P received as payment in the lease transaction entered into between AG&P and Babcock Hitachi Philippines, Inc. in July 2001 totaling ₱18 million with interest;
- (b) AG&P should proportionately pay all creditors, depending on their respective credit exposure, whatever cash inflows it will receive from all the transactions it will enter into, except those that will come from sale or lease of properties covered by the Mortgage Trust Indenture (MTI) which should be paid to MTI banks, especially the ₱70.0 million earmarked for its employees, from the time the Petition was filed and up to the time the approved rehabilitation plan subsists; and
- (c) PNB will accede to the proposal of AG&P to restructure the latter's loan on the condition that the loan obligation of AG&P with PNB shall consistently earn interest depending on the prevailing rates in the market, otherwise, the approved "suspension of interest charges on all interest-bearing obligations from February 2002 up to December 2002 pending review and approval of AG&P's rehabilitation plan by the court" and "restructuring of outstanding PNB loans for a ten-year period with 2 years grace period in the payment of principal, interest rate for the first 5 years is proposed at 6% and 12% for the next 5 years" should be disapproved and deleted.



On May 2, 2003, the Receiver filed a Manifestation and Compliance with the court on the Receiver's meeting with the officers of PNB and representatives of AG&P on the issues raised by PNB in its Motion for Reconsideration. The Receiver manifests, among others, that:

- (a) PNB agreed to withdraw its objections to the payment of the advance lease proceeds from Amstel-Phil Shipbreaking Corporation, (Amstel, AG&P's potential lessee) the amount of ₱70.00 million to the labor union;
- (b) AG&P and PNB agree to subject the issue of interest during the restructuring period to further discussions; and
- (c) PNB is withdrawing its objection since AG&P had withdrawn its proposal to transfer the BFY property by way of dacion en pago arrangement to the former.

On January 30, 2006, AG&P submitted to the court a proposed Amended Rehabilitation Plan (Amended Plan). The salient provisions of the Amended Plan include, among others, the following:

- a. Acceptance by the rank and file of the revised payment package in full settlement of separation benefits, labor cases, commutation of sick and vacation leaves and reimbursement of tax withheld.
- b. Conversion to equity of PNB's loans and DMCI's advances amounting to ₱223.00 million and ₱591.00 million, respectively. The present authorized capital stock of AG&P of ₱36.00 million will be increased to ₱1,500.00 million before conversion of debt to equity.
- c. Partial settlement of DMCI loan thru transfer of 20% equity shares in associate owned by AG&P in Bauan International Port, Inc. to DMCI.
- d. Restructuring of residual loans from PNB and advances from DMCI.
- e. Settlement by DMCI of loans from a local commercial bank with the underlying collaterals to be assumed by DMCI via "dacion en pago".
- f. Quasi-reorganization through application of additional paid-in capital of and revaluation increment in property against deficit.

In 2007, the Company entered into a Deed of Assignment whereas the Company agreed to the conversion of the Company's advances to AG&P in the amount of ₱957.82 million into equity.

The BOD in 2007 approved to offer AG&P shares for sale.



The results of AG&P are presented below:

	December 31		
	2007	2006	2005
Contract revenue	<b>₱1,730,476,721</b>	1,186,234,040	₱802,510,876
Contract costs	<b>1,174,024,523</b>	875,195,627	568,926,357
Gross profit	<b>556,452,198</b>	311,038,413	233,584,519
Operating expenses	<b>347,837,445</b>	216,795,624	185,366,626
Other income/(charges)	<b>8,946,493</b>	(38,693,589)	(55,685,290)
Income (loss) before income tax	<b>217,561,246</b>	55,549,200	(7,467,397)
Provision for (benefit from)			
income tax			
Current	<b>13,711,378</b>	7,149,509	6,347,072
Deferred	<b>54,440,380</b>	12,951,744	(42,764,952)
	<b>68,151,758</b>	20,101,253	(36,417,880)
Net income	<b>₱149,409,488</b>	₱35,447,947	₱28,950,483

EPS on income associated with noncurrent assets held for sale attributable to equity holders of the Company:

	2007	2006	2005
Income associated with noncurrent assets	<b>₱149,409,488</b>	₱35,447,947	₱28,950,483
Held for sale			
Less income associated with noncurrent assets held for sale attributable to minority interests	<b>74,209,203</b>	19,141,891	15,633,261
	<b>75,200,285</b>	16,306,056	13,317,222
Weighted average number of common shares for basic/diluted EPS	<b>82,953,117</b>	2,255,494,000	2,255,494,000
Basic/Diluted EPS	<b>₱0.9065</b>	₱0.0072	₱0.0059

The major classes of assets and liabilities of AG&P classified as held for sale as of December 31, 2007 follows:

**ASSETS**

**Current Assets**

Cash and cash equivalents	₱189,453,932
Receivables	248,282,344
Inventories	101,049,305
Other current assets - net	32,522,398
<b>Total Current Assets</b>	<b>571,307,979</b>

**Noncurrent Assets**

Available-for-sale fa	7,255,141
Investments in subsidiary and associate	143,462,575
Investment properties	186,741,902
Property, plant and equipment	2,059,836,977
Pension assets	8,004,097
<b>Total Noncurrent Assets</b>	<b>2,405,300,692</b>
<b>Assets held for sale</b>	<b>₱2,976,608,671</b>



**LIABILITIES**

**Current Liabilities**

Loans payable	₱891,260,530
Notes payable	113,037,580
Accounts and other payables	753,887,833
Due to a stockholder	210,102,403
Billings in excess of costs and estimated earnings on uncompleted contracts	15,298,177
<b>Total Current Liabilities</b>	<b>1,983,586,523</b>

**Noncurrent Liabilities**

Deferred tax liabilities	353,388,981
<b>Liabilities directly attributable to assets held for sale</b>	<b>₱2,336,975,504</b>

**22. Equity**

The Parent Company's capital stock consists of:

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

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



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

Option A - Secured 5-Year Term Loan

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

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

Option B - Secured 7-Year Term Loan

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

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

As of December 31, 2007 and 2006, the outstanding liabilities to preferred shareholders who opted for options A and B have fully paid.

Option C - Asset for Share Exchange

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



As of December 31, 2004, the Company redeemed 659,279 preferred shares under Option C in exchange for Asian Hospital, Inc. (AHI) shares; certain construction equipment owned by DMCI amounting to ₱50 million and other certain assets of the Group amounting to ₱586 million in favor of Dacon Corporation (Dacon), a major stockholder; proceeds from sale of various condominium units owned by Constress and PDI totaling to ₱56 million in favor of certain preferred shareholders; and condominium units owned by PDI with an aggregate value of ₱6 million in favor of certain preferred shareholders. As of December 31, 2007 and 2006, there have been no redemptions under Option C.

#### Option D - Cash Payment

*Redemption of preferred shares for cash at a price of ₱775 per share, equivalent to the closing market price of such preferred shares on April 1, 2002 up to a maximum of ₱72 million (cap funds held by custodian bank for the redemption of preferred shares).*

Should the total amount of all the preferred shares of the holders electing this option exceed the cap, the ₱72 million shall be allocated among all accepting shareholders on a pari passu basis; with the remaining preferred shares to be purchased under any of Options A, B or C.

As of December 31, 2007 and 2006, the Group redeemed 3,050 preferred shares and 149,210 preferred shares, respectively, under Option D.

The Group cancelled/retired 139,000 and 197,760 issued preferred shares in 2007 and 2006, respectively. The difference between the par value and the redemption price amounting to ₱189.83 million and ₱234.36 million as of 2007 and 2006, respectively, were charged against the additional paid in capital account.

The BOD, at various dates, approved the issuance of additional 400,000,000 common shares out of the Company's existing unissued authorized capital stock in favor of Dacon Corporation at prices ranging from ₱6.70 per share to ₱7.52 per share or a total price of ₱1.90 billion. As required by the PSE Listing Rules, the stockholders approved the issuance of new 400 million voting common shares in favor of Dacon. Likewise, the waiver of the rights/public offering of the new 400 million voting common shares to be issued to Dacon was approved by the majority of the minority stockholders.

#### Retained earnings

Retained earnings is restricted to the extent of the acquisition cost of the treasury shares amounting to ₱1.10 million and ₱187.21 million as of December 31, 2006 and 2005, respectively.

#### *Dividends declared*

On April 3, 2007 and June 15, 2006, the Parent Company's BOD approved and declared cash dividend of ₱0.10 per share or ₱225.55 million to stockholders of record as of April 30, 2007 and June 30, 2006, respectively. The 2007 and 2006 cash dividend were paid on May 28, 2007 and July 20, 2006, respectively.

On April 24, 2008, the BOD approved the declaration of cash dividend of ₱0.10 per share to stockholders of record as of May 12, 2008, out of the unrestricted retained earnings as of December 31, 2007. The 2008 cash dividend will be paid on May 30, 2008.



Capital Management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. The Group considers total stockholders' equity as capital

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**23. Related Party Transactions**

In the regular course of business, the Group's significant transactions with related parties, which are accounted for at market prices normally charged to unaffiliated customers for similar goods and services, consisted primarily of the following:

- (a) Comprehensive surety, corporate and letters of guarantee issued by the Company and DMCI for various credit facilities granted to and for full performance of certain obligations by certain related parties (Notes 14, 16 and 31). Such outstanding surety and/or guarantees amounted to ₱354 million as of December 31, 2004. These obligations were paid in 2005.
- (b) Interest and noninterest-bearing cash and operating advances made by the Group to and from various associates and other related parties.

Details of maturing receivables from and payables to related parties as of December 31, 2007 and 2006 are as follow:

	2007	2006
Receivable from Related Parties (Note 6)		
Celebrity Sports Plaza	₱69,972,660	₱—
Universal Rightfield Property Holdings, Inc.	66,382,253	127,443,010
One Asia Development Corp.	62,316,305	—
Atlantic Gulf & Pacific Company	—	553,525,418
DMC Urban Property Developers, Inc.	—	245,352,200
Others	104,943,310	174,353,393
	<b>₱303,614,528</b>	<b>₱1,100,674,021</b>
Payable to Related Parties		
DACON Corporation	92,196,633	200,000,000
M & S Company	84,476,761	99,881,140
DMC Urban Property Developers, Inc.	29,461,262	27,746,204
One Asia Development Corporation	—	75,074,468
Others	172,754,284	44,799,416
	<b>378,888,940</b>	<b>447,501,228</b>
Net Receivable (Payable) to Related Parties	<b>(₱75,274,412)</b>	<b>₱653,172,793</b>



Outstanding balances as of December 31, 2007, which are unsecured and interest free, are all due within one year. The Group has provided allowance for doubtful accounts for amounts owned by related parties that are deemed uncollectible (see Note 5). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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

	2007	2006
Short-term employee benefits	<b>₱37,665,856</b>	₱27,329,775
Post employment benefits (Note 24)	<b>24,902,972</b>	2,661,201
	<b>₱62,568,828</b>	₱29,990,976

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

## 24. Employee Benefits

### Retirement Plans

The Group has both unfunded (DMCI-HI and PDI) and funded (other subsidiaries), noncontributory, defined benefit pension plans covering substantially all of their regular employees. The latest actuarial valuation reports of the retirement plans were made on December 31, 2006.

