



DMCI HOLDINGS
I N C O R P O R A T E D

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

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
dmcih@dmcinet.com

Dear Stockholders:

Please be notified that the annual meeting of stockholders of DMCI Holdings, Inc., (the "Corporation") will be held on July 26, 2006, Wednesday, at 9:00 a.m., at the Fairways Function Room, Manila Golf and Country Club, Forbes Park, Makati City, with the following agenda:

1. Call to order.
2. Report on attendance and quorum.
3. Approval of minutes of previous stockholders' meeting.
4. Management report for the year ended December 31, 2005.
5. Ratification of all acts of the board of directors and officers during the preceding year.
6. Appointment of independent auditor.
7. Election of directors including two Independent Directors (as defined under the Corporation's Manual on Corporate Governance).
8. Other matters.
9. Adjournment.

Stockholders of record as of June 26, 2006 will be entitled to notice of, and to vote at said annual meeting or any adjournment or postponement thereof.

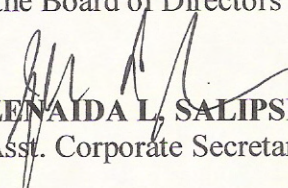
Validation of proxy shall be held on July 20, 2006, thereby, at 2:00 p.m. at the principal office of the Corporation.

On the day of the meeting you, or your duly designated proxy, are hereby required to bring this Notice, and any form of identification (i.e. driver's license, company I.D., TIN card, etc.) to facilitate registration. Registration starts at exactly 8:15 a.m. and closes at 8:45 a.m.

Makati City, Metro Manila

June 15, 2006

For the Board of Directors


ZENAÍDA L. SALIPSIP
Asst. Corporate Secretary

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

**PROXY
DMCI HOLDINGS, INC.**

PROXY SOLICITED ON BEHALF OF THE MANAGEMENT OF DMCI HOLDINGS, INC. FOR THE ANNUAL STOCKHOLDERS' MEETING TO BE HELD ON JULY 26, 2006, WEDNESDAY, AT 9:00 A.M. AT THE FAIRWAYS FUNCTION ROOM, MANILA GOLF AND COUNTRY CLUB, FORBES PARK, MAKATI CITY.

The Undersigned hereby appoints:

- (a) The Chairman of the Board of Directors of DMCI Holdings, Inc., or in his absence, the President of DMCI Holdings, Inc., or in their absence,
- (b) _____

as his/her/its Proxy to attend the above annual meeting of the stockholders of DMCI Holdings, Inc., and any adjournment or postponement thereof, and thereat to vote all shares of stock held by the undersigned as specified below and on any matter that may properly come before said meeting.

Management recommends a vote on the following items and my vote is respectively indicated below:

- (1) Approval/ratification of the minutes of the annual stockholders' meeting held on July 27, 2005.**

FOR AGAINST ABSTAIN

- (2) Ratification of the acts of the Board of Directors and Officers as contained in the attached annual report and the audited financial statements of the Corporation for the year ended December 31, 2005.**

FOR AGAINST ABSTAIN

- (3) Appointment of SGV & Co. as Independent External Auditors**

FOR AGAINST ABSTAIN

- (4) Election of Directors.**

- FOR all nominees listed below, except those whose names are stricken out
- WITHHOLD authority to vote for all nominees listed below.

(Instruction: To strike out a name or withhold authority to vote for any individual nominee, draw a line through the nominee's name in the list below).

DAVID M. CONSUNJI
CESAR A. BUENAVENTURA
ISIDRO A. CONSUNJI
JORGE A. CONSUNJI
VICTOR A. CONSUNJI
MA. EDWINA C. LAPERAL
HERBERT M. CONSUNJI
EVARISTO T. FRANCISCO
OSCAR S. REYES

In their discretion, the Proxies are authorized to vote upon such other matters as may properly come before the meeting. This proxy when properly executed will be voted in the manner as directed above by the undersigned stockholder. If no direction is made, this proxy will be voted for the above items in the discretion of the Proxy.

The manner in which this proxy shall be accomplished, as well as the validation hereof shall be governed by the provisions of SRC Rule 20 (11)(b).

This proxy may be revoked by the undersigned stockholder at any time by submitting to the Corporate Secretary a written notice of revocation not later than the start of the meeting, or by attending the meeting in person and signifying his intention to personally vote his shares.

Date

(Signature above printed name, including title when signing for a corporation or partnership or as an agent, attorney or fiduciary).

No. of shares held: _____

Please mark, sign, date, and return promptly in the accompanying envelope.

COVER SHEET

A S O 9 5 0 0 2 2 8 3

SEC Registration Number

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

(Company's Full Name)

3 R D F L R . D A C O N B L D G . 2 2 8 1

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

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

HERBERT M. CONSUNJI

Contact Person

888-3000

Company Telephone Number

(Last Wednesday of July)

1 2

Month Day Fiscal Year

3 1

Day

SEC Form 20-IS Preliminary Information Statement

FORM TYPE

0 7

Month Day Annual Meeting

2 6

Day

N.A.

Secondary License Type, If Applicable

C F D

Dept Requiring this Doc

Amended Articles Number / Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

_____ LCU

Document ID

_____ Cashier

STAMPS

SECURITIES AND EXCHANGE COMMISSION

Remarks: Please use BLACK ink for scanning purposes SEC FORM 20-IS

**INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:

Preliminary Information Statement

Definitive Information Statement

2. Name of Corporation as specified in its charter: **DMCI Holdings, Inc.**

3. Province, country or other jurisdiction of incorporation or organization: **Philippines**

4. SEC Identification Number: **ASO95-002283**

5. BIR Tax Identification Code: **004-703-376**

6. Address of principal office Postal Code: **3rd Floor, Dacon Building
2281 Pasong Tamo Extension
1231 Makati City
Metro Manila**

7. Corporation's telephone number, including area code: **(632) 888-3000**

8. Date, time and place of the meeting of security holders:
**July 26, 2006, Wednesday
9:00 A.M.
Fairways Function Room,
Manila Golf and Country Club,
Forbes Park, Makati City**

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **July 4, 2006**

10. In case of Proxy Solicitations:

Name of Person Filing the Statement/Solicitor: **The Management of the Corporation**

Address and Telephone No.: **3rd Floor, Dacon Building
2281 Don Chino Roces Avenue
1231 Makati City
Metro Manila
(632) 888-3000**

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

<u>Title of Each Class</u>	<u>No. of Shares Outstanding</u>	<u>Amount</u>
----------------------------	----------------------------------	---------------

Common Shares	2,255,494,000	Php2,255,494,000.00
Preferred Shares	6,580	6,580.00
TOTAL	2,255,500,580	Php2,255,500,580.00

12. Are any or all of Corporation's Securities Listed with the Philippine Stock Exchange?

Yes (√)

No ()

and appointment of the independent auditor, each share of outstanding common stock is entitled to one vote.

- (c) In the election of directors, every stockholder entitled to vote shall have the right to vote in person or by proxy the number of common shares of stock standing in his name at record date. A stockholder entitled to vote may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit. Provided, that the total number of votes cast by a stockholder shall not exceed the number of shares owned by him as shown in the books of the Corporation multiplied by the whole number of directors to be elected.

Pursuant to the provisions of Article III, Section 2 of the Amended By-Laws of the Corporation, all nominations for the election of directors shall be submitted in writing to the Board of Directors, with the consent of the nominees, at least ten (10) days before the scheduled annual stockholders' meeting.

(d) Security Ownership of Certain Record and Beneficial Owners

The following table sets forth as of **May 31, 2006**, the record and/or beneficial owners of more than 5% of the outstanding Common Shares of the Corporation which are entitled to vote and the amount of such record and/or beneficial ownership.

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name and Address of Beneficial Owner and Relationship with Record Owner	Citizenship	Number of Shares Held	Percent of Class
Common	Philippine Central Depository, Inc. Ground Floor, Makati Stock Exchange Building 6767, Ayala Avenue Makati City	See attached Schedule 2	Filipino	695,786,584	30.84%
Common	DACON Corporation c/o DMCI Holdings, Inc. 2281 Pasong Tamo Extension Makati City	See attached Schedule 2	Filipino	620,359,329	27.50%

Common	Philippine Central Depository, Inc. Ground Floor, Makati Stock Exchange Building 6767, Ayala Avenue Makati City	Foreigner	216,551,381	9.60%
Common	Ma. Edwina C. Laperal c/o DMCI Holdings, Inc. 2281 Pasong Tamo Extension Makati City	Filipino	136,117,710	6.03%
Common	Cristina C. Gotianun c/o DMCI Holdings, Inc. 2281 Pasong Tamo Extension Makati City	Filipino	133,841,010	5.93%
Common	Isidro A. Consunji c/o DMCI Holdings, Inc. 2281 Pasong Tamo Extension Makati City	Filipino	132,545,310	5.87%
Common	Jorge A. Consunji c/o DMCI Holdings, Inc. 2281 Pasong Tamo Extension Makati City	Filipino	130,182,310	5.77%
Common	Victor A. Consunji c/o DMCH Holdings, Inc. 2281 Pasong Tamo Extension Makati City	Filipino	130,182,100	5.77%

Below is the list of the individual beneficial owners under PCD, Inc. account holding more than 5% of the outstanding Common Shares of Corporation.

Title of Class	Name and Address of Beneficial Owner and Relationship with Record Owner	Citizenship	Number of Shares Held	Percent of Class
	PCIB Securities, Inc.		415,283,815	18.41%

(e) Security Ownership of Management

The table sets forth as of **May 31, 2006**, the record or beneficial stock ownership of each Director of the Corporation and all Officers and Directors as a group.

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Class
Common	David M. Consunji	8,142,254	Filipino	0.3609%
Common	Cesar A. Buenaventura	200,000	Filipino	0.00886%
Common	Isidro A. Consunji	132,545,310	Filipino	5.8655%
Common	Ma. Edwina C. Laperal	136,117,710	Filipino	6.03494%
Common	Victor A. Consunji	130,182,100	Filipino	5.771778%
Common	Jorge A. Consunji	130,182,310	Filipino	5.7718%
Common	Herbert M. Consunji	1,600	Filipino	0.0000007%
Common	Oscar S. Reyes	100	Filipino	0.00000004%
Common	Evaristo T. Francisco	100	Filipino	0.00000004%
Common	Cristina C. Gotianun	133,841,010	Filipino	5.93399%
Common	Noel A. Laman	20,000	Filipino	0.0000088%
Aggregate Ownership		671,232,494		29.747777%

All the above named directors and officers of the Corporation are the record and beneficial owners of the shares of stock set forth opposite their respective names.

(f) Voting Trust Holders of 5% or more

The Corporation is not aware of any person holding more than 5% of the shares of Corporation under a voting trust or similar agreement.

(g) Changes in Control

From January 1, 2006 to date, there has been no change in control of the Corporation. Neither is Corporation aware of any arrangement which may result in a change in control of it.

Item 5. Directors and Executive Officers

(a) Incumbent directors and Executive Officers.

The following are the incumbent directors and executive officers of the Corporation:

Name	Position	Age	Citizenship
David M. Consunji	Chairman of the Board	84	Filipino
Cesar A. Buenaventura	Vice-Chairman of the Board	76	Filipino
Isidro A. Consunji	President/Chief Executive Officer	57	Filipino
Ma. Edwina C. Laperal	Treasurer/Director	45	Filipino
Cristina C. Gotianun	Assistant Treasurer	52	Filipino
Herbert M. Consunji	Chief Finance Officer/Director	54	Filipino
Jorge A. Consunji	Director	53	Filipino
Victor A. Consunji	Director	55	Filipino
Oscar S. Reyes	Director (Independent)	59	Filipino
Evaristo T. Francisco	Director (Independent)	78	Filipino
Noel A. Laman	Corporate Secretary	65	Filipino

(b) Term of office.

The term of office of the Directors and executive officers is one (1) year from their election as such until their successors are duly elected and qualified.

(c) Business experience of the Directors and Officers during the past five (5) years.

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, Freyssinet Philippines, Inc., Asia Industries, Inc. 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 1988; (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., Vulcan Materials Corporation, and Beta Electric Corporation; 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; Director and President of Village Parks, Inc.; and Treasurer of Semirara Mining Corporation;

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 Directors of Acotec Panel Manufacturing, Inc. and Wire Rope Corp. of the Phils.; Director of DMCI Holdings, Inc. Dacon Corp., Cotabato Timberland Co., Inc., South Davao Development Co., Inc., Semirara Mining Corp., Property Developers, Inc., Freyssinet Phils., Inc. Freyssi-Marketing, Inc., Atlantic Gulf & Pacific Co. – Manila Inc., Vulcan Materials Corp., and Beta Electric Corp.

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 five years (since 2001).**

Oscar S. Reyes is the former Country Chairman of the Shell companies in the Philippines. He is currently a member of the Board of Directors of Pilipinas Shell Petroleum Corporation, Philippine Long Distance Telephone Co., Bank of the Philippine Islands, BPI Capital Corporation, BPI Leasing Corporation, BPI Rental Corporation, Manila Water Co., Universal Robina Corporation, Sunlife of Canada (Philippines), Inc., Sunlife Prosperity Dollar Advantage Fund, Inc., CEO's Inc., Global Resources for Outsourced Workers (GROW), Inc. CBV Asset Management, Level Up Inc., The Mutual Fund Co. of the Phils., Inc., Mindoro Resources Ltd., MRL Gold Phils., Inc., Philippine Electric Corporation. He is currently the Chairman of Link Edge, Inc., Actron Industries, and Unicapital Securities Corporation. **Mr. Reyes has served the Company as Independent Director for five years (since 2001).**

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

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 Coal Corporation; Director of D.M. Consunji, Inc., Ecoland Properties Development Corporation, and DMC Construction Equipment Resources, Inc., and Vice President of Dacon Corporation.

Cristina C. Gotianun is a Director of Dacon Corporation, D.M. Consunji, Inc. and Kalinan Timber Corporation. Her other positions include: VP for Finance Administrative/Chief Finance Officer of D.M. Consunji, Inc. and General Manager of Sirawan Food Corporation.

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 Trans-Orient Overseas Contractors, Inc., Manpower Resources of Asia, Inc., and Sealanes Marine Services (each being a part of the DCL group of Companies); Director and Corporate Secretary of Glaxo Wellcome Philippines, Inc, Boehringer Ingelheim (Phils.), Inc., Solvay Pharma Philippines Corporation, 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 as resource person of various foreign chambers of commerce.

(d) Independent Directors.

Messrs. Evaristo T. Francisco and Oscar S. Reyes are currently the Corporation's independent directors. Both have served the Corporation as independent directors since 2001.

Under its Manual of Corporate Governance, the Corporation is required to have at least two (2) Independent Directors or such number of Independent Directors as shall constitute at least twenty (20%) percent of the members of the Board of Director of the Corporation, whichever is lesser. Attached hereto as Schedule 1 is the Final List of Candidates for Independent Directors. The two (2) nominees for Independent Directors were selected by the Board Nomination and Election Committee in accordance with the guidelines in the Manual of Corporate Governance, the Code of Corporate Governance (SEC Memorandum Circular No. 2, Series of 2002), and the Guidelines on the nomination and election of Independent Directors (SRC Rule 38).

(e) Other directorships held in reporting companies naming each company.

David M. Consunji	Chairman of the Board Semirara Mining Corporation
Cesar A. Buenaventura	Director, Semirara Mining Corporation and Petrofields Corporation
Isidro A. Consunji	Chairman of the Board Director, D. M. Consunji, Inc. Vice-Chairman, Semirara Mining Corporation
Victor A. Consunji	Director, Semirara Mining Corporation
Jorge A. Consunji	Director, Semirara Mining Corporation Director, D. M. Consunji, Inc.
Ma. Edwina C. Laperal	Director, DMCI Project Developers, Inc.
Herbert M. Consunji	Director, Semirara Mining Corporation Director, DMCI Project Developers, Inc.

(f) Family Relationship

The family relationship up to the fourth civil degree either by consanguinity or affinity among directors, executive officers or persons nominated or chosen by the Corporation to become directors or executive officers is stated below:

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

(g) Since the last annual stockholders’ meeting of the Corporation, no Director has resigned or declined to stand for reelection to the Board of Directors of the Corporation because of a disagreement with the Corporation on any matter relating to the Corporation’s operations, policies or practices.

(h) Involvement in 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 78

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. The motion to strike is pending resolution.

- (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. Hence, the complainants filed a motion for reconsideration dated January 15, 2003, which respondents opposed on February 7, 2003. To date, complainant’s motion for reconsideration is still pending resolution.

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 is now submitted for resolution.

(i) Significant employees

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

Significant Employees	Position held in Corporation	Citizenship	Age
Ma. Luisa C. Austria	Administrative / Accounting Officer	Filipino	55
Aldric G. Borlaza	Finance Officer	Filipino	28

Although the Corporation has and will likely continue to rely significantly on the aforementioned individuals, it is not dependent on the services of any particular employee. It does not have any special arrangements to ensure that any employee will remain with the Corporation and will not compete upon termination.

(j) Business experience of the significant employees of the Corporation for the last five years:

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 Corporation and has held said position for ten (10) 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).

(k) Certain Relationships and Related Transactions

There has been no transaction or proposed transactions for the last two (2) years, to which the Corporation was or is to be a party, in which any director, executive officer, nominee for director, stockholder holding at least ten percent of the total outstanding capital stock of the Corporation, or a member of the immediate family of any of the aforementioned has direct or indirect material interest. See Note 27 of the Audited Financial Statements of the Corporation for the period ended December 31, 2004.

Item 6. Compensation of Directors and Executive Officers

ANNUAL COMPENSATION

<u>Name</u>	<u>Principal Position</u>	<u>Salary</u>	<u>Bonus</u>	<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		<i>B.</i>	
Edwina C. Laperal	Treasurer		<i>C.</i>	
Herbert M. Consunji	Vice President & Chief Financial Officer			
	YEARS		<i>D.</i>	
	2004	P 9,794,330.00		P 200,000.00
	2005	P 9,794,330.00		P 222,000.00
	2006*	P 9,794,330.00		P 222,000.00
	TOTAL:	P 29,382,990.00	P --	P 644,000.00
	YEARS			
All other directors and executive officers as a group unnamed	2004	P 3,898,440.00	P --	P 112,000.00
	2005	P 3,898,440.00	P --	P 162,000.00
	2006*	P 3,898,440.00		P 162,000.00
	TOTAL:	P 11,695,320.00	P --	P 436,000.00

**Approximate figures*

There is no contract covering their employment with the Corporation and they hold office by virtue of their election to office. The Company has no agreements with its named executive officers regarding any bonus, profit sharing, pension or retirement plan.

There are no outstanding warrants, options, or right to repurchase any securities held by the directors or executive officers of the Company.

Item 7. Independent Public Accountant

- (a) The auditing firm named below will be recommended to the stockholders for appointment as the Corporation's principal accountant for the ensuing fiscal year. Conformably with SEC Memorandum Circular No. 8, series of 2003, the handling partner, Mr. Arnel F. De Jesus, will be the engagement partner until year 2009.

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
Makati City, Metro Manila

- (b) SyCip Gorres Velayo & Co. was the same principal accountant of the Corporation for the fiscal year most recently completed (December 31, 2005).
- (c) Representatives of SGV & Co. are expected to be present at the stockholders' meeting. They will have the opportunity to make a statement if they desire to do so and they are expected to be available to respond to appropriate questions.

D. OTHER MATTERS

Item 15. Action with respect to Reports

The minutes of the annual stockholders' meeting held on July 27, 2005 will be submitted for approval of the stockholders at the annual meeting to be held on July 26, 2006. Below is a summary of the items and/or resolutions approved at the annual stockholders' meeting held on July 27, 2005:

- (a) The Chairman of the Board of Directors of the Corporation called the meeting to order. The Secretary of the meeting certified that a quorum existed for the transaction of business.
- (b) The stockholders approved the minutes of the annual stockholders' meeting held on July 28, 2004.
- (c) The President of the Corporation presented the management report. He presented the highlights of the performance of the Corporation, the details of which were incorporated into the Corporation's annual report as distributed to the stockholders. The management report included a discussion on (1) the Corporation's consolidated revenue and net income, (2) the Corporation's construction, coal mining, and real estate and investment business segments, (3) the Corporation's consolidated balance sheets, (4) the Corporation's equity investment in Semirara Mining Corporation, and (5) the status of the redemption of the Corporation's preferred shares. Upon motion duly made and seconded, the management report was approved.
- (d) Upon motion duly made and seconded, the stockholders ratified the acts of the officers and the Board of Directors of the Corporation for the period from August 28, 2003 to July 28, 2004.
- (e) Upon motion duly made and seconded, the accounting firm Sycip Gorres Velayo and Co. was appointed as external auditors of the Corporation for the then current fiscal year.

(f) The following were elected as directors of the Corporation for the then current year, to serve as such for a period of one year and until their successors shall have been elected and qualified:

- (1) David M. Consunji
- (2) Cesar A. Buenaventura
- (3) Isidro A. Consunji
- (4) Victor A. Consunji
- (5) Jorge A. Consunji
- (6) Ma. Edwina C. Laperal
- (7) Herbert M. Consunji
- (8) Oscar S. Reyes
- (9) Evaristo T. Francisco

(g) Upon motion duly made and seconded, the annual stockholders' meeting was adjourned.

Item 19. Summary of Voting Matters/Voting Procedures

(a) Summary of Matters to be presented to Stockholders

- (1) Approval/ratification of the minutes of the annual meeting of stockholders held on July 27, 2005. Approval of said minutes shall constitute confirmation of all the matters stated in the minutes.
- (2) Resolutions, contracts, and acts of the board of directors and management for ratification refer to those passed or undertaken by them during the year and for the day to day operations of the Company as contained or reflected in the attached annual report and financial statements. Such resolutions and acts of management include the approval of the manuals on corporate governance and anti money-laundering.
- (3) Selection of SyCip Gorres Velayo & Co. as independent auditors.
- (4) Election of Directors

Election of a Board of nine (9) directors, each of whom will hold office until the next annual meeting of stockholders and until his or her successor is elected and qualified. The nominees for directors are:

DAVID M. CONSUNJI
CESAR A. BUENAVENTURA
ISIDRO A. CONSUNJI
JORGE A. CONSUNJI
VICTOR A. CONSUNJI
MA. EDWINA C. LAPERAL
HERBERT M. CONSUNJI
EVARISTO T. FRANCISCO
OSCAR S. REYES

All of the above nominees are currently directors of the Corporation.

The two (2) Independent Directors¹ of the Corporation within the purview of SRC Rule 38 are Messrs. Evaristo T. Francisco and Oscar S. Reyes.

(b) Voting Procedures

- (1) Approval/ratification of the minutes of the annual stockholders' meeting held on July 27, 2005.
 - (A) Vote required: A majority of the outstanding common stock present in person or by proxy, provided constituting a quorum.
 - (B) Method by which votes shall be counted: Each outstanding common stock shall be entitled to one (1) vote. The votes shall be counted by a show of hands or, upon motion duly made and seconded, by secret ballot.
- (2) Ratification of the acts of the Board of Directors and Officers
 - (A) Vote required: A majority of the outstanding common stock present in person or by proxy, provided constituting a quorum.
 - (B) Method by which votes shall be counted: Each outstanding common stock shall be entitled to one (1) vote. The votes shall be counted by a show of hands or, upon motion duly made and seconded, by secret ballot.
- (3) Appointment of Independent External Auditors
 - (A) Vote required: A majority of the outstanding common stock present in person or by proxy, provided constituting a quorum.
 - (B) Method by which votes shall be counted: Each outstanding common stock shall be entitled to one (1) vote. The votes shall be counted by a show of hands or, upon motion duly made and seconded, by secret ballot.
- (4) Election of Directors
 - (A) Vote required. The nine (9) candidates receiving the highest number of votes shall be declared elected.
 - (B) Method by which votes will be counted. Cumulative voting applies. Under this method of voting, a stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock standing in his own name on the stock books of the Corporation as of the Record Date, and said stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall

¹ An "Independent Director" shall mean a person other than an officer or employee of the Corporation or its subsidiaries, or any other individual having a relationship with the Corporation, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

equal, or he may distribute them on the same principle among as many candidates as he shall see fit. The votes shall be counted by a show of hands or, upon motion duly made and seconded, by secret ballot.

The nine nominees obtaining the highest number of votes will be proclaimed as Directors of the Corporation for the ensuing year.

PART II INFORMATION REQUIRED IN A PROXY FORM

Item 1. Identification

This proxy is being solicited for and on behalf of the Management of the Corporation. The Chairman of the Board of Directors or, in his absence, the President of the Corporation will vote the proxies at the annual stockholders' meeting to be held on July 26, 2006.

Item 2. Instruction

- (a) The proxy must be duly accomplished by the stockholder of record as of Record Date. In case of a stockholder that is a corporation or a partnership, the proxy must be accomplished by the officer or agent that is duly authorized to do so by virtue of an appropriate corporate or partnership resolution.
- (b) Duly accomplished proxies may be mailed or submitted personally to the Corporate Secretary of the Corporation not later than July 13, 2006 at the following address:

The Corporate Secretary
DMCI Holdings, Inc.
3rd Floor, DACON Building
2281 Pasong Tamo Extension
1231 Makati City
Philippines
- (c) In case of a corporate stockholder, the proxy must be accompanied by a corporate secretary's certificate quoting the board resolution authorizing the relevant corporate officer to execute the proxy for the corporate stockholder.
- (d) In case of shares of stock owned jointly by two or more persons, the consent of all co-owners must be necessary for the execution of the proxy. For persons owning shares in an "and/or" capacity, any one of them may execute the proxy.
- (e) Validation of proxies will be held by the Corporate Secretary and/or Stock Transfer Agent on July 20, 2006 at 2:00 p.m. at the principal office of the Corporation at the 3rd Floor, DACON Building, 2281 Pasong Tamo Extension, Makati City, Philippines.
- (f) Unless otherwise indicated by the stockholder, a stockholder shall be deemed to have designated the Chairman of the Board of Directors, or in his absence, the President of the Corporation, as his proxy for the annual stockholders meeting to be held on July 26, 2006.

- (g) If the number of shares of stock is left in blank, the proxy shall be deemed to have been issued for all of the stockholder's shares of stock in the Corporation as of Record Date.
- (h) The manner in which this proxy shall be accomplished, as well as the validation hereof shall be governed by the provisions of SRC Rule 20 (11)(b)
- (i) The stockholder executing the proxy shall indicate the manner by which he wishes the proxy to vote on any of the matters in (1), (2) and (3) below by checking the appropriate box. Where the boxes (or any of them) are unchecked, the stockholder executing the proxy is deemed to have authorized the proxy to vote for the matter. **(Note: If you intend to submit a proxy, please fill up and submit the enclosed proxy instrument, not the following Item 2(i).)**
- (1) Approval/ratification of the minutes of the annual stockholders' meeting held on July 27, 2005.
- FOR AGAINST ABSTAIN
- (2) Ratification of the acts of the Board of Directors and Officers as contained in the attached annual report and the audited financial statements of the Corporation for the year ended December 31, 2005.
- FOR AGAINST ABSTAIN
- (3) Appointment of SGV & Co. as Independent External Auditors
- FOR AGAINST ABSTAIN
- (j) Election of Directors. **(Note: If you intend to submit a proxy, please fill up and submit the enclosed proxy instrument, not the following Item 2(j).)**
- FOR all nominees listed below, except those whose names are stricken out
- WITHHOLD authority to vote for all nominees listed below.

(Instruction: To strike out a name or withhold authority to vote for any individual nominee, draw a line through the nominee's name in the list below).