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

	2007	2006	2005
Current service cost	<b>₱25,115,481</b>	₱28,500,069	₱10,484,508
Interest cost on benefit obligation	<b>20,580,162</b>	20,338,178	22,597,832
Expected return on plan assets	<b>(32,586,949)</b>	(12,730,102)	(12,730,102)
Net actuarial loss (gain) recognized during the year	<b>106,114,093</b>	(5,522,355)	466,615
Past service cost - non vested benefit	<b>1,995,482</b>	141,163	-
Past service cost - vested benefit	<b>44,400,037</b>	-	-
Amortization of transition obligation recognized during the year	<b>399,820</b>	399,820	399,820
Total pension expense	<b>₱166,018,126</b>	₱31,126,773	₱21,218,673
Actual return on plan assets	<b>₱101,044,585</b>	₱104,026,975	-



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

	2007	2006	2005
Balance at beginning of year	<b>₱277,391,997</b>	₱171,856,371	₱159,126,269
Expected return on plan assets	<b>32,586,949</b>	12,730,102	12,730,102
Actual contributions	<b>84,280,361</b>	19,650,846	–
Benefits paid	<b>(715,889)</b>	(5,412,093)	–
Transfer of assets	<b>(17,721)</b>	–	–
Actuarial gain - net	<b>68,457,636</b>	78,566,771	–
<b>Balance at end of year</b>	<b>₱461,983,333</b>	₱277,391,997	₱171,856,371

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

	2007	2006	2005
Balance at beginning of year	<b>₱250,164,117</b>	₱194,656,679	₱182,565,943
Interest cost	<b>20,580,162</b>	20,338,178	22,597,832
Current service cost	<b>25,115,481</b>	28,500,069	10,484,508
Past service cost - non vested benefit	<b>17,052,039</b>	–	–
Past service cost - vested benefit	<b>44,400,037</b>	1,468,002	–
Benefits paid	<b>(2,213,404)</b>	(5,412,093)	–
Transfer of obligations	<b>(17,721)</b>	–	–
Actuarial (gain) loss - net	<b>(17,763,237)</b>	10,613,282	(20,991,604)
<b>Balance at end of year</b>	<b>₱337,317,474</b>	₱250,164,117	₱194,656,679

Liability to be recognized in the consolidated balance sheet:

	2007	2006	2005
Present value of unfunded obligation	<b>₱337,317,474</b>	₱250,164,117	₱194,656,679
Fair value of plan assets	<b>₱461,983,333</b>	277,391,997	171,856,371
Excess of fair value of plan assets over present value of unfunded obligation	<b>(124,665,859)</b>	(27,227,880)	22,800,308
Unrecognized actuarial gain (loss) - net	<b>268,860,502</b>	76,525,534	(5,556,444)
Unrecognized past service cost - non vested	<b>(16,383,396)</b>	(1,326,839)	–
Unrecognized net transition obligation	<b>(140,373)</b>	(799,639)	(1,199,460)
Unrecognized net assets	<b>(259,447)</b>	–	–
<b>Liabilities to be recognized in the consolidated balance sheets</b>	<b>₱127,411,427</b>	₱74,399,056	₱16,044,404

The movements in the net retirement liability (asset) recognized in the consolidated balance sheet follow:

	2007	2006	2005
Balance at beginning of period	<b>₱47,171,177</b>	₱16,044,404	(₱5,174,269)
Contribution	<b>(85,777,876)</b>	–	–
Pension expense	<b>166,018,126</b>	31,126,773	21,218,673
<b>Balance at end of period</b>	<b>₱127,411,427</b>	₱47,171,177	₱16,044,404



The amounts for the current and the previous period follow:

	2007	2006
Excess of fair value of plant asset over present value of define benefit obligation	<b>(₱124,665,859)</b>	<b>(₱27,227,880)</b>
Experience adjustments on plan obligation	<b>1,663,542</b>	<b>(5,116,687)</b>
Experience adjustments on plan assets	<b>68,457,636</b>	-

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

	2007	2006	2005
Discount rate	<b>7.97% to 10.43%</b>	12%	12%
Salary increase rate	<b>10%</b>	10%	10%
Expected rate of return on plan assets	<b>7%</b>	12%	8%

## 25. Costs of Sales and Services

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

	2007	2006	2005
Included in:			
Coal sales	<b>₱1,537,383,602</b>	₱1,335,762,599	₱1,238,929,678
Construction contracts	<b>103,559,125</b>	32,270,888	72,722,175
Operating expenses (Note 26)	<b>39,029,997</b>	48,713,883	29,391,009
	<b>₱1,679,972,724</b>	₱1,416,747,370	₱1,341,042,862

	2007	2006	2005
Depreciation, depletion and amortization of:			
Property, plant and equipment (Note 13)	<b>₱1,675,636,127</b>	₱1,412,572,417	₱1,335,547,851
Other noncurrent assets (Note 14)	<b>853,031</b>	412,738	38,838
Real estate held for sale and development (Note 8)		-	2,822,796
Investment properties (Note 12)	<b>3,483,566</b>	3,762,215	2,633,377
	<b>₱1,679,972,724</b>	₱1,416,747,370	₱1,341,042,862

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

	2007	2006	2004
Included in:			
Costs of construction contracts	<b>₱698,880,167</b>	₱330,959,847	₱367,542,131
Operating expenses (Note 26)	<b>322,887,603</b>	200,688,257	198,701,631
Costs of coal sales	<b>244,503,934</b>	140,330,673	116,282,956
	<b>₱1,266,271,704</b>	₱671,978,777	₱682,526,718



## 26. Operating Expenses

This account consists of:

	2007	2006	2005
Salaries, wages and employee benefits (Note 25)	<b>₱322,887,603</b>	₱200,688,257	₱198,701,631
Advertising and marketing	<b>347,920,517</b>	46,340,977	35,220,167
Government share	<b>191,290,056</b>	138,272,655	158,784,821
Commission	<b>140,299,511</b>	94,521,259	45,723,198
Taxes and licenses	<b>103,928,927</b>	56,956,000	54,018,437
Outside services	<b>102,020,559</b>	71,160,864	102,631,929
Rent (Note 34)	<b>44,093,211</b>	31,336,803	23,334,957
Depreciation and amortization (Note 25)	<b>39,029,997</b>	48,713,883	29,391,009
Communication, light and water	<b>30,483,199</b>	26,803,633	31,256,387
Supplies	<b>26,724,325</b>	31,328,087	16,133,371
Entertainment, amusement and recreation	<b>25,901,357</b>	35,762,538	39,553,521
Transportation and travel	<b>21,835,098</b>	42,276,522	41,979,873
Probable losses on noncurrent assets	<b>20,187,583</b>	-	-
Repairs and maintenance	<b>13,708,492</b>	20,103,450	10,272,100
Provision for doubtful accounts	<b>4,434,241</b>	105,840,759	92,323,339
Insurance	<b>3,828,682</b>	3,096,183	3,211,300
Probable losses on investments	-	103,388,649	-
Provision for inventory obsolescence	-	39,787,613	-
Miscellaneous	<b>84,914,650</b>	24,632,206	62,243,615
	<b>₱1,523,488,008</b>	₱1,121,010,338	₱944,779,655

## 27. Finance Income

Finance income is derived from the following sources:

	2007	2006	2005
Interest on:			
Real estate receivable	<b>₱258,558,285</b>	₱215,878,662	₱66,243,952
Short-term placements	<b>84,634,738</b>	109,703,553	135,561,947
Bank savings account	<b>23,803,820</b>	32,414,976	4,572,653
	<b>₱366,996,843</b>	₱357,997,191	₱206,378,552



## 28. Finance Costs

The finance costs are incurred from the following:

	2007	2006	2005
Interest on:			
Long-term borrowings	<b>₱212,146,253</b>	₱193,193,414	₱179,792,385
Bank loans and short-term borrowings	<b>168,396,014</b>	130,542,853	31,119,055
Purchase contracts	<b>704,515</b>	23,974,286	-
Loans to affiliated entities	<b>63,496,109</b>	3,978,082	9,108,190
	<b>₱444,742,891</b>	₱351,688,635	₱220,019,630

## 29. Other income (charges)

This account consists of:

	2007	2006	2005
Foreign exchange gain - net	<b>₱70,791,494</b>	₱124,745,394	₱100,651,573
Rental income	<b>19,905,474</b>	12,174,806	5,151,492
Gain (loss) on sale of property and equipment - net	<b>11,396,121</b>	162,495,353	(83,788,235)
Dividend income	<b>3,937,366</b>	6,972	5,777,090
Write off of deposits	<b>(300,000,000)</b>	-	-
Revenue from guarantee fees	-	-	25,760,109
Others	<b>(18,340,808)</b>	78,701,476	40,165,116
	<b>(₱212,310,353)</b>	₱378,124,001	₱93,717,145

## 30. Income Taxes

The significant components of deferred tax assets and liabilities represented the deferred tax effects of the following:

	2007	2006
Deferred tax assets on:		
Allowance for:		
Doubtful accounts	<b>₱25,310,335</b>	₱69,392,066
Inventory obsolescence	<b>22,059,863</b>	33,195,963
Contingencies	-	10,484,528
Probable loss	<b>35,676,508</b>	28,686,027
Unamortized discount on receivables	<b>69,008,953</b>	-
Pension liabilities	<b>44,594,000</b>	16,509,912
Accrued expenses and other expense	<b>6,586,014</b>	41,599,587

(Forward)



	2007	2006
Provision for decommissioning and site rehabilitation	<b>₱4,271,819</b>	<b>₱-</b>
NOLCO	-	12,485,454
Accrued retirement costs	-	5,881,525
MCIT	-	1,632,905
	<b>207,507,492</b>	<b>219,867,967</b>
Deferred tax liabilities on:		
Incremental cost of property, plant and equipment	<b>(80,363,926)</b>	(100,791,915)
Excess of book over tax income pertaining to construction contracts and real estate sales	<b>(126,034,468)</b>	(122,406,082)
Unamortized discount on loans payable	<b>(21,915,999)</b>	
Capitalized interest on real estate for sale and development deducted in advance		(9,583,535)
Others - net unrealized gain	<b>(45,126,310)</b>	(30,986,500)
	<b>(273,440,703)</b>	(263,768,032)
	<b>(₱65,933,211)</b>	<b>(₱43,900,065)</b>

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

	2007	2006
Allowance for losses on assets	<b>₱25,740,844</b>	₱48,042,493
Allowance for doubtful accounts	<b>2,954,879</b>	3,712,722
NOLCO	-	1,872,974
Retirement costs	-	8,017,202
Accrued expenses	-	1,954,534
	<b>28,695,723</b>	<b>63,599,925</b>
Tax effect	<b>10,043,503</b>	22,259,974
MCIT	-	2,363,798
	<b>₱10,043,503</b>	<b>₱24,623,772</b>

The deferred income tax effects of the above deductible temporary differences for which no deferred tax assets are recognized amounted to ₱10.04 million and ₱24.62 million as of December 1, 2007 and December 31, 2006, respectively. Deferred tax assets are recognized only to extent that taxable income will be available against which the deferred tax assets can be used. The Group assesses the unrecognized deferred tax assets and will recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered. Accordingly, in 2007, the Group recognized portion of deferred income tax effects of the deductible temporary differences not recognized in prior years and this amounted to ₱14.58 million.

As of December 31, 2007, the Group's available NOLCO amounting to ₱14.36 million was applied against the current provision for income tax and income tax payables.



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

	2007	2006	2005
Final	<b>₱13,825,954</b>	₱9,396,980	₱10,470,800
Current	<b>484,153,681</b>	514,368,812	497,908,228
Deferred	<b>(21,079,640)</b>	(61,137,989)	58,496,703
	<b>₱476,899,995</b>	₱462,627,803	₱566,875,731

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

	2007	2006	2005
Statutory income tax rate	<b>35.00%</b>	<b>35.00%</b>	32.50%
Adjustments for:			
Changes in unrecognized deferred tax assets	<b>0.79</b>	<b>(1.24)</b>	0.50
Nondeductible interest expense	<b>0.11</b>	<b>1.17</b>	0.22
Nondeductible expenses	<b>0.20</b>	<b>0.02</b>	0.02
Nontaxable equity in net earnings of associates and jointly controlled entities	<b>(18.50)</b>	<b>(0.53)</b>	(0.17)
Interest income subjected to final tax at a lower rate - net	<b>(1.21)</b>	<b>(2.58)</b>	(0.78)
Additional deductible expenses	<b>(0.10)</b>		
Gain on sale of investments in shares of stock subjected to final tax	<b>(2.01)</b>	<b>(6.75)</b>	(12.98)
Non taxable dividend income	<b>(1.21)</b>	-	(0.04)
Gain on sale of dilution	<b>(1.81)</b>	-	(5.47)
Change in tax rate	<b>2.55</b>	-	(1.83)
Others – net	-	<b>(0.02)</b>	(0.03)
Effective income tax rate	<b>13.81%</b>	<b>25.07%</b>	11.94%

Republic Act (RA) No. 9337

RA No. 9337 was enacted into law amending various provisions in the existing 1997 National Internal Revenue Code. On October 18, 2005, the SC has rendered its final decision declaring the validity of RA No. 9337. Among the reforms introduced by the said RA, which became effective on November 1, 2005, are as follows:

- Increase in the corporate income tax rate from 32% to 35% with a reduction thereof to 30% beginning January 1, 2009;
- Grant of authority to the Philippine President to increase the value-added tax (VAT) rate from 10% to 12% effective February 1, 2006;
- Revised invoicing and reporting requirements for VAT;
- Expanded scope of transactions subject to VAT; and
- Provide thresholds and limitations on the amounts of VAT credits that can be claimed.

Due to enactment of the RA, the deferred tax assets and liabilities as of December 31, 2005 was measured at 35%.



Board of Investments (BOI) Incentives

In 2007 and 2006, the BOI issued in favor of certain subsidiaries in the group a Certificate of Registration as a New Developer of Mass Housing Project for its 4 real estate projects in accordance with the Omnibus Investment Code of 1987. Pursuant thereto, the projects has been granted an Income Tax Holiday for a period of four (4) years commencing from 2007 until 2011.

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

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

	2007	2006	2005
Net income	<b>₱2,840,094</b>	₱1,135,299	₱3,591,511
Less dividends on preferred shares	–	–	542
	<b>2,840,094</b>	1,135,299	3,590,969
Divided by weighted average number of common shares	<b>2,409,577</b>	2,255,494	2,255,494
Basic earnings per share	<b>₱1.18</b>	₱0.50	₱1.59

The assumed conversion of the Group's preferred shares has no dilutive effect. The preferred shareholders' right of conversion expired in March 2002. Accordingly, no diluted earnings per share is presented in the accompanying consolidated statement of income in 2007, 2006 and 2005.

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**32. Coal Supply Agreements with NPC, Solid Cement Corporation and APO**

NPC

The Company has a CSA with NPC, a major customer, dated May 19, 1995, whereby the Company agreed to sell and NPC agreed to buy from the Company the local coal requirements of its 2 x 300 megawatt coal-fired power plants at Calaca, Batangas (Calaca I & II).

The CSA is effective for 15 years up to May 2010. Subsequent amendments have been made to the CSA in 2001 and 2002 and the most relevant among those amendments included the following:

- a) NPC to be entitled to an additional 3% discount in the event that its aggregate lifting 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 lifting exceeds 1,100,000 MT of coal;
- b) maintenance by the Company, 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;
- c) 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;



- d) inclusion of certain bases of NPC's exercise of its rights to reject and/or stop coal deliveries by the Company 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 the Company in the event NPC exercises such rights;
- e) 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 the Company'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; and
- f) changes in the computation of the adjustment for penalty or bonus from the base price per MT.

In 2003, the supplemental agreement (Agreement) to the CSA has been finalized. The Agreement provided for, among others, the services to be undertaken by the Company for the coal handling operations at Calaca, Batangas as a result of the extension of coal delivery from C&F Discharge Port to C&F Silo with the cost of ₱66 per MT plus value added tax.

The services to be undertaken by the Company in order to extend its delivery service from discharge port to silos includes coal unloading and handling; repairs and maintenance of coal handling facilities; stevedoring services; support activities and coal yard management; and tree planting, marine life protection program and environmental programs to enhance image of NPC power plants. The Company recognized a net income (loss) of ₱23.40 million, ₱25.98 million, and (₱26.87) million from this handling operation for the years ended December 31, 2006, 2005 and 2004, respectively.

The Company's receivables from NPC amounted to ₱380.93 million and ₱809.33 million as of December 31, 2007 and 2006, respectively.

#### Solid and SSP

The Company has existing MOAs with Solid and SSP. These MOAs cover coal deliveries aggregating to 20,000 MT in 2007 and 36,000 MT in 2006 with an estimated base price of ₱2,900.00 per MT for SSP and ₱1,800.00 per MT for Solid.

As provided for in the MOA, the Company received advance payments that are subsequently applied against coal delivery sales. The unapplied portion of these advance payments are presented as "Customers' deposits" account in the balance sheet (Note 18).

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### **33. Coal Operating Contract with DOE**

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



up to July 2012. The contract also provides for the manner and basis of sharing the gross proceeds from coal production between the Company and DOE. The Company's liabilities to DOE (including accrued interest computed at 14% per annum on outstanding balance) under this contract and to the different local government units in the province of Antique, under the provisions of the Local Government Code of 1991, amounted to ₱53.56 million and ₱28.51 million as of December 31, 2007 and 2006, respectively. These liabilities are included under the "Accounts and other payables" account in the balance sheet (see Note 17).

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

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### 34. Segment Reporting

#### 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, coal mining, real estate development and Parent Company & 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, 2007, 2006 and 2005 and property, plant and equipment additions, total assets and total liabilities for the business segments as of December 31, 2007, 2006 and 2005 (amounts in millions):

#### 2007

	General Construction	Coal Mining	Real Estate Development	Parent Company and Others	Total
Revenue	₱2,955	₱6,467	₱2,455	₱568	₱12,445
Net income	324	632	671	1,500	3,127
Depreciation, Depletion and Amortization	104	1,335	10	231	1,680
Net finance income (expense)	(17)	(100)	79	(40)	(78)
Income taxes	(18)	327	180	(12)	477
Property, plant and equipment additions	550	353	263	85	1,251
Segment Assets	7,073	6,612	7,793	7,585	29,063
Segment Liabilities	3,282	1,979	5,126	1,496	11,883



2006

	General Construction	Coal Mining	Real Estate Development	Parent Company and Others	Total
Revenue	₱1,747	₱4,688	₱1,905	₱362	₱8,702
Net income	137	601	287	358	1,383
Depreciation, Depletion and Amortization	32	1,336	12	33	1,413
Net finance income (expense)	(6)	(159)	112	59	6
Income taxes	86	309	59	9	463
Property, plant and equipment additions	139	1,504	35	13	1,691
Segment Assets	5,405	6,265	3,388	20,599	20,625
Segment Liabilities	1,092	2,254	3,947	1,646	8,939

2005

	General Construction	Coal Mining	Real Estate Development	Parent Company and Others	Total
Revenue	₱2,790	₱5,553	₱1,508	₱178	₱10,029
Net income	74	1,592	140	2,375	4,181
Depreciation, Depletion and Amortization	92	1,239	4	3	1,338
Net finance income (expense)	18	(63)	(10)	42	(14)
Income taxes	51	423	81	12	567
Property, plant and equipment additions	84	1,798	4	–	1,886
Segment Assets	3,743	6,935	6,026	327	17,031
Segment Liabilities	923	2,798	2,683	148	6,552

The Group generally accounts for inter-segment sales and transfers as if the sales or transfers were to third parties at current market prices.

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**35. Financial Instruments**

Fair value information

Financial assets and liabilities are recognized initially at cost which is the fair value of the consideration given (in the case of the asset) or received (in the case of liability). Debt issuance costs are included in the initial measurement of all financial assets and liabilities except those that are designated as fair value through profit and loss. Subsequent to initial recognition, assets and liabilities are either valued at amortized cost using effective interest rate method or at fair value depending on their classification.



The table below presents a comparison by category of carrying amounts and estimated fair values of all the Group's financial instruments as of December 31, 2007 and 2006.

	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Loans and Receivables</b>				
Cash and cash equivalents				
Cash on hand and in banks	₱823,987,335	₱823,987,335	₱724,603,701	₱724,603,701
Cash equivalents	2,715,660,264	2,715,660,264	527,307,484	527,307,484
Receivables – net				
Trade				
Real estate	2,753,686,371	3,408,218,524	1,879,951,387	3,295,735,415
General construction	534,090,850	534,090,850	539,163,965	539,163,965
Coal mining	1,066,938,992	1,066,938,992	417,565,625	417,565,625
Receivable from related parties	303,614,528	303,614,528	1,030,436,373	1,030,436,373
Advances to officers and employees	11,848,505	11,848,505	6,701,554	6,701,554
Other receivables	245,601,436	245,601,436	302,520,060	302,520,060
Refundable deposits	142,846,122	142,846,122	80,218,125	80,218,125
	<b>8,598,274,403</b>	<b>9,252,806,556</b>	<b>5,508,468,274</b>	<b>6,924,252,302</b>
<b>AFS investments</b>				
Quoted securities	29,602,368	29,602,368	95,957,351	95,957,351
Unquoted securities	173,070,692	173,070,692	163,634,159	163,634,159
	<b>202,673,060</b>	<b>202,673,060</b>		
	<b>₱8,800,947,463</b>	<b>₱9,455,479,616</b>	<b>₱5,768,059,784</b>	<b>₱7,183,843,812</b>
<b>Financial Liabilities</b>				
Accounts and other payables	₱3,161,504,437	₱3,161,504,437	₱2,293,463,302	₱2,293,463,302
Liabilities for purchased land	602,940,101	493,528,002	390,392,363	182,368,217
Payable to related parties	378,888,940	378,888,940	473,162,605	473,162,605
Loans payable and long-term debt - including current portion	3,905,616,785	4,440,900,617	4,683,177,085	4,746,164,747
Other noncurrent liabilities	16,955,199	16,955,199	15,888,611	15,888,611
	<b>₱8,065,905,462</b>	<b>₱8,491,777,195</b>	<b>₱7,856,083,966</b>	<b>₱7,711,047,482</b>

#### Fair Value of Financial Instruments

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

#### Financial Assets

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

The fair values of long-term contracts receivable are calculated by discounting expected future cash flows at applicable rates for similar instruments using the remaining terms of maturity. The discount rate used in 2007 and 2006 ranged from 10.00% to 13.00%.

For AFS investment in unquoted equity securities, these are carried and presented at cost since fair value is not reasonably determine due to the unpredictable nature of future cash flows and without any other suitable methods of arriving at a reliable fair value approximate its fair value.

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



## Financial Liabilities

The fair values of accounts and other payables and accrued expenses and payables to affiliated companies approximate their carrying amounts as of balance sheet dates due to the short-term nature of the transactions.

Estimated fair value of long-term fixed rate loans is based on the discounted value of future cash flows using the applicable rates for similar types of loans. For floating rate loans, the carrying value approximates the fair value because of recent and regular repricing (quarterly) based on market conditions.

### Financial Risk Management Objectives and Policies

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

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

#### *Foreign exchange risk*

The Group's foreign exchange risk results primarily from movements of the Philippine Peso against the United States Dollar. Majority of revenues are generated in Pesos and some of the capital expenditures are in US\$. Approximately 46% and 69% of debts as of December 31, 2007 and 2006, respectively, were denominated in US\$.

Information on the Company's foreign currency-denominated monetary assets and liabilities and their Philippine peso equivalents as of December 31, 2007 and 2006 follows:

	2007			Php Equivalent
	U.S. Dollar	Japanese Yen	UK Pounds	
<b>Assets</b>				
Cash and cash equivalents	\$32,907,409	40,000,000	233,367	₱1,469,029,399
Trade receivables				
Coal mining	7,129,269	–	–	294,296,224
Investment in Stocks	1,000,000	–	–	46,650,000
	<b>41,036,678</b>	<b>40,000,000</b>	<b>233,367</b>	<b>1,809,975,623</b>
<b>Liabilities</b>				
Accounts and other payables	1,669,348	–	–	68,910,685
Long-term debt (including current portion)	12,065,361	–	–	498,058,102
	13,734,709	–	–	566,968,787
<b>Net foreign currency denominated assets (liabilities)</b>	<b>\$27,301,969</b>	<b>40,000,000</b>	<b>233,367</b>	<b>₱1,243,006,836</b>



	2006			
	U.S. Dollar	Japanese Yen	UK Pounds	Php Equivalent
<b>Assets</b>				
Cash and cash equivalents	\$247,851	–	156,218	₱12,152,134
	\$247,851	–	156,218	12,152,134
<b>Liabilities</b>				
Accounts and other payables	2,009,078	–	–	98,505,094
Long-term debt (including current portion)	16,837,244	–	–	825,530,073
	18,846,322	–	–	924,035,167
Net foreign currency denominated asset (liabilities)	(\$18,598,471)	–	156,218	(₱911,883,033)

*The spot exchange rates used in 2007 and 2006 were ₱41.28 to US\$1 and ₱49.03 to US\$1, respectively.*

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and equity on December 31, 2007.