DAVID M. CONSUNJI
 CESAR A. BUENAVENTURA
 ISIDRO A. CONSUNJI
 JORGE A. CONSUNJI
 VICTOR A. CONSUNJI
 MA. EDWINA C. LAPERAL
 HERBERT M. CONSUNJI
 EVARISTO T. FRANCISCO
 OSCAR S. REYES

Item 3. Revocability of Proxy

Any stockholder who executes the proxy enclosed with this statement may revoke it at any time before it is exercised. The proxy may be revoked by the stockholder executing the same at any time by

submitting to the Corporate Secretary a written notice of revocation not later than the start of the meeting, or by attending the meeting in person and signifying his intention to personally vote his shares. Shares represented by an unrevoked proxy will be voted as authorized by the stockholder.

Item 4. Persons Making the Solicitation

The solicitation is made by the Management of the Corporation. No director of the Corporation has informed the Corporation in writing that he intends to oppose an action intended to be taken up by the Management of the Corporation at the annual meeting. Solicitation of proxies shall be made through the use of mail or personal delivery. The Corporation will shoulder the cost of solicitation.

Item 5. Interest of Certain Persons in Matters to be Acted Upon

No director, officer, nominee for director, or associate of any of the foregoing, has any substantial interest, direct or indirect, by security holdings or otherwise, on any matter to be acted upon at the annual stockholders' meeting to be held on July 26, 2006, other than election to office.

**PART III
SIGNATURE**

Management does not intend to bring any matter before the meeting other than those set forth in the Notice of the annual meeting of stockholders and does not know of any matters to be brought before the meeting by others. If any other matter does come before the meeting, it is the intention of the persons named in the accompanying proxy to vote the proxy in accordance with their judgment.

ACCOMPANYING THIS INFORMATION STATEMENT ARE COPIES OF THE (1) NOTICE OF THE ANNUAL STOCKHOLDERS' MEETING CONTAINING THE AGENDA THEREOF; (2) PROXY INSTRUMENT; AND (C) THE CORPORATION'S MANAGEMENT REPORT PURSUANT TO SRC RULE 20 (4).

UPON THE WRITTEN REQUEST OF A STOCKHOLDER, THE CORPORATION WILL PROVIDE, WITHOUT CHARGE, A COPY OF THE CORPORATION'S ANNUAL REPORT IN SEC FORM 17-A AND THE CORPORATION'S LATEST QUARTERLY REPORT IN SEC FORM 17-Q DULY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE STOCKHOLDER MAY BE CHARGED A REASONABLE COST FOR PHOTOCOPYING THE EXHIBITS.

ALL REQUESTS MAY BE SENT TO THE FOLLOWING:

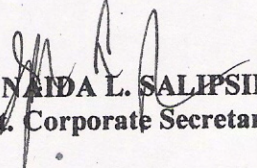
**DMCI Holdings, Inc.
3rd Floor, DACON Building,
2281 Pasong Tamo Extension,
1231 Makati City.**

Attention: The Corporate Secretary

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on June 15, 2006.

By:

DMCI Holdings, Inc.


ZEN AIDA L. SALIPSIP
Ass. Corporate Secretary

FINAL LIST OF CANDIDATES FOR INDEPENDENT DIRECTORS

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.

Oscar S. Reyes is the former Country Chairman of the Shell companies in the Philippines. He is currently a member of the Board of Directors of Pilipinas Shell Petroleum Corporation, Philippine Long Distance Telephone Co., Bank of the Philippine Islands, BPI Capital Corporation, BPI Leasing Corporation, BPI Rental Coporation, Manila Water Co., Universal Robina Coporation, Sunlife of Canada (Philippines), Inc., Sunlife Prosperity Dollar Advantage Fund, Inc., CEO's Inc., Global Resources for Outsourced Workers (GROW), Inc. CBV Asset Management, Level Up Inc., The Mutual Fund Co. of the Phils., Inc., Mindoro Resources Ltd., MRL Gold Phils., Inc., Philippine Electric Corporation. He is currently the Chairman of Link Edge, Inc., Actron Industries, and Unicapital Securities Corporation.

SCHEDULE 2

The following is a disclosure of the beneficial owners of the shares held by the PCD Nominee Corporation and DACON Corporation in DMCI Holdings, Inc. as of May 31, 2006.

(1) PCD Nominee Corporation ²	912,337,965 shares	40.45%
(2) DACON Corporation	620,359,329 shares	27.50%

PCD Nominee Corporation

Attached hereto as Schedule 2(a) is a Certification from the PCD Nominee Corporation as to the beneficial owners of the shares held by it in DMCI Holdings, Inc. The PCD Nominee Corporation is a wholly-owned subsidiary of the Philippine Depository and Trust Corporation (PDTC). The beneficial owners of shares held of record by the PCD Nominee Corporation are PDTC participants who hold the shares on their own behalf or that of their clients. PDTC is a private company organized by major institutions actively participating in the Philippine capital markets to implement an automated book-entry system of handling securities transactions in the Philippines.

DACON Corporation

The following are the beneficial owners of the shares held by DACON Corporation in DMCI Holdings, Inc.:

Name of Stockholder	Number of Shares in DACON Corporation	Percentage Ownership
David M. Consunji	1	.0000349
Fredesvinda A. Consunji	1	.0000349
Victor A. Consunji	11	.000384
Jorge A. Consunji	1	.0000349
Cristina C. Gotianun	1	.0000349
EastHeight Holdings, Inc.	343,330	12
Inglebrook Holdings, Inc.	343,330	12
Gulfshore, Inc.	343,330	12
Valemount Corporation	343,330	12
Chrismon Investments, Inc.	343,330	12
Jagjit Holdings, Inc.	343,330	12
Rice Creek Holdings, Inc.	343,330	12
La Lumiere Holdings, Inc.	343,330	12
Double Spring Corporation	114,427	3.99
Total	2,861,082	100

Mr. Victor A. Consunji or Mr. Jorge A. Consunji shall have the right to vote the shares of DACON Corporation.

²PCD Nominee Corporation, a wholly-owned subsidiary of Philippine Depository and Trust Corporation (“PDTC”), is the registered owner of the shares in the books of the Corporation’s transfer agent in the Philippines. The beneficial owners of such shares are PDTC participants, who hold the shares on their behalf or on behalf of their clients. PDTC is a private company organized by major institutions actively participating in the Philippine capital markets to implement an automated book-entry system of handling securities transactions in the Philippines



PHILIPPINE
CENTRAL
DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security: DMC DMCI Holdings, Inc.

Member	Member Name and Address	Balance
B100AC	UPCC SECURITIES CORP 12/F, Tower One & Exchange Plaza Ayala Ave. cor. Paseo de Roxas Makati City	20,000
B101AC	A & A SECURITIES, INC. Rm. 1906 Ayala Ave. Condominium 6776 Ayala Ave., Makati City	911,010
B102AC	ABACUS SECURITIES CORPORATION Unit 2904-A East Tower, PSE Centre Exchange Road, Ortigas Center Pasig City	1,379,084
B103AC	ACCORD CAPITAL EQUITIES CORPORATION G/F Unit EC-05B, East Tower-PSE Centre Exchange Road, Ortigas Center Pasig City	2,272,700
B104AC	A. T. DE CASTRO SECURITIES CORP. Suite 701, 7/F Ayala Tower I, Exchange Plaza, Ayala Triangle, Ayala Ave., Makati City	107,757
B105AC	ALL ASIA SECURITIES MANAGEMENT CORP. All Asia Capital Center 105 Paseo de Roxas St. Makati City	700
B106AC	ALPHA SECURITIES CORP. 23/F Orient Square Bldg. Emerald Ave., Pasig City	239,600



PHILIPPINE
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DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
B109AC	BA SECURITIES, INC. - FREE		1,651,800
	Rm 401-403 CLMC Bldg, 259-267 EDSA Greenhills Mandaluyong City		
B109FC	BA SECURITIES, INC. - FREE		9,000
	Rm 401-403 CLMC Bldg, 259-267 EDSA Greenhills Mandaluyong City		
B110AC	ANGPING & ASSOCIATES SECURITIES, INC.		2,773,300
	Suites 2002/2004, The Peak, 107 Alfaro St., Salcedo Village, Makati City		
B111AC	ANSALDO, GODINEZ & CO., INC.		1,174,000
	340 Nueva St., Binondo Manila		
B111AP	ANSALDO, GODINEZ & CO., INC.		400
	340 Nueva St., Binondo Manila		
B112AC	AB CAPITAL SECURITIES, INC. - FREE		1,002,500
	8/F Phinma Plaza, #39 Plaza Drive Rockwell Center Makati City		
B112AP	AB CAPITAL SECURITIES, INC. - FREE		500
	8/F Phinma Plaza, #39 Plaza Drive Rockwell Center Makati City		
B112FC	AB CAPITAL SECURITIES, INC. - FREE		657,500
	8/F Phinma Plaza, #39 Plaza Drive Rockwell Center Makati City		



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DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
B113AC	SARANGANI SECURITIES, INC.		100
	5/F APMC Building 136 Amorsolo St., Legaspi Village, Makati City		
B115AC	SB EQUITIES, INC.		1,534,130
	18/F, Security Bank Centre 6776 Ayala Triangle, Ayala Ave., Makati City		
B115FC	SB EQUITIES, INC.		909,000
	18/F, Security Bank Centre 6776 Ayala Triangle, Ayala Ave., Makati City		
B116AC	ASIA PACIFIC CAPITAL EQUITIES & SECURITIES CORPORATION		211,500
	24/F Galleria Corporate Center EDSA corner Ortigas Avenue Quezon City		
B118AC	ASIASEC EQUITIES, INC. - FREE		1,000,000
	8/F Chatham House, 116 Valero St. cor. Herrera St. Salcedo Village, Makati City		
B118AC	ASIASEC EQUITIES, INC.		348,000
	8/F Chatham House, 116 Valero St. cor. Herrera St. Salcedo Village, Makati City		
B118FC	ASIASEC EQUITIES, INC.		900
	8/F Chatham House, 116 Valero St. cor. Herrera St. Salcedo Village, Makati City		
B119AC	ASTRA SECURITIES CORPORATION		240,000
	Units 1204-1205 Ayala Tower One Ayala Ave. cor. Paseo de Roxas Makati City		



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DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
B120AC	ATC SECURITIES, INC.		21,000
	U2903, 29/F, Jollibee Plaza Emerald Avenue, Ortigas Center Pasig City		
B122AC	BELSON SECURITIES, INC.		1,114,000
	4th Floor Belson House 271 Edsa, Mandaluyong City		
B122AP	BELSON SECURITIES, INC.		400
	4th Floor Belson House 271 Edsa, Mandaluyong City		
B122FC	BELSON SECURITIES, INC.		700,000
	4th Floor Belson House 271 Edsa, Mandaluyong City		
B123AC	BENJAMIN CO CA & CO., INC.		310,000
	Rm. 301 Downtown Ctr Bldg., 516 Quintin Paredes St., Binondo, Manila		
B124AC	B. H. CHUA SECURITIES CORPORATION		42,000
	872 G. Araneta Avenue, Quezon City		
B125AC	JAKA SECURITIES CORPORATION		155,000
	Unit 814, Ayala Tower I Ayala Ave., Makati City		
B126AC	BPI SECURITIES CORPORATION		22,053,400
	8/F BPI Head Office Bldg., Ayala Ave., cor. Paseo de Roxas Makati City		



PHILIPPINE
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DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
B126FC	BPI SECURITIES CORPORATION		56,000
	8/F BPI Head Office Bldg., Ayala Ave., cor. Paseo de Roxas Makati City		
B128AC	CAMPOS, LANUZA & COMPANY, INC.		325,000
	Unit 2003B East Tower, PSE Center Exchange Road, Ortigas Center Pasig City		
B129AC	SINCERE SECURITIES CORPORATION		440,000
	12/F, East Tower - PSE Centre Exchange Road, Ortigas Center Pasig City		
B131AC	PCIB SECURITIES, INC. - B131AC-1		261,939
	20/F PCIB Tower I, Dela Costa St., Makati City		
B131AC	PCIB SECURITIES, INC.		415,283,815
	20/F PCIB Tower I, Dela Costa St., Makati City		
B131AC	PCIB SECURITIES, INC. - PSI FAO PRULI063		1,000
	20/F PCIB Tower I, Dela Costa St., Makati City		
B131FC	PCIB SECURITIES, INC.		940,000
	20/F PCIB Tower 1, Dela Costa St., Makati City		
B133AC	CITISECURITIES, INC.		875,000
	Rm. 2701-B PSE Centre, East Tower Exchange Rd, Pasig City		



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EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
B133FC	CITISECURITIES, INC.		2,000
	Rm. 2701-B PSE Centre, East Tower Exchange Rd, Pasig City		
B136AC	TRITON SECURITIES CORP.		5,020,000
	26/F, LKG Tower 6801 Ayala Avenue, Makati City		
B140AC	IGC SECURITIES, INC.		1,960,600
	Suite 1006 Tower One & Exchange Plaza Ayala Triangle, Ayala Ave. Makati City		
B141AC	CUALOPING SECURITIES CORPORATION		3,969,000
	Suite 1801 Tytana Centre Condominium Plaza Lorenzo Ruiz, Binondo, Manila		
B142AC	DBP-DAIWA SECURITIES (PHILS.), INC. - FREE		6,000
	18/F Citibank Tower 8741 Paseo de Roxas Makati City		
B143AC	DAVID GO SECURITIES CORP.		162,000
	Rm. 309 Federation Center Bldg. Muelle de Binondo, Binondo, Manila		
B145AC	DIVERSIFIED SECURITIES, INC. - FREE		292,742
	5/F PDCP Bank Centre Herrera St. cor. Alfaro St. Salcedo Village, Makati City		
B145FC	DIVERSIFIED SECURITIES, INC. - FREE		10,000
	5/F PDCP Bank Centre Herrera St. cor. Alfaro St. Salcedo Village, Makati City		



PHILIPPINE
CENTRAL
DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
B147AC	E. CHUA CHIACO SECURITIES, INC.		593,000
	113 Rentas St. cor. 3751 Juan Luna Binondo, Manila		
B148AC	EQUITABLE SECURITIES (PHILS.) INC.		1,200
	3/F Cacho-Gonzalez Bldg, Aguirre cor. Trasierra St, Legaspi Village Makati City		
B149AC	EAST WEST CAPITAL CORPORATION		211,000
	2/F U-Bix Building 1331 Angono St., Makati City		
B150AC	EASTERN SECURITIES DEVELOPMENT CORPORATION		97,200
	1701 Tytana Ctr. Bldg, Binondo, Manila		
B153AC	EQUITIWORLD SECURITIES, INC.		498,000
	807-809 Philippine Stock Exchange Ayala Tower 1, Ayala Avenue Makati City		
B153AP	EQUITIWORLD SECURITIES, INC.		50,000
	807-809 Philippine Stock Exchange Ayala Tower 1, Ayala Avenue Makati City		
B154AC	EVERGREEN STOCK BROKERAGE & SEC., INC. - FREE		192,000
	Rm. 606 Ayala Tower I Ayala Triangle, Ayala Ave. Makati City		
B154FC	EVERGREEN STOCK BROKERAGE & SEC., INC. - FREE		50,000
	Rm. 606 Ayala Tower I Ayala Triangle, Ayala Ave. Makati City		



PHILIPPINE
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DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
B157AC	FIRST ORIENT SECURITIES, INC.		87,400
	Unit 1201 Ayala Triangle Tower One Ayala Avenue, Makati City		
B159AC	FIRST INTEGRATED CAPITAL SECURITIES, INC.		100,000
	Units 1211-1212 Tower I & Exchange Plaza, Ayala Ave. Cor. Paseo de Roxas, Makati City		
B161AC	FRANCISCO ORTIGAS SECURITIES, INC.		12,000
	Rm. 815 Ortigas Bldg. Ortigas Ave, Pasig City		
B162AC	F. YAP SECURITIES, INC.		329,000
	Unit 2301 PSE Center (East Tower) Exchange Rd., Ortigas Center Pasig City		
B167AC	AURORA SECURITIES, INC.		200
	Unit 2405A, West Tower, PSE Centre Exchange Road, Ortigas Center Pasig City		
B168AC	GLOBALINKS SECURITIES & STOCKS, INC.		8,086,058
	Rm 706 Ayala Tower One Ayala Avenue Cor. Paseo de Roxas St. Makati City		
B168AP	GLOBALINKS SECURITIES & STOCKS, INC.		1,070
	Rm 706 Ayala Tower One Ayala Avenue Cor. Paseo de Roxas St. Makati City		
B168FC	GLOBALINKS SECURITIES & STOCKS, INC.		25,000
	Rm 706 Ayala Tower One Ayala Avenue Cor. Paseo de Roxas St. Makati City		



PHILIPPINE
CENTRAL
DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
B169AC	JSG SECURITIES, INC.		129,000
	4th Floor, A&T Building, 244 Escolta Street, Binondo, Manila		
B170AC	GOLDSTAR SECURITIES, INC. - FREE		507,000
	2201-B East Tower, PSE Centre Exchange Rd, Ortigas Center Pasig City		
B172AC	GUILD SECURITIES, INC. - FREE		70,000
	Unit 1215 Tower One & Exchange Plaza Ayala Ave., Makati City		
B174AC	HDI SECURITIES, INC.		283,000
	11/F, Ayala Tower I, Ayala Ave. Makati City		
B175AC	H. E. BENNETT SECURITIES, INC.		293,000
	Rm 207, Fil-Am Resources Bldg. 231 Juan Luna St., Binondo, Manila		
B178AC	HK SECURITIES, INC.		800
	Suite 102 Columbia Tower, Ortigas Ave., Mandaluyong City		
B179AC	I. ACKERMAN & CO., INC.		1,395,600
	Suite 705, Tower I Bldg. PSE Plaza, Ayala Triangle Ayala Ave., Makati City		
B180AC	I. B. GIMENEZ SECURITIES, INC.		11,473,300
	No. 42, 3/F, New Rosario Ortigas Arcade Rosario Ortigas Extn., Pasig City		



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DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
B181AC	INVESTORS SECURITIES, INC.		4,699,000
	6/F Tower One & Exchange Plaza Ayala Avenue cor. Paseo de Roxas Makati City		
B182AC	IMPERIAL, DE GUZMAN, ABALOS & CO., INC.		557,000
	Greenfield Bldg.I 750 Shaw Blvd. Mandaluyong City		
B182AP	IMPERIAL, DE GUZMAN, ABALOS & CO., INC.		500
	Greenfield Bldg.I 750 Shaw Blvd. Mandaluyong City		
B183AC	INTRA-INVEST SECURITIES, INC.		81,000
	11/F ACT Tower, 135 Sen. Gil Puyat Ave., Salcedo Vill., Makati City		
B187AC	ASIAN CAPITAL EQUITIES, INC.		14,000
	25-B Rufino Tower Bldg. Ayala Avenue, Makati City		
B188AC	J.M. BARCELON & CO., INC.		3,800
	Rm 301 Pako Bldg. Pedro Gil cor. Dart & Gen Luna Sts. Paco, Manila		
B192AC	STRATEGIC EQUITIES CORP. - FREE		128,000
	Unit 610-611 PSE Plaza, Tower I, Ayala Triangle, Ayala Ave., Makati City		
B193AC	LARRGO SECURITIES CO., INC.		14,000
	Rm. 202 2/F Rufino Building, Ayala Avenue, Makati City		



PHILIPPINE
CENTRAL
DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
B197AC	LOPEZ, LOCSIN, LEDESMA & CO., INC.		54,000
	405 Sen. Gil Puyat Ave. (near MRT), EDSA Makati City		
B198AC	LUCKY SECURITIES, INC.		50,000
	19/F West Tower - PSE Centre Exchange Road, Ortigas Center Pasig City		
B199AC	LUYS SECURITIES COMPANY, INC.		218,000
	28/F, LKG Tower 6801 Ayala Ave., Makati City		
B200AC	MANDARIN SECURITIES CORPORATION		4,796,000
	28/F LKG Tower 6801 Ayala Ave., Makati City		
B200AP	MANDARIN SECURITIES CORPORATION		151,000
	28/F, LKG Tower 6801 Ayala Ave., Makati City		
B202AC	MARINO OLONDRIZ Y CIA		1,800
	Rm 2305-A Tektite Tower I Exchange Road Ortigas Center Pasig City		
B204AC	DA MARKET SECURITIES, INC.		71,000
	Unit 2402-B West Tower, PSE Center Exchange Road, Ortigas Center Pasig City		
B205AC	MERCANTILE SECURITIES CORP.		220,000
	20/F, First e-Bank Tower 8737 Paseo de Roxas Makati City		



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DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
B206AC	MERIDIAN SECURITIES, INC.		50,000
	Suite 2702B&C East Tower - PSE Centre Exchange Road, Ortigas Center Pasig City		
B208AC	MDR SECURITIES, INC.		15,970,000
	Unit 1806, 8/F Medical Plaza Ortigas Bldg. San Miguel Ave., Ortigas Center Pasig City		
B209AC	DEUTSCHE REGIS PARTNERS, INC. - AC RETAIL		17,085,000
	23/F Tower One & Exchange Plaza Ayala Triangle, Makati City		
B209AP	DEUTSCHE REGIS PARTNERS, INC. - AP ODD-LOT		5,300
	23/F Tower One & Exchange Plaza Ayala Triangle, Makati City		
B209FC	DEUTSCHE REGIS PARTNERS, INC. - AC CORPORATE(F)		7,040,000
	23/F Tower One & Exchange Plaza Ayala Triangle, Makati City		
B209FC	DEUTSCHE REGIS PARTNERS, INC. - FREE		578,000
	23/F Tower One & Exchange Plaza Ayala Triangle, Makati City		
B210AC	MOUNT PEAK SECURITIES, INC.		12,000
	#748 C.K. Bldg., Juan Luna St., Binondo, Manila		
B211AC	NEW WORLD SECURITIES CO., INC.		22,000
	Rm. 202 Fil-Am Resources Bldg. 231 Juan Luna St. Binondo, Manila		



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EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
B215AC	OPTIMUM SECURITIES CORPORATION		470,000
	No. 11 E. O. Bldg., United St. cor. 2nd St. Bo. Kapitolyo, Pasig City		
B215AC	OPTIMUM SECURITIES CORPORATION - HOUSE2		178,000
	No. 11 E. O. Bldg., United St. cor. 2nd St. Bo. Kapitolyo, Pasig City		
B217AC	RCBC SECURITIES, INC. - FREE		656,000
	7/F Yuchengco Tower RCBC Plaza, 6819 Ayala Avenue Makati City		
B217FC	RCBC SECURITIES, INC.		50,000
	7/F Yuchengco Tower, RCBC Plaza 6819 Ayala Avenue Makati City		
B218AC	PAN ASIA SECURITIES CORP.		60,000
	Rm 910 Tower One & Exchange Plaza Ayala Avenue, Makati City		
B219AC	PAPA SECURITIES CORPORATION		1,285,250
	6/F S & L Building Dela Rosa cor. Esteban Sts. Legaspi Village, Makati City		
B220AC	ATR-KIM ENG SECURITIES, INC. - FREE		2,040,700
	17/F Tower One & Exchange Plaza, Ayala Triangle, Ayala Avenue Makati City		
B220AP	ATR-KIM ENG SECURITIES, INC. - FREE		200
	17/F Tower One & Exchange Plaza, Ayala Triangle, Ayala Avenue Makati City		



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EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
B220FC	ATR-KIM ENG SECURITIES, INC. - FREE		178,000
	17/F Tower One & Exchange Plaza, Ayala Triangle, Ayala Avenue Makati City		
B223AC	PLATINUM SECURITIES, INC.		10,000
	Unit 801, Antel 2000 Corporate Centre 121 Valero St., Salcedo Village Makati City		
B224AC	PNB SECURITIES, INC.		287,596
	3/F PNB Financial Center Roxas Blvd., Pasay City		
B225AC	PREMIUM SECURITIES, INC.		259,000
	Unit 1415, Tower 1 & Exchange Plaza Ayala Avenue cor. Paseo de Roxas Makati City		
B228AC	PRYCE SECURITIES, INC.		204
	18/F, Pryce Center 1179 Chino Roces Ave. cor. Bagtikan St. Makati City		
B229AC	PUBLIC SECURITIES CORPORATION		600
	Unit 1214 PSE Tower One & Exchange Plaza Ayala Ave. cor. Paseo de Roxas Makati City		
B230AC	QUALITY INVESTMENTS & SECURITIES CORPORATION		413,000
	Suite 1602 Tytana Plaza Bldg. Plaza Lorenzo Ruiz Binondo, Manila		
B231AC	R & L INVESTMENTS, INC.		305,500
	675 Lee St., Mandaluyong City		



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EQ Beneficial Owner Report by Security

31-May-2006

Security: DMC DMCI Holdings, Inc.

B232AC	ALAKOR SECURITIES CORPORATION - FREE 9/F Quad Alpha Centrum, 125 Pioneer St. Mandaluyong City	8,000
B233AC	R. COYIUTO SECURITIES, INC. 5/F Corinthian Plaza, Paseo de Roxas Legaspi Village, Makati City	486,000
B235AC	REGINA CAPITAL DEVELOPMENT CORPORATION Unit 806 Tower 1 & Exchange Plaza Ayala Triangle, Ayala Avenue Makati City	1,083,143
B236AC	R. NUBLA SECURITIES, INC. Room 300, Fil-Am Resources Bldg., 231 Juan Luna St., Binondo, Manila	865,000
B238AC	R. S. LIM & CO., INC. 1509 Galvani Street San Isidro, Makati City	104,800
B239AC	RTG & COMPANY, INC. Unit 602 Tower 1 & Exchange Plaza Ayala Triangle, Makati City	4,292,400
B240AC	S.J. ROXAS & CO.,INC. Unit 612 Tower One, Ayala Triangle, Ayala Avenue, Makati City	89,000
B240AC	S.J. ROXAS & CO.,INC. - PISI-215283 Unit 612 Tower One, Ayala Triangle, Ayala Avenue, Makati City	21,000



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DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
B240AP	S.J. ROXAS & CO., INC.		1,000
	Unit 612 Tower One, Ayala Triangle, Ayala Avenue, Makati City		
B242AC	SECURITIES SPECIALISTS, INC.		25,000
	Casa Blanca, 1447 M. Adriatico St, Ermita, Manila		
B246AC	SUMMIT SECURITIES, INC.		549,800
	Unit 2102 B/C PSE Center Tektite Tower East Exchange Road, Ortigas Center Pasig City		
B247AC	STANDARD SECURITIES CORPORATION - PIONEER LIFE INC		720,000
	34 Jefferson St., West Greenhills San Juan, Metro Manila		
B247AC	STANDARD SECURITIES CORPORATION		1,356,000
	34 Jefferson St., West Greenhills San Juan, Metro Manila		
B251AC	TANSENGCO & CO., INC.		41,800
	Rm. 208 Padilla de los Reyes Bldg. Juan Luna St., Binondo, Manila		
B252AC	THE FIRST RESOURCES MANAGEMENT & SECURITIES CORP.		250,000
	Rms. 801-802, PSE Tower 1 Ayala Ave., cor. Paseo de Roxas, Ayala Triangle, Makati City		
B253AC	TOWER SECURITIES, INC.		11,133,000
	1802-C Tektite Tower I Exchange Road, Ortigas Centre Pasig City		



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DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
B257AC	TRI-STATE SECURITIES, INC.		77,000
	Unit 1007, 10/F Ayala Triangle Tower I, Ayala Avenue, Makati City		
B259AC	UCPB SECURITIES, INC.		376,000
	14/F, UCPB Building Makati Ave., Makati City		
B260FP	UOB-KAY HIAN SECURITIES (PHILS.), INC.		40,000
	Unit 404 LV Locsin Bldg, 6752 Ayala Ave cor Makati Ave 1226 Makati City		
B261AC	E. SECURITIES, INC. - E.SEC2		32,000
	11/F Export Bank Plaza Chino Roces cor. Gil Puyat Ave Makati City		
B261AC	E. SECURITIES, INC.		209,000
	11/F Export Bank Plaza Chino Roces cor. Gil Puyat Ave Makati City		
B263AC	VENTURE SECURITIES, INC.		204,000
	7/F, Phil. First Building 6764 Ayala Ave., Makati City		
B266AC	VICSAL SECURITIES & STOCK BROKERAGE, INC.		123,600
	658 C. Palanca St., Quiapo, Manila		
B267AC	FIRST METRO SECURITIES BROKERAGE CORP.		457,000
	Unit 1515, 15/F Ayala Tower One Ayala Triangle, Ayala Ave. cor Paseo de Roxas Makati City		



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DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
B269AC	WEALTH SECURITIES, INC.		7,711,800
	2103 PSE Centre, Exchange Road Ortigas Centre, Pasig City		
B270AC	WESTLINK GLOBAL EQUITIES, INC.		158,000
	6/F Philippine Stock Exchange Plaza Ayala Avenue, Makati City		
B272AC	BERNAD SECURITIES, INC.		55,000
	3/F, 1033 M.H. del Pilar St. Ermita, Manila		
B272AP	BERNAD SECURITIES, INC.		850,000
	3/F, 1033 M.H. del Pilar St. Ermita, Manila		
B272FC	BERNAD SECURITIES, INC.		200,000
	3/F, 1033 M.H. del Pilar St. Ermita, Manila		
B273AC	WONG SECURITIES CORPORATION		15,000
	205 Captain Roja St., San Juan Metro Manila		
B275AC	YAO & ZIALCITA, INC.		1,905,000
	5G Vernida I Condominium 120 Amorsolo St., Legaspi Village Makati City		
B275AP	YAO & ZIALCITA, INC.		4,000
	5G Vernida I Condominium 120 Amorsolo St., Legaspi Village Makati City		



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DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
B278AC	YU & COMPANY, INC.		767,000
	Unit E 1606-B Tektite Tower 1 Exchange Road, Ortigas Center Pasig City		
B279AC	BDO SECURITIES CORP.		131,500
	27/F Tower I & Exchange Plaza Ayala Ave., Makati City		
B282AC	PCCI SECURITIES BROKERS CORP. - FREE		797,000
	4/F PCCI Corporate Centre 118 L.P. Leviste St, Salcedo Village Makati City		
B282AP	PCCI SECURITIES BROKERS CORP.		50,000
	4/F PCCI Corporate Centre 118 L.P. Leviste St, Salcedo Village Makati City		
B283AC	EAGLE EQUITIES, INC.		48,000
	779 Harvard St., Mandaluyong City		
B285AC	GOLDEN TOWER SECURITIES & HOLDINGS, INC.		40,000
	4-B Vernida I Condominium, 120 Amorsolo St., Legaspi Village, Makati City		
B286AC	SOLAR SECURITIES, INC.		800,050
	Unit 3002-A East Tower, Phil. Stock Exchange Centre, Exchange Road, Ortigas Complex, Pasig City		
B288AC	G.D. TAN & COMPANY, INC.		10,000
	Unit 2203-A East Tower, PSE Center Exchange Road, Ortigas Center, Pasig City		



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DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
B323AP	CLSA PHILIPPINES, INC.		368
	18/F, Tower 1, The Enterprise Center 6766 Ayala Ave., Makati City		
B323FC	CLSA PHILIPPINES, INC. - C-000341		299,000
	18/F, Tower 1, The Enterprise Center 6766 Ayala Ave., Makati City		
B328AC	THING ON SECURITIES LTD, (PHILS.), INC.		135,000
	1136 Soler St., Binondo, Manila		
B333AC	UBS WARBURG SECURITIES PHILS., INC. - FREE		40,000
	19/F Ayala Tower One, Ayala Ave., Makati City		
B338AP	PHILIPPINE EQUITY PARTNERS, INC.		309
	Unit 19C Citibank Tower Citibank Plaza 8741 Paseo de Roxas Makati City		
B345AC	UNICAPITAL SECURITIES INC.		1,579,000
	4F Majalco Bldg Benavidez cor Trasierra Sts Legaspi Vill., Makati City		
B388AC	ARMSTRONG SECURITIES, INC.		41,000
	20/F, Equitable PCI Tower I Makati Ave. cor. H.V. de la Costa St. Makati City		
B389AC	KING'S POWER SECURITIES, INC.		310,000
	Rm 704 Federal Tower Dasmariñas St. Binondo, Manila		



PHILIPPINE
CENTRAL
DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
CITI10	CITIBANK N. A. - CITIFAOPHILAM		870,000
	11/F Citibank Tower Villar corner Valero Sts. Makati City, MM		
CITI10	CITIBANK N. A. - CITIOMNIFOR		12,058,781
	11/F Citibank Tower Villar corner Valero Sts. Makati City, MM		
CITI10	CITIBANK N. A. - CITIOMNILOC		748,000
	11/F Citibank Tower Villar corner Valero Sts. Makati City, MM		
DEUB10	DEUTSCHE BANK AG MANILA BRANCH		6,977,000
	26/F Ayala Tower One Ayala Triangle, Makati City		
DEUB20	DEUTSCHE BANK AG MANILA BRANCH		580,000
	26/F ayala Tower One, Ayala Triangle, Makati City		
DEUB20	DEUTSCHE BANK AG MANILA BRANCH - VTA		30,000
	26/F ayala Tower One, Ayala Triangle, Makati City		
GSIS10	GOVERNMENT SERVICE INSURANCE SYSTEM		630,000
	GSIS Hqs., Financial Center Roxas Blvd., Pasay City		
HSBC10	THE HONGKONG AND SHANGHAI BANKING CORP. LTD. -CLIENTS'		205,562,000
	30/F Discovery Suites 25 ADB Ave., Ortigas Center Pasig City		



PHILIPPINE
CENTRAL
DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
HSBC20	THE HONGKONG AND SHANGHAI BANKING CORP. LTD. -CLIENTS'		1,842,359
	30/F Discovery Suites 25 ADB Ave., Ortigas Center Pasig City		
HSBC30	THE HONGKONG & SHANGHAI BANKING CORP. LTD. -OWN ACCOU		1,200
	30/F Discovery Suites 25 ADB Ave., Ortigas Center Pasig City		
PABC10	AB CAPITAL & INVESTMENT CORP.- TRUST & INVESTMENT DIVISI		918,000
	G/F Asianbank Centre Building Sen Gil Puyat Ave Ext cor Tordesillas St Salcedo Village, Makati City		
PPSB20	PHILAMLIFE SAVINGS BANK-TBD FOREIGN SEC - PASB TRUST - 00		235,000
	10/F Philamlife Tower 8767 Paseo de Roxas, Makati City		
PSMC10	SAN MIGUEL CORP.-RETIREMENT PLAN		594,000
	40 San Miguel Ave, Ortigas Center Mandaluyong City		
PSMC20	SAN MIGUEL CORPORATION PLAN-STP		600,000
	San Miguel Corp. Retirement PLan 40 San Miguel Ave. Ortigas Center, Mandaluyong City		
RCBC10	RCBC TRUST & INVESTMENT DIVISION		750,400
	333 Sen. Gil J. Puyat Ave. Makati City		
SCBK10	STANDARD CHARTERED BANK		83,923,000
	6756 Ayala Avenue Makati City		



PHILIPPINE
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DEPOSITORY, INC.

EQ Beneficial Owner Report by Security

31-May-2006

Security:	DMC	DMCI Holdings, Inc.	
SCTD10	MBTC - TRUST BANKING GROUP		4,400,000
	5/F Metrobank Plaza Sen. Gil Puyat Ave., Makati City		
SCTD10	MBTC - TRUST BANKING GROUP - METRO GROWTH01		137,000
	5/F Metrobank Plaza Sen. Gil Puyat Ave., Makati City		
UCPB10	UNITED COCONUT PLANTERS BANK-TRUST BANKING		45,000
	5/F, UCPB Bldg., Makati Ave. Makati City		
		TOTAL	912,337,965

DMCI HOLDINGS, INC.
Management Report
Pursuant To SRC Rule 20 (4)

I. Incorporated herein are the Audited Annual Financial Statements of DMCI Holdings, Inc. (the “Company”) for the year ended December 31, 2005, the Interim Financial Statements of the Corporation for the quarter ended March 31, 2006, and the Statement of Management’s Responsibility in respect of the financial statements.

II. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There has been no change or disagreements with certifying accountants.

III. Management's Discussion and Analysis or Plan of Operation

A. Audited Financial Statements as of December 31, 2005

1. Results of Operations

DMCI Holdings, Inc. (the “Company”) is a holding company which derives its income from its investments. Its major investments are in: Semirara Mining Corp. (SMC), which operates the coal mining operations; DMCI Project Developers, Inc. (PDI), which reports on the real estate segment; and D.M. Consunji, Inc. (DMCI), which manages the construction business and also shares in the real estate business.

I. RESULTS OF OPERATIONS

The Company and its subsidiaries reported a consolidated income of P4.1 billion and P1.5 billion for 2005 and 2004 respectively. The 173% increase was due mainly to: gains in the investments business; continuous significant contributions from the coal mining business; the exceptional performance of the real estate segment; and the business provided by the construction industry.

INVESTMENTS

The year proved to be a record year for the investment business of the Company after the public offer of SMC early in 2005. We recall that in 1997, the Company initially invested a net cost of P562 million for 40% ownership in SMC and over time was increased to 94.5%. The acquisition of SMC was more as a backward integration to supply coal as a raw material for cement to be used in DMCI and the construction industry. But due to the economic slowdown from the Asian Crisis that adversely affected the construction business, the Company decided to discontinue its expansion for cement production and to just continue to operate SMC as a basic coal mining company. With the recent boom in the coal industry experienced in 2004, the Company decided to grab the opportunity to re-offer SMC to the public. In this regard, SMC was able to issue new shares and the Company was able to sell its shares in SMC. This gave the Company net gains totaling P2.38 billion, a far cry from its initial investment of P562 million. Moreover the percentage of ownership was maintained at 60%,

with SMC repurchasing shares into treasury which again increased the net ownership to 63% by the end of 2005.

Moreover, the current outlook in the real estate sector (see Real Estate discussion below) has prompted the Company to intently look into the prospect of expanding the business.

Armed with the experience, liquidity and the new found reputation and confidence from the SMC sale, the Company is currently on the look out for other opportunities in its investments business.

COAL MINING

2005 was again a record-breaking year for the Company's coal mining business, reported under 63%-owned and publicly listed Semirara Mining Corp. (SMC), as coal revenues and bottom line reached the same peaks from last year with even a very adequate 10% growth. The sale of shares in SMC reduced net contributions from P1.3 billion to P1 billion as the Company's percentage of ownership went down from 94% to 63% in 2004 and 2005 respectively. This however provided for a higher share for the minority interest.

Below is SMC's Management Discussion and Analysis as discussed in its own financial report for 2005:

**SEMIRARA MINING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(YEARS 2003-2005)**

Full Years 2004-2005

I. PRODUCTION

Anticipating the increased requirements for Semirara coal reflective of growing global demand, Semirara Mining Corp. (SMC) geared up its modernization and expansion program commencing on the second half of 2004. Additional importation of production equipment like trucks and shovels and support equipment in terms of bulldozers and graders for 2005 established the company's targeted 3.5 million metric tons (MT's) coal production capacity for the year.

Despite the increased capacity however, coal production was constrained by the failure of certain projected sales to materialize primarily due to the prolonged maintenance shutdown of the company's largest consumer, National Power Corp.'s (NPC) Calaca plant number 2. What was supposedly a regular 60-day annual maintenance shutdown extended for almost 9 months as a series of technical problems were encountered by NPC whenever they attempted to put the plant back on line. Consequently, coal production had to be restrained to market absorption capacity, while advance stripping of waste materials to the point of coal exposure was pursued to use available capacity particularly, during the first 3 quarters of the year. Advance

stripping combined with restrained coal production however, resulted into a higher waste material to coal ratio (or strip ratio) of 8.02:1 as against last year's 6.02:1.

In 2005, an unprecedented 3.2 million MT's of Run-of-Mine coal (ROM) was produced out of a likewise historic total material movement of 27.9 million bank cubic meters (bcm). This is a marked improvement over last year's performance of 2.8 million ROM and 19 million bcm or a growth performance of 14% and 47% respectively. This level of production translated to Total Product Coal of 2.9 million MT's, 16% more than 2004 performance of 2.5 million MTs.

It is worth mentioning that during the year, the company has completed the installation of a single pass cyclone centrifugal washing system which effectively brings down washing cost. On the other hand, the completion of the Feeder-crusher and Conveying System marked the company's continuing program for quality improvement.

The system aims to improve coal quality in terms of standardizing coal sizes to meet customer specifications. The crusher is connected to a conveyor system which could bring down fuel costs as it tends to reduce hauling of materials by trucks thus, contributing to the cost-cutting program set by management. It has a rated capacity of 6.7 million bcm equivalent to 18% of total material handling capacity of 37.2 million bcm.

II. MARKET

At the onset of 2005, National Power Corporation's (NPC) Calaca Plant #2, the single biggest user of Semirara coal that historically accounts for more than 50% of the of the total sales volume, was shut down for a regular maintenance check scheduled for 60 days. However, various technical problems were encountered in the course of the repairs whereby the plant was not fully restored until the last quarter of the year. This unforeseen prolonged shutdown has resulted into a substantial shortfall against sales targets. Whereas sales target for Calaca was 1.8 million MT's corresponding to their indicated requirements, actual volume sold instead fell by 228 thousand MTs, from 2004 sales level of 1.45 million MTs to 1.23 million MTs in 2005. This development translated into a decline in Calaca's market share from 58% of annual sales volume in the previous year to 49% in 2005.

On a positive note, purchases from other NPC – Independent Power Producers (IPP) power plants, namely Sual and Pagbilao plants, have posted higher volumes of 147 thousand MT's and 61 thousand MT's respectively, an increase of 75 thousand MTs and 26 thousand MTs, over last year's volume. Deliveries to Sual were 72 thousand MT's while Pagbilao coal liftings was only 35 thousand in 2004. This partially offset the decrease in NPC's market share from 62% in 2004 to 58% in the current period.

The thrust towards market diversification that is, non-NPC markets, likewise, have posted an aggregate increase in sales volume by 95 thousand MT's making up for Calaca's shortfall. Despite a slow start, saddled with high inventory at the beginning of the year, cement plants purchases increased by 109 thousand MTs over 2004 volume. A marked increase of 148 thousand MT's was accounted for by APO Cement after certain plant recalibration and adjustments enabled it to use 100%

Semirara coal. Deliveries to Solid Cement were also initiated during the year amounting to 18,000 MT's. On the other hand, PNOC purchases declined by 58 thousand MT's from 488 thousand MT's in 2004 to 430 thousand MT's this year tempering the otherwise robust growth from the cement sector. Market diversification is further realized with deliveries of 22 thousand MT's to PICOP Resources, a paper mill located in Surigao del Norte. These are significant developments in that they reflect the growing market acceptance of Semirara coal not only in the Power industry but other industries like Cement and Paper Milling. The poor quality image of Semirara coal is now a thing of the past.

Combined, total sales volume for 2005 amounted to 2,479,461 MT's, slightly lower by 33,422 MT's compared with last year's performance of 2,512,833 MT's or 1.3%. Composite FOB selling price posted at P2,205/MT in 2005, a 12% increase over the 2004 figure of P1,974/MT. The improvement is mainly a consequence of the full year effect of high coal prices in the current year which started to rise dramatically only by the second half of 2004. NPC sales averaged P2,490/MT FOB, higher by P177/MT compared to last year's prices of P2,313/MT or 7.7%. On the other hand prices for non-NPC deliveries averaged P1,815/MT FOB, improving by P397/MT from 2004 level of P1,418/MT equivalent to 28% , largely due to increased volumes from the cement industry as Semirara coal continues to gain wider market acceptance.

III. FINANCE

Sales and Profitability

Despite the slight dip in sales volume, improved prices lifted Revenues to P5.6 billion, P500 million more than last year's performance of P5.1 billion or 9.8 %. Coal sales accounted for P5.466 billion while the balance of P87 million was generated from coal handling services at the Calaca plants. Coal revenues grew by P506 million or 10% from last year's level of P4.960 billion. On the other hand, the prolonged shutdown of Calaca plant number 2 caused coal handling revenue to drop from P106 million in 2004 to P87 million in 2005 equivalent to 18% as less coal was delivered.

Cost of sales in 2005 amounted to P3.3B (inclusive of cost of coal handling of P113.4 million). Cost of coal sold per MT is 17.5% higher at P1,287 compared to last year's cost of P1,095 (as restated according to new IFRS/IAS reporting standards). The higher cost per MT of coal sold may be attributed to several factors: One, the substantial increase in the price of fuel during the year that resulted into higher fuel cost of P299/MT versus last year's P191 /MT or 57%; Two, the adoption of the change in depreciation policy shortening depreciable life of mining equipment from 5 years to 3 years likewise increased depreciation cost per MT to P 500 from last year's P334/MT equivalent to 50%. This was offset by lower cost per MT of Materials and Parts from P320 in 2004 to P240 in 2005 or a drop of 25%. The higher strip ratio of 8.02:1 in 2005 versus 6.02:1 in 2004, pulled up production cost further, contributing to the higher cost of coal sold per MT. With higher Cost of Sales, gross profit margin ratio dipped slightly to 40% from last year's profitability ratio of 44%. In absolute amounts however, Gross Profit earned of P2.25 billion in 2005 still posted a slight 1% improvement over 2004 Gross Profit of P2.22 billion.

Operating Expenses were reduced by P14 million in spite of increases in Department Of Energy Royalty due to higher coal revenues by P10.2 million (from P148.6 million in 2004 to P 158.8 million in 2005), Transportation and Travel by P20.2 million (from P6.6 million in 2004 to P26.8 million in 2005) largely due to the International shares offering undertaken during the year and Personnel Costs by 21.6 million. On the other hand, no new real property tax, Provision for Inventory Obsolescence and Provision for Doubtful Accounts were recognized during the year whereas , these expenses accounted for P63.4 million of Total Operating Costs in 2004. Operating Income earned amounted to P1.98 billion in 2005 slightly better than 2004 earnings of P1.94 billion equivalent to a 2% growth. As a percentage of Revenues however, it registered lower at 36% vis-à-vis 38% in 2004.

Interest and Other Financing Charges for the year dropped dramatically from P438.9 million in 2004 to P118.5 million in the current year. The prepayment of most restructured loans and new loans requiring corporate guarantees of DMC Holdings, Inc. and DM Consunji Inc. and secured by real estate assets of affiliated companies cancelled the guarantee fees and collateral fees being charged to Semirara. Repayment of these loans early in the year likewise contributed to bringing down interest cost. Lower borrowing rates were also experienced due to the general downward trend in rates for foreign and local loans as well as the improved credit rating of the company. In addition, Foreign Exchange Gains of P98.1 million was recognized in 2005 compared to the Losses in 2004 of P15 million when the year ended with an exchange rate of P53.09 to US\$1 from the P56.28 to US\$1 at the beginning of the year. Excess cash during the year earned interest income to the tune of P55.1 million largely comprising the Other Income of P59.5 million earned, much higher than the P2.8 million in 2004.

Income Before Tax resulting from the foregoing jumped from P1.49 billion in 2004 to P2.02 billion in 2005 or 36% of Revenue, 7% higher than last year's 29%. However, much higher Provisions for Income Tax had to be made vis-à-vis last year (for which only the Minimum Corporate Income Tax was provided) as remaining Net Operating Loss Carry-Over (NOLCO) benefits were limited. From last year's provision of P41.97 million, 2005 provision for income taxes (current) amounted to P435.94 million or 10.4x higher. This finally translates to Net Income After Taxes of P1.592 billion posting a respectable 10.6% growth from last year's level of P1.439 billion. As a percentage of revenue however, 2005 performance is equivalent to 29% or 1% better than last year's 28%.

Financial Condition, Solvency and Liquidity

A new milestone was etched in the Company's history when it successfully went on an international public offering in 4 February 2005 - an event that reactivated the trading of Semirara stocks at the Philippine Stock Exchange. The exercise had brought P1.6 billion into the coffers of the Company, providing sufficient liquidity to fully pay its restructured local and foreign debts and update trade accounts. In addition, it enabled the Company to pay the required down payments for new mining equipments programmed for its modernization and expansion to augment production capacity.

Another first in the Company's history is the declaration of cash dividends of P1.20 per share for stockholders of record as of March 27, 2006. This was approved by the Board of Directors in its special meeting last 6 March 2006, in fulfillment of management's commitment to company's shareholders to pay a minimum of 20% of Audited Net Profit After Taxes starting Year-ending 2005. Total payment will amount to approximately P333 million, representing around 20.9% of the year's Net Profit After Taxes of P1,592,342,821. However, this is not yet reflected in the 2005 Financial Statements since actual declaration and payment of dividends were done after the 31 December 2005 audit cut-off.

Despite the improved profitability, Net Cash Provided by Operating Activities reflected a 13.3% decline from P1.5 billion in 2004 to P1.3 billion in the current period which was primarily caused by increase in Inventories by P811.3 million, Receivables by P367 million and payment of Accounts and Other Payables of P581.4 million.

Consistent with the capacity expansion program of the Company, net cash used in investing activities surged to P1.2 billion, largely comprised of investments in additional production equipments, marking a 43% increase over the previous year's figure of P824.3 million.

Meanwhile, debt service of long-term debt continuously improved to the tune of P1.253 billion in 2005 as the Company becomes more liquid with the inflow of fresh and cheaper loans to finance its Capital Expenditures Program and the proceeds of the public offering.

The public offering, coupled with better coal prices have boosted the Company's cash generation, recording a hefty increase of 3,753% from P35 million in 2004 to P1.33 billion in the current year.

The combined effects of the foregoing are a more robust Balance Sheet for the year 2005. Current ratio is impressive at 3.39:1, compared to last year's ratio of 1.02:1.

Total Assets of the Company has dramatically surged to P6.9 billion from the previous year's level of P3.9 billion. The increase mainly came from higher levels of Current Assets from P1.47 billion in 2004 to P3.95 billion in the current year. The 46% increase in Receivables is mainly trade related reflecting the increase in Revenues. Also, Due From Related Parties amounting to P68.48 million was lodged. These are operating advances chargeable against subsequent billings on coal freight charges and equipment rentals. On the other hand, the increase in inventories reflected higher coal production towards the end of the year and increase in Materials and Supplies. Materials inventory included P76 million worth of conveyor belts which will be subsequently installed to the company's material handling facilities and reclassified to Property, Plant and Equipment and P97 million worth of fuel, oil and lubricants which was delivered towards the end of the year. Meanwhile the growth in Other Current Assets is due to additional Creditable Withholding Taxes on coal sales withheld by customers.

Additional investments in Property, Plant and Equipment (PPE) amounting to P1.78 billion, offset by increased Accumulated Depreciation based on the change in

depreciation policy (wherein Estimated Useful Life of Conventional equipment have been reduced from 5 years to 3 years), translated into a 23% increase over last year's PPE of P2.38 billion. Meanwhile, marginal deposits on importation of new equipment amounting to P42.82 million mainly caused the 40% increase in Other Non-Current Assets. The combined effect of these two accounts is a 24% increase of Non-Current Assets from P2.39 billion in 2004 to P2.97 billion in 2005.

Despite substantial long-term borrowings to finance acquisition of mining equipment, Total Liabilities marked a slight increase of 9% from P2.50 billion in 2004 to P2.74 billion in 2005. While Current Liabilities shrunk by P281.6 million or 19% largely due to payment of Accounts and Other Payables offset by increases in Income Tax Payable and Current Portion of Long-Term Debt, Non-Current Liabilities rose by P516 million or 49% mainly as a consequence of new Long-Term Borrowings for the importation of equipment.

The payment of Accounts and Other Payables include debt service of Department of Energy (DOE) past due and current accounts amounting to P193.3 million and P163.5 million, respectively. Likewise, Trade Payables dropped from P282.9 Million in 2004 to P86.4 Million in the current year, while Due to Related Parties amounting to P152.7 million in the previous year was totally paid off. The movements of these two items mainly caused the decrease of the account to P388.74 million in 2005 from P985.0 million in the previous year.

The procurement of additional mining equipment which forms part of the Company's capacity expansion program prompted the drawdown of new loans to finance the same. Bank loan balances increased from P428.41 million in 2004 to P1.13 billion in the current year, however, only P176.6 million represents current portion, while Acceptances and Trust Receipts Payable amounting to P262.96 million, with a current portion of P176.48 million were availed. Meanwhile, Payable to Foreign Suppliers significantly dropped to P467.78 million in 2005 from previous year's level of P922.26 million.

With the Net Operating Loss Carry Over incentive (NOLCO) exhausted, the Company started to provide for regular tax liability. At the end of the period, an Income Tax Payable of P324.11 million was recognized in its books.

The decrease in Customers Deposits represents coal deliveries against deposits during the year. Aside from deliveries made to fulfill current deposits from new customers, the Company continued to deliver coal against NPC deposits covered by the Memorandum of Agreement entered into between the two parties in 28 September 1990. From P61.09 million in 2004, the amount was reduced to P35.60 million in the current period.

In accordance with the Philippine Accounting Standards (PAS) 19, the Company has acknowledged its liability to fund the retirement benefits of its employees. The Pension liability has increased to P42.3 million in 2005 from P34.50 million in the previous year.

Due to the adoption of the New IFRS/IAS, changes in accounting standards caused restatement of the company's prior years financial statements and the

recognition of certain deferred tax liabilities. From the P7.73 million deferred tax liability recognized in 2004, it increased to P61.83 million in 2005.

The capital restructuring program undertaken by the Company the previous year aimed to strengthen its Balance Sheet had paved the way to the public offering of additional shares to both international and local investors at the early part of the year. On 4 February 2005, the Company successfully sold 46.875 million shares with a par value of P1, increasing its capital stock to P296.875 million from 250 million at the start of the year. At an offering price of P36/share, an Additional Paid-In Capital of P1.58 billion (net of expenses) was recognized. Improved profit levels resulted to the increase in Retained Earnings from P1.11 billion in 2004 to P2.7 billion in 2005, P1 billion of which was authorized by the Board of Directors (BOD) on 4 April 2005 for Appropriation to Capital Expenditures. Meanwhile, the BOD subsequently approved a shares buy-back program towards the latter part of the year. As of the end of 2005, total shares held in Treasury amounted to 13.8 million, costing P383.63 million. Total Equity has improved by 208% to P4.2 billion from P1.4 billion in 2004. As a result Debt-to-Equity ratio likewise posted a huge improvement from 1.84 in 2004 to 0.65 in the current year.

Performance Indicators

1. Production & Sales Volume – The level of production is an indicator of the Company's capacity to produce which implies its responsiveness to growth in market demand. However, during the period coal production was restrained to the market's absorption capacity as certain sales targets failed to materialize. The prolonged maintenance shutdown of the company's single biggest consumer, NAPOCOR's Calaca Plant No. 2 primarily caused the decline in the company's sales volume for the period. This adverse market development hindered the Company in achieving its sales target of 3.5 million for 2005. Instead, volume sold dropped by 1% from 2.513 million MTs in 2004 to 2.479 million MTs in the current year. However, on the positive side, it should be noted that the Company's thrust for market diversification has continued to progress as sales to other non-traditional markets have further increased.