Increase/(decrease) in Peso per U.S. Dollar rates	₱1	(₱1)
Effect on profit before tax	27,301,969	(27,301,969)
Effect on equity	17,746,280	(17,746,280)
Increase/(decrease) in Peso per Japanese Yen	₱0.05	(₱0.05)
Effect on profit before tax	2,000,000	(2,000,000)
Effect on equity	1,300,000	(1,300,000)
Increase/(decrease) in Peso per UK Pounds	₱8	(₱8)
Effect on profit before tax	1,866,936	(1,866,936)
Effect on equity	1,213,508	(1,213,508)

The Group recognized ₱266.67 million and ₱734.17 million foreign exchange gain for the years ended December 31, 2007 and 2006, respectively, arising from the translation of the Group's cash and cash equivalents, trade receivables and long-term debt.

#### *Credit risk*

The Group's exposure to credit risk arises from default of the counterparties which include certain financial institutions, real estate buyers, subcontractors and suppliers. Credit risk management involves dealing only with institutions or individuals for which credit limits have been established, and with subcontractors and suppliers whose paying and performance capabilities are rigorously screened. The Treasury policy sets a credit limit for each counterparty. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

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



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

The table below shows the gross maximum exposure to credit risk for the components of the balance sheet.

	2007	2006
<b>Balance sheet items</b>		
Cash and cash equivalents		
Cash on hand and in banks	<b>₱823,987,335</b>	₱724,603,701
Cash equivalents	<b>2,715,660,264</b>	527,307,484
Available-for-sale financial assets		
Quoted securities	<b>29,602,368</b>	95,957,351
Unquoted securities	<b>173,070,692</b>	163,634,159
Receivables		
Trade		
Real estate	<b>2,753,686,371</b>	1,883,601,265
General construction	<b>534,090,850</b>	631,597,549
Coal Mining	<b>1,066,938,992</b>	374,230,827
Receivable from related parties	<b>303,614,528</b>	1,100,674,021
Advances to officers and employees	<b>11,848,505</b>	6,701,554
Other receivables	<b>245,601,436</b>	309,703,369
Refundable deposits	<b>142,846,122</b>	80,218,125
<b>Total credit risk exposure</b>	<b>₱8,658,101,341</b>	<b>₱5,818,011,280</b>

As of December 31, 2007, the credit quality per class of financial assets that were neither past due nor impaired is as follows:

	Neither past due nor impaired			Past due or Individually impaired	Total
	Grade A	Grade B	Grade C		
Cash and cash equivalents	₱3,539,647,599	₱-	₱-	₱-	₱3,539,647,599
Available-for-sale financial assets	202,673,060				202,673,060
Trade:					
Real estate	1,032,693,661	753,875,283	-	967,117,427	2,753,686,371
General construction	283,341,804	212,285,519	-	38,463,527	534,090,850
Coal Mining	663,816,967	90,726,026	-	312,395,999	1,066,938,992
Receivable from related parties	303,614,528	-	-	-	303,614,528
Advances to officers and employees	11,848,505	-	-	-	11,848,505
Other receivables	223,374,401	-	-	7,380,686	230,755,087
Refundable deposits	142,846,122	-	-	-	142,846,122
<b>Total</b>	<b>₱6,403,856,647</b>	<b>₱1,056,886,828</b>	<b>₱-</b>	<b>₱1,325,357,639</b>	<b>₱8,786,101,114</b>



As of December 31, 2007, the aging analysis of the Company's receivables presented per class follows

	Neither Due nor Impaired	Past due but not impaired					Impaired Assets	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days		
(In thousands)								
Receivables								
Trade								
Real estate	₱1,845,462,692	₱79,542,610	₱206,401,675	₱164,550,168	₱262,099,970	₱187,618,565	₱8,010,691	₱2,753,686,371
General construction	495,627,323						38,463,527	534,090,850
Coal Mining	754,542,993	120,135,794	90,101,849	60,067,899	15,187,607	–	26,902,850	1,066,938,992
Due from related parties	303,614,528	–	–	–	–	–	–	303,614,528
Advances to officers and employees	11,848,505	–	–	–	–	–	–	11,848,505
Other receivables	223,374,401	–	–	–	–	–	7,380,686	230,755,087
Refundable deposits	142,846,122	–	–	–	–	–	–	142,846,122
<b>Total</b>	<b>₱4,080,931,092</b>	<b>₱199,678,404</b>	<b>₱296,503,524</b>	<b>₱224,618,067</b>	<b>₱277,287,577</b>	<b>₱187,618,565</b>	<b>₱80,757,754</b>	<b>₱5,043,780,455</b>

*Liquidity risk*

The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues both on-shore and off-shore.



**2007**

	Within 1 year	1-2 years	2-3 years	3-4 years	Total - Gross (In US\$)	Total - Gross (in PHP)
<b>Liabilities:</b>						
<b>Floating Rate</b>						
US\$15.14 million loan 6 month USD LIBOR plus 1.5% per annum	\$3,027,672	\$3,027,672	\$1,321,546	–	\$7,376,890	₱304,518,019
US\$6.64 million loan 3 month SIBOR plus 1.95% per annum	\$1,562,824	\$1,562,824	\$1,562,824	–	\$4,688,472	193,540,124
<b>Fixed Rate</b>						
Various letters of credits and suppliers debt with various interest rates	₱302,211,822	–	–	–	–	302,211,822
Various local bank loans 7.88% to 14.4%	₱662,943,987	₱232,117,894	–	–	–	895,061,881
Long-term debt (contracts receivables discounting) 7.5% to 10%	₱647,748,066	₱405,858,732	₱286,149,892	₱789,377,919	–	2,129,134,609
					\$12,065,362	₱3,824,466,454

**2006**

	Within 1 year	1-2 years	2-3 years	3-4 years	Total - Gross (In US\$)	Total – Gross (in PHP)
<b>Liabilities:</b>						
<b>Floating Rate</b>						
US\$15.14 million loan 6 month USD LIBOR plus 1.5% per annum	\$3,027,672	\$3,027,672	\$3,027,672	\$1,321,546	\$10,404,562	₱510,135,675
US\$6.64 million loan 3 month SIBOR plus 1.95% per annum	\$1,562,720	\$1,562,720	\$1,562,720	\$1,562,720	\$6,250,880	306,480,646
₱1,500 million loan 3-month MART1 plus 3% spread plus GRT	₱214,285,714	₱214,285,714	₱214,285,714	₱857,142,857	–	1,500,000,000
<b>Fixed Rate</b>						
Various letters of credits and suppliers debt with various interest rates	₱713,489,588	–	–	–	–	713,489,588
Various local bank loans 7.88% to 14.4%	₱129,824,105	₱129,991,114	59,359,528	–	–	319,174,747
Long-term debt (contracts receivables discounting) 7.5% to 10%	₱242,488,654	₱175,918,789	₱130,144,000	₱731,534,016	–	1,280,085,460
					\$16,655,442	₱4,629,366,116



*Interest rate risk*

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

The following table shows the information about the Group's significant financial instruments that are exposed to cash flow and fair value interest rate risks and presented by maturity profile.

2007

	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Fair Value
(In Thousands)						
<b>Cash equivalents</b>						
Interest Rates 5.25% to 6.5%	₱2,715,660	₱-	₱-	₱-	₱-	₱2,715,660
<b>Contracts receivable</b>						
Effective Interest Rates 10% to 21.50%	454,866	427,511	372,912	372,365	1,184,926	2,812,580
	₱3,170,526	₱427,511	₱372,912	₱372,365	₱1,184,926	₱5,528,240
<b>Long-term debts</b>						
Fixed Rate						
Local bank loan (contracts receivables discounting) 7.5% to 10% interest rate	₱647,748	₱405,859	₱286,150	₱211,514	₱577,864	₱2,129,135
Various local bank loans 7.88% to 14.4% interest rate	662,944	232,118	-	-	-	895,062
Various letters of credit 8-11% interest rate	302,212	-	-	-	-	302,212
Floating Rate						
\$15.14 million loan (USD) 6 month USD LIBOR Plus 1.5% per annum	124,982	124,982	54,554	-	-	304,518
\$6.64 million loan (USD) 3 month SIBOR Plus 1.95% per annum	64,513	64,513	64,513	-	-	193,539
	₱1,802,399	₱827,472	₱405,218	₱211,514	₱577,864	₱3,824,466

2006

	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Fair Value
(In Thousands)						
<b>Cash equivalents</b>						
Interest Rates 4.5% to 6.75%	₱527,307	₱-	₱-	₱-	₱-	₱527,307
<b>Contracts receivable</b>						
Effective Interest Rates 16.50% to 18.70%	268,564	230,500	227,500	226,795	930,241.92	1,883,601
	₱795,871	₱230,500	₱227,500	₱226,795	₱930,242	₱2,410,908

(Forward)



	Within 1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Fair Value
(In Thousands)						
<b>Long-term debts</b>						
Fixed Rate						
Local bank loan (contracts receivables discounting) 7.5% to 10% interest rate	₱242,488	₱175,919	₱130,144	₱731,534	₱-	₱1,280,085
Various local bank loans 7.88% to 14.4% interest rate	129,824	129,991	59,360	-	-	319,175
Various letters of credit 8-11% interest rate	713,490	-	-	-	-	713,490
Floating Rate						
\$15.14 million loan (USD) 6 month USD LIBOR plus 1.5% per annum	148,447	148,447	148,447	64,795	-	510,136
\$6.64 million loan (USD) 3 month SIBOR plus 1.95% per annum	76,620	76,620	76,620	76,620	-	306,480
₱1,500 million loan 3-month MART1 plus 3% spread plus GRT	214,286	214,286	214,286	214,286	642,856	1,500,000
	<b>₱1,525,155</b>	<b>₱745,263</b>	<b>₱628,857</b>	<b>₱1,087,235</b>	<b>₱642,856</b>	<b>₱4,629,366</b>

The following table demonstrates the sensitivity of the Company's profit before tax and equity to a reasonably possible change in interest rates on December 31, 2007, with all variables held constant, through the impact on floating rate borrowings.

	Change in basis points +100 basis points	
	<b>Effect on income before income tax</b>	<b>Effect on equity</b>
	(In thousands)	
Company - floating rate borrowings	(₱4,981)	(₱3,238)
	Change in basis points -100 basis points	
	<b>Effect on income before income tax</b>	<b>Effect on equity</b>
	(In thousands)	
Company - floating rate borrowings	₱4,981	₱3,238



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### 36. Contingencies and Commitments

#### Contingencies

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

DMCI has a contingent claim from URPHI representing interest on contract receivables, the recoverability of which is dependent on the successful implementation of URPHI's rehabilitation plan.

#### Lease Commitments

##### *As Lessee*

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

As of December 31, 2007, future minimum lease payments under the aforementioned finance lease and the present value of the net minimum lease payments (in millions) are as follows:

Within one year	₱108,289,540
After one year but not more than five years	112,312,950
<b>Total minimum lease payments</b>	<b>₱220,602,490</b>

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### 37. Note to Consolidated Statements of Cash Flows

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

	2007	2006
	(In Thousands)	
Conversion of advances for additional shares in AG&P	<b>₱478,152</b>	₱-
Acquisition of conventional and continuous mining equipment through availments of long-term debt	-	973,276
Retirement of redeemed treasury shares	-	189,830
Redemption of preferred shares by related parties charged against advances	-	1,100



## INDEPENDENT AUDITORS' REPORT 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 Philippine Standards on Auditing, the consolidated financial statements of DMCI Holdings, Inc. and Subsidiaries included in this Form 17-A and have issued our report thereon dated April 24, 2008. 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 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 Rule 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.

SYCIP GORRES VELAYO & CO.

*Jessie D. Cabaluna*

Jessie D. Cabaluna  
Partner  
CPA Certificate No. 36317  
SEC Accreditation No. 0069-AR-1  
Tax Identification No. 102-082-365  
PTR No. 0017580, January 3, 2008, Makati City

April 24, 2008





**CERTIFICATION**

3rd floor  
Dacon Building  
2281 Don Chino Roces Ave.  
(formerly Pasong Tamo Ext.)  
Makati City 1231, Philippines

(632) 888 • 3000  
Facsimile  
(632) 816 • 7362  
E-Mail  
dmci@dmcinet.com

I, Ms. **MA. EDWINA C. LAPERAL**, of legal age, Filipino and with office address at 3<sup>rd</sup> Floor, Dacon Bldg., 2281 Don Chino Roces Avenue, Makati City, after being sworn to in accordance with law, do hereby certify that:

1. I am the Treasurer of DMCI Holdings, Inc., a corporation duly created and existing under and by virtue of the laws of the Republic of the Philippines, under SEC Certificate of Registration No. AS095-002283 with principal office address at 3<sup>rd</sup> Floor Dacon Bldg., 2281 Don Chino Roces Avenue, Makati.
2. The General Form for Financial Statements (GFFS) in compact disc (CD) submitted herein has the basic and material data in the audited and financial statements.
3. I am executing this certification to attest to the truth of the foregoing and in compliance with the reportorial requirements of the Securities and Exchange Commission.