2. Average Selling Price – This performance indicator demonstrates the effect of movement in global coal prices on the pricing of Semirara coal. When coal price soared during the early part of 2004, it took two quarters before the company felt the benefits. This delayed effect is attributed to the pricing mechanism of the Company's Coal Supply Agreement with NAPOCOR'S Calaca Power Plants. Being at import parity pricing, prices will only change when actual importation of coal is done during the quarter otherwise, the old price based on the last importation stays. Such that, in 2005, the Company enjoyed stable prices as NAPOCOR-Calaca did not import coal until September 2005. The P2,205 composite average prices per MT is the highest price ever for Semirara coal.

3. Capital Expenditures - The lead time for acquiring mining equipment ranges from six months to one year. Hence, management has taken steps to assure that sufficient equipment complement is kept at all times with some provision for critical redundancy. The timing of Capital Expenditures is crucial to minimize opportunity cost. Although the period's actual production is only 3.2 million MTs ROM coal, its capacity stands at 3.5 million MTs per annum. During the year, new large-capacity

mining equipment, such as shovels, dump trucks, dozers, and other support equipment were brought in to the mine site in line with its capacity expansion program.

4. Debt to Equity (D/E) Ratio – *As a measure of the strength of the Company's financial condition, the current period's DE Ratio (Total Liabilities to Equity Ratio) is remarkable at 0.65:1, a huge improvement compared to the previous period's ratio of 1.84:1. The continued improvement of this performance indicator is a big factor in attracting better financing packages for the Company.*

5. Improved Capitalization - *Over the last two years, the Company has fortified its balance sheet through intensive capital restructuring. From posting negative Stockholders' Equity of (P98.6) million in 2003, the succeeding year posted a huge improvement of its Equity to P1.36 billion as earnings soared. Consequently, the capital restructuring program has enabled the Company to successfully offer additional shares to the market, earning Additional Paid-In Capital of P1.57 billion in the process. Unprecedented profits was realized in 2005 further increasing Stockholder's Equity to P4.19 billion in 2005.*

The Company believes that the revenues and profits in its coal mining business is sustainable given the country's total coal consumption is around 10 million metric tons for which SMC supplies 30% of the requirement. With SMC potentials, the Company is poised to open up-stream opportunities for a power generation business.

REAL ESTATE

The Company's real estate business, operated under the name DMCI Homes and financially reported under wholly-owned subsidiary, DMCI Project Developers Inc. (PDI), continued to show outstanding results. Persistent and seemingly sustainable market demand was evident as real estate sales have been steadily growing over the past years with 2005 sales doubling from 2004. Moreover, net income from the real estate segment jumped 4 times, from P35 million last year to P140 million this year. The evident jump in real estate activities were due to extensive sales efforts, continuous product development, and offering suitable financial schemes.

East Ortigas Mansions (EOM), the Company's fastest selling project, continued to provide the much needed revenues as it reported a significant rise of 75% in revenues this year. Though the project reached its full completion and inventory was almost fully sold, the Company decided to construct another phase to take advantage of the positive market response. EOM Phase 2 is composed of an additional 2 building for a total of 128 condominium units.

Vista De Lago (VDL), another project located in Taguig, is emerging to be another success story for the Company. VDL's sales doubled due to the continuing government road construction which allowed easy access to C-5 Road. VDL is budding to be another self sustaining DMCI Homes community as the project reached full completion during the year with most of the units already occupied.

Mayfield Park Residences (MPR), a project located in Cainta Rizal launched late 2004, hit its stride as it pitched in exceptional numbers providing 17% of total real estate sales. Mayfield's innovating Japanese themed design confirmed an ace formula that the Company wishes to replicate in

another project. MPR's Zen-inspired and peaceful charm coupled by its easy accessible location proved effective in enticing buyers.

The Company finalized in 2005 its joint venture with the Armed Forces of the Philippines (AFP) and the Housing & Urban Development Coordinating Council (HUDCC) to develop a 7 hectare medium-rise building residential community in the Fort Bonifacio. The project was named Bonifacio Heights Condominiums (BHC) exclusively available to AFP personnel. The project is envisioned to uplift the living conditions of AFP personnel to that of a typical "DMCI Homes" community. The project is composed of 17 buildings, providing more than 1,000 units of inventory. BHC was well received by AFP personnel as it accounted for about P111 million in realized sales for the year. The Company believes that even if margins are not that high, the exposure and experience, the eventual success of this project would help thrust the more housing projects from other government agencies.

A new project was also opened in August 2005 that is promising to be another triumph for the Company. Mahogany Park Residences (MPR), a townhouse subdivision located in Taguig that boasts of a Southern California rustic villa appeal. Its spacious townhouses are well designed and priced reasonably which allowed for an immediate market acceptance. MPR accounted for more than P100 million in sales in just its first year of release. With the indicated market turnout, the Company believes that the horizontal subdivision type, along with its pioneering design and concept projects, can be another niche in where we can embody our drive for excellence.

The overseas Filipino market continues to be another source of opportunity for the Company's growing real estate business with the International Housing Division posting significant sales for the year. The Company sees that a remarkable portion of the buyers lies in the financially capable Overseas Filipino Workers. We will continue opening new international sales offices in Europe, Middle East and North America. We shall also tap new overseas market through E-Commerce. As the Company moves towards expansion, it envisions its international housing operations to be a major contributor.

Operating expenses for the housing segment significantly increased due to the boost in selling and marketing activities done to address the ever growing market for the Company's products. Moreover, non-recurring costs, worth P77 million composed of provision for bad debts and investment losses, relegated real estate net income. If such costs were not booked, 2005 real estate bottom figure would sharply increase to P217 million from the current amount of P140 million. On the other hand, interest expense diminished due to full payment of loans incurred for the redemption of the Company's preferred shares, the payment of which was funded by the real estate segment.

The very hopeful outcome in the housing development sector has prompted the Company to be committed in hurling its real estate business to new summits with the prospects of offering its real estate business to the public. With the competency as quality builders, the Company's is eyeing itself as major player in the Real Estate sector.

CONSTRUCTION

The Company's construction business, operated by wholly owned flagship construction company D.M. Consunji, Inc., experienced relatively better operations for the year compared to last year.

Revenues for the year went up 43% from P1.95 billion in 2004 to P2.79 billion in 2005. Completion of existing projects, continuous work on on-going projects and recently awarded projects supplied the notable increase in construction revenues.

The Shang Grand Tower, of the Kuok Group, was significantly completed in 2005 apportioning P528 million in revenues for the year, more than doubling what was realized in 2004. Other projects: LRT-2 Package 4, Dingle Diesel Power Plant and the SM Supercenter Sucat-Annex, were also completed in the year providing a total of P457 million in construction revenues, reporting a 37% jump from the P334 million revenues recognized last year.

Newly awarded projects: Chiquita-Unifruitti Wharf, and One Adriatico Place also delivered big for DMCI, as it contributed for P574 million in construction revenues for 2005, while existing works with on-going big ticket project KAMANAVA Flood Control provided same levels of revenues from 2004.

Construction margins were up to 9% in 2005 from 6% in 2004 resulting from change order revenues being approved by contract owners, the costs of which were already recognized in prior years.

Financing charges booked in the construction business specifically from the obligations incurred for the redemption of the Company's preferred shares, significantly fell during the period as these obligations were fully paid at the start of 2005.

Moving forward, the Company sees that the stiff competition and the retail feature prevalent in the local construction industry today may not be the most favorable environment where DMCI will be able to optimize its reputable services as engineers and contractors. Hence, the Company is on the look out for other opportunities that will provide recurring construction income for DMCI. In this light, DMCI is supplying manpower services to a joint-venture project with the principals San Juan Construction and John Laing International located at a US Naval base in Diego Garcia Island of the British Indian Ocean Territory.

As the construction business becomes more challenging, the Company, through DMCI, is still committed to impart its expertise and heritage as proud Filipino contractors to the local and global community.

II. FINANCIAL CONDITION

The Company's financial condition for the period improved as total assets increased by 38% from last year.

Cash increase was mainly due to the re-launch of its publicly listed coal mining subsidiary, SMC, to the public (thru new issuance and secondary sale) providing cash proceeds worth P3.6 billion. Moreover, operations from all segments proved hefty as it also provided additional sources of cash.

Receivables were evidently up resulting from escalation in coal take-up and real estate sales 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 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 additions to the real estate inventory. Some long term

investment properties were also reclassified to real estate inventory, as these properties were determined to be used for housing development in the near future.

SMC's continuing capital expenditures for mining equipment accounted for the increase in property plant and equipment.

Long-term debt (including current portion) and payables to affiliates decreased due to payments made by the Company and its subsidiaries, most significantly with prepayment of loans obtained for the redemption of the Company's preferred shares. However, additional obligations were incurred on the coal mining business with orders of new equipment that were purchased through supplier's credit accounting for the increase in Long-Term Debt.

An update on the Company's redemption of its preferred shares indicates that only 7,530 shares out of 2.4 million shares remains to be retired and/or redeemed as of 2005.

The Company's offer to the public of SMC furnished significant cash. This plus the increase in inventories helped improve the Company's liquidity with its current ratio going up from 1.06 in 2004 to 2.47 in 2005 indicating better current debt repayment capability that is very competitive with competitors. Debt to equity ratio slightly decreased from 1.45 to 1.40 indicating a better position for the Company's stockholders vs. its creditors. The debt to equity ratio was also within industry averages as the Company strives to maintain its financial leverage less risky (current ratio average: 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 based on Business World Top 1000 Corporations in the Philippines, 2005, Volume19).

TOP FIVE (5) KEY INDICATORS

The Company and its Subsidiaries (also known as the "Group") has the following as its top five (5) key performance indicators:

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

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-1st paragraph for a detailed discussion on current interim period*).

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 60% 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 on current interim period*).

CHANGE IN CONSTRUCTION REVENUES & REAL ESTATE SALES

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. In addition, the Company's real estate business is seen to be growing parallel to the construction business. The initial performance indicator of the Company's construction and real estate businesses is any increment in its Construction Revenues & Real Estate Sales. Any change will indicate an improvement or deterioration in the Company's construction and real estate businesses for the period (*see Part I. Results of Operations-Construction for a detailed discussion on current interim period*).

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. 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 on current interim period*).

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 (*see Part II. Financial Condition for a detailed discussion on current interim period*).

B. FIRST QUARTER INTERIM REPORT 2006

I. RESULTS OF OPERATIONS

DMCI Holdings, Inc. (the "Company") reported a consolidated income of P241 million for the 1st quarter of 2006 compared to the net income of P2.2 billion for the same period in 2005. Note that last year's first quarter income included a gain on sale of investments which amounted to P2 billion. Thus, if this gain would be disregarded, the income from normal operations would show a 20% increase from P200 million to P241 million. The increase was mainly due to better operations experienced in the Real Estate and Construction businesses.

COAL MINING

The Company's coal mining business, operated by now 64%-owned Semirara Mining Corp (SMC), continued to experience relative progress in operations.

Coal revenues (including shipping and hauling) were up by 38% due mainly to the increased coal deliveries to customers. With National Power Corp.'s (NPC) Calaca 2 power plant back in full

operations, coal take up improved by 52%. This however was still below expectations as other NPC plants weren't able to purchase coal from SMC as the other plants had to honor import commitments. While the increased deliveries from the return of Calaca 2 balanced the reduced SMC coal shipments to other power plants, the cement industry's current interest in SMC coal have been most welcome. First quarter coal deliveries to cement plants grew from 33% to 48% of total shipments from 2005 to 2006 respectively. Increased demands from PNOC-EC, APO Cement, Solid Cement and Philphos have been promising to be another market for the Company's coal mining business.

Costs on the other hand was higher for this period due to the new accounting standard effected at the end of 2005 where all the costs incurred for waste were absorbed by the usable coal. Moreover, a higher strip ratio in mining coal was experienced for the period as mining activities was escalated in the period to expose more coal seams. SMC believes that the higher costs will be corrected when production improves and picks up reducing the strip ratio and increasing the units of usable coal which will then reduce cost per unit.

General and administrative expenses for the period was lower than the previous year due to the absence of non-recurring charges incurred in relation to the shares offering undertaken in the first quarter of 2005. Interest expense for SMC however grew on a quarter-to-quarter analysis due to SMC acquired loans for its expansion program which started in mid 2005 impacting first quarter production. Also, government share in revenues went slightly up as revenues got higher for the period.

With all the positive items discussed above, SMC net income for the period/quarter was down from P339 million in 2005 to P270 million this year. Income tax swelled exponentially by 13.6 times from P7.9 million to P108 million as SMC's net operating loss carryover (NOLCO) was already fully utilized at the end of 2005. In the light of SMC's current financial success, the Company is eyeing further tax studies to address this trend in income taxes. However, in the absence of any tax opportunities, the Company is seeing that its coal mining business will not just provide revenue to the government via its share in coal mining operations but also in terms of income taxes which can help the country.

As the coal business is ever so rising, the Company will always be committed to make it sustainable for as it keen on other opportunities to further coal operations, and is intently looking into the power sector as a possible forward integration.

REAL ESTATE

The Company's real estate business, headed by 100% owned real estate company DMCI Project Developers, Inc. (PDI), continued to experience record breaking operations for the 1st quarter of this year with respect to the previous year. The Company has welcomed its real estate business as a major contributor to consolidated operations with the real estate sales towering over construction revenues. Persistent outstanding market take-up on the Company's real estate projects drove the 181% increase in real estate sales from P234 million in 2005 to P659 million in 2005.

The Company's medium rise condominium community projects seemed to be a success as constant sales from established projects: East Ortigas Mansions (EOM), Vista De Lago (VDL), Mayfield Park Residences (MPR) went up significantly. with marketing and selling activities being enhanced. Moreover, new projects: Mahogany Place Subdivision, Bonifacio Heights Condominiums also provided considerable sales for the Company.

General and administrative costs were up by 30% with escalating marketing and selling activities undertaken by the Company. 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 housing business is reaching higher peaks, the Company is ardently looking at launching its real estate business in the public market. And, with the seeming long-term prospects seen in the real estate sector, the Company is eager in its commitment to provide quality homes and communities.

CONSTRUCTION

The construction segment, operated by wholly-owned construction subsidiary D.M. Consunji, Inc. (DMCI), continued to show improvements as it posted an increase in construction revenues for the period from P415 million in 2005 to P 612 million in 2006, allocating a 47% rise. Continuous works done on on-going projects, namely, the KAMANAVA Floodway, the One Adriatico Place, and the Chiquita-Unifrutti Wharf accounted for a big chunk of the revenues for the period.

Construction costs were higher for the period compared to last year since change orders, most specially with substantially completed projects: Shang Grand Tower, LRT 2 Package 4, Dingle Power Plant and SM Sucat Annex, that were already incurred but the revenues have yet to be billed and negotiated, thus the revenues have yet to be booked. Gross margin was down from 8% to 3% as a result. DMCI expects to correct this, upon the negotiations and billings on the said change orders have been finalized.

General and administrative expenses for DMCI slid down for the period compared last year evident of the Company's continuing cost reduction.

As the construction business proves to be a challenge nowadays with its retail like environment, the Company is still confident that it can maintain its foothold as a leading provider of construction expertise with heritage as proud Filipino contractors to the country and the global community.

II. FINANCIAL CONDITION

The Company's financial condition for the period improved as total assets as of March 2006 went up by 8.5% from December 2005 (audited).

Cash increased by 5.69% as cash from operations, notably from coal operations, proved helpful in giving positive cash flows to the Company. Interest earned from money placements totaling P33 million also provided additional net cash inflows to the Company.

Receivables were evidently up by 10% resulting from trade receivables boost in coal take-up, escalated real estate sales and improved construction revenues.

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 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, also accounting for additions to the real estate inventory. Some long term investment properties were also reclassified to real estate inventory, as these properties were determined to be used for housing development.

SMC's continuing capital expenditures and operational expansion that included adding to the mining fleet accounted for the increase in property plant and equipment which also accounted for the increase in liabilities. Accounts and other payables and long term debt grew 6% and 16% respectively as a result of debts incurred to finance expansion being in the coal business. Also, greater operations from the real estate segment have marginally increased operating payables.

Though, the increase in cash, inventories and receivables helped improve the Company's current assets, the increase in current liabilities affected liquidity with current ratio dipping a little from 2.47 in 2005 to 2.42 in the first quarter of 2006 indicating a slightly lower debt repayment capability but still well within industry averages. Debt to equity ratio slightly decreased from 0.71 to 0.79 indicating a faint reduction in risk position for the Company's stockholders vs. its creditors. But the Company notes that the debt to equity ratio is still below 1, indicating a generally healthier financial 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: 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).

KEY INDICATORS

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

- (f) Change in Coal Sales
- (g) Change in Real Estate Sales
- (h) Change in Construction Revenues
- (i) Change in Net Income
- (j) Change in Current Ratio
- (k) 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 60% 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-1st 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. 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 (*see Part II. Financial Condition for a detailed discussion*).

IV. Business and General Information

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 40%-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.

SMC, a 63%-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).

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.

Dependence on a few customers. – Not applicable

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

Need for governmental approval of products and services. – Not applicable

Effect of existing or probable governmental regulations to the business. – None at the moment

Estimate of amount spent for research and development activities. – Not applicable

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.

Total number of employees and number of full time employees.

Total No. of Employees	10
Fulltime Employees	10

V. Market Price of and Dividends on Registrant's Common Equity and Related Stockholder Matters

Market Information

Both common and preferred shares of DMCI Holdings, Inc. are traded on the Philippine Stock Exchange.

The high and low sales prices of the Company's equity at the Philippine Stock Exchange for each quarter of the last two fiscal years and the first quarter of 2005 are set forth below.

Common Share Prices		High	Low
2003	First Quarter	0.16	0.16
	Second Quarter	0.23	0.23
	Third Quarter	0.30	0.29
	Fourth Quarter	0.24	0.24
2004	First Quarter	0.21	0.21
	Second Quarter	0.42	0.41
	Third Quarter	2.26	2.08
	Fourth Quarter	3.85	3.70
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

Preferred Share Prices		High	Low
2003	First Quarter	775	775
	Second Quarter	775	775
	Third Quarter	775	775
	Fourth Quarter	775	775
2004	First Quarter	775	775
	Second Quarter	775	775
	Third Quarter	775	775
	Fourth Quarter	775	775
2005	First Quarter	775	775
	Second Quarter	775	775
	Third Quarter	775	775
	Fourth Quarter	775	775

Price information as of the latest practicable trading date: As of June 1, 2006:

	High	Low	Close	Volume
Common Shares	4.05	3.80	4.00	6,931,000
Preferred Shares	1,400	1,400	1,400	0

If the information called for by the aforementioned paragraph 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

Holders

As of May 31, 2006 the Company had a total of 1,115 shareholders of which 1,085 were holders of common shares and 30 were holders of preferred shares.

Dividends

Set forth below are cash dividends declared on each class of its common equity by the Company 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:

- (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.

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.

VI. Discussion on Compliance with Leading Practice on Corporate Governance

- (a) The Corporate Governance of Self-Rating Form has been adopted to measure or determine the compliance of the Board of Directors and top-level management with its Manual of Corporate Governance. The Special Committee on Violation of the Manual on Corporate Governance has also been established.
- (b) The Board of Directors continues to undergo training by attending numerous Corporate Governance seminars during the year.
- (c) On December 7, 2005, the Board of Directors has resolved to hold a regular quarterly meeting every last Thursday of the month, following the end of a quarter, to monitor, measure, and assess the Company's business processes and practices in accordance with

the principles of Corporate Governance. It also aims to monitor the individual board members of their performance as well as the Corporate Governance committees' duties and responsibilities.

- (d) To date, there has been no deviation from the Corporation's Manual on Corporate Governance.
- (e) The Corporation has set up all committees set forth under the Manual of Corporate Governance to strictly adhere with the rules governing the Manual.



**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
dmcii@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, 2005 and 2004. 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:

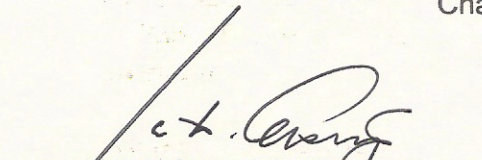
- (i) All significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data;
- (ii) Material weaknesses in the internal controls; and
- (iii) Any fraud that involves management or other employees who exercise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

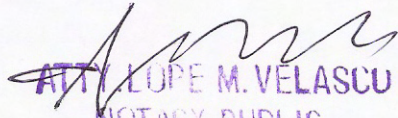

ISIDRO A. CONSUNJI
President & Chief Executive Officer


HERBERT M. CONSUNJI
Vice President & Chief Finance Officer

SUBSCRIBED AND SWORN to before me this MAY 18 2006 day of 2006 in Makati City, affiant exhibiting to me their Community Tax Certificates which are as follows:

DAVID M. CONSUNJI	20530653	February 2, 2006	Makati City
ISIDRO A. CONSUNJI	24805709	January 11, 2006	Makati City
HERBERT M. CONSUNJI	22012202	January 19, 2006	Parañaque

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Page No. 50
Book No. 63
Series of 2006


ATTY. LUPE M. VELASCO
NOTARY PUBLIC
UNTIL DEC. 31, 2007
PTR 4547109-MLA. I/2/06
IBP 660381-MLA. II/30/05
TIN 212 - 965 - 989
OTR VTS ROLL NO. 28757 16

DMCI HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2005 and 2004

and

Report of Independent Auditors

SGVMC107627

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.

SYCIP GORRES VELAYO & CO.



Arnel F. de Jesus
Partner
CPA Certificate No. 43285
SEC Accreditation No. 0075-A
Tax Identification No. 152-884-385
PTR No. 4180829, January 2, 2006, Makati City

May 15, 2006

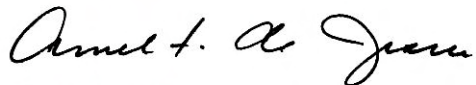


**Report of Independent Auditors
On Supplementary Schedules**

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

We have audited in accordance with auditing standards generally accepted in the Philippines, the consolidated financial statements of DMCI Holdings, Inc. and Subsidiaries included in this Form 17-A and have issued our report thereon dated May 15, 2006. 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.



Arnel F. de Jesus
Partner
CPA Certificate No. 43285
SEC Accreditation No. 0075-A
Tax Identification No. 152-884-385
PTR No. 4180829, January 2, 2006, Makati City

May 15, 2006



DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2005	2004 (As restated)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	P1,949,710,991	P217,124,563
Available-for-sale investments (Note 5)	529,179,141	–
Receivables - net (Notes 6 and 16)	3,944,804,733	2,556,171,445
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 7)	24,978,834	112,260,407
Inventories - net (Note 8)	3,393,810,904	2,319,212,553
Other current assets (Note 9)	146,097,160	129,643,761
Total Current Assets	9,988,581,763	5,334,412,729
Noncurrent Assets		
Noncurrent receivables - net (Note 6)	905,137,365	1,095,275,329
Investments in associates, jointly controlled entities and others - net (Note 10)	447,511,773	414,255,220
Investment properties - net (Note 11)	2,668,005,309	2,864,078,347
Property, plant and equipment - net (Notes 3 and 12)	3,097,362,927	2,563,480,585
Deferred tax assets (Note 24)	20,936,356	15,386,960
Pension assets (Note 20)	33,011,297	43,939,656
Other noncurrent assets - net (Note 13)	445,214,855	434,247,139
Total Noncurrent Assets	7,617,179,882	7,430,663,236
	P17,605,761,645	P12,765,075,965
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Note 14)	P114,658,600	P403,884,707
Accounts and other payables (Note 15)	2,692,334,294	3,423,357,703
Current portion of long-term debt (Note 16)	604,055,741	1,048,212,512
Estimated liability for property development	276,708,069	38,005,374
Billings in excess of costs and estimated earnings on uncompleted contracts (Note 7)	18,887,729	144,500,642
Income tax payable	332,279,952	2,338,783
Total Current Liabilities	4,038,924,385	5,060,299,721
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 16)	2,254,343,639	1,272,665,087
Payable to related parties (Note 19)	177,608,696	851,922,968
Deferred tax liability (Note 24)	159,652,693	28,370,661
Pension liabilities (Note 20)	49,055,701	38,765,387
Other noncurrent liabilities (Note 17)	666,745,169	305,289,320
Total Noncurrent Liabilities	3,307,405,898	2,497,013,423
Total Liabilities	7,346,330,283	7,557,313,144

(Forward)

* SGVMC107627 *

	December 31	
	2005	2004 (As restated)
Equity (Note 18)		
Equity attributable to equity holders of the parent:		
Paid-up capital	₱4,628,946,403	₱4,628,946,403
Retained earnings	4,193,977,659	643,926,308
Cumulative translation adjustment	2,402,067	-
Preferred shares held in treasury	(187,210,650)	(239,096,300)
	8,638,115,479	5,033,776,411
Minority interest	1,621,315,883	173,986,410
Total Equity	10,259,431,362	5,207,762,821
	₱17,605,761,645	₱12,765,075,965

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31	
	2005	2004 (As restated)
INCOME		
Sales and services (Note 21)	₱12,786,824,068	₱7,761,079,671
Interest income	206,378,552	3,168,461
Equity in net earnings of associates	31,549,565	–
Others	178,942,950	113,895,921
	13,203,695,135	7,878,144,053
COSTS AND EXPENSES		
Costs of sales and services (Note 22)	7,207,382,249	5,122,120,780
Operating expenses (Note 23)	944,779,655	776,012,651
Loss on sale of investments	83,993,098	–
Equity in net losses of associates	–	7,333,838
Interest expense	220,019,630	368,317,069
	8,456,174,632	6,273,784,338
INCOME BEFORE INCOME TAX	4,747,520,503	1,604,359,715
PROVISION FOR INCOME TAX (Note 24)	566,875,731	62,893,121
NET INCOME (Note 3)	₱4,180,644,772	₱1,541,466,594
ATTRIBUTABLE TO		
Equity holders of the parent	₱3,591,510,502	₱1,466,980,059
Minority interest	589,134,270	74,486,535
	₱4,180,644,772	₱1,541,466,594
Basic Earnings Per Share (Notes 2 and 25)	₱1.59	₱0.64

See accompanying Notes to Consolidated Financial Statements.

* SGVMC107627 *

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

ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

	Paid-up Capital			Retained Earnings (As restated)	Unrealized Gain on Available-for-sale Investments	Preferred Shares Held in Treasury	ATTRIBUTABLE TO MINORITY INTEREST			TOTAL EQUITY
	Capital Stock	Additional Paid-in Capital	Total Paid-up Capital				Total	MINORITY INTEREST	TOTAL EQUITY	
For the Year Ended December 31, 2005										
As of December 31, 2004, as previously reported	P2,255,836,240	P2,827,839,006	P5,083,675,246	P602,685,131	P-	(P239,096,300)	P5,447,264,077	P173,087,816	P5,620,351,893	
Retirement of preferred shares	-	-	-	-	-	51,885,650	51,885,650	-	51,885,650	
Reclassification of preferred shares to liability	(342,240)	(454,386,603)	(454,728,843)	-	-	-	(454,728,843)	-	(454,728,843)	
Effect of changes in accounting policies (Note 2)	-	-	-	41,241,177	-	-	41,241,177	898,594	42,139,771	
As of December 31, 2004, as restated	2,255,494,000	2,373,452,403	4,628,946,403	643,926,308	-	(187,210,650)	5,085,662,061	173,986,410	5,259,648,471	
Decrease in ownership	-	-	-	(7,469,345)	-	-	(7,469,345)	-	(7,469,345)	
Change in fair value of assets	-	-	-	(33,989,806)	2,402,067	-	(31,587,739)	-	(31,587,739)	
As of December 31, 2004, as restated	2,255,494,000	2,373,452,403	4,628,946,403	602,467,157	2,402,067	(187,210,650)	5,046,604,977	173,986,410	5,220,591,387	
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	
Balances at December 31, 2005	P2,255,494,000	P2,373,452,403	P4,628,946,403	P4,193,977,659	P2,402,067	(P187,210,650)	P8,638,115,479	P1,621,315,883	P10,259,431,362	
As of December 31, 2003, as previously reported	P2,255,945,690	P2,929,845,102	P5,185,790,792	(P750,810,720)	P-	(P237,287,967)	P4,197,692,105	P219,225,595	P4,416,917,700	
Retirement of preferred shares	(109,450)	(102,006,096)	(102,115,546)	-	-	102,115,546	-	-	-	
Redemption of preferred shares	-	-	-	-	-	(103,923,879)	(103,923,879)	-	(103,923,879)	
Reclassification of preferred shares to liability	(342,240)	(454,386,603)	(454,728,843)	-	-	-	(454,728,843)	-	(454,728,843)	
Effect of changes in accounting policies (Note 2)	-	-	-	(77,189,360)	-	-	(77,189,360)	6,290,414	(70,898,946)	
Increase in ownership	-	-	-	4,946,329	-	-	4,946,329	-	4,946,329	
As of December 31, 2003, as restated	2,255,494,000	2,373,452,403	4,628,946,403	(823,053,751)	-	(239,096,300)	3,566,796,352	225,516,009	3,792,312,361	
Net income for the year, as restated	-	-	-	1,466,980,059	-	-	1,466,980,059	74,486,535	1,541,466,594	
Decrease in minority interest	-	-	-	-	-	-	-	(126,016,134)	(126,016,134)	
Balances at December 31, 2004	P2,255,494,000	P2,373,452,403	P4,628,946,403	P643,926,308	P-	(P239,096,300)	P5,033,776,411	P173,986,410	P5,207,762,821	

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31	
	2005	2004 (As restated)
Income before income tax	₱4,747,520,503	₱1,604,359,715
Adjustments for:		
Depreciation, depletion and amortization (Notes 11, 12, 13 and 20)	1,335,586,689	635,131,423
Interest expense (Note 23)	220,019,630	368,317,069
Write-off of:		
Property, plant and equipment	–	223,998,632
Other noncurrent assets	–	159,497,726
Recovery of provision for doubtful accounts	(3,432,945)	–
Provisions for:		
Inventory obsolescence	–	17,070,283
Probable losses on noncurrent assets (Note 21)	42,721,515	12,214,617
Probable losses on investments (Note 21)	–	2,000,000
Foreign exchange losses - net (Note 23)	(74,911,051)	7,844,204
Equity in net losses of associates and jointly controlled entities (Note 11)	(31,549,565)	7,333,838
Gain on disposals of:		
Property and equipment and investments	(2,629,800,240)	(33,748,510)
Interest income (Note 23)	(206,378,552)	(11,012,665)
Dividend income	(5,706,997)	–
Retirement expense (Note 20)	18,764,789	10,894,758
Operating income before changes in working capital	3,412,833,776	3,003,901,090
Decrease (increase) in:		
Costs and estimated earnings in excess of billings	94,361,673	–
Receivables	79,603,396	(522,905,774)
Inventories	(826,156,002)	(17,195,344)
Real estate for sale and development	(187,635,193)	(6,385,313)
Other current assets	(78,620,610)	3,652,046
Increase (decrease) in:		
Accounts and other payables	(243,333,486)	715,287,560
Estimated liability for property development	238,702,695	11,463,382
Deferred income	376,752,577	12,446,400
Customer's deposits	(59,663,472)	24,825,957
Billings in excess of costs and estimated earnings on uncompleted contracts – net	(129,589,246)	(304,552,830)
Cash generated from operations	2,677,256,108	2,920,537,174
Interest received	226,214,603	8,904,753
Interest paid	(248,329,962)	(882,213,119)
Income taxes paid	(60,779,082)	(97,962,415)
Net cash provided by operating activities	2,594,361,667	1,949,266,393
(Forward)		

* SGVMC107627*

	Years Ended December 31	
	2005	2004 (As restated)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Noncurrent receivables	₱287,561,694	₱106,713,588
Other noncurrent assets	(62,350,359)	(48,322,695)
Investment properties	(69,189,461)	-
Available-for-sale asset (Note 5)	(529,179,141)	-
Investments in subsidiaries, joint ventures and others	(710,232,498)	-
Proceeds from disposals of:		
Property and equipment	15,914,131	144,894,771
Investment properties	-	20,360,233
Dividends received	5,706,997	-
Additions to property, plant and equipment (Note 12)	(1,271,881,508)	(898,314,205)
Net cash used in investing activities	(2,333,650,145)	(674,668,308)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments (payments) of long-term debt and notes payable	(156,395,823)	(924,530,796)
Increase (decrease) in payable to related parties	595,428,053	(333,977,795)
Redemption of preferred shares	(190,354,750)	(28,673,759)
Dividends paid	(22,301,149)	-
Proceeds from additional subscription to capital stock	1,623,018,435	-
Proceeds from sale of treasury shares	6,113,600	-
Payment on acquisition of shares held in treasury	(383,633,460)	-
Decrease in other noncurrent liabilities	-	(17,881,618)
Net cash used in financing activities	1,471,874,906	(1,305,063,968)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,732,586,428	(30,465,883)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	217,124,563	247,590,446
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱1,949,710,991	₱217,124,563

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) and Audit Committee on May 15, 2006.

2. Summary of Significant Accounting Policies

Basis of Financial Statement Preparation

The accompanying consolidated financial statements of the Group have been prepared in compliance with accounting principles generally accepted in the Philippines (Philippine GAAP), as set forth in Philippine Financial Reporting Standards (PFRS). This is the Group's first annual consolidated financial statements prepared in compliance with PFRS.

The consolidated financial statements of the Group until December 31, 2004 had been prepared in compliance with Statements of Financial Accounting Standards (SFAS) and Statements of Financial Accounting Standards/International Accounting Standards (SFAS/IAS).

The Group applied PFRS 1, *First-time Adoption of PFRS*, in preparing the consolidated financial statements, with January 1, 2004 as the date of transition. The Group has consistently applied the accounting policies set forth below to all the years presented, except those relating to the classification and measurement of financial instruments. An explanation of how the adoption of PFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in the succeeding paragraphs.

The consolidated financial statements of the Group are presented in Philippine Pesos and have been prepared under the historical cost convention method, except for available-for-sale (AFS) financial investments that have been measured at fair value.

The preparation of the consolidated financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries as of December 31, 2005 and 2004. Under Philippine GAAP, 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.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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

	Effective Percentages of Ownership	
	2005	2004
General Construction:		
D.M. Consunji, Inc. (DMCI) ¹	100.00	100.00
DMCI International, Inc. (DMCII) ²	100.00	100.00
OHKI-DMCI Corporation (OHKI) ²	100.00	100.00
DMCI-Laing Construction, Inc. (DMCI-Laing) ²	60.00	60.00
Beta Electric Corporation (Beta Electric) ²	50.77	56.57
Raco Haven Automation Philippines, Inc. (Raco) ²	50.14	24.95
Coal Mining:		
Semirara Mining Corporation (Semirara)	62.92	94.53
Infrastructure and Real Estate Development:		
DMCI Project Developers, Inc. (PDI)	100.00	100.00
Contech Products Corporation (Contech) ³	100.00	100.00
Constress Philippines, Inc. (Constress) ³	100.00	100.00
Hampstead Gardens Corporation (Hampstead) ³	100.00	60.00
Riviera Land Corporation (Riviera)	96.38	51.00
Manufacturing:		
Semirara Cement Corporation (SemCem) *	100.00	100.00
Oriken Dynamix Company, Inc. (Oriken) ²	89.00	-
Wire Rope Corporation of the Philippines (Wire Rope)	61.70	61.70
Contech Products South Corporation (Contech South)	-	52.00
Marketing Arm:		
DMCI Homes, Inc. (DMCI Homes) ³	100.00	-

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

¹ Also engaged in real estate development

² DMCI's subsidiaries

³ PDI's subsidiaries

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated.

Minority interest represents interest in a subsidiary, which is not owned, directly or indirectly through subsidiaries, by the Company, and are presented separately in the statements of income and changes in equity and within equity in the consolidated balance sheets. The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest's equity in the subsidiary. The excess and any further losses applicable to the minority are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profit until the minority's share of losses previously absorbed by the majority has been recovered.

Explanation of Transition to PFRS

As stated above, these are the Group's first annual consolidated financial statements in compliance with PFRS. The transition to PFRS resulted in certain changes to the Group's previous accounting policies (previous GAAP). The comparative figures for 2004 were restated to reflect the changes in accounting policies discussed below resulting from transition to PFRS, except those relating to financial instruments.

The Group has made use of the exemption available under PFRS 1, and as allowed by the Philippine Securities and Exchange Commission (SEC), to apply Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, to financial instruments outstanding as of January 1, 2005. The cumulative effect of adopting PAS 39 was charged to retained earnings as of January 1, 2005. The policies applied to financial instruments beginning January 1, 2005 and prior to January 1, 2005 are disclosed separately.

The effects of the transition to PFRS are discussed below:

- PFRS 1, *First-time Adoption of PFRS*, requires an entity to comply with each PFRS effective at the reporting date for its first PFRS financial statements. The Group has adopted PFRS for these financial statements as of December 31, 2005, and has also restated the comparative amounts for the year ended December 31, 2004, except for the following courses of action that have been taken as allowed under PFRS 1:

Financial Instruments

The Group has made use of the exemption available under PFRS 1, and as allowed by the Philippine SEC, to apply PAS 39, *Financial Instruments: Recognition and Measurement*, to financial instruments outstanding as of January 1, 2005. The cumulative effect of adopting PAS 39 was charged against the January 1, 2005 retained earnings.

Property, Plant and Equipment - Fair Value as Deemed Cost

A subsidiary has made use of the optional exemption available under PFRS 1 to measure at cost items of property, plant and equipment previously stated at fair values, and used those fair values as their deemed cost at the date of transition to PFRS.

- PFRS 3, *Business Combination*, prohibits the amortization of goodwill and requires goodwill to be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Any resulting excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost after performing a reassessment is credited to income (also known as negative goodwill). Moreover, pooling of interests in accounting for business combination is no longer permitted. The adoption of this standard did not have any affect on the consolidated financial statements as of December 31, 2005 and 2004.
- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, specifies the accounting for assets held for sale and the presentation and disclosure requirements for discontinued operations. Under this standard, qualifying noncurrent assets or disposal groups held for sale shall be carried at fair value less cost to sell if this amount is lower than its carrying amount less accumulated impairment losses. As of December 31, 2005 and 2004, the Company has no qualifying noncurrent assets held for sale.
- PAS 19, *Employee Benefits*, prescribes the accounting and disclosures by employers for employee benefits (including short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits). For post-employment benefits classified as defined benefit plans, the standard requires: (a) the use of the projected unit credit method to measure an entity's obligations and costs; (b) an entity to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity; and (c) the recognition of a specific portion of net cumulative actuarial gains and losses when the net cumulative amount exceeds 10% of the greater of the present value of the defined benefit obligation or 10% of the fair value of the plan assets, but also permits the immediate recognition of these actuarial gains and losses.

The adoption of PAS 19 decreased consolidated net income by ₱15.7 million in 2004. Retained earnings as of January 1, 2005 and 2004 increased by ₱41.2 million and ₱56.5 million, respectively. Post employment benefits amounted to ₱2.9 million for the year ended December 31, 2005.

- PAS 32, *Financial Instruments: Disclosure and Presentation*, covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about an entity's financial instruments, whether recognized or unrecognized in the consolidated financial statements. New disclosure requirements include terms and conditions of financial instruments used by the entity, types of risks associated with financial instruments (market risk, foreign exchange risk, price risk, credit risk, liquidity risk and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the entity's financial risk management policies and objectives. The standard also requires financial instruments to be classified as liabilities or equity in accordance with its substance and not its legal form. The standard also requires presentation of financial assets and financial liabilities on a net basis when, and only when, an entity: (a) currently has a legally enforceable right to set off the recognized amounts; and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

PFRS requires financial instruments to be classified as either liabilities or equity in accordance with its substance and not its legal form. The adoption of this standard resulted to new disclosures in the consolidated financial statements (Note 29).

- PAS 38, *Intangible Assets*, requires the assessment of the useful life of intangible assets at the individual asset level as having either a finite or indefinite life. Where an intangible asset has a finite life, it has been amortized over its useful life. Amortization years and methods for intangible assets with finite useful lives are reviewed at the earlier of annually or where an indicator of impairment exists. Intangibles assessed as having indefinite useful lives are not amortized, as there is no foreseeable limit to the year over which the asset is expected to generate net cash inflows for the Group. However, intangibles with indefinite useful lives are reviewed annually to ensure the carrying value does not exceed the recoverable amount regardless of whether an indicator of impairment is present. The adoption of this standard did not affect the consolidated financial statements as of December 31, 2005 and 2004.
- PAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for the recognition and measurement of the entity's financial assets and financial liabilities. PAS 39 requires a financial asset or a financial liability to be recognized initially at cost, including related debt issuance costs. Subsequent to initial recognition, an entity should measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments which are measured at amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at amortized cost, except for liabilities designated as fair value through profit and loss. PAS 39 also requires an entity to assess at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial asset is impaired.

PAS 39 also establishes the accounting and reporting standards requiring that every derivative instrument (including certain derivatives embedded in other contracts) be recorded in the consolidated balance sheets as either an asset or liability measured at its fair value. PAS 39 requires that changes in the derivative's fair value be recognized currently in the consolidated statements of income unless specific hedges allow a derivative's gains and losses to offset related results on the hedged item in the consolidated statements of income, or deferred in the equity as cumulative translation adjustment. PAS 39 requires that an entity must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

The adoption of PAS 39 did not result in the restatement of prior year's financial statements. The adoption of this accounting standard did not impact the January 1, 2005 retained earnings since investments were acquired in 2005.

- PAS 40, *Investment Property*, establishes the accounting and reporting standards for investment property. Investment property is property (land or a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business. Under this standard, an entity is permitted to choose either the fair value model or cost model in the

subsequent measurement of a qualifying investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the consolidated statements of income. Cost model requires an investment property to be measured at cost less any accumulated depreciation and impairment losses. The Group adopted the cost model for investment property. The adoption of this standard did not affect the consolidated financial statements as of December 31, 2005 and 2004.

Reconciliation of the Group's financial position as of January 1, 2005 and January 1, 2004 following the adoption of PFRS follows:

Retained Earnings

	January 1, 2005	January 1, 2004
As previously reported	₱602,685,131	(₱750,810,720)
Adjustments:		
PAS 19 - Employee Benefits	62,507,103	73,379,239
Accounting for production-related stripping costs	-	(128,756,944)
Tax effect of adjustments	(21,265,926)	(16,865,326)
As restated	₱643,926,308	(₱823,053,751)

2004 Net Income

As previously reported	₱1,428,427,876
Adjustments:	
PAS 19 - Employee Benefits	(10,894,758)
Accounting for production-related stripping costs	128,756,944
Tax effect of adjustments	(4,823,468)
As restated	₱1,541,466,594

The effects of transition to PFRS as they apply to the Group's 2004 basic earnings per share (EPS) are set forth below:

As previously reported	₱0.590
Adjustments:	
PAS 19 - Employee Benefits	(0.005)
Accounting for production-related stripping costs	0.057
Tax effect of adjustments	(0.002)
As restated	₱0.640

The adoption of the following revised accounting standards did not have a material effect on the Group's consolidated financial statements. Additional disclosures required by the revised accounting standards were included in the accompanying consolidated financial statements, where applicable.

- PAS 1, *Presentation of Financial Statements*, (a) provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; (b) provides the base criteria for classifying liabilities as current or noncurrent; (c) prohibits the presentation of income from operating activities and extraordinary items as separate line items in the consolidated statements of income; and (d) specifies the disclosures about key sources of estimation, uncertainty and judgments that management has made in the process of applying the entity's accounting policies (Note 3).
- PAS 2, *Inventories*, reduces the alternatives for measurement of inventories by disallowing the use of the last in, first out formula. Moreover, the revised accounting standard does not permit foreign exchange differences arising directly on the recent acquisition of inventories invoiced in a foreign currency to be included in the cost of inventories.
- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, (a) removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors; (b) updates the previous hierarchy of guidance to which management refers and whose applicability it considers when selecting accounting policies in the absence of standards and interpretations that specifically apply; (c) defines material omissions or misstatements; and (d) describes how to apply the concept of materiality when applying accounting policies and correcting errors.
- PAS 10, *Events After the Balance Sheet Date*, provides a limited clarification of the accounting for dividends declared after the balance sheet date.
- PAS 16, *Property, Plant and Equipment*, provides additional guidance and clarification on the recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The adoption of this standard resulted in Semirara's (subsidiary) use of the cost method in accounting for its property and equipment. Previously, Semirara's condominium units, which form part of property and equipment, were stated at appraised values and the net appraisal increment is credited to equity.

PAS 16 also provides additional guidance and clarity on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

- PAS 24, *Related Party Disclosures*, provides additional guidance and clarity in the scope of the standard, the definitions and disclosures for related parties. It also requires disclosure of the total compensation of key management personnel and by benefit types.

- PAS 27, *Consolidated and Separate Financial Statements*, reduces alternatives in accounting for subsidiaries in consolidated financial statements and in accounting for investments in the separate financial statements of a parent, venturer or investor. Investments in subsidiaries will be accounted for either at cost or in compliance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. This standard also requires strict compliance with adoption of uniform accounting policies and requires the parent to make appropriate adjustments to the subsidiary's financial statements to conform them to the parent's accounting policies for reporting like transactions and other events in similar circumstances.
- PAS 28, *Investments in Associates*, reduces alternatives in accounting for associates in consolidated financial statements and in accounting for investments in the separate financial statements of an investor. Investments in associates will be accounted for either at cost or in compliance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. This standard also requires strict compliance with adoption of uniform accounting policies and requires the investor to make appropriate adjustments to the associate's financial statements to conform them to the investor's accounting policies for reporting like transactions and other events in similar circumstances.
- PAS 31, *Interests in Joint Ventures*, reduces the alternatives in accounting for interests in joint ventures in consolidated financial statements. Interests in joint ventures will be accounted for either at cost or in compliance with PAS 39. The standard allows the equity method of accounting as an alternative to proportionate consolidation.
- PAS 33, *Earnings Per Share*, prescribes principles for the determination and presentation of earnings per share for entities with publicly traded shares, entities in the process of issuing ordinary shares to the public, and any entities that calculate and disclose earnings per share. The standard also provides additional guidance in computing earnings per share including the effects of mandatorily convertible instruments and contingently issuable shares, among others.
- PAS 36, *Impairment of Assets*, requires annual impairment test of intangible asset with an indefinite useful life which includes goodwill acquired in a business combination, whether or not there is an indication of impairment.

PFRS Effective in 2006 and 2007

The Group will adopt the following standards and amendments that have been approved in 2005 on their effectivity dates:

- Amendments to PAS 19, *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures*. The revised disclosures from the amendments will be included in the Group's financial statements when the amendments are adopted in 2006.

- PFRS 6, *Exploration for and Evaluation of Mineral Resources*. This standard requires the Group to develop its own accounting policy for the recognition and measurement of exploration and evaluation assets without specifically considering the requirements of paragraphs 11 and 12 of PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. Thus, the Group adopting PFRS 6 may continue to use the accounting policies applied immediately before adopting the PFRS. This includes continuing to use recognition and measurement practices that are part of those accounting policies. The standard also specifies the circumstances in which companies recognized exploration and evaluation assets should test such assets for impairment in accordance with PAS 36, *Impairment of Assets*. The standard also requires companies engaged in the exploration for and evaluation of mineral resources to disclose information about exploration and evaluation assets, the level at which such assets are assessed for impairment and any impairment losses recognized. The Group will adopt PFRS 6 on January 1, 2006. The adoption of this standard will not have a material impact on the Group's financial statements as the Group is not presently engaged in any exploration for and evaluation of mineral resources.
- PFRS 7, *Financial Instruments - Disclosures*. The revised disclosures on financial instruments provided by this standard will be included in the Group's financial statements when the standard is adopted starting January 1, 2007.

Effect on the 2004 Statements of Cash Flows

There are no material differences between the consolidated statements of cash flows prepared under PFRS and consolidated statements of cash flows presented under the previous GAAP.

Change in Accounting for Production-related Stripping Costs

In 2005, Semirara changed its accounting for production-related stripping costs incurred in the removal of overburden and other mine waste materials to access mineral deposits following 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*. The EITF reached a consensus that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced during the period that the production-related stripping costs are incurred. Accordingly, inventories consisting of extracted minerals and stock pile are allocated a portion of the production-related stripping costs. Minerals exposed by stripping activities but not extracted from the mine pit do not constitute inventories and therefore are not allocated any production-related stripping costs. All other production-related stripping costs incurred are recognized as a component of the cost of sales in the same period. Previously, the production-related stripping costs are deferred based on the difference between the actual stripping ratio (ratio of waste moved to coal mined) and the estimated stripping ratio established in accordance with the survey conducted on the mine.

The effect of EITF Issue No. 04-6 was determined retrospectively and prior years financial statements have been restated in accordance with PAS 8, *Accounting Policies, Changes in Accounting Policies, Changes in Accounting Estimates and Errors*. The effect of EITF Issue No. 04-6 has increased net income by ₱128.76 million for the year ended December 31, 2004. The retained earnings account decreased by ₱128.76 million as of January 1, 2004. EITF Issue No. 04-6 did not affect the January 1, 2005 retained earnings as there are no related stripping costs deferred in 2004.

Accounting policies effective January 1, 2005

Financial Assets

As appropriate, the Group classifies its financial assets in the following categories: (1) fair value through profit or loss (FVPL); (2) available-for-sale (AFS); (3) held-to-maturity (HTM) investments; and (4) loans and receivables. The classification of the financial assets depends on the purpose for which the financial assets were acquired. The Group classifies financial liabilities in the following categories: (1) FVPL; and (2) other liabilities at amortized cost. The Group determines the classification of its financial instruments at initial recognition and re-evaluates this designation at every reporting date.

When financial assets are recognized initially, they are measured at fair value. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognized on the trade date, (i.e. the date that the Group commits to purchase the asset). Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

Financial assets at FVPL

Financial assets classified as held for trading are included in the category financial assets at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognized in the consolidated statements of income.

AFS investments

AFS investments are financial assets that are designated as AFS or are not classified in any of the preceding categories. AFS investments include financial assets not quoted in an active market and are classified as AFS when purchased and held indefinitely, but which the Group anticipates to sell in response to liquidity requirements or in anticipation of changes in interest rates or other factors. Financial assets may be designated under this category provided such are not held for trading. AFS investments are carried at fair market value. Changes in the fair value of AFS investments are recognized in equity, except for the foreign exchange fluctuations on AFS debt securities and the related effective interest which are taken directly to the consolidated statements of income. These changes in fair values are recognized in equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated statements of income.

AFS investments including investments in unquoted equity investments where the Group does not exercise significant influence or where control is likely to be temporary are initially recorded at cost, being the fair value of the investment at the time of acquisition inclusive of direct acquisition charges associated with the investment. In subsequent measurement, the Group carries such investments at cost due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value.

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

HTM investments

Nonderivative financial assets with fixed or determinable payments and fixed maturity are classified as HTM when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be HTM, such as bonds, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, debt issuance costs and all other premiums and discounts. For investments at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in consolidated statements of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Group's loans and receivables include trade and other receivables.

Trade receivables are recognized initially at original invoice amount and subsequently measured at amortized cost using the effective interest method, less an allowance for impairment losses.

A provision for impairment losses on trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Said provision is recognized in the consolidated statements of income.

The Group has no derivatives that are accounted for as hedges. For derivatives that are not designated or accounted for as hedges, including derivatives that are embedded in the host financial and nonfinancial contracts, the changes in the fair values are recorded immediately in the consolidated statements of income.

Policies prior to January 1, 2005

Temporary investments are comprised of long-term debt securities and marketable equity securities.

Investments in marketable securities classified as current are stated at the lower of the aggregate cost or market value, determined at the balance sheet date. The amount by which aggregate cost exceeds market value is accounted for as a valuation allowance and changes in the valuation allowance are included in the consolidated statements of income. Realized gains and losses from the sale of current marketable securities are included in the consolidated statements of income.

The cost of marketable securities used for determining the gain or loss on the sale of such securities is computed using the average method.

Investments in long-term debt securities are carried at amortized cost less any provision for permanent impairment in value.

Investments in shares of stock of companies in which the Group does not exercise significant influence are initially carried at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. Any substantial and presumably permanent decline in the value of investments in shares of stock was set up as an allowance with the corresponding loss taken to the consolidated statements of income.

Derecognition of Financial Assets and Liabilities

A financial asset (or where applicable, a part of a group of financial assets) is derecognized when: (a) the rights to receive cash flows from the assets have expired; (b) 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 (c) the Group has transferred substantially all the risks and rewards of the asset, or 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 risks 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.

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

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

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.

Receivables

Receivables are recognized and carried at the original contract price or invoice amount, less allowance for any uncollectible amount. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. The provision is recognized in the consolidated statements of income.

Inventories

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

Coal inventory

The cost of coal inventory is determined by the weighted average production cost method.

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 methods (either by moving average or weighted average production cost).

Real estate inventories

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

Investments in Associates, Jointly Controlled Entities and Others

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

If the Group's share in the losses of an investee equals or exceeds the carrying amount of its investment, the Group ordinarily discontinues recognizing its share of further losses and the investment is reported at nil value. Additional losses are provided for to the extent that the Group has incurred obligations or made payments on behalf of the investee to satisfy obligations of the investee that the Group has guaranteed or otherwise committed. If the investee subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits equals the share of net losses not recognized.

Investment in shares of stock of companies in which the Group does not exercise significant influence are carried at cost less any significant and apparently permanent decline in aggregate carrying values of these investments.

The accounting policies of these investee companies conform to those used by the Group for like transactions and events in similar circumstances.

Investment Properties

Investment properties consist of land, condominium units and buildings and improvements in excess of the Group's requirements and that are leased to others and for investment purposes. These are carried at cost less any accumulated depreciation and any impairment in value, except for land which are carried at cost less any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the condominium units and buildings and improvements ranging from 5 to 10 years.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statements of income in the year of retirement or disposal.

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

Transfers between investment property, owner-occupied property and inventories do no change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Property, Plant and Equipment

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

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

As discussed in Note 2, the Group availed of the optional exemption available under PFRS 1, and has chosen to measure at cost items of property, plant and equipment of Semirara, which were previously stated at fair values, and used those fair values as their deemed cost at the date of transition to PFRS.

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

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

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

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

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

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

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

Asset Retirement Obligation (ARO)

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

Mine Exploration and Development Costs

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

Stripping Costs

As discussed in Note 2, the Group changed its accounting for production-related stripping costs in the removal of overburden and other mine waste materials to access mineral deposits. Inventories consisting of extracted minerals and stock pile are allocated a portion of the production-related stripping costs. All other production-related stripping costs incurred are recognized as a component of the costs of sales in the same period.

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 sheets. Subsequently, 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 computer software (not an integral part of its related hardware) and bring it 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.

Gain 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 statements of income when the asset is derecognized.

Impairment of Assets

An assessment is made at each balance sheet date whether there is objective evidence that a specific financial or nonfinancial asset may be impaired. If such evidence exists, any impairment loss is recognized in the consolidated statements of income.

Impairment of financial assets

Impairment of financial assets is determined as follows:

- Assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss is recognized in consolidated statements of income.

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

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

- Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument 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 discounted at the current market rate of return for a similar financial asset.

- AFS financial assets

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

Impairment of nonfinancial assets

Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. An asset's recoverable amount is calculated as the higher of an asset's value in use or its net selling price

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.