Done this APR 28 2008 day of \_\_\_\_\_, 2008 in Makati City.

**MA. EDWINA C. LAPERAL**  
APR 28 2008

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 2008 affiant exhibiting to me his/her Community Tax No. 19491996 on January 18, 2008, Makati City.

**ATTY. LOPE M. VELASCO**  
**NOTARY PUBLIC**  
Until Dec. 31, 2009  
PTR O.R. No. 6238211 – Mla. 01/02/08  
IBP O.R. No. 712488 – Mla. 12/20/07  
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Doc. No. 491  
Page No. 100  
Book No. 114  
Series of 2008



**DMCI HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE A - MARKETABLE SECURITIES (CURRENT MARKETABLE EQUITY SECURITIES AND**  
**OTHER SHORT-TERM CASH INVESTMENTS)**  
As of December 31, 2007

	Name of Issuing entity & association of each issue	Number of shares or principal amount of bonds & interest	Amount shown in the balance sheet	Valued based on market quotation at balance	Income received & accrued
	Available-for-sale investments		P 202,673,060		P
			<u>P 202,673,060</u>		<u>P -</u>



**DMCI HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS,**  
**OFFICERS AND EMPLOYEES**

*As of December 31, 2007*

Emp. No.	Name	AMOUNT
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**DMCI HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE C - NON-CURRENT MARKETABLE EQUITY SECURITIES,**  
**OTHER LONG-TERM INVESTMENT IN STOCKS AND OTHER INVESTMENTS**  
As of December 31, 2007

NAME OF COMPANY	BEGINNING BALANCE		ADDITIONS		DEDUCTIONS		ENDING BALANCE		Dividends received/accrued fr investments not accounted for by the equity method
	Number of Shares	Amount in Pesos	Equity in Earnings (Losses) of Investees for the period	Others (Cost & Equity Adj )	Distribution of Earnings by Investees	Others (Cost & Equity adj)	Number of Shares	Amount in Pesos	
<b>AT EQUITY:</b>									
BACHY SOLETANCHE PHILIPPINES CORPORATION		42,890,723	215,594					43,106,317	
VULCAN MATERIALS CORPORATION		-						-	
SYSTEMS POWERMARK CORPORATION		-						-	
OBAYASHI PHILIPPINES CORPORATION		1,078,532			(1,078,532)			-	
RACO-HAVEN AUTOMATION PHILIPPINES INC.		-						-	
FREYSINNET DAVA0, INC.		-						-	
FREYSINNET PHILIPPINES, INC.		-						-	
CSN PROPERTIES, INC.		-						-	
SUBIC WATER AND SEWERAGE COMPANY		66,223,665	21,471,366					87,695,031	
MONARCA GREENWORLD		-						-	
ATLANTIC, GULF AND PACIFIC COMPANY OF MANILA, INC.		-						-	
ATLANTIC, GULF AND PACIFIC COMPANY OF MANILA, INC.		-						-	
		110,192,920	21,686,960	-	(1,078,532)	-		130,801,348	
<b>AT COST:</b>									
DMCI POWER COPORATION		10,000,000							
RUSINA MINING LTD		-						-	
PRIVATE INFRA DEV CORPORATION		-						-	
		10,000,000	43,373,920	-	(2,157,064)	-		261,602,696	
<b>JOINT VENTURE:</b>									
DMCI/WPC CONSTRUCTION JOINT VENTURE		39,181,239						39,181,239	
DMCI-HI - MAHOGANY PLACE		-						-	
DMCI/OBAYASHI JOINT VENTURE		1,730,226						1,730,226	
SUBIC WATER CONSTRUCTION JOINT VENTURE		9,438,829						9,438,829	
ECO PROCESS AND EQUIPMENT PHILIPPINES		330,526	78,012					408,538	
DMCI-MPIC Water Co. Inc.		3,000,000,000	1,805,666,500					4,805,666,500	
DIAMOND BAY TOWER		-						-	
		3,050,680,820	1,805,744,512	-	-	-		4,856,425,332	
<b>AVAILABLE-FOR SALE INVESTMENTS</b>									
MONTECITO PROPERTIES, INC.		134,632,660						134,632,660	
PROJECT QUEST CORPORATION		12,500,000						12,500,000	
MANILA ELECTRIC COMPANY		14,364,950						14,364,950	
SYSTEMS POWER MARK		6,885,970						6,885,970	
CELEBRITY SPORTS PLAZA		5,952,657						5,952,657	
UNIVERSAL RIGHTFIELD PROPERTY HOLDING, INC.		2						2	
MANILA SOUTHWOODS GOLF-ACADEMY		4,894,768						4,894,768	
SUBIC BAY YATCH CLUB		4,800,000						4,800,000	
AMAPOLA		-						-	
UNICORN FIRST PROPERTIES, INC.		-						-	
PHILIPPINE LONG DISTANCE TELEPHONE COMPANY		1,159,950						1,159,950	
UNIVERSAL LEISURE CORPORATION		1,000,000						1,000,000	
MANILA SOUTHWOODS		850,000						850,000	
DMC CONEX FREIGHT SERVICES, INC.		661,014						661,014	
NORTHWOODS DEVELOPMENT CORPORATION		650,000						650,000	
BAYANTEL		400,000						400,000	
MANILA GOLF AND COUNTRY CLUB		259,000						259,000	
PALICPICAN SPORTS AND COUNTRY CLUB		-						-	
CAPTOL HILLS GOLF AND COUNTRY CLUB		63,250						63,250	
CANLUBANG GOLF AND COUNTRY CLUB		60,000						60,000	
CAPTOL HILLS SPORTS AND COUNTRY CLUB		45,000						45,000	
MAKATI SPORTS CLUB		40,000						40,000	
VALLE VERDE COUNTRY CLUB		35,000						35,000	
MABUHAY VINYL CORPORATION		21,451						21,451	
VALLEY GOLF CLUB		17,000						17,000	
PHILIPPINES COLUMBIAN ASSOCIATION		16,896						16,896	
GALLERY 1 (FIELD OF DREAMS)		15,000						15,000	
CONFEDERATION OF PHILIPPINE EXPORTERS		5,000						5,000	
CLUB SOVIENTO		3,000						3,000	
EXECUTIVE SUITES		3,000						3,000	
PRIVATE BONDS		-						-	
GOVERNMENT SECURITIES		-						-	
MUTUAL FUND		303,702				(303,702)		-	
PLDT		127,258						127,258	
ORCHARD		350,000						350,000	
RIVIERA LAND CORPORATION		-	39,000,000					39,000,000	
EQUITY SECURITIES		29,602,102				(29,602,102)		-	
Others		-	9,740,234					9,740,234	
UNREALIZED LOSS ON AFS		-	-			(35,880,000)		(35,880,000)	
UNREALIZED GAIN ON AFS		39,872,880	-			(39,872,880)		-	
		259,591,510	-	48,740,234	-	(105,658,684)		202,673,060	
<b>INVESTMENT IN REAL ESTATE - LAND</b>									
		2,242,010,104				(261,734,268)		1,980,275,835	
<b>INVESTMENT PROPERTIES - CONDOMINIUMS</b>									
		680,000	60,885,187					61,565,187	
<b>INVESTMENT PROPERTIES - BUILDINGS AND IMPROVEMENTS</b>									
		35,590,180				(20,763,417)		14,826,763	
<b>TOTAL</b>		5,708,745,534	1,849,118,432	109,625,421	(2,157,064)	(388,156,369)	-	7,377,368,873	



**DMCI HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE D - INDEBTEDNESS OF UNCONSOLIDATED SUBSIDIARIES & RELATED PARTIES**  
**As of December 31, 2007**

<b>Name of Related Parties</b>	<b>Balance at Beginning of Period</b>	<b>Balance at End of Period</b>
ATLANTIC, GULF AND PACIFIC COMPANY OF MANILA, INC.	783,180,350	483,172,350
UPDI REALTY, INC.	189,869,005	-
UNIVERSAL RIGHFIELD PROPERTY HOLDINGS, INC.	142,398,700	127,443,010
CONSTRESS PHILIPPINES, INC.	101,193,011	-
DACON CORPORATION	56,149,441	3,714,939
SODACO AGRICULTURAL CORP.	34,708,893	400,110
M & S COMPANY	29,138,635	84,245,067
CELEBRITY SPORTS PLAZA, INC.	27,508,575	1,684,267
MARUBENI CORPORATION	20,512,760	-
ASIA INDUSTRIES, INC.	17,680,310	1,252,095
JOHN LAING INTERNATIONAL, INC.	15,500,000	15,500,000
RACO-HAVEN AUTOMATION PHILIPPINES, INC.	11,061,566	19,711,566
BAGTICAN PRYCE CENTER	7,591,957	-
SIRAWAI FOOD CORPORATION	5,739,068	-
FREYSSINET PHILIPPINES, INC.	4,380,269	-
SOUTH DAVAO DEVELOPMENT CO., INC.	3,498,901	129,518
HAMPSTEAD CONDO CORP.	2,250,477	-
DMC URBAN DEVELOPMENT	2,158,014	-
ROYAL STAR AVIATION	2,071,153	2,571,078
URBANCORP REALTY DEVELOPERS, INC.	1,936,586	-
NATIONAL COLLEGE OF BUSINESS AND ARTS	708,390	-
MONTECITO PROPERTIES, INC.	646,304	61,075
DMC CONSTRUCTION EQUIPMENT RESOURCES, INC.	368,132	17,445,576
WESTERN PHILIPPINES CORPORATION	106,143	-
MONARCA GREENWORLD CORPORATION	63,945	-
METRO TAGAYTAY LAND CO.	53,904	-
DMCI HOMES, INC.	-	-
DMC URBAN PROPERTIES DEVELOPERS, INC.	-	199,957,766
SYSTEMS POWERMARK CORPORATION	-	-
BETA EQUIPMENT SALES CORPORATION	-	-
BACHY SOLETANCHE PHILIPPINES CORPORATION	-	-
SUBIC WATER AND SEWERAGE COMPANY, INC.	-	-
CSN PROPERTIES	-	-
<b>OTHERS</b>	<b>42,393,926</b>	<b>73,147,957</b>
<b>Total</b>	<b><u>1,502,868,413</u></b>	<b><u>1,030,436,373</u></b>



**DMCI HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE E - INTANGIBLE ASSETS - OTHER ASSETS**  
As of December 31, 2007

DESCRIPTION	BEGINNING BALANCE	ADDITIONS AT COST	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	OTHER CHANGES ADD/(DED)	ENDING BALANCE
<b>NOT APPLICABLE - NO INTANGIBLE ASSETS CAPTION IN THE BALANCE SHEETS</b>						



**DMCI HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE F - LONG TERM DEBT**  
As of December 31, 2007

<b>TITLE OF ISSUE &amp; TYPE OF OBLIGATION</b>	<b>CURRENT PORTION OF LONG-TERM DEBT</b>	<b>LONG-TERM DEBT</b>	<b>LONG-TERM DEBT NET OF CURRENT PORTION</b>
<b>BANK LOANS</b>			
- WITH INTEREST AT PREVAILING MARKET RATES DUE ON VARIOUS DATES UP TO 2015	1,500,187,727	3,522,254,632	2,022,066,905
<b>PAYABLE TO FOREIGN SUPPLIERS</b>			
- FLOATING RATE - (EXPOSED TO FAIR VALUE RISK) 6 MONTH USD LIBOR PLUS 1.5% PER ANNUM			
- VARIOUS LETTERS OF CREDITS AND SUPPLIERS DEBT VARIOUS INTEREST RATES	-	-	-
<b>ACCEPTANCES AND TRUST RECEIPTS PAYABLE</b>			
- VARIOUS LETTERS OF CREDITS AND SUPPLIERS DEBT VARIOUS INTEREST RATES	343,051,200	343,051,200	-
<b>TOTAL</b>	<b>1,843,238,927</b>	<b>3,865,305,832</b>	<b>2,022,066,905</b>