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

Short-term and Long-term Debts

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received less directly attributable debt issuance costs. After initial recognition, short-term and long-term debts are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized or impaired, as well as through the amortization process.

Treasury Shares

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

Provisions

A provision is recognized only when the Company 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.

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 which may result in revisions to estimated costs and gross margin 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 included as part of "*Trade receivables - construction*" under the "*Receivables*" account in the consolidated balance sheets.

Real estate sales

Income from sales of substantially completed projects where collectibility of sales price is reasonably assured is accounted for using the full accrual method while income from sales of projects where collectibility of sales price is not reasonably assured is recognized using the instalment method. Realized income on instalment sale is computed based on collections multiplied by the gross profit rates of individual sales contracts. If any of the criteria under the full accrual and instalment method is not met, the deposit method is applied until such criterion is met. Under the deposit method, revenue recognition is deferred until the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented as "*Customers' deposits*", included in the "*Accounts and other payables*" account in the liabilities section of the consolidated balance sheets. Cancellations of prior year sales and related deferred gross profit are deducted from current year revenue and costs.

The costs of related housing and condominium units sold before completion of the projects are determined based on the actual costs incurred and project cost estimates as determined by the contractors and technical staff of the Group. The estimated future expenditures for the completion of sold residential and condominium units are presented as “Estimated liability for property development” account in the consolidated balance sheets.

Coal sales

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

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.

Rental income

Rental income from investment properties is accounted for on a straight-line basis over the lease term.

Interest income

Interest income is recognized as it accrues (using the effective interest rate 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).

Pension 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 Company 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.

In accordance with PFRS 1, the effect of change in accounting policy includes all cumulative actuarial gains and losses at the date of transition to PFRS. In subsequent periods after the transition to PFRS, portion of actuarial gains and losses is recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of the 10% of the present value of defined benefit obligation or 10% of the fair value of the plan assets. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of housing and condominium units are capitalized as part of "Inventories" account in the consolidated balance sheets under the "Real estate for sale and development" account. Other borrowing costs are recognized as expense in the year in which these costs are incurred.

The capitalization of borrowing costs as part of the cost of housing and condominium units: (a) commences when the expenditures and borrowing costs for the housing and condominium units are being incurred and activities that are necessary to prepare the housing and condominium units for its intended use or sale are in progress; (b) is suspended during extended periods in which active development, improvement and construction of the housing and condominium units are interrupted; and (c) ceases when substantially all the activities necessary to prepare the housing and condominium units for its intended use or sale are complete. If the carrying amount of the assets exceeds its recoverable amount, an impairment loss is recorded.

Income Tax

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

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

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the rates that are expected to apply in the year when the asset is realized or the liability is settled, based on the tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements 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.

Leases

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

Foreign Currency Transactions

The functional and presentation currency of the Group is the Philippine Peso. Transactions denominated in foreign currency are recorded using the exchange rate prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rates prevailing at balance sheet dates. Exchange gains or losses resulting from rate fluctuations upon actual settlement and from restatement at year-end are credited to or charged against current operations.

Earnings Per Share

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

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

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products. Financial information on business segments is presented in Note 28 to the consolidated financial statements.

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.

3. **Critical Accounting Estimates and Judgments**

The preparation of the accompanying financial statements in conformity with Philippine GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

PAS 1, *Presentation of Financial Statements*, which was adopted by the Group effective January 1, 2005, requires disclosures about key sources of estimation, uncertainty and judgments management has made in the process of applying accounting policies. The following presents a summary of these significant estimates and judgments:

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 Company'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 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 ₱5.55 billion and ₱5.07 billion for the years ended December 31, 2005 and 2004, respectively (see Note 21).

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 and the real estate's stage of completion. Revenue from real estate sales amounted to ₱1.51 billion and ₱0.72 billion for the years ended December 31, 2005 and 2004, respectively (see Note 21).

Unrealized gross profit on real estate sales amounted to ₱376.8 million and ₱57.6 million as of December 31, 2005 and 2004 (see Note 17).

c.) Construction

The Company'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 ₱2.79 billion and ₱1.95 billion for the years ended December 31, 2005 and 2004, respectively (see Note 21).

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as 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 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 a contract of lease for the office space it occupies. The Group has determined that all significant risks and rewards of ownership on these properties will be retained by the lessor. In determining significant risk and rewards of ownership, the Group considered, among others, the significance of the lease term as compared with the estimated life of the related asset.

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 (Note 31).

Management's Use of Estimates

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.

Estimating allowance for doubtful accounts

The Group maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the 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 current assets (Note 6).

Provision for doubtful accounts amounted to ₱92.3 million and ₱48.5 million for the years ended December 31, 2005 and 2004, respectively (Note 23).

Estimating allowance for write down in spare parts and supplies

The Group estimates its allowance for inventory write down in spare parts and supplies based on periodic specific identification. The Group provides 100% allowance for write down on items that are specifically identified as obsolete.

The amount and timing of recorded inventory write down for any period would differ if the Company made different judgments or utilized different estimates. An increase in the allowance for inventory write down would increase the Company's recorded operating expenses and decrease its current assets. Total equipment parts, materials and supplies at NRV as of December 31, 2005 and 2004 amounted to ₱899.1 million and ₱477.9 million, respectively (see Note 8).

Provision for inventory write down amounted to ₱17.1 for the year ended December 31, 2004. There were no provisions made in 2005.

Estimating ARO

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 fair value of the liability for these obligations and these are shown as part of the related "Accounts and other payables" account in the consolidated balance sheets. Assumptions used to compute the ARO are reviewed and updated annually.

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

As of December 31, 2005 and 2004, the Group's ARO has a carrying value of ₱10 million.

Estimating useful lives of property, plant and equipment and investment properties

The Group estimated the useful lives of its property, plant and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and investment properties are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned above. A reduction in the estimated useful lives of property, plant and equipment and investment properties would increase depreciation expense and decrease noncurrent assets. The Group has an aggregate value of property, plant and equipment and investment properties amounting to ₱5.8 billion and ₱5.4 billion as of December 31, 2005 and 2004.

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, 2005 and 2004, the balances of the Group's nonfinancial assets, net of accumulated depreciation and amortization and accumulated provisions for impairment losses follow:

	2005	2004 (As restated)
Property, plant and equipment - net	₱3,097,362,927	₱2,563,480,585
Investments in associates, jointly controlled entities and others - net	447,511,773	414,255,220
Investment properties - net	2,668,005,309	2,864,078,347

Deferred income tax

The Group reviews the carrying amounts of deferred income taxes at each balance sheet date and reduces deferred income 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 income 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 income tax assets to be utilized (see Note 24).

Estimated liability for land and property development

Obligations to complete development of real estate projects are recognized in the consolidated balance sheets and are based on cost estimates made by the Group's contractors and technical personnel. These estimated costs are calculated based on current prices of labor and materials plus provisions for price escalation due to inflation and other factors. Furthermore, these estimated costs are reviewed at least annually and are updated, if expectations differ from previous estimates mainly due to changes in development plan and prices of materials and labor.

Estimated liability for land and property development amounted to ₱277 million and ₱38 million as of December 31, 2005 and 2004, respectively.

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 and price for the retirement of pension (Note 20). 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, 2005 and 2004, the balances of the Group's net pension liability, unrecognized actuarial gain or loss and other employee benefits follow:

	2005	2004 (As restated)
Pension assets	₱33,011,297	₱43,939,656
Pension liability	49,055,701	38,765,387
Unrecognized actuarial loss	(25,276,300)	(14,696,777)

Financial assets and liabilities

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 and interest rates), the amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

The fair value of financial assets and liabilities as of December 31, 2005 amounted to ₱7.3 billion and ₱6.0 billion, respectively (Note 29).

4. Cash and Cash Equivalents

This account consists of:

	2005	2004
Cash on hand and in banks	₱473,086,680	₱163,811,072
Cash equivalents	1,476,624,311	53,313,491
	₱1,949,710,991	₱217,124,563

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 Investments

As of December 31, 2005, this account consists of:

Private bonds	₱410,483,707
Government securities	84,029,953
Equity securities	18,786,906
Mutual fund	15,878,575
	<hr/>
	₱529,179,141

Equity securities are carried at cost due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

6. Receivables

This account consists of:

	2005	2004
Construction (including retention receivables on uncompleted contracts of ₱383 million in 2005 and ₱389 million in 2004)	₱1,209,313,799	₱1,087,451,755
Coal (Note 26)	1,093,097,146	872,530,970
Real estate	1,050,741,262	528,710,378
Other trade receivables	126,244,383	247,290,525
	3,479,396,590	2,735,983,628
Receivable from related parties (Note 19)	1,502,868,413	1,095,275,329
Other receivables	29,374,027	75,815,511
	5,011,639,030	3,907,074,468
Less allowance for doubtful accounts	161,696,932	255,627,694
	4,849,942,098	3,651,446,774
Less noncurrent receivables - net	905,137,365	1,095,275,329
	₱3,944,804,733	₱2,556,171,445

Real estate receivables principally consist of amounts arising from sale of real estate subdivision units which are collectible within 1 to 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.

The following presents the breakdown of real estate receivables by maturity dates:

Due in:	
2006	₱118,190,948
2007	91,039,326
2008	59,811,911
2009	38,039,608
2010 and thereafter	743,659,469
	₱1,050,741,262

Certain subsidiaries are liable to local commercial banks relative to the discounting of real estate receivables (Note 16).

As of December 31, 2005 and 2004, total trade receivables - real estate amounting to ₱282 million was used to secure the Group's bank loans (Note 16).

Receivables from Atlantic, Gulf and Pacific Company of Manila, Incorporated (AG&P)

The Group has an outstanding receivable from AG&P amounting to ₱791 million and ₱775 million as of December 31, 2005 and 2004. 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 Regional Trial Court (RTC) of Batangas City. On February 21, 2002, the RTC issued a stay order prohibiting AG&P from selling, encumbering, transferring or disposing any of its properties in any manner except in the ordinary course of business.

AG&P's updated rehabilitation plan included, among others, the settlement of the Group's claims from AG&P.

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

The Group's receivables from URPHI, a related party, amounted to ₱244 million and ₱319 million as of December 31, 2005 and 2004. 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.

The recoverability of the Group's receivables from AG&P and URPHI depends on the successful implementation of their respective rehabilitation plan. The consolidated financial statements do not include any adjustments relating to these uncertainties.

7. Costs, Estimated Earnings and Billings on Uncompleted Contracts

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

	2005	2004
Total costs incurred	₱208,164,822	₱1,066,757,257
Add estimated earnings recognized	39,012,468	125,960,819
	247,177,290	1,192,718,076
Less total billings (including unliquidated advances from contract owners of ₱33 million in 2005 and ₱218 million in 2004)	241,086,185	1,224,958,311
	₱6,091,105	(₱32,240,235)

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

	2005	2004
Costs and estimated earnings in excess of billings on uncompleted contracts	₱24,978,834	₱112,260,407
Billings in excess of costs and estimated earnings on uncompleted contracts	(18,887,729)	(144,500,642)
	₱6,091,105	(₱32,240,235)

8. Inventories

This account consists of:

	2005	2004
Real estate held for sale and development - net of accumulated depreciation of ₱16.2 million in 2005 and ₱13.4 million in 2004, at cost	₱1,929,643,250	₱1,688,378,317
Equipment parts, materials and supplies, at NRV	899,102,276	477,942,394
Coal inventory, at cost	552,615,554	138,757,876
Equipment parts, materials and supplies in transit, at cost	12,449,824	14,133,966
	₱3,393,810,904	₱2,319,212,553

The cost of equipment parts, materials and supplies amounted to ₱959 million and ₱540 million as of December 31, 2005 and 2004, respectively.

Real estate held for sale and development consisting of housing and condominium units with an aggregate carrying value of ₱118 million as of December 31, 2004, were mortgaged by the Group to secure its various bank loans and notes payable to certain preferred shareholders of the Company (Notes 14 and 16). These loans were paid in 2005.

Total interest capitalized by PDI and Hampstead, as part of “*Housing and condominium units for sale and development*” amounted to ₱24 million in 2004. The capitalization rates used in 2004 ranged from 8% to 14%. No interest was capitalized in 2005.

9. **Other Current Assets**

This account consists of:

	2005	2004
Creditable taxes withheld	₱104,740,448	₱93,227,613
Value added input tax	36,370,928	18,594,854
Prepaid expenses	4,138,554	7,003,379
Others	847,230	10,817,915
	₱146,097,160	₱129,643,761

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

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

	2005	2004
Investments - At Equity:		
Associates	₱492,101,021	₱494,852,468
Jointly controlled entities	57,547,028	32,125,000
	549,648,049	526,977,468
Accumulated equity in net losses	(300,177,191)	(344,494,725)
Allowance for probable losses	(90,774,860)	(56,800,468)
	(390,952,051)	(401,295,193)
	158,695,998	125,682,275
Investments - At Cost	288,815,775	288,572,945
	₱447,511,773	₱414,255,220

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	
	2005	2004	2005	2004
Associates:				
Bachy Soletanche Philippines Corporation (Bachy)	49.00	49.00	₱43,332,817	₱43,622,926
Vulcan Materials Corporation (Vulcan)	49.00	49.00	-	20,686,808
Obayashi Philippines Corporation (OPC)	39.55	39.55	1,135,558	5,329,141
Raco-Haven Automation Philippines, Inc.	50.14	24.95	-	131,056
Systems Powermark Corporation	6.00	6.00	-	-
AG&P	46.00	46.00	-	-
Subic Water and Sewerage Company, Inc. (Subic Water)	40.00	40.00	37,702,465	-
			82,170,840	69,769,931
Jointly Controlled Entities:				
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	752,836	1,116,193
Others	Various	Various	34,860,857	13,884,686
			76,525,158	55,912,344
			₱158,695,998	₱125,682,275

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 ₱33 million in Subic Water, a joint venture company with Subic Bay Metropolitan Authority (a government-owned corporation), Olongapo City Water District, and Cascal Services Limited (a company organized under the laws of England). The agreement executed by the parties on November 24, 1996 stipulated, among others, that PDI shall have an equity participation equivalent to 40% in Subic Water amounting to ₱75 million (based on the initial subscribed and paid-in capital of ₱187 million). The balance of PDI's committed subscription to Subic Water of ₱38 million (net of additional subscription payment of ₱4 million in 1998) is expected to be paid on or before the second anniversary of the said effective date. As of May 15, 2006, such committed subscription has not yet been paid.

As of December 31, 2004, PDI's accumulated equity in the net losses of Subic Water exceeded the carrying amount of its related investment. Thus, no further share in the net losses of Subic Water is recorded. Unrecognized losses amounted to ₱1 million as of December 31, 2004. Subic Water reported favourable results of operations in 2005, accordingly, PDI recognized equity in net earnings amounting to ₱37.7 million after the share in unrecorded losses.

AG&P

As of December 31, 2001, the Group's accumulated equity in net losses of AG&P equals 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 losses of AG&P amounted to ₱214 million and ₱209 million as of December 31, 2005 and 2004, respectively.

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 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 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 million and ₱591 million, respectively. The present authorized capital stock of the Company of ₱36 million will be increased to ₱1.5 billion 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.

Investments - At Cost

Montecito

On October 9, 2003, the 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.

As of April 25, 2005, the terms of the Rehabilitation Plan has been approved by the RTC and Montecito's major creditors.

11. Investment Properties

The movement of this account follow:

	2005	2004
Land	₱2,647,437,079	₱2,826,798,766
Condominium units - net of accumulated depreciation of ₱0.68 million in 2005 and ₱0.34 million in 2004	1,020,000	16,277,204
Buildings and improvements - net of accumulated depreciation of ₱8.6 million in 2005 and ₱6.3 million in 2004	19,548,230	21,002,377
	₱2,668,005,309	₱2,864,078,347

Consolidated depreciation on investment properties amounted to ₱2.63 million and ₱2.62 million in 2005 and 2004, respectively (Note 22).

The Group's investment properties - land with a carrying value of ₱268 million as of December 31, 2004 were used as collateral under real estate mortgages to secure the indebtedness of the Group to local banks and a foreign supplier and notes payable to certain preferred shares of the Company (Notes 14 and 16). These loans were paid in 2005.

The aggregate fair value of the Group's investment properties amounted to ₱2.7 billion as of December 31, 2005. 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 ₱5.2 million and ₱2.8 million for the years ended December 31, 2005 and 2004.

Land with an aggregate carrying value of ₱773 million as of December 31, 2004, were mortgaged by the Group to guarantee various credit facilities and secure the Group's bank loans, indebtedness of Semirara to a foreign supplier and notes payable to certain preferred shareholders of the Company. These loans were also paid in 2005.

12. Property, Plant and Equipment

The movements in this account follow:

December 31, 2005

	Land and Land Improvements	Buildings and Building Improvements	Construction Equipment, Machinery and Tools	Office Furniture, Fixtures and Equipment	Transportation Equipment	Conventional and Continuous Mining Equipment
Cost						
At January 1	P419,971,441	P1,162,843,253	P2,107,970,623	P167,484,010	P136,944,596	P5,683,165,951
Additions	–	18,377,241	82,215,457	13,953,859	15,436,706	1,610,516,014
Transfers and retirements/ disposals	–	(24,795,365)	(1,968,584,098)	(141,506,856)	(89,351,180)	–
At December 31	419,971,441	1,156,425,129	221,601,982	39,931,013	63,030,122	7,293,681,965
Accumulated Depreciation						
Depletion and Amortization						
At January 1	321,413,165	783,228,619	2,029,287,989	161,734,382	102,775,784	3,922,411,628
Depreciation, depletion and amortization	14,466,016	43,301,674	72,232,502	5,450,469	14,698,081	1,151,934,880
Transfers and retirements/ disposals	–	(24,795,365)	(1,967,216,763)	(141,504,777)	(89,351,080)	–
At December 31	335,879,181	801,734,928	134,303,728	25,680,074	28,122,785	5,074,346,508
Net Book Value	P84,092,260	P354,690,201	P87,298,254	P14,250,939	P34,907,337	P2,219,335,457

	Mining Properties, Mine Exploration and Development Costs	Leasehold Improvements	Construction in Progress	Total
Cost				
At January 1	P181,451,611	P59,025,858	P77,350,401	P9,996,207,744
Additions	102	818	145,242,811	1,885,743,008
Transfers and retirements/ disposals	–	(57,812,251)	(14,904,463)	(2,296,954,213)
At December 31	181,451,713	1,214,425	207,688,749	9,584,996,539
Accumulated Depreciation				
Depletion and Amortization				
At January 1	53,546,779	58,328,813	–	7,432,727,159
Depreciation, depletion and amortization	32,824,254	678,813	–	1,335,586,689
Transfers and retirements/ disposals	–	(57,812,251)	–	(2,280,680,236)
At December 31	86,371,033	1,195,375	–	6,487,633,612
Net Book Value	P95,080,680	P19,050	P207,688,749	P3,097,362,927

December 31, 2004

	Land and Land Improvements	Buildings and Building Improvements	Construction Equipment, Machinery and Tools	Office Furniture, Fixtures and Equipment	Transportation Equipment	Conventional and Continuous Mining Equipment
Cost						
At January 1	₱417,147,932	₱1,143,731,450	₱2,318,823,396	₱166,953,403	₱119,467,393	₱4,661,608,917
Additions	2,823,509	19,111,803	11,577,398	1,252,996	23,132,656	1,165,992,680
Transfers and retirements/ disposals	—	—	(222,430,171)	(722,389)	(5,655,453)	(144,435,646)
At December 31	419,971,441	1,162,843,253	2,107,970,623	167,484,010	136,944,596	5,683,165,951
Accumulated Depreciation						
Depletion and Amortization						
At January 1	313,658,330	746,974,197	2,114,759,761	161,985,442	105,375,383	3,352,420,119
Depreciation, depletion and amortization	7,754,835	36,254,422	8,583,918	471,329	3,055,854	658,320,303
Transfers and retirements/ disposals	—	—	(94,055,690)	(722,389)	(5,655,453)	(88,328,794)
At December 31	321,413,165	783,228,619	2,029,287,989	161,734,382	102,775,784	3,922,411,628
Net Book Value	₱98,558,276	₱379,614,634	₱78,682,634	₱5,749,628	₱34,168,812	₱1,760,754,323

	Mining Properties, Mine Exploration and Development Costs	Leasehold Improvements	Construction in Progress	Total
Cost				
At January 1	₱503,388,113	₱59,120,394	₱43,981,404	₱9,434,222,402
Additions	—	—	111,165,115	1,335,056,157
Transfers and retirements/ disposals	(321,936,502)	(94,536)	(77,796,118)	(773,070,815)
At December 31	181,451,611	59,025,858	77,350,401	9,996,207,744
Accumulated Depreciation				
Depletion and Amortization				
At January 1	207,691,735	51,543,890	—	7,054,408,857
Depreciation, depletion and amortization	29,402,753	6,784,923	—	750,628,337
Transfers and retirements/ disposals	(183,547,709)	—	—	(372,310,035)
At December 31	53,546,779	58,328,813	—	7,432,727,159
Net Book Value	₱127,904,832	₱697,045	₱77,350,401	₱2,563,480,585

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The assets of Semirara (included in the above movement analysis) as of December 31, 2005, which are carried at deemed cost follow (Note 2):

	Land and Land Improvements	Buildings and Building Improvements	Conventional and Continuous Mining Equipment	Total
At Deemed Cost	P146,388,235	P486,594,149	P581,857,987	P1,214,840,371
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	-	-	-	-
At December 31	117,254,786	304,679,148	386,984,295	808,918,229
Net Book Value at Deemed Cost	P29,133,449	P181,915,001	P194,873,692	P405,922,142

Certain conventional and continuous mining equipment items with an aggregate book value of P143.3 million and P238.8 million as of December 31, 2005 and 2004, respectively, have been pledged as collaterals to secure the indebtedness of Semirara to local banks and foreign suppliers (Note 16).

Certain machinery and equipment with a carrying value of about P122 million in 2004 was used as collateral to secure the indebtedness of Contech (Note 16). These loans were paid in 2005.

Consolidated depreciation, depletion and amortization on property, plant and equipment (including depreciation on the adjusted cost of P62 million in 2004) amounted to P1,336 million P751 million in 2005 and 2004, respectively (Note 22).

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 P488 million for the year ended December 31, 2005.

Losses on Property and Equipment

In 2004, Semirara has written-off property and equipment with net book value of P224 million consisting mainly of development costs and certain continuous mining equipment. This has resulted from the Semirara's annual review of the EUL and impairment of assets where management determined that there has been a significant change in the use and expected economic benefits from the said assets.

13. Other Noncurrent Assets

The details of other noncurrent assets follow:

	2005	2004
Deposits in North Luzon Railways Corporation (Northrail)	₱300,000,000	₱300,000,000
Development costs - net of accumulated depreciation amounting to ₱3 million	47,051,433	34,279,279
Refundable deposits	49,424,051	80,648,491
Others	48,739,371	19,319,369
	₱445,214,855	₱434,247,139

Deposits in Northrail of ₱300 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. As of May 15, 2006, a claim has been filed and is still pending with the court for the recovery of its contribution to the Northrail Project, which the Group's management believes, is fully recoverable.

14. Bank Loans

The Group's bank loans in 2005 and 2004 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, except for ₱278 million in 2004, which are secured by a real estate mortgage over the Group's housing and condominium units (Note 8); a deed of assignment on certain real estate receivables of PDI, DMCI and Hampstead (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, 2005 and 2004, the Group was in compliance with the loan covenants required by the banks.

15. **Accounts and Other Payables**

This account consists of the following:

	2005	2004
Accrued costs and expenses	₱1,213,224,381	₱1,429,797,117
Payables to suppliers	603,122,781	756,684,912
Payables to subcontractors	229,403,102	406,136,983
Redeemable preferred shares	220,166,403	454,728,843
Customers' deposits	73,868,458	149,303,041
Acceptances and trust receipts payable	117,828,868	82,662,996
Other payables	234,720,301	144,043,811
	₱2,692,334,294	₱3,423,357,703

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

Semirara's liabilities to DOE represents the share of DOE 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 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.

Customers' Deposits

On September 28, 1990, Semirara entered into a Memorandum of Agreement (MOA) with National Power Corporation (NPC) to provide NPC Selectively Mined Coal (Select) or its Run of Mine coal equivalent, free of shipping cost to NPC, over a certain period. Total committed volume of coal was 150,000 Metric Ton (MT) of Select coal with a total price of ₱179 million which formed part of the minimum contracted quantity that NPC agreed to purchase for the year 1990 under the Coal Supply Agreement (CSA) between Semirara and NPC. The accumulated coal lifted and delivered under such MOA totaled 114,141 MT and 92,733MT of Select coal or its peso equivalent of ₱143 million and ₱117 million as of December 31, 2005 and 2004, respectively.

On August 26, 2004, Semirara entered into a MOA with TransEnergy Grinding Inc., a related party and the marketing arm of Apo Cement Corporation (APO), a customer. The MOA provided for the delivery of coal to APO of 60,000 MT or an equivalent of 10,000 MT per month. In connection with the MOA, APO made an advance payment amounting to US\$2.0 million or its peso equivalent of ₱111.0 million. As of December 31, 2005 and 2004, Semirara made coal deliveries to APO of 304,064 MT and 33,682 MT or its peso equivalent of ₱541 million and ₱58 million, respectively.

The deposits are due to the following:

	2005	2004
NPC	P35,597,050	P61,087,471
APO	14,455,417	52,839,943
Real estate	23,815,991	35,375,627
	P73,868,458	P149,303,041

The deposits to NPC and APO are applied against subsequent sales.

16. Long-term Debt

Long-term debt pertains to the following obligations:

	2005	2004
Long-term:		
Bank loans	P2,127,665,960	P1,154,179,120
Payable to foreign suppliers	467,775,516	922,256,061
Notes payable to preferred shareholders	–	244,442,418
Acceptances and trust receipts payable	262,957,904	–
	2,858,399,380	2,320,877,599
Less current portion of:		
Bank loans	377,918,158	648,390,375
Payable to foreign suppliers	49,660,025	274,870,602
Notes payable to preferred shareholders	–	124,951,535
Acceptances and trust receipts payable	176,477,558	–
	604,055,741	1,048,212,512
	P2,254,343,639	P1,272,665,087

The maturities of long-term debt as of December 31, 2005 follow:

Due in:	
2006	P604,055,741
2007	514,802,497
2008	487,752,540
2009	432,853,156
2010 and thereafter	818,935,446
	P2,858,399,380

Bank Loans

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

(a) Semirara

New Availment

On February 23, 2005, Semirara entered into term loan agreements with a foreign bank amounting to US\$3.6 million (₱185.4 million) to finance the importation of certain conventional mining equipment. The loan is payable in 10 equal semi-annual installments to commence six months after the drawdown date. The interest shall be based on the applicable 6-month USD LIBOR plus 3.5% per annum, repriced and payable semi-annually. This loan is covered by unconditional and irrevocable guarantee issued by DMCI. This loan amounted to US\$3.6 million (₱185.4 million) as of December 31, 2005.

On December 14, 2005, the Semirara entered into a term loan agreement with a foreign bank amounting to US\$2.2 million (₱117.5 million) to finance the importation of certain conventional mining equipment. The loan is payable in 16 equal quarterly installments to commence two months after the draw down date. The interest shall be based on the applicable SIBOR plus 1.95% per annum, repriced and payable quarterly. This loan amounted to US\$2.2 million (₱117.5 million) as of December 31, 2005.