**DMCI HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE G - INDEBTEDNESS TO RELATED PARTIES**  
As of December 31, 2007

Name of Related Parties	Balance at Beginning of Period	Balance at End of Period
<b>ACCOUNTS AND OTHER PAYABLES</b>		
<b>DUE TO RELATED PARTIES</b>		
DACON CORPORATION	200,000,000	92,196,633
DMC URBAN PROPERTY DEVELOPERS, INC.	27,746,204	29,461,262
UNIVERSAL RIGHTFIELD PROPERTY HOLDINGS, INC.	17,441,468	17,441,468
ONE ASIA DEV'T. CORP.	75,074,468	75,074,468
CELEBRITY SPORTS PLAZA	5,910,480	5,910,480
UPDI REALTY, INC.	4,064,995	4,064,995
ASIA INDUSTRIES, INC.	56,000	56,000
NORTHEAST DEV'T AND ACQUISITIONS CORP.	2,890,784	2,890,784
ANSCOR LAND, INC.	1,946,801	1,946,801
OHKI CORPORATION	-	-
DMC CONSTRUCTION EQUIPMENT RESOURCES, INC.	-	-
OFFICERS/STOCKHOLDERS	-	-
ROYAL STAR AVIATION	340,708	340,708
ATLANTIC, GULF AND PACIFIC COMPANY OF MANILA, INCORPORATED	-	-
DMC CERI - COMMISSARY	-	-
RACO HAVEN AUTOMATION PHILS. INC.	-	-
BETA EQUIPMENT SALES CORPORATION	-	-
SIRAWAN FOOD CORPORATION	5,093	5,093
M & S COMPANY	99,881,140	84,476,761
SODACO AGRICULTURAL CORP.	8,492	8,492
WESTERN PHILIPPINES CORPORATION	3,220	3,220
OTHERS	12,131,375	65,011,775
<b>TOTAL</b>	<b>447,501,228</b>	<b>378,888,940</b>



**DMCI HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE H - GUARANTEES OF SECURITIES OF OTHER ISSUERS**  
As of December 31, 2007

<b>Name of issuing entity of securities guaranteed by the company for which this statement is filed</b>	<b>Title of issue of each class of securities guaranteed</b>	<b>Total amount guaranteed and outstanding</b>	<b>Amount owned by person for which statement is filed</b>	<b>Nature of guaranty</b>
<b>NO GUARANTEES AS OF DECEMBER 31, 2005</b>				



**DMCI HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE I - CAPITAL STOCK**  
As of December 31, 2007

<b>TITLE OF ISSUE</b>	<b>NUMBER OF SHARES AUTHORIZED</b>	<b># OF SHARES ISSUED/ SUBSCRIBED</b>	<b># OF SHARES RESERVED FOR OPTIONS, WARRANTS, CONVERSION &amp; RIGHTS</b>	<b># OF SHARES HELD BY AFFILIATES</b>	<b>DIRECTORS, OFFICERS &amp; EMPLOYEES</b>	<b>OTHERS</b>
<b>COMMON STOCK</b>	5,900,000,000	2,655,494,000	-	-	-	-

**GENERAL FORM FOR FINANCIAL STATEMENTS**

NAME OF CORPORATION: DMCI HOLDINGS, INC. AND SUBSIDIARIES  
 CURRENT ADDRESS: 3rd Floor, Dacon Building, 2281 Don Chino Roces Avenue, Makati City  
 TEL. NO.: 888-3000 FAX NO.: \_\_\_\_\_  
 COMPANY TYPE: Holding Company PSIC: \_\_\_\_\_

*If these are based on consolidated financial statements, please so indicate in the caption.*

**Table 1. Statements of Assets and Liabilities**

FINANCIAL DATA	2007 (in P'000)	2006 (in P'000)
<b>A. ASSETS (A.1 + A.2 + A.3 + A.4 + A.5 + A.6 + A.7 + A.8 + A.9 + A.10)</b>	<b>29,063,206</b>	<b>20,598,954</b>
A.1 Current Assets (A.1.1 + A.1.2 + A.1.3 + A.1.4 + A.1.5)	16,665,284	10,459,734
A.1.1 Cash and cash equivalents (A.1.1.1 + A.1.1.2 + A.1.1.3)	3,539,648	1,251,911
A.1.1.1 On hand		9,769
A.1.1.2 In domestic banks/entities	2,070,618	1,242,142
A.1.1.3 In foreign banks/entities	1,469,029	
A.1.2 Trade and Other Receivables (A.1.2.1 + A.1.2.2)	3,001,461	3,854,349
A.1.2.1 Due from domestic entities (A.1.2.1.1 + A.1.2.1.2 + A.1.2.1.3 + A.1.2.1.4)	3,001,461	3,854,349
A.1.2.1.1 Due from customers (trade)	4,354,716	2,889,430
A.1.2.1.2 Due from related parties	303,615	1,100,674
A.1.2.1.3 Others, specify (A.1.2.1.3.1+A.1.2.1.3.2)	(1,576,112)	(5,585)
A.1.2.1.3.1 Others	266,521	665,040
A.1.2.1.3.2 Costs and estimated earnings in excess of billings on	140,681	17,016
A.1.2.1.3.3 Noncurrent receivables - net	(1,983,314)	(687,641)
A.1.2.1.4 Allowance for doubtful accounts (negative entry)	(80,758)	(130,170)
A.1.2.2 Due from foreign entities, specify (A.1.3.2.1 + A.1.3.2.2 + A.1.3.2.3 + A.1.3.2.4)	0	0
A.1.2.2.1 Due from customers (trade)		
A.1.2.2.2 Due from related parties		
A.1.2.2.3		
A.1.2.2.4 Allowance for doubtful accounts (negative entry)		
A.1.3 Inventories (A.1.3.1 + A.1.3.2 + A.1.3.3 + A.1.3.4 + A.1.3.5 + A.1.3.6)	6,375,959	4,714,825
A.1.3.1 Raw materials and supplies		
A.1.3.2 Goods in process (including unfinished goods, growing crops, unfinished	661,645	1,017,025
A.1.3.3 Finished goods		
A.1.3.4 Merchandise/Goods in transit	107,316	57,095
A.1.3.5 Unbilled Services (in case of service providers)		
A.1.3.6 Others, specify (A.1.3.6.1+A.1.3.6.2)		
A.1.3.6.1 Real estate held for sale and development	4,701,981	2,784,313
A.1.3.6.2 Equipment parts, materials and supplies	905,017	856,392
A.1.3.7 Non current Asset Held for Sale	2,976,609	
A.1.4 Financial Assets other than Cash/Receivables/Equity investments (A.1.4.1 + A.1.4.2 + A.1.4.3 + A.1.4.4+A.1.4.5+A.1.4.6)		
A.1.4.1 Financial Assets at Fair Value through Profit or Loss - issued by domestic entities (A.1.4.1.1 + A.1.4.1.2 + A.1.4.1.3 + A.1.4.1.4 + A.1.4.1.5)		
A.1.4.1.1 National Government		
A.1.4.1.2 Public Financial Institutions		
A.1.4.1.3 Public Non-Financial Institutions		
A.1.4.1.4 Private Financial Institutions		
A.1.4.1.5 Private Non-Financial Institutions		
A.1.4.2 Held to Maturity Investments - issued by domestic entities (A.1.4.2.1 + A.1.4.2.2 + A.1.4.2.3 + A.1.4.2.4 + A.1.4.2.5)		
A.1.4.2.1 National Government		
A.1.4.2.2 Public Financial Institutions		
A.1.4.2.3 Public Non-Financial Institutions		
A.1.4.2.4 Private Financial Institutions		
A.1.4.2.5 Private Non-Financial Institutions		

**NOTE:**

This general form is applicable to companies engaged in Agriculture, Fishery, Forestry, Mining, and Quarrying, Manufacturing, Electricity, Gas and Water, Construction, Wholesale and Retail Trade, Transportation, Storage and Communications, Hotels and Restaurants, Real Estate, Community, Social and Personal Services, other forms of production, and general business operations. This form is also applicable to other companies that do not have industry-specific Special Forms. Special forms shall be used by publicly-held companies and those engaged in non-bank financial intermediation activities, credit granting, and activities auxiliary to financial intermediation, which require secondary license from SEC.

Domestic corporations are those which are incorporated under Philippine laws or branches/subsidiaries of foreign corporations that are licensed to do business in the Philippines where the center of economic interest or activity is within the Philippines. On the other hand, foreign corporations are those that are incorporated abroad, including branches of Philippine corporations operating abroad.

Financial Institutions are corporations principally engaged in financial intermediation, facilitating financial intermediation, or auxiliary financial services. Non-Financial institutions refer to corporations that are primarily engaged in the production of market goods and non-financial services.

**GENERAL FORM FOR FINANCIAL STATEMENTS**

NAME OF CORPORATION: DMCI HOLDINGS, INC. AND SUBSIDIARIES  
 CURRENT ADDRESS: 3rd Floor, Dacon Building, 2281 Don Chino Roces Avenue, Makati City  
 TEL. NO.: 888-3000 FAX NO.: \_\_\_\_\_  
 COMPANY TYPE: Holding Company PSIC: \_\_\_\_\_

*If these are based on consolidated financial statements, please so indicate in the caption.*

**Table 1. Statements of Assets and Liabilities**

FINANCIAL DATA	2007 (in P'000)	2006 (in P'000)
A.1.4.3 Loans and Receivables - issued by domestic entities: (A.1.4.3.1 + A.1.4.3.2 + A.1.4.3.3 + A.1.4.3.4 + A.1.4.3.5)		
A.1.4.3.1 National Government		
A.1.4.3.2 Public Financial Institutions		
A.1.4.3.3 Public Non-Financial Institutions		
A.1.4.3.4 Private Financial Institutions		
A.1.4.3.5 Private Non-Financial Institutions		
A.1.4.4 Available-for-sale financial assets - issued by domestic entities: (A.1.4.4.1 + A.1.4.4.2 + A.1.4.4.3 + A.1.4.4.4 + A.1.4.4.5)	202,673	259,592
A.1.4.4.1 National Government	202,673	259,592
A.1.4.4.2 Public Financial Institutions		
A.1.4.4.3 Public Non-Financial Institutions		
A.1.4.4.4 Private Financial Institutions		
A.1.4.4.5 Private Non-Financial Institutions		
A.1.4.5 Financial Assets issued by foreign entities: (A.1.4.5.1+A.1.4.5.2+A.1.4.5.3+A.1.4.5.4)		
A.1.4.5.1 Financial Assets at fair value through profit or loss		
A.1.4.5.2 Held-to-maturity investments		
A.1.4.5.3 Loans and Receivables		
A.1.4.5.4 Available-for-sale financial assets		
A.1.4.6 Allowance for decline in market value (negative entry)		
A.1.5 Other Current Assets (state separately material items) (A.1.5.1 + A.1.5.2 + A.1.5.3)	568,934	379,057
A.1.5.1 Tax credits	427,824	348,247
A.1.5.2 Prepaid expenses	61,691	29,626
A.1.5.3 Other current assets	79,419	1,184
A.2 Property, plant, and equipment (A.2.1 + A.2.2 + A.2.3 + A.2.4 + A.2.5 + A.2.6 + A.2.7+A.2.8)	2,933,158	3,375,910
A.2.1 Land	688,213	418,315
A.2.2 Building and improvements including leasehold improvements	1,440,727	1,272,801
A.2.3 Machinery and equipment (on hand and in transit)	11,499,049	2,103,503
A.2.4 Transportation/motor vehicles, automotive equipment, autos and trucks, and delivery equipment	195,449	166,324
A.2.5 Others, specify (A.2.5.1 + A.2.5.2 + A.2.5.3 + A.2.5.4 + A.2.5.5)	530,338	9,300,149
A.2.5.1 Leasehold improvements	59,559	59,026
A.2.5.2 Construction in progress	228,262	396,180
A.2.5.3 Furniture, Fixtures and Equipment	242,517	222,313
A.2.5.4 Conventional and continuous mining equipment		8,622,629
A.2.5.5		
A.2.6 Appraisal increase, specify (A.2.6.1 + A.2.6.2 + A.2.6.3 + A.2.6.4)		
A.2.6.1		
A.2.6.2		
A.2.6.3		
A.2.6.4		
A.2.7 Accumulated Depreciation (negative entry)	(11,420,618)	(9,885,182)
A.2.8 Impairment Loss or Reversal (if loss, negative entry)		
A.3 Investments accounted for using the cost method (A.3.1 + A.3.2 + A.3.3)	5,055,377	3,170,874
A.3.1 Equity in domestic subsidiaries/affiliates	5,055,377	3,170,874
A.3.2 Equity in foreign branches/subsidiaries/affiliates		
A.3.3 Others, specify (A.3.1.1 + A.3.2.1 + A.3.3.1 + A.3.3.4)		
A.3.3.1		
A.3.3.2		
A.3.3.3		
A.3.3.4		
A.4 Investment Property	2,057,446	2,279,059
A.5 Biological Assets		
A.6 Intangible Assets (A.6.1 + A.6.2)		
A.6.1 Major item/s, specify (A.6.1.1 + A.6.1.2 + A.6.1.3 + A.6.1.4)		
A.6.1.1		
A.6.1.2		
A.6.1.3		
A.6.1.4		
A.6.2 Others, specify (A.6.2.1 + A.6.2.2 + A.6.2.3 + A.6.2.4)		
A.6.2.1		
A.6.2.2		
A.6.2.3		
A.6.2.4		
A.7 Assets Classified as Held for Sale		
A.8 Assets included in Disposal Groups Classified as Held for Sale		

**GENERAL FORM FOR FINANCIAL STATEMENTS**

NAME OF CORPORATION: DMCI HOLDINGS, INC. AND SUBSIDIARIES  
 CURRENT ADDRESS: 3rd Floor, Dacon Building, 2281 Don Chino Roces Avenue, Makati City  
 TEL. NO.: 888-3000 FAX NO.: \_\_\_\_\_  
 COMPANY TYPE: Holding Company PSIC: \_\_\_\_\_

*If these are based on consolidated financial statements, please so indicate in the caption.*

**Table 1. Statements of Assets and Liabilities**

FINANCIAL DATA	2007 (in P'000)	2006 (in P'000)
A.9 Long-term receivables (net of current portion) (A.9.1 + A.9.2 + A.9.3)	1,983,314	687,641
A.9.1. From domestic entities, specify (A.9.1.1 + A.9.1.2 + A.9.1.3 + A.9.1.4)		
A.9.1.1 Noncurrent receivables - net	1,983,314	687,641
A.9.1.2		
A.9.1.3		
A.9.1.4		
A.9.2 From foreign entities, specify (A.9.2.1 + A.9.2.2 + A.9.2.3 + A.9.2.4)		
A.9.2.1		
A.9.2.2		
A.9.2.3		
A.9.2.4		
A.9.3 Allowance for doubtful accounts, net of current portion (negative entry)		
A.10 Other Assets (A.10.1 + A.10.2 + A.10.3 + A.10.4 + A.10.5)	368,626	625,736
A.10.1 Deferred Charges		
A.10.2 Deferred Income Tax	207,507	219,868
A.10.3 Refundable deposits	142,846	80,218
A.10.4 Others, specify (A.10.4.1 + A.10.4.2 + A.10.4.3 + A.10.4.4)	18,273	325,650
A.10.4.1 Deposits in Northrail		300,000
A.10.4.2 Mining rights acquisition		
A.10.4.3 Mine exploration and development cost		
A.10.4.4 Others	18,273	25,650
A.10.5 Allowance for write-down of deferred charges/bad accounts (negative entry)		
<b>B. LIABILITIES (B.1 + B.2 + B.3 + B.4 + B.5)</b>	<b>11,833,064</b>	<b>8,938,763</b>
B.1 Current Liabilities (B.1.1 + B.1.2 + B.1.3 + B.1.4 + B.1.5 + B.1.6 + B.1.7)	8,508,653	4,743,861
B.1.1 Trade and Other Payables to Domestic Entities	2,807,310	2,347,274
B.1.1.1 Loans/Notes Payables	40,311	53,811
B.1.1.2 Trade Payables	2,766,999	2,293,463
B.1.1.3 Accruals		
B.1.1.4 Payables to Related Parties, specify (B.1.1.3.1 + B.1.1.3.2 + B.1.1.3.3)		0
B.1.1.3.1 Accounts payable - affiliates		
B.1.1.3.2		
B.1.1.3.3		
B.1.1.4 Others, specify (B.1.1.4.1 + B.1.1.4.2 + B.1.1.4.3)	0	
B.1.1.4.1 Other payables		
B.1.1.4.2 Redeemable preferred shares		
B.1.1.4.3		
B.1.2 Trade and Other Payables to Foreign Entities (specify) (B.1.2.1+B.1.2.2+B.1.2.3+B.1.2.4)		0
B.1.2.1 Trade Payables		
B.1.2.2		
B.1.2.3		
B.1.2.4		
B.1.3 Provisions		
B.1.4 Financial Liabilities (excluding Trade and Other Payables and Provisions) (B.1.4.1 + B.1.4.2 + B.1.4.3)	0	0
B.1.4.1		
B.1.4.2		
B.1.4.3		
B.1.4.4		
B.1.5 Liabilities for Current Tax	58,968	43,892
B.1.6 Deferred Tax Liabilities		
B.1.7 Others, specify (if material, state separately; indicate if the item is payable to public/private or financial/non-financial institutions)	5,642,374	2,352,695
B.1.7.1 Dividends declared and not paid at balance sheet date		
B.1.7.2 Billings in excess of costs and estimated earnings on uncompleted contracts	30,888	20,566
B.1.7.3 Current portion of liabilities for land purchased	169,089	109,601
B.1.7.4 Portion of Long-term Debt Due within one year	1,843,239	1,489,584
B.1.7.5 Customers Deposits	1,271,184	732,944
B.1.7.6 Liabilities directly associated with noncurrent assets held for sale	2,327,976	
B.1.7.7 Any other current liability in excess of 5% of Total Current Liabilities, specify: (B.1.7.6.1 + B.1.7.6.2 + B.1.7.6.3 + B.1.7.6.4)		0
B.1.7.7.1		
B.1.7.7.2		
B.1.7.7.3		
B.1.7.7.4		

**GENERAL FORM FOR FINANCIAL STATEMENTS**

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 TEL. NO.: 888-3000 FAX NO.: \_\_\_\_\_  
 COMPANY TYPE: Holding Company PSIC: \_\_\_\_\_

*If these are based on consolidated financial statements, please so indicate in the caption.*

**Table 1. Statements of Assets and Liabilities**

FINANCIAL DATA	2007 (in P'000)	2006 (in P'000)
B.2 Long-term Debt - Non-current Interest-bearing Liabilities (B.2.1 + B.2.2 + B.2.3 + B.2.4 + B.2.5)		
B.2.1 Domestic Public Financial Institutions		
B.2.2 Domestic Public Non-Financial Institutions		
B.2.3 Domestic Private Financial Institutions		
B.2.4 Domestic Private Non-Financial Institutions		
B.2.5 Foreign Financial Institutions		
B.3 Indebtedness to Affiliates and Related Parties (Non-Current)		
B.4 Liabilities Included in the Disposal Groups Classified as Held for Sale		
B.5 Other Liabilities (B.5.1 + B.5.2)	3,324,412	4,194,903
B.5.1 Deferred Income Tax	273,441	263,768
B.5.2 Others, specify (B.5.2.1 + B.5.2.2 + B.5.2.3 + B.5.2.4)	3,050,971	3,931,135
B.5.2.1 Pension liabilities	127,411	47,171
B.5.2.2 Other noncurrent liabilities	16,955	15,889
B.5.2.3 Long term debt - net of current portion	2,022,067	3,139,782
B.5.2.4 Liabilities for land purchased	433,852	280,791
B.5.2.5 Payable to related parties	450,686	447,501
<b>C. EQUITY (C.3 + C.4 + C.5 + C.6 + C.7 + C.8 + C.9+C.10)</b>	<b>17,230,141</b>	<b>11,660,190</b>
C.1 Authorized Capital Stock (no. of shares, par value and total value; show details) (C.1.1+C.1.2+C.1.3)	0	0
C.1.1 Common shares		
C.1.2 Preferred Shares		
C.1.3 Others		
C.2 Subscribed Capital Stock (no. of shares, par value and total value) (C.2.1 + C.2.2 + C.2.3)		
C.2.1 Common shares		
C.2.2 Preferred Shares		
C.2.3 Others		
C.3 Paid-up Capital Stock (C.3.1 + C.3.2)	7,421,640	4,659,283
C.3.1 Common shares	7,421,640	4,659,283
C.3.2 Preferred Shares		
C.4 Additional Paid-in Capital / Capital in excess of par value / Paid-in Surplus		
C.5 Minority Interest	2142908.927	1,858,406
C.6 Others, specify (C.6.1 + C.6.2 + C.6.3 + C.6.4 + C.6.5)	(35,880)	39,873
C.6.1 Unrealized gain on available for sale investment	(35,880)	39,873
C.6.2		
C.6.3		
C.6.4		
C.6.5		
C.7 Appraisal Surplus/Revaluation Increment in Property/Revaluation Surplus		
C.8 Retained Earnings (C.8.1 + C.8.2)	7,701,472	5,103,728
C.8.1 Appropriated		
C.8.2 Unappropriated	7,701,472	5,103,728
C.9 Head / Home Office Account (for Foreign Branches only)		
C.10 Cost of Stocks Held in Treasury (negative entry)		(1,100)
<b>D. TOTAL LIABILITIES AND EQUITY (B + C)</b>	<b>29,063,206</b>	<b>20,598,954</b>

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*If these are based on consolidated financial statements, please so indicate in the caption.*

**Table 2. Statements of Operations**

FINANCIAL DATA	2007 (in P'000)	2006 (in P'000)
<b>A. REVENUE / INCOME (A.1 + A.2 + A.3)</b>	<b>14,784,028</b>	<b>9,766,165</b>
A.1 Net Sales or Revenue / Receipts from Operations (manufacturing, mining, utilities, trade, services, etc.) (from Primary Activity)	12,445,152	8,701,603
A.2 Share in the Profit or Loss of Associates and Joint Ventures accounted for using the Equity	1,826,238	<b>(27,609)</b>
A.3 Other Revenue (A.3.1 + A.3.2 + A.3.3 + A.3.4 + A.3.5)	<b>(119,459)</b>	12,175
A.3.1 Rental Income from Land and Buildings		
A.3.2 Receipts from Sale of Merchandise (trading) (from Secondary Activity)		
A.3.3 Sale of Real Estate or other Property and Equipment	178,976	
A.3.4 Royalties, Franchise Fees, Copyrights (books, films, records, etc.)		
A.3.5 Others, specify (A.3.5.1 + A.3.5.2 + A.3.5.3 + A.3.5.4 + A.3.5.5 + A.3.5.6 + A.3.5.7)	<b>(298,435)</b>	12,175
A.3.5.1 Rental Income	19,905	12,175
A.3.5.2 Miscellaneous Income		
A.3.5.3 Write-off of deposits	<b>(300,000)</b>	
A.3.5.4 Others	<b>(18,341)</b>	
A.3.5.5		
A.4 Other Income (non-operating) (A.4.1 + A.4.2 + A.4.3 + A.4.4)	632,098	1,079,996
A.4.1 Interest Income	366,997	357,997
A.4.2 Dividend Income	3,937	7
A.4.3 Gain / (Loss) from selling of Assets, specify (A.4.3.1 + A.4.3.2 + A.4.3.3 + A.4.3.4 + A.4.3.5 + A.4.3.6 + A.4.3.7)	190,372	597,246
A.4.3.1 Gain on sale of property and equipment	190,372	518,545
A.4.3.2 Gain on Sale of Investment		
A.4.3.3 Others		78,701
A.4.3.4		
A.4.4 Gain / (Loss) on Foreign Exchange (A.4.4.1 + A.4.4.2 + A.4.4.3 + A.4.4.4)	70,791	124,745
A.4.4.1 Foreign exchange gain / (loss) - net	70,791	124,745
A.4.4.2		
A.4.4.3		
A.4.4.4		
<b>B. COST OF GOODS SOLD (B.1 + B.2 + B.3)</b>	<b>9,182,404</b>	<b>6,503,715</b>
B.1 Cost of Goods Manufactured (B.1.1 + B.1.2 + B.1.3 + B.1.4 + B.1.5)	9,182,404	6,503,715
B.1.1 Coal sales	5,193,990	3,713,161
B.1.2 Construction contracts	2,288,034	1,324,266
B.1.3 Real estate sales	1,258,498	1,130,883
B.1.4 Investmentment, merchandise sales and others	441,883	335,405
B.1.5 Goods in Process, End <b>(negative entry)</b>		
B.2 Finished Goods, Beginning		
B.3 Finished Goods, End <b>(negative entry)</b>		
<b>C. COST OF SALES (C.1 + C.2 + C.3)</b>	<b>0</b>	<b>0</b>
C.1 Purchases		
C.2 Merchandise Inventory, Beginning		
C.3 Merchandise Inventory, End <b>(negative entry)</b>		
<b>D. COST OF SERVICES, SPECIFY (D.1 + D.2 + D.3 + D.4 + D.5 + D.6)</b>	<b>0</b>	<b>0</b>
D.1 Construction contracts		
D.2		
D.3		
D.4		