Restructured Loan

This loan was used to refinance certain short-term loans and liabilities under letters of credit issued by the bank and bears interest at prevailing market rates, as defined in the pertinent loan agreement dated December 4, 1998. This loan was secured by a deed of suretyship of DMCI-HI, a major stockholder and a deed of undertaking executed by DMCI-HI on December 4, 1998, whereby DMCI-HI undertook and obligated itself in favor of the local bank not to sell, reduce, assign, pledge or transfer its shares in the Semirara for as long as the Semirara's loan with the local bank is outstanding. This loan was originally payable in 11 equal quarterly installments starting June 2000 up to December 2002.

On June 15, 2001, Semirara and the local bank agreed to restructure this peso-denominated loan. This loan is now secured by: (a) real estate mortgage (REM) constituted over the properties of related parties located at Taguig, Metro Manila and Laguna registered under the name of DMCI and DMCI-Project Developers, Inc. (PDI); and (b) suretyship executed by DMCI. This loan, with interest at 91-day T-bill rate plus 3.25%, is now payable in 19 equal quarterly amortizations or six years from date of availment, including the 18 months grace period. The agreement also provided for the maintenance of certain financial ratios. As of December 31, 2004, this loan amounted to ₱22.7 million. This loan was paid in full on January 7, 2005.

Others

On September 30, 2005, Semirara entered into a term loan agreement with a local bank amounting to ₱234.6 million for additional working capital. The loan is payable in 48 equal monthly installments to commence on November 3, 2005. The interest shall be 13% per annum. The loan is secured by collaterals on the Company's seven (7) units dump trucks with net book value of ₱143.3 million as of December 31, 2005.

In 2004, Semirara entered into a loan agreement with a foreign bank amounting to US\$5.1 million (₱284.5 million). The loan was used to finance the importation of certain conventional mining equipment to the extent of 85% of the contract value and other financing costs as defined under such agreement. This loan was payable in 10 equal consecutive semi-annual installments, the first of which shall become due and payable six months after December 31, 2004. The interest is computed at six (6) months-LIBOR plus 1.5% per annum and is secured by an unconditional and irrevocable guarantee issued by the Company. This loan amounted to US\$4.3 million (₱230.4 million) as of December 31, 2005.

In December 2004, Semirara entered into a term loan agreement with a local bank amounting to ₱86.9 million to finance the importation of certain conventional mining equipment. The loan is payable in 16 equal quarterly installment to commence at the end of the 5th quarter from initial draw down date. The interest shall be based on the applicable MART1 (base rate) plus spread of 3.5%, reprisable and payable quarterly. This loan is covered by an existing company guarantee issued by DMCI. This loan was fully paid in March 2005.

(b) Sale of receivables

Certain subsidiaries entered into various purchase agreements with financial institutions whereby the subsidiaries sold its installment contracts 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 retains the sold receivables in the receivables account and records the proceeds from these sales as loans payable amounting to ₱555 million as of December 31, 2005. 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.

The current portion of these loans amounted to ₱114.2 million as of December 31, 2005.

Payable to Foreign Suppliers

This account represents liabilities to foreign suppliers arising from purchases of various mining equipment made by Semirara.

On June 18, 2004, Semirara purchased seven (7) units of mining equipment from a foreign supplier for US\$4.3 million (₱242.7 million). This loan is payable in: (a) 12 quarterly payments of principal each in an amount equal to 6.5% of the original loan amount commencing on the date falling 12 months from the drawdown date; and (b) balloon payment in the amount equal to 22% of the original loan amount. This loan bears interest at prevailing market rates and payable over 16 quarterly payments. This is secured by a chattel mortgage on the mining equipment purchased and a corporate guarantee issued by DMCI-HI. This was fully paid on October 5, 2005.

The payable to foreign suppliers also includes a foreign currency-denominated long-term obligations amounting to US\$0.5 million (₱23.8 million) and US\$4.91 million (₱276.37 million) as of December 31, 2005 and 2004, respectively. This loan arose from the acquisition of twelve (12) units of conventional mining equipment. This loan is payable for 5 years in 10 equal semi-annual installments after the 12 months grace period, with interest at 8.25% plus establishment fee of 2.75% and commitment fee of 1%. Title to the mining equipment amounting to ₱489.4 million will pass to Semirara only upon full settlement of its obligation. Also, the amount due is secured by a corporate guarantee issued by DMCI-HI and the visibility of the CSA evidencing a ten-year contract for a supply of up to 2.4 million MT of coal per year. In 2003, Semirara acquired from the same foreign supplier on account six (6) units of conventional mining equipment totaling US\$1.5 million (₱79.3 million). This foreign currency-denominated obligation amounting to US\$1.1 million in 2003 is payable in 18 months after 3 months grace period with interest at 5.75% per annum. The balance of the old portion of this equipment loan from same supplier, which was contracted in 2001, was fully paid on March 7, 2005.

The account “payable to foreign suppliers” also includes a foreign currency-denominated long-term obligation amounting to about US\$8.6 million (₱456.4 million) and US\$3.7 million (₱208.2 million) for the years ended December 31, 2005 and 2004, respectively. This loan arose from acquisitions of certain mining equipment, parts and supplies. This loan originally bears interest at prevailing market rates; was collateralized by an unconditional and irrevocable letter of guarantee issued by DMCI-HI, and an assignment agreement whereby Semirara assigned to the supplier its right to receive payment from NPC in case there is default in any of its payments; and was payable in various installments up to May 2003. On December 19, 2001, Semirara and this foreign supplier finalized the Debt Restructuring Agreement for the restructuring of such obligation. This loan is now payable in 18 consecutive quarterly installments until December 15, 2006 and bears interest based on SIBOR plus 3.75%. The loan is now secured by: (a) REM constituted over the properties located at Montecito Plantation, Ayala Canlubang Estate registered under the name of DMCI; (b) chattel mortgage on the Semirara’s twenty-nine (29) conventional mining equipment which is fully depreciated as of December 31, 2004 (Note 12), and eleven (11) heavy equipment owned by DMCI, and; (c) letter of guarantee issued by DMCI-HI. The agreement also provides for the maintenance of certain financial ratios.

On October 18, 2004, Semirara entered into an agreement to purchase eighteen (18) units of conventional mining equipment from the same foreign supplier for US\$11.0 million. The interest is based on SIBOR plus 4.25% per annum and is payable over nineteen agreed interest payment dates. The principal amount is payable in sixteen (16) consecutive, equal, quarterly installments; the first installment with respect to each shipment shall be due and payable on the fourth (4th) interest payment date with respect to such shipment. Title to the equipment will pass to Semirara only upon full settlement of its obligation. As of December 31, 2004 six (6) units of conventional mining equipment amounting to about US\$3.5 million were delivered to Semirara. This is secured by an unconditional and irrevocable guarantee issued by DMCI-HI.

The aggregate unpaid balance of these loans from foreign suppliers amounted to ₱467.8 million (US\$8.7) and ₱922.3 million (US\$16.4) as of December 31, 2005 and 2004, respectively.

Notes Payable to Preferred Shareholders

The Group's long-term notes payable as of December 31, 2004 include outstanding peso-denominated obligations of DMCI-HI, DMCI and PDI to certain preferred shareholders of DMCI-HI amounting to ₱45 million, ₱146 million and ₱53 million, respectively, which are payable in various maturity dates starting February 2007 until April 2009, pursuant to loan agreements evidenced by Promissory Notes (PNs) dated April 7, 2002 entered into by DMCI-HI, DMCI and PDI in connection with the redemption of 513,055 preferred shares (Note 18). The obligations of DMCI and PDI are secured by real estate mortgages over DMCI's and PDI's real estate for sale and development, and certain real estate properties of other related parties while the obligations of the DMCI-HI are unsecured.

As of December 31, 2004, the details of the foregoing PNs to preferred shareholders are presented below:

Prevailing interest rate of the 91-day T-Bill plus a spread of up to 2%, payable in quarterly payments in arrears	₱138,722,813
Fixed interest at 13%, payable in quarterly payments in arrears	102,028,705
Fixed interest at 13% for the first 5 years; prevailing interest rate of the 91-day T-Bill plus a spread of up to 3% for the last 2 years, payable in quarterly payments in arrears	3,690,900
	<u>₱244,442,418</u>

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

Acceptances and Trust Receipts Payable

On September 15, 2005, Semirara entered into an agreement to purchase twelve (12) units of conventional mining equipment for US\$7.4 million (₱391.8 million). The interest is based on SIBOR plus 1.95% per annum and is payable over nineteen agreed interest payment dates. The principal amount is payable in sixteen (16) consecutive, equal, quarterly installments; the first installment with respect to each shipment shall be due and payable on the fourth (4th) interest payment date with respect to such shipment. Title to the equipment will pass to Semirara only upon full settlement of its obligation. As of December 31, 2005 four (4) units of conventional mining equipment amounting to about US\$2.5 million (₱130.5 million) were delivered to Semirara. This is secured by an unconditional and irrevocable guarantee issued by DMCI-HI. The balance of the old portion of equipment loan, which was contracted in 1998 and 1999 was fully paid on February 15, 2005.

The aggregate unpaid balance of these acceptances and trust receipts payables amounted to ₱263 million as of December 31, 2005.

The loan agreements with lenders contain some or all of the following restrictions: material changes in nature of business; payment of dividends; merger or consolidation; guarantee, investments or advances; encumbrance for borrowed money; sale of substantially all of assets and additional loans maturing beyond one year, except under certain conditions. As of December 31, 2005 and 2004, these restrictions were complied with by the Group.

17. Other Noncurrent Liabilities

The details of this account consist of:

	2005	2004
Deferred revenue on real estate sales	₱376,752,577	₱57,610,128
Payable to property sellers	286,242,592	243,929,192
Subscriptions payable	3,750,000	3,750,000
	₱666,745,169	₱305,289,320

Payable to Property Sellers

Payable to property sellers 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.

18. Preferred and Common Stock

The changes in the number of shares follow:

	2005	2004
Preferred stock - ₱1 par value cumulative and convertible to common stock		
Authorized	100,000,000	100,000,000
Issued		
Balance at beginning of year	342,240	451,690
Retirement of preferred shares	(197,760)	(109,450)
Balance at end of year	144,480	342,240
Common stock - ₱1 par value		
Authorized	5,900,000,000	5,900,000,000
Issued	2,255,494,000	2,255,494,000
Preferred shares held in treasury		
Balance at beginning of year	(185,500)	(183,700)
Redemption of preferred shares	(149,210)	(111,250)
Retirement of preferred shares	197,760	109,450
Balance at end of year	(136,950)	(185,500)

Preferred shares were previously included in equity. In compliance with PAS 32, all of the Company's outstanding preferred shares amounting to ₱342,240 were reclassified from equity to liabilities as of January 1, 2005 and 2004, respectively.

The preferred shareholders' right of converting the preferred shares to common shares expired in March 2002. The remaining outstanding preferred shares totalling 144,480 shares were fully redeemed in 2006.

In 2005, the Group retired 197,760 preferred shares. The difference between the par value and the redemption price amounting to ₱234.4 million was charged against the additional paid in capital account.

As of December 31, 2004, the outstanding obligations of the Group relative to the issuance of PNs to certain preferred shareholders of the Company amounted to ₱244 million (see Note 16). These obligations were paid in 2005.

Retained earnings is restricted to the extent of the acquisition cost of the treasury shares amounting to ₱187 million and ₱239 million as of December 31, 2005 and 2004, respectively.

19. 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 (see 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 (Note 5);

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

	2005	2004
Receivable from related parties (Note 6)	₱1,502,967,413	₱1,095,275,329
Payable to related parties	177,608,696	851,922,968

Compensation of key management personnel of the Group by benefit type follows:

	2005	2004
Short-term employee benefits	P27,125,584	P26,973,661
Post employment benefits (Note 20)	2,871,130	2,773,657
	P29,996,714	P29,747,318

There are no agreements between the Company 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 Company's pension plan.

20. Employee Benefits

As discussed in Note 2 to the consolidated financial statements, the Group adopted PAS 19 effective January 1, 2005. The information below includes the disclosure requirements under these new standards:

Retirement Plans

Except for DMCI-HI and PDI, the Group has a funded, 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, 2005.

Total pensions assets and liabilities recognized in the consolidated balance sheets follow:

	2005	2004 (As restated)
Pension assets	P33,011,297	P43,939,656
Pension liabilities	(49,055,701)	(38,765,387)

Pension assets of the Group follow:

	2005	2004
Present value of unfunded obligation	P215,648,282	P182,565,943
Fair value of plan assets	171,856,371	159,126,269
Excess of present value of unfunded obligation over fair value of plan assets	43,791,911	23,439,674
Unrecognized actuarial loss - net	(25,276,300)	(14,696,777)
Unrecognized asset	(2,471,207)	(3,568,628)
Assets (liabilities) to be recognized in the consolidated balance sheets	(P16,044,404)	P5,174,269

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

	2005	2004
Balance at beginning of year	₱159,126,269	₱181,546,485
Expected return on plan assets	12,730,102	14,523,719
Actual contributions	-	-
Benefits paid	-	(6,398,821)
Actuarial gain (loss) - net	-	(30,545,114)
Balance at end of year	₱171,856,371	₱159,126,269

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

	2005			2004		
	DMCI	Others	Total	DMCI	Others	Total
Balance at beginning of year	₱140,695,952	₱49,706,421	₱190,402,373	₱128,842,341	₱33,273,754	₱162,116,095
Current service cost	6,338,733	1,138,775	7,477,508	5,250,279	3,581,463	8,831,742
Interest cost	16,883,514	884,887	17,768,401	18,037,928	3,509,449	21,547,377
Benefits paid	-	-	-	(6,398,821)	-	(6,398,821)
Actuarial loss (gain) - net	-	-	-	(5,035,775)	1,505,325	(3,530,450)
Balance at end of year	₱163,918,199	₱51,730,083	₱215,648,282	₱140,695,952	₱41,869,991	₱182,565,943

* Others include DMCI-HI and certain consolidated subsidiaries with unfunded, noncontributory, defined benefit pension plans.

Components of retirement expense in the consolidated statements of income follow:

	2005			2004 (As Restated)		
	DMCI	Others*	Total	DMCI	Others*	Total
Current service cost	₱6,338,733	₱1,138,775	₱7,477,508	₱5,250,279	₱3,581,461	₱8,831,740
Interest cost	16,883,514	884,887	17,768,401	18,037,928	3,509,449	21,547,377
Expected return on plan assets	(12,730,102)	-	(12,730,102)	(14,523,719)	-	(14,523,719)
Net actuarial loss (gain) recognized during the year	462,109	4,507	466,616	-	-	-
Net transition obligation (asset) recognized during the year	259,447	140,373	399,820	259,447	140,373	399,820
	₱11,213,701	₱2,168,542	₱13,382,243	₱9,023,935	₱7,231,283	₱16,255,218

* Others include DMCI-HI and certain consolidated subsidiaries with unfunded, noncontributory, defined benefit pension plans.

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

	2005	2004
Discount rate	12%	14%
Salary increase rate	10%	10%
Expected rate of return on plan assets	8%	8%

21. Sales and Services

This account consists of:

	2005	2004
Coal sales (Note 26)	₱5,552,892,725	₱5,065,864,642
Construction contracts	2,790,475,944	1,952,555,721
Real estate sales	1,508,478,092	718,360,031
Investment income	2,757,342,878	-
Merchandise sales and others	177,634,429	24,299,277
	₱12,786,824,068	₱7,761,079,671

22. Costs of Sales and Services

This account consists of:

	2005	2004
Coal sales (Note 27)	₱3,305,420,022	₱2,790,699,483
Construction contracts (Note 19)	2,547,425,062	1,833,959,651
Real estate sales	1,021,634,826	483,637,012
Investment, merchandise sales and others	332,902,339	13,824,634
	₱7,207,382,249	₱5,122,120,780

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

	2005	2004
Included in:		
Coal sales	₱1,238,929,678	₱685,147,488
Construction contracts	70,088,798	52,791,573
Operating expenses (Note 23)	29,391,009	25,949,306
	₱1,338,409,485	₱763,888,367

	2005	2004
Depreciation, depletion and amortization of:		
Property, plant and equipment (Note 12)	₱1,335,586,689	₱750,628,337
Real estate for sale and development (Note 8)	2,822,796	2,822,796
Deferred stripping and development costs (Note 13)	-	7,819,580
Investment properties (Note 11)	2,633,377	2,617,654
	₱1,341,042,862	₱763,888,367

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

	2005	2004 (As restated)
Included in:		
Costs of construction contracts	₱367,542,131	₱361,408,793
Operating expenses (Note 23)	198,701,631	173,762,266
Costs of coal sales	116,282,956	156,171,333
	₱682,526,718	₱691,342,392

23. Operating Expenses

This account consists of:

	2005	2004 (As restated)
Salaries, wages and employee benefits (Notes 22)	₱198,701,631	₱173,762,266
Government share	158,784,821	148,623,317
Outside services	102,631,929	79,498,019
Provision for doubtful accounts	92,323,339	48,537,678
Taxes and licenses	54,018,437	100,344,339
Commission	45,723,198	40,187,940
Transportation and travel	41,979,873	12,831,281
Entertainment, amusement and recreation	39,553,521	18,590,054
Advertising	35,220,167	33,180,094
Communication, light and water	31,256,387	19,959,588
Depreciation and amortization (Note 22)	29,391,009	25,949,306
Rent (Note 31)	23,334,957	17,533,933
Supplies	16,133,371	8,306,427
Repairs and maintenance	10,272,100	5,879,737
Insurance	3,211,300	3,865,648
Miscellaneous	62,243,615	38,963,024
	₱944,779,655	₱776,012,651

24. Income Taxes

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

	2005	2004 (As restated)
Deferred tax assets on:		
Allowance for:		
Doubtful accounts	₱39,433,967	₱63,595,083
Inventory obsolescence	18,650,424	19,955,656
Probable loss	7,239,876	
Accrued expenses	35,520,070	33,696,860
Pension cost	14,816,323	
NOLCO	12,485,454	-
Accrued retirement costs	2,268,279	22,574,528
Excess of cost over net realizable value	1,661,427	-
MCIT	994,531	-
Unrealized foreign exchange loss	33,245	2,879,450
Others	-	7,773,197
	133,103,596	150,474,774
Deferred tax liabilities on:		
Incremental cost of property, plant and equipment	(121,219,904)	(129,895,085)
Excess of book over tax income pertaining to construction contracts and real estate sales	(103,238,407)	(10,216,878)
Retirement benefit	(11,553,954)	(14,060,690)
Capitalized interest on real estate for sale and development deducted in advance	(9,583,535)	(8,327,481)
Others - net unrealized gain	(26,224,133)	(958,341)
	(271,819,933)	(163,458,475)
	(₱138,716,337)	(₱12,983,701)

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

	2005	2004 (As restated)
Allowance for doubtful accounts	₱69,207,588	₱56,893,059
Allowance for losses on assets	52,620,071	-
NOLCO	27,045,558	469,681,763
Retirement costs	15,136,846	5,948,907
MCIT	12,425,777	75,926,721
Accrued expenses	3,117	68,419,016

The deferred income tax effects of the above deductible temporary differences for which no deferred tax assets are recognized amounted to ₱70 million as of December 31, 2005. 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 2005, the Company recognized the deferred income tax effects of the deductible temporary differences not recognized in prior years amounting to ₱243 million (inclusive of the tax adjustment arising from the change in tax rate).

As of December 31, 2005, the Group's available NOLCO amounting to ₱460 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 statements of income consists of:

	2005	2004 (As restated)
Final	₱10,470,800	-
Current	497,908,228	₱90,458,793
Deferred	58,496,703	(27,565,672)
	₱566,875,731	₱62,893,121

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

	2005	2004 (As restated)
Statutory income tax rate	32.50%	32.00%
Adjustments for:		
Nondeductible depreciation expense on adjusted cost	-	1.32
Changes in unrecognized deferred tax assets	0.50	(29.67)
Nondeductible interest expense	0.22	0.01
Nondeductible expenses	0.02	0.11
Nontaxable equity in net earnings of associates and jointly controlled entities	(0.17)	(0.15)
Interest income subjected to final tax at a lower rate - net	(0.78)	(0.03)
Nontaxable gain on sale of investments in shares of stock	(12.98)	(0.02)
Non taxable dividend income	(0.04)	-
Gain on sale of dilution	(5.47)	-
Change in tax rate	(1.83)	-
Others - net	(0.03)	0.35
Effective income tax rate	11.94%	3.92%

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.

25. Basic Earnings Per Share

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

	2005	2004
Net income	₱3,591,511	₱1,466,980
Less dividends on preferred shares	542	24,641
	3,590,969	1,442,339
Divided by weighted average number of common shares	2,255,494	2,255,494
Basic earnings per share	₱1.59	₱0.64

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 statements of income in 2005 and 2004.

26. Coal Supply Agreement with NPC

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

The CSA also provided for, among others, the pricing determination where the base price per MT of coal is computed based on a formula stipulated in the CSA. This base price is subject to adjustment for penalty or bonus which is determined on a per delivery basis, based on a set of coal quality standards also as stipulated in the CSA. The CSA is effective for 15 years up to May 2010. In 2001, the first amendment was made to the CSA and on January 1, 2002, the second amendment to the CSA has been finalized. The amendments included the following:

- a) supply of a revised annual minimum quantity of 1,200,000 MT up to a maximum quantity of 2,400,000 MT of coal, which was stipulated in the first amendment to the CSA dated January 15, 2001;
- b) NPC to be entitled to an additional 3% discount in the event that its aggregate 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;
- c) conversion of the mode of delivery from FOB-Semirara to C&F-Calaca to simplify the payment and rescheduling of coal deliveries to Calaca I and Calaca II;
- d) maintenance by Semirara, at its own expense, of a minimum coal running inventory of at least 100,000 MT that meets the applicable coal specifications set forth in the second amendment of the CSA and ready in all aspects for loading and delivery to Calaca I and Calaca II;
- e) limitation in the coal's sulfur content to 1.0% in compliance with the Clean Air Act and reduction in its ash specification to 20% to minimize coal handling problems;
- f) inclusion of certain bases of NPC's exercise of its rights to reject and/or stop coal deliveries by 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;
- g) changes in (i) the pricing periods to a 3-month period which shall commence respectively at the beginning of a calendar quarter namely: January 1, April 1, July 1, and October 1; and (ii) the computation of the base price of Semirara's coal delivery including the determination of the initial and final base prices, to consider the volatile foreign exchange situation and the price of all NPC imported coal for Calaca plant during the pricing period;
- h) changes in the computation of the adjustment for penalty or bonus from the base price per MT;
- i) requirement for Semirara and NPC to reconcile payments made for coal deliveries for the immediate preceding pricing period within 30 calendar days from determination of the final base price by issuing a debit memo to the other;
- j) deletion of the CSA provision requiring NPC to make an equity investment in Semirara in the event that the aggregate deliveries of coal meeting the coal specifications taken by NPC within any calendar year is less than 900,000 MT; and

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

In 2003, the supplemental agreement (Agreement) to the coal supply agreement has been finalized. The Agreement provided for, among others, the services to be undertaken by the Semirara 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 Semirara 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. Semirara recognized a net (loss) income of (₱26.87) million and ₱17.71 million from this handling operation for the years ended December 31, 2005 and 2004, respectively.

Semirara's receivables from NPC amounted to ₱809.33 million and ₱753.82 million as of December 31, 2005 and 2004, respectively.

27. 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 also provides for the manner and basis of sharing the gross proceeds from coal production between Semirara and DOE. Semirara's liabilities to DOE (including accrued interest computed at 14% per annum on 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 ₱46.14 million and ₱326.94 million as of December 31, 2005 and 2004, respectively. These liabilities are included under the "*Accounts and other payables*" account in the balance sheets (Note 15). The contract is for a maximum period of 35 years (inclusive of the developmental stage and renewals) up to July 2012.

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.

28. 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, infrastructure and real estate development and manufacturing.

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, 2005, and 2004 and property, plant and equipment additions, total assets and total liabilities for the business segments as of December 31, 2005 and 2004 (amounts in millions):

	Revenue		Net Income (Loss)		Depreciation, Depletion and Amortization	
	2005	2004	2005	2004 (As restated)	2005	2004
General Construction	₱2,790	₱1,953	₱74	₱118	₱92	₱75
Coal Mining	5,553	5,066	1,592	1,439	1,239	685
Infrastructure and Real Estate Development	1,508	718	140	35	4	2
Manufacturing and Parent Company	3,353	141	2,375	(51)	3	2
	₱13,204	₱7,878	₱4,181	₱1,541	₱1,338	₱764

	Property, Plant and Equipment Additions		Segment Assets		Segment Liabilities	
	2005	2004	2005	2004 (As restated)	2005	2004
General Construction	₱84	₱22	₱3,936	₱2,437	₱1,105	₱1,632
Coal Mining	1,798	1,299	6,928	3,862	2,736	2,502
Infrastructure and Real Estate Development	4	14	6,395	6,196	2,977	1,886
Manufacturing and Parent Company	–	–	326	255	368	1,509
	1,886	1,335	17,585	12,750	7,186	7,529
Deferred Tax Assets/Liabilities	–	–	21	15	160	28
Total Assets/Liabilities	₱1,886	₱1,335	₱17,606	₱12,765	₱7,346	₱7,557

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

29. Financial Instruments

Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents and 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. All revenue are generated in Pesos and some of the capital expenditures are in US\$. As of December 31, 2005, 65% of debt of the Group was denominated in US\$.

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.

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.

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.

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total - Gross (in PHP)	Total - Gross (In USD)
Liabilities:								
Floating Rate (exposed to fair value risk)								
\$13.38 million loan (USD)								
6 month USD LIBOR plus 1.5% per annum	P33,861,892	P122,575,464	P165,092,940	P159,633,382	P159,633,381	P69,523,310	P710,320,369	\$13,385,410
\$8.59 million loan (USD)								
3 month BOTM SIBOR plus 4.25% per annum	–	29,372,585	29,372,585	29,372,584	29,372,584	–	117,490,338	2,214,000
P999.23 million loans payable monthly payments at 10% to 13% per annum								
	201,313,279	156,861,074	115,559,533	84,168,124	47,477,969	393,845,716	999,225,695	–
Fixed Rate (exposed to cash flow risk)								
\$2.21 million loan (USD)								
6.48% per annum	–	101,031,613	119,082,486	119,082,486	119,082,486	–	458,279,071	8,596,570
P234.58 million promissory note 13.50% per annum								
	66,919,261	58,644,996	58,644,996	40,596,580	–	–	224,805,833	–
Various letters of credits and suppliers debt various interest rates								
	301,961,309	46,316,765	–	–	–	–	348,278,074	173,249
	P604,055,741	P514,802,497	P487,752,540	P432,853,156	P355,566,420	P463,369,026	P2,858,399,380	\$24,369,229

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Financial Assets and Liabilities

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, 2005.

	Carrying Value	Fair Value
Financial Assets		
Cash and cash equivalents	P1,949,710,991	P1,949,710,991
AFS investments	528,466,091	529,179,141
Receivables – net	2,441,837,320	2,441,837,320
Receivable from related parties (included under Receivables - net account)	1,502,967,413	1,502,967,413
Noncurrent receivables	905,137,365	905,137,365
	P7,328,119,180	P7,328,832,230
Financial Liabilities		
Accounts payable and accrued expenses	P2,692,334,294	P2,692,334,294
Short-term debt	604,055,741	604,055,741
Payable to related parties	177,608,696	177,608,696
Estimated liability for property development	276,708,069	276,708,069
Long-term debt - net of current portion	2,254,343,639	2,237,650,756
	P6,005,050,439	P5,988,357,556

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:

Nonderivative financial instruments

Cash and cash equivalents, receivables and accounts payable and accrued expenses approximate their carrying amounts in view of the relatively short-term maturity of these instruments.

The carrying amounts of amounts due from/to related parties which are due on demand within one year approximate their fair values.