Control No.: \_\_\_\_\_  
 Form Type: GFFS (rev 2006)

**GENERAL FORM FOR FINANCIAL STATEMENTS**

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 TEL. NO.: 888-3000 FAX NO.: \_\_\_\_\_  
 COMPANY TYPE : Holding Company PSIC: \_\_\_\_\_

*If these are based on consolidated financial statements, please so indicate in the caption.*

Table 2. Statements of Operations		
FINANCIAL DATA	2007 (in P'000)	2006 (in P'000)
E. OTHER DIRECT COSTS, SPECIFY (E.1 + E.2 + E.3 + E.4 + E.5 + E.6)	0	0
E.1 Coal sales		
E.2 Real estate sales		
E.3 Construction Contracts		
E.4 Investment,merchandise sales and others		
F. GROSS PROFIT (A - B - C - D - E)	5,601,624	3,262,450
G. OPERATING EXPENSES (G.1 + G.2 + G.3 + G.4)	1,523,488	1,121,010
G.1 Selling or Marketing Expenses	488,220	1,121,010
G.2 Administrative Expenses	349,612	
G.3 General Expenses	600,741	
G.4 Other Expenses, specify (G.4.1 + G.4.2 + G.4.3 + G.4.4 + G.4.5 + G.4.6)	84,915	0
G.4.1 Miscellaneous	84,915	
G.4.2		
G.4.3		
G.4.4		
H. FINANCE COSTS	444,743	351,689
I. NET INCOME (LOSS) BEFORE TAX ( F - G - H)	3,633,393	1,789,751
J. INCOME TAX EXPENSE (negative entry)	(476,900)	(462,628)
K. INCOME AFTER TAX	3,156,493	1,327,123
L. Income associated with non current assets held for sale-net of tax	149,409	55,448
M. NET INCOME (LOSS) BEFORE TAX ( F - G - H)	3,305,902	1,382,571
L. Amount of (i) Post-Tax Profit or Loss of Discontinued Operations; and (ii) Post-Tax Gain or Loss Recognized on the Measurement of Fair Value less Cost to Sell or on the Disposal of the Assets or Disposal Group(s) constituting the Discontinued Operation (if any)		
L.1		
L.2		
M. Profit or Loss Attributable to Minority Interest	286,832	
N. Profit or Loss Attributable to Equity Holders of the Parent	2,840,094	

## GENERAL FORM FOR FINANCIAL STATEMENTS

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FAX NO.:

COMPANY TYPE: Holding Company

PSIC:

*If these are based on consolidated financial statements, please so indicate in the caption.*

Table 3. Statements of Cash Flows

FINANCIAL DATA	2007 (in P'000)	2006 (in P'000)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income (Loss) Before Tax and Extraordinary Items	3,603,826	1,845,199
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation	1,679,973	1,419,254
Amortization, specify:		
Others, specify:		
Provisions - net	(1,861,677)	249,017
Finance expense	444,743	351,689
Interest income	(366,996.84)	(357,997)
Others	300,000	(461,626)
Dividend Income	-3,937	
Pension expense	166,018	
Write-down of Property, Plant, and Equipment		
Changes in Assets and Liabilities:		
Decrease (Increase) in:		
Receivables	493,966	(433,729)
Prepaid expenses		(1,389,359)
Other Current Assets	-189,877	(235,879)
Real Estate for Sale and Development	-1,705,120	
Others, specify: Inventories	256,534	(506,132)
Cost and estimated earnings in excess of billings	-123,665	7,963
Increase (Decrease) in:		
Accounts payable and accrued expenses	868,041	(92,947)
Customers' deposit	538,240	659,076
Others, specify: Billings in excess of costs and estimated earnings on uncol	10,322	1,678
Interest received	366,997	421,149
Interest paid	-444,743	(351,689)
Income taxes paid	-439,790	(812,154)
Contributions paid to retirement	-85,778	
<b>A. Net Cash Provided by (Used in) Operating Activities (sum of above rows)</b>	<b>3,507,076</b>	<b>313,511</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) Decrease in Long-Term Receivables	-1,295,674	(1,722,265)
(Increase) Decrease in Investment	13,532	
(Increase) Decrease in Investment Properties	218,129	
(Increase) Decrease in Non current assets	-56,104	
Reductions/(Additions) to Property, Plant, and Equipment	-1,232,884	(835,621)
Others, specify: Proceeds from sale of property and equipment		23,425
Proceeds from disposal of available for sale investments	21,038	510,089
Dividends received	3,937	
<b>B. Net Cash Provided by (Used in) Investing Activities (sum of above rows)</b>	<b>(2,328,025)</b>	<b>(2,024,372)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from:		
Loans	749,857	
Long-term Debt	1,248,443	2,919,140
Issuance of Securities		
Others, specify: Proceeds from additional subscription of capital stock	2,763,457	
Payable to related parties	-497,069	365,925
Payments of:		
(Loans)	-763,357	(60,848)
(Long-term Debt)	-2,012,503	(1,965,531)
(Stock Subscriptions)		
Others, specify (negative entry):		
Redemption of preferred shares		(2,619)
Payments of cash dividends	-381,208	(243,007)
Acquisition of treasury stock		
Other noncurrent liabilities	1,067	
<b>C. Net Cash Provided by (Used in) Financing Activities (sum of above rows)</b>	<b>1,108,685</b>	<b>1,013,061</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS (A + B + C)</b>	<b>2,287,736</b>	<b>(697,800)</b>
Cash and Cash Equivalents		
Beginning of year	1,251,911	1,949,711
End of year	3,539,648	1,251,911

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**Table 4. Statement of Changes in Head Office Account**

FINANCIAL DATA	(Amount in P'000)						
	Capital Stock	Additional Paid-in Capital	Preferred Shares Held in Treasury	Attributable to Minority Interest	Net Unrealized Gain(Loss)	Retained Earnings	TOTAL
<b>A Balance, 2004</b>	<b>2,255,836</b>	<b>2,827,839</b>	<b>(239,096)</b>	<b>173,986</b>		<b>643,926</b>	<b>5,662,492</b>
A.1 Reclassification/Retirement of Preferred							
A.2 Changes in Accounting Policy/Increase in					2,402	41,459	
<b>B Restated Balance</b>	<b>2,255,836</b>	<b>2,827,839</b>	<b>(239,096)</b>	<b>173,986</b>	<b>2,402</b>	<b>602,467</b>	<b>5,623,435</b>
<b>C Surplus</b>	<b>(198)</b>		<b>51,886</b>	<b>858,195</b>		<b>0</b>	<b>909,883</b>
C.1 Surplus (Deficit) on Revaluation of Properties							
C.2 Surplus (Deficit) on Revaluation of Investments							
C.3 Currency Translation Differences							
C.4 Other Surplus (specify)	(198)	(234,365)	51,886	858,195		0	
C.4.1 Decrease in ownership							
C.4.2 Cancellation retirement of preferred	(198)	(234,365)	51,886				
C.4.3 Increase in minority interest				858,195			
C.4.4							
C.4.5							
<b>D. Net Income (Loss) for the Period</b>				<b>589,134</b>		<b>3,591,511</b>	<b>4,180,645</b>
<b>E. Dividends (negative entry)</b>							<b>0</b>
<b>F. Appropriation for (specify)</b>		<b>0</b>				<b>0</b>	
F.1							
F.2							
F.3							
F.4							
F.5							
<b>G. Issuance of Capital Stock</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>0</b>	<b>0</b>
G.1 Common Stock							
G.2 Preferred Stock							
G.3 Others							
<b>H. Balance, 2005</b>	<b>2,255,638</b>	<b>2,593,474</b>	<b>(187,211)</b>	<b>1,621,316</b>		<b>4,193,978</b>	<b>10,477,196</b>
H.1 Correction of Error (s)							
H.2 Changes in Accounting Policy							
<b>I. Restated Balance</b>	<b>2,255,638</b>	<b>2,593,474</b>	<b>(187,211)</b>	<b>1,621,316</b>		<b>4,193,978</b>	<b>10,477,196</b>
<b>J. Surplus</b>	<b>(139)</b>	<b>(189,691)</b>	<b>0</b>	<b>(10,181)</b>			<b>(200,011)</b>
J.1 Surplus (Deficit) on Revaluation of Properties							
J.2 Surplus (Deficit) on Revaluation of Investments							
J.3 Currency Translation Differences							
J.4 Other Surplus (specify)	(139)	(189,691)		(10,181)		37,471	
J.4.1 Cancellation/retirement of preferred	(139)	(189,691)	189,830				0
J.4.2 Redemption of preferred shares			(3,719)				
J.4.3 Decrease in minority interest				(10,181)			
J.4.4 Change in fair value of assets						37,471	
J.4.5							
<b>K. Net Income (Loss) for the Period</b>				<b>247,272</b>		<b>1,135,299</b>	<b>1,382,571</b>
<b>L. Dividends (negative entry)</b>						<b>(225,549)</b>	<b>(225,549)</b>
<b>M. Appropriation for (specify)</b>		<b>0</b>					
M.1							
M.2							
M.3							
M.4							
<b>N. Issuance of Capital Stock</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>0</b>	<b>0</b>
N.1 Common Stock							
N.2 Preferred Stock							
N.3 Others							
<b>O. Balance, 2006</b>	<b>2,255,499</b>	<b>2,403,784</b>	<b>(1,100)</b>	<b>1,858,406</b>	<b>39,873</b>	<b>5,103,728</b>	<b>11,660,190</b>

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**GENERAL FORM FOR FINANCIAL STATEMENTS**

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**Table 5. Details of Income and Expenses, by source**  
 (applicable to corporations transacting with foreign corporations/entities)

FINANCIAL DATA	2006 (in P'000)	2005 (in P'000)
<b>A. REVENUE / INCOME (A.1 + A.2)</b>	<b>5,127,314</b>	<b>2,966,209</b>
A.1 Net Sales or Revenue / Receipts from Operations (manufacturing, mining, utilities, trade, services, etc.) (from Primary Activity) (A.1.1 +A.1.2)	3,262,747	2,197,888
A.1.1 Domestic	3,262,747	2,197,888
A.1.2 Foreign		
A.2 Other Revenue (A.2.1 +A.2.2)	1,864,567	768,321
A.2.1 Domestic	1,864,567	768,321
A.2.2 Foreign, specify (A.2.2.1+A.2.2.2+ A.2.2.3+ A.2.2.4+ A.2.2.5+ A.2.2.6+A.2.2.7+ A.2.2.8+A.2.2.9+A.2.2.10)		
A.2.2.1		
A.2.2.2		
A.2.2.3		
A.2.2.4		
A.2.2.5		
A.2.2.6		
A.2.2.7		
A.2.2.8		
A.2.2.9		
A.2.2.10		
<b>B. EXPENSES (B.1 + B.2)</b>	<b>2,000,388</b>	<b>1,597,910</b>
B.1 Domestic	2,000,388	1,597,910
B.2 Foreign, specify (B.2.1+B.2.2+B.2.3+B.2.4+B.2.5+B.2.6+B.2.7+B.2.8+B.2.9+B.2.10)		
B.2.1		
B.2.2		
B.2.3		
B.2.4		
B.2.5		
B.2.6		
B.2.7		
B.2.8		
B.2.9		
B.2.10		