The fair value of non interest-bearing refundable deposits is determined as the present value of estimated future cash flows using prevailing market rates.

The fair value of floating rate loan is determined by discounting the future cash flows (interests and principal) using prevailing market rates. The frequency of repricing per year affects the fair value. In general, a loan that is repriced every three months will have a carrying value closer to the fair value than a six month repriced loan with similar maturity and interest basis. For loans repricing every six months (in USD), the discount curve was in the range of 3.86% to 4.47%.

30. Capital Restructuring of Semirara

On March 17, 2004, the stockholders of Semirara ratified the BOD resolution on Semirara's Capital Restructuring. The Capital Restructuring of Semirara was approved by the SEC on July 2, 2004.

The Capital Restructuring of Semirara includes the following:

- (a) Reduction of the authorized capital stock from ₱1,812,200,000, divided into 1,662,200,000 common shares at ₱1 par value per share and 15,000 preferred shares at ₱10,000 par value per share to ₱21,370,448 divided into 21,370,448 common shares at ₱1 par value per share;
- (b) Retirement and cancellation of the ₱150,000,000 authorized preferred shares;
- (c) Issued and outstanding common shares will be used to eliminate deficit as of December 31, 2003 of ₱1,625,852,920, thus reducing issued and outstanding common shares to ₱5,342,612; and
- (d) Increase in authorized capital stock from ₱21,370,448 divided into 21,370,448 common shares to ₱100,000,000 divided into 100,000,000 shares with a par value of ₱1 per share.

On July 30, 2004, Semirara's BOD approved the application for additional listing on the Philippine Stock Exchange (PSE) of 19,657,388 common shares. These shares were subscribed by the Company out of the increase in the authorized capital stock approved by the SEC on July 2, 2004 as part of Semirara's Capital Restructuring at a price of ₱1.05 per share thereby increasing the Company's shareholdings in Semirara from 74.40% to 94.53%.

On September 14, 2004, Semirara's BOD approved the increase in Semirara's authorized capital stock from ₱100 million divided into 100 million common shares with ₱1 par value per share to ₱1,000 million divided into 1 billion common shares with ₱1 par value per share. Semirara's BOD also approved the declaration of stock dividends in the amount of ₱225 million consisting of 225 million common shares at a par value of ₱1 per share in favor of all Semirara's stockholders as of the record date to be determined by the SEC in proportion to their respective shareholdings as of said record date. On October 8, 2004, Semirara's stockholders approved the said increase in the authorized capital stock and the declaration of stock dividends. Semirara's stockholders also approved the offer for subscription to qualified institutional buyers of common shares out of the authorized capital stock provided it does not exceed 20% of the issued and outstanding capital stock after the offered shares have been subscribed.

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 DMCI-HI and 46,875,000 new shares. Concurrently, DMCI-HI offered 15,180,000 existing shares to all of the trading participants of the Philippine Stock Exchange. As a result of these offers, DMCI-HI recognized gains aggregating ₱2.4 billion in 2005.

31. 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, 2005, 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	₱10
After one year but not more than five years	51
<u>Total minimum lease payments</u>	<u>₱61</u>

As Lessor

The Group entered into commercial property leases on its investment portfolio. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

Future minimum rentals receivable under operating leases follow (in millions):

	2005	2004
Within one year	₱3	₱3
After one year but not more than five years	11	14
	<u>₱14</u>	<u>₱17</u>

32. Events After Balance Sheet Date

In 2006, the SEC approved the merger of Constress and PDI.

33. Note to Consolidated Statements of Cash Flows

The Group's significant noncash operating, investing and financing activities follows:

	2005	2004
	(In Thousands)	
Acquisitions of conventional and continuous mining equipment through availments of long-term debt	₱642	₱434
Redemption of preferred shares by related parties charged against advances	-	62
Redemption of preferred shares by the Group in exchange for PNs	-	14
Retirement of redeemed treasury shares	242,240	-
Gain on sale of investments	292,272	-

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

For the period ended March 31, 2006 and December 31, 2005

(Amounts in Thousands of Philippine Pesos,

Except Par Value and Number of Shares)

	AUDITED	
	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	2,060,595	1,949,711
Available-for-sale investments	536,283	529,179
Receivables - net	4,339,504	3,944,805
Costs and estimated earnings in excess of billings on uncompleted contract	0	24,979
Inventories - net	3,956,892	3,393,811
Real Estate Held for Sale and Development	0	0
Prepaid expenses and other current assets	143,831	146,097
Total Current Assets	11,037,105	9,988,582
Noncurrent Assets		
Noncurrent receivables - net	1,409,737	905,137
Investments in associates, jointly controlled entities and others - net	617,370	447,512
Investment properties - net	2,183,491	2,668,005
Property, Plant and Equipment - net	3,359,852	3,097,363
Deferred tax assets		20,937
Pension assets		33,011
Other non-current assets - net	505,099	445,215
Total Noncurrent Assets	8,075,549	7,617,180
Total Assets	19,112,654	17,605,762
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank Loans	116,194	114,659
Accounts and other payables	3,166,186	2,969,042
Current portion of long-term debt	629,789	604,056
Billings in Excess of Costs on Uncompleted Contracts	298,410	18,888
Income Tax Payable	341,210	332,280
Total Current Liabilities	4,551,789	4,038,924
Noncurrent Liabilities		
Long-Term Debt - net of current portion	2,620,119	2,254,344
Payables to related parties	76,087	177,609
Deferred Tax Liability	94,357	159,653
Deferred revenues	663,841	376,753
Pension Liabilities	43,083	49,056
Other Noncurrent Liabilities	377,591	289,992
Total Noncurrent Liabilities	3,875,079	3,307,407
Total Liabilities	8,426,867	7,346,331
Equity		
Equity attributable to equity holders of the parent:		
Paid-up capital (Note 3)	4,628,946	4,628,946
Retained earnings	4,435,012	4,193,978
Cumulative translation adjustment	2,402	2,402
Preferred shares held in treasury (Note 3)	(503)	(187,211)
	9,065,858	8,638,115
Minority Interest	1,619,929	1,621,316
Total Equity	10,685,787	10,259,431
	19,112,654	17,605,762

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

For the period ended March 31, 2006 and 2005 and for the quarter ended

March 31, 2006 and 2005

(Amounts in Thousands of Philippine Pesos)

	For the period		For the quarter	
	2006	2005	2006	2005
SALES & SERVICES				
Construction Contracts	612,194	415,534	612,194	415,534
Coal Sales	1,384,814	1,001,397	1,384,814	1,001,397
Real Estate Sales	658,828	234,618	658,828	234,618
Merchandise sales	58,269	14,635	58,269	14,635
Gain on Sale of Investment	0	2,006,383	0	2,006,383
	2,714,105	3,672,567	2,714,105	3,672,567
COSTS OF SALES & SERVICES				
Construction costs and expenses	593,446	383,236	593,446	383,236
Cost of Coal Sales	958,681	604,056	958,681	604,056
Cost of Real Estate Sold	470,497	164,268	470,497	164,268
Cost of merchandise sales	53,173	10,154	53,173	10,154
	2,075,797	1,161,714	2,075,797	1,161,714
GROSS PROFIT (Note 2)	638,308	2,510,853	638,308	2,510,853
OTHER INCOME AND COSTS				
Equity in net earnings of unconsolidated affiliates	(2,117)	(2,246)	(2,117)	(2,246)
General and administrative	(152,126)	(163,138)	(152,126)	(163,138)
Interest and others - net	(7,822)	3,306	(7,822)	3,306
	(162,065)	(162,078)	(162,065)	(162,078)
INCOME/(LOSS) BEFORE INCOME TAX	476,243	2,348,775	476,243	2,348,775
PROVISION FOR INCOME TAX	136,706	14,581	136,706	14,581
INCOME BEFORE MINORITY INTEREST	339,537	2,334,194	339,537	2,334,194
MINORITY INTEREST	98,503	133,061	98,503	133,061
NET INCOME (LOSS)	241,034	2,201,133	241,034	2,201,133
RETAINED EARNINGS/(DEFICIT), BEG.	4,193,978	602,685	4,193,978	602,685
DIVIDENDS	0	0	0	0
RETAINED EARNINGS/(DEFICIT), END	4,435,012	2,803,818	4,435,012	2,803,818
Earnings per Common share				
Basic*	0.11	0.98	0.11	0.98
Diluted	0.00	0.00	0.00	-

*Net Income less dividends divided by the total outstanding shares of 2,255,494,000

DMCI HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE PERIOD ENDED MARCH 31, 2006 AND 2005

	MARCH 2006	MARCH 2005
CAPITAL STOCK		
Cumulative and convertible		
Preferred stock - P1 par value		
Authorized - 100,000,000 shares		
Issued - 2,400,000 shares	2,400,000	2,400,000
Retirement of preferred shares	(2,392,470)	(2,113,760)
	<u>7,530</u>	<u>286,240</u>
Reclassification of preferred stock to liability	(7,530)	-
	<u>-</u>	<u>-</u>
Common stock - P1 par value		
Authorized - 5,900,000,000 shares		
Issued - 2,255,494,000 shares	2,255,494,000	2,255,494,000
	<u>2,255,494,000</u>	<u>2,255,780,240</u>
ADDITIONAL PAID-IN CAPITAL		
Balance at the beginning	2,827,839,006	2,827,839,006
Retirement of Preferred Shares	(406,099,980)	(56,030,600)
	<u>2,421,739,026</u>	<u>2,771,808,406</u>
Reclassification of preferred shares-APIC to liability	(48,286,623)	-
	<u>2,373,452,403</u>	<u>2,771,808,406</u>
RETAINED EARNINGS (DEFICIT)		
Balance at beginning of the period	4,193,977,659	602,685,131
Net income(loss) for the period	241,034,385	2,201,133,856
Accrued dividends declared	-	-
Balance at end of the period	<u>4,435,012,044</u>	<u>2,803,818,987</u>
Cumulative Translation Adjustment	<u>2,402,067</u>	<u>-</u>
PREFERRED SHARES HELD IN TREASURY		
Balance at beginning of the period	(187,210,650)	(239,096,300)
Acquisitions for the period	(502,801)	-
Redemption/Retirement of preferred shares	187,210,650	62,069,800
Balance at end of the period	<u>(502,801)</u>	<u>(177,026,500)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>9,065,857,713</u>	<u>7,654,381,133</u>

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the period ended March 31, 2006 and 2005
(Amounts in Thousands of Philippine Pesos)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss)/ Income	241,034	2,201,133
Adjustments to reconcile net income (loss) to net cash:		
Equity in net losses (earnings) of affiliates	2,117	2,246
Depreciation, depletion and amortization	96,387	130,816
Income (Loss) applicable to Minority Interest	(98,503)	(133,061)
Changes in assets and liabilities:		
Decrease / (Increase) in :		
Receivables- net	(899,299)	3,125
Inventories - net	(563,081)	(568,114)
Prepaid expenses and other current assets	2,266	(209,949)
Increase/ (Decrease) in :		
Accounts payable and accrued expenses	197,144	640,840
Current portion of long-term debt	25,734	(745,011)
Non current liabilities	567,671	70,623
Billings in excess of cost of uncompleted contracts	304,501	114,517
Income Tax Payable	8,930	0
Net cash provided by operating activities	(115,099)	1,507,165
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Available for sale investments	(7,104)	0
Investments - net	314,656	(272,559)
Property, plant and equipment - net	(262,489)	(350,121)
Deferred charges and other assets - net	(5,936)	(12,395)
Net cash provided by investing activities	39,127	(635,075)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net availments (payments) of:		
Notes payable	1,535	(214,071)
Redemption of preferred shares from treasury	186,708	62,070
Accrual of Dividends paid:		
Preferred Shares	0	0
Net increase (decrease) in minority interest	(1,387)	1,245,849
Net cash provided by financing activities	186,856	1,093,848
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	110,884	1,965,938
CASH AND CASH EQUIVALENTS, BEGINNING	1,949,711	217,125
CASH AND CASH EQUIVALENTS, ENDING	2,060,595	2,183,063

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

1. Summary of Significant Accounting Policies

Basis of Financial Statement Preparation

The accompanying consolidated financial statements of the Group have been prepared in compliance with accounting principles generally accepted in the Philippines (Philippine GAAP), as set forth in Philippine Financial Reporting Standards (PFRS). This is the Group's first annual consolidated financial statements prepared in compliance with PFRS.

The consolidated financial statements of the Group until December 31, 2004 had been prepared in compliance with Statements of Financial Accounting Standards (SFAS) and Statements of Financial Accounting Standards/International Accounting Standards (SFAS/IAS).

The Group applied PFRS 1, *First-time Adoption of PFRS*, in preparing the consolidated financial statements, with January 1, 2004 as the date of transition. The Group has consistently applied the accounting policies set forth below to all the years presented, except those relating to the classification and measurement of financial instruments. An explanation of how the adoption of PFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in the succeeding paragraphs.

The consolidated financial statements of the Group are presented in Philippine Pesos and have been prepared under the historical cost convention method, except for available-for-sale (AFS) financial investments that have been measured at fair value.

The preparation of the consolidated financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries as of December 31, 2005 and 2004. Under Philippine GAAP, 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.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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

	Effective Percentages of Ownership	
	2005	2004
General Construction:		
D.M. Consunji, Inc. (DMCI) ¹	100.00	100.00
DMCI International, Inc. (DMCII) ²	100.00	100.00
OHKI-DMCI Corporation (OHKI) ²	100.00	100.00
DMCI-Laing Construction, Inc. (DMCI-Laing) ²	60.00	60.00
Beta Electric Corporation (Beta Electric) ²	50.77	56.57
Raco Haven Automation Philippines, Inc. (Raco) ²	50.14	24.95
Coal Mining:		
Semirara Mining Corporation (Semirara)	62.92	94.53
Infrastructure and Real Estate Development:		
DMCI Project Developers, Inc. (PDI)	100.00	100.00
Contech Products Corporation (Contech) ³	100.00	100.00
Constress Philippines, Inc. (Constress) ³	100.00	100.00
Hampstead Gardens Corporation (Hampstead) ³	100.00	60.00
Riviera Land Corporation (Riviera)	96.38	51.00
Manufacturing:		
Semirara Cement Corporation (SemCem) *	100.00	100.00
Oriken Dynamix Company, Inc. (Oriken) ²	89.00	–
Wire Rope Corporation of the Philippines (Wire Rope)	61.70	61.70
Contech Products South Corporation (Contech South)	–	52.00
Marketing Arm:		
DMCI Homes, Inc. (DMCI Homes) ³	100.00	–

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

¹ Also engaged in real estate development

² DMCI's subsidiaries

³ PDI's subsidiaries

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated.

Minority interest represents interest in a subsidiary, which is not owned, directly or indirectly through subsidiaries, by the Company, and are presented separately in the statements of income and changes in equity and within equity in the consolidated balance sheets. The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest's equity in the subsidiary. The excess and any further losses applicable to the minority are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profit until the minority's share of losses previously absorbed by the majority has been recovered.

Explanation of Transition to PFRS

As stated above, these are the Group's first annual consolidated financial statements in compliance with PFRS. The transition to PFRS resulted in certain changes to the Group's previous accounting

policies (previous GAAP). The comparative figures for 2004 were restated to reflect the changes in accounting policies discussed below resulting from transition to PFRS, except those relating to financial instruments.

The Group has made use of the exemption available under PFRS 1, and as allowed by the Philippine Securities and Exchange Commission (SEC), to apply Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, to financial instruments outstanding as of January 1, 2005. The cumulative effect of adopting PAS 39 was charged to retained earnings as of January 1, 2005. The policies applied to financial instruments beginning January 1, 2005 and prior to January 1, 2005 are disclosed separately.

The effects of the transition to PFRS are discussed below:

- PFRS 1, *First-time Adoption of PFRS*, requires an entity to comply with each PFRS effective at the reporting date for its first PFRS financial statements. The Group has adopted PFRS for these financial statements as of December 31, 2005, and has also restated the comparative amounts for the year ended December 31, 2004, except for the following courses of action that have been taken as allowed under PFRS 1:

Financial Instruments

The Group has made use of the exemption available under PFRS 1, and as allowed by the Philippine SEC, to apply PAS 39, *Financial Instruments: Recognition and Measurement*, to financial instruments outstanding as of January 1, 2005. The cumulative effect of adopting PAS 39 was charged against the January 1, 2005 retained earnings.

Property, Plant and Equipment - Fair Value as Deemed Cost

A subsidiary has made use of the optional exemption available under PFRS 1 to measure at cost items of property, plant and equipment previously stated at fair values, and used those fair values as their deemed cost at the date of transition to PFRS.

- PFRS 3, *Business Combination*, prohibits the amortization of goodwill and requires goodwill to be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Any resulting excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost after performing a reassessment is credited to income (also known as negative goodwill). Moreover, pooling of interests in accounting for business combination is no longer permitted. The adoption of this standard did not have any affect on the consolidated financial statements as of December 31, 2005 and 2004.
- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, specifies the accounting for assets held for sale and the presentation and disclosure requirements for discontinued operations. Under this standard, qualifying noncurrent assets or disposal groups held for sale shall be carried at fair value less cost to sell if this amount is lower than its carrying amount less accumulated impairment losses. As of December 31, 2005 and 2004, the Company has no qualifying noncurrent assets held for sale.
- PAS 19, *Employee Benefits*, prescribes the accounting and disclosures by employers for employee benefits (including short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits). For post-employment benefits classified as defined benefit plans, the standard requires: (a) the use of the projected unit credit method to measure an entity's obligations and costs; (b) an entity to determine the present value of defined benefit

obligations and the fair value of any plan assets with sufficient regularity; and (c) the recognition of a specific portion of net cumulative actuarial gains and losses when the net cumulative amount exceeds 10% of the greater of the present value of the defined benefit obligation or 10% of the fair value of the plan assets, but also permits the immediate recognition of these actuarial gains and losses.

The adoption of PAS 19 decreased consolidated net income by ₱15.7 million in 2004. Retained earnings as of January 1, 2005 and 2004 increased by ₱41.2 million and ₱56.5 million, respectively. Post employment benefits amounted to ₱2.9 million for the year ended December 31, 2005.

- PAS 32, *Financial Instruments: Disclosure and Presentation*, covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about an entity's financial instruments, whether recognized or unrecognized in the consolidated financial statements. New disclosure requirements include terms and conditions of financial instruments used by the entity, types of risks associated with financial instruments (market risk, foreign exchange risk, price risk, credit risk, liquidity risk and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the entity's financial risk management policies and objectives. The standard also requires financial instruments to be classified as liabilities or equity in accordance with its substance and not its legal form. The standard also requires presentation of financial assets and financial liabilities on a net basis when, and only when, an entity: (a) currently has a legally enforceable right to set off the recognized amounts; and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

PFRS requires financial instruments to be classified as either liabilities or equity in accordance with its substance and not its legal form. The adoption of this standard resulted to new disclosures in the consolidated financial statements (Note 29).

- PAS 38, *Intangible Assets*, requires the assessment of the useful life of intangible assets at the individual asset level as having either a finite or indefinite life. Where an intangible asset has a finite life, it has been amortized over its useful life. Amortization years and methods for intangible assets with finite useful lives are reviewed at the earlier of annually or where an indicator of impairment exists. Intangibles assessed as having indefinite useful lives are not amortized, as there is no foreseeable limit to the year over which the asset is expected to generate net cash inflows for the Group. However, intangibles with indefinite useful lives are reviewed annually to ensure the carrying value does not exceed the recoverable amount regardless of whether an indicator of impairment is present. The adoption of this standard did not affect the consolidated financial statements as of December 31, 2005 and 2004.
- PAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for the recognition and measurement of the entity's financial assets and financial liabilities. PAS 39 requires a financial asset or a financial liability to be recognized initially at cost, including related debt issuance costs. Subsequent to initial recognition, an entity should measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments which are measured at amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at amortized cost, except for liabilities designated as fair value through profit and loss. PAS 39 also requires an entity to assess at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial asset is impaired.

PAS 39 also establishes the accounting and reporting standards requiring that every derivative instrument (including certain derivatives embedded in other contracts) be recorded in the consolidated balance sheets as either an asset or liability measured at its fair value. PAS 39 requires that changes in the derivative's fair value be recognized currently in the consolidated statements of income unless specific hedges allow a derivative's gains and losses to offset related results on the hedged item in the consolidated statements of income, or deferred in the equity as cumulative translation adjustment. PAS 39 requires that an entity must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

The adoption of PAS 39 did not result in the restatement of prior year's financial statements. The adoption of this accounting standard did not impact the January 1, 2005 retained earnings since investments were acquired in 2005.

- PAS 40, *Investment Property*, establishes the accounting and reporting standards for investment property. Investment property is property (land or a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business. Under this standard, an entity is permitted to choose either the fair value model or cost model in the subsequent measurement of a qualifying investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the consolidated statements of income. Cost model requires an investment property to be measured at cost less any accumulated depreciation and impairment losses. The Group adopted the cost model for investment property. The adoption of this standard did not affect the consolidated financial statements as of December 31, 2005 and 2004.

The adoption of the following revised accounting standards did not have a material effect on the Group's consolidated financial statements. Additional disclosures required by the revised accounting standards were included in the accompanying consolidated financial statements, where applicable.

- PAS 1, *Presentation of Financial Statements*, (a) provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; (b) provides the base criteria for classifying liabilities as current or noncurrent; (c) prohibits the presentation of income from operating activities and extraordinary items as separate line items in the consolidated statements of income; and (d) specifies the disclosures about key sources of estimation, uncertainty and judgments that management has made in the process of applying the entity's accounting policies (Note 3).
- PAS 2, *Inventories*, reduces the alternatives for measurement of inventories by disallowing the use of the last in, first out formula. Moreover, the revised accounting standard does not permit foreign exchange differences arising directly on the recent acquisition of inventories invoiced in a foreign currency to be included in the cost of inventories.
- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, (a) removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors; (b) updates the previous hierarchy of guidance to which management refers and whose applicability it considers when selecting accounting policies in the absence of standards and interpretations that specifically apply; (c) defines material omissions or misstatements; and (d) describes how to apply the concept of materiality when applying accounting policies and correcting errors.

- PAS 10, *Events After the Balance Sheet Date*, provides a limited clarification of the accounting for dividends declared after the balance sheet date.
- PAS 16, *Property, Plant and Equipment*, provides additional guidance and clarification on the recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The adoption of this standard resulted in Semirara's (subsidiary) use of the cost method in accounting for its property and equipment. Previously, Semirara's condominium units, which form part of property and equipment, were stated at appraised values and the net appraisal increment is credited to equity.

PAS 16 also provides additional guidance and clarity on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

- PAS 24, *Related Party Disclosures*, provides additional guidance and clarity in the scope of the standard, the definitions and disclosures for related parties. It also requires disclosure of the total compensation of key management personnel and by benefit types.
- PAS 27, *Consolidated and Separate Financial Statements*, reduces alternatives in accounting for subsidiaries in consolidated financial statements and in accounting for investments in the separate financial statements of a parent, venturer or investor. Investments in subsidiaries will be accounted for either at cost or in compliance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. This standard also requires strict compliance with adoption of uniform accounting policies and requires the parent to make appropriate adjustments to the subsidiary's financial statements to conform them to the parent's accounting policies for reporting like transactions and other events in similar circumstances.
- PAS 28, *Investments in Associates*, reduces alternatives in accounting for associates in consolidated financial statements and in accounting for investments in the separate financial statements of an investor. Investments in associates will be accounted for either at cost or in compliance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. This standard also requires strict compliance with adoption of uniform accounting policies and requires the investor to make appropriate adjustments to the associate's financial statements to conform them to the investor's accounting policies for reporting like transactions and other events in similar circumstances.
- PAS 31, *Interests in Joint Ventures*, reduces the alternatives in accounting for interests in joint ventures in consolidated financial statements. Interests in joint ventures will be accounted for either at cost or in compliance with PAS 39. The standard allows the equity method of accounting as an alternative to proportionate consolidation.
- PAS 33, *Earnings Per Share*, prescribes principles for the determination and presentation of earnings per share for entities with publicly traded shares, entities in the process of issuing ordinary shares to the public, and any entities that calculate and disclose earnings per share. The standard also provides additional guidance in computing earnings per share including the effects of mandatorily convertible instruments and contingently issuable shares, among others.

- PAS 36, *Impairment of Assets*, requires annual impairment test of intangible asset with an indefinite useful life which includes goodwill acquired in a business combination, whether or not there is an indication of impairment.

PFRS Effective in 2006 and 2007

The Group will adopt the following standards and amendments that have been approved in 2005 on their effectivity dates:

- Amendments to PAS 19, *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures*. The revised disclosures from the amendments will be included in the Group's financial statements when the amendments are adopted in 2006.
- PFRS 6, *Exploration for and Evaluation of Mineral Resources*. This standard requires the Group to develop its own accounting policy for the recognition and measurement of exploration and evaluation assets without specifically considering the requirements of paragraphs 11 and 12 of PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. Thus, the Group adopting PFRS 6 may continue to use the accounting policies applied immediately before adopting the PFRS. This includes continuing to use recognition and measurement practices that are part of those accounting policies. The standard also specifies the circumstances in which companies recognized exploration and evaluation assets should test such assets for impairment in accordance with PAS 36, *Impairment of Assets*. The standard also requires companies engaged in the exploration for and evaluation of mineral resources to disclose information about exploration and evaluation assets, the level at which such assets are assessed for impairment and any impairment losses recognized. The Group will adopt PFRS 6 on January 1, 2006. The adoption of this standard will not have a material impact on the Group's financial statements as the Group is not presently engaged in any exploration for and evaluation of mineral resources.
- PFRS 7, *Financial Instruments - Disclosures*. The revised disclosures on financial instruments provided by this standard will be included in the Group's financial statements when the standard is adopted starting January 1, 2007.

Effect on the 2004 Statements of Cash Flows

There are no material differences between the consolidated statements of cash flows prepared under PFRS and consolidated statements of cash flows presented under the previous GAAP.

Change in Accounting for Production-related Stripping Costs

In 2005, Semirara changed its accounting for production-related stripping costs incurred in the removal of overburden and other mine waste materials to access mineral deposits following 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*. The EITF reached a consensus that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced during the period that the production-related stripping costs are incurred. Accordingly, inventories consisting of extracted minerals and stock pile are allocated a portion of the production-related stripping costs. Minerals exposed by stripping activities but not extracted from the mine pit do not constitute inventories and therefore are not allocated any production-related stripping costs. All other production-related stripping costs incurred are recognized as a component of the cost of sales in the same period. Previously, the production-related stripping costs are deferred based on

the difference between the actual stripping ratio (ratio of waste moved to coal mined) and the estimated stripping ratio established in accordance with the survey conducted on the mine.

The effect of EITF Issue No. 04-6 was determined retrospectively and prior years financial statements have been restated in accordance with PAS 8, *Accounting Policies, Changes in Accounting Policies, Changes in Accounting Estimates and Errors*. The effect of EITF Issue No. 04-6 has increased net income by ₱128.76 million for the year ended December 31, 2004. The retained earnings account decreased by ₱128.76 million as of January 1, 2004. EITF Issue No. 04-6 did not affect the January 1, 2005 retained earnings as there are no related stripping costs deferred in 2004.

Accounting policies effective January 1, 2005

Financial Assets

As appropriate, the Group classifies its financial assets in the following categories: (1) fair value through profit or loss (FVPL); (2) available-for-sale (AFS); (3) held-to-maturity (HTM) investments; and (4) loans and receivables. The classification of the financial assets depends on the purpose for which the financial assets were acquired. The Group classifies financial liabilities in the following categories: (1) FVPL; and (2) other liabilities at amortized cost. The Group determines the classification of its financial instruments at initial recognition and re-evaluates this designation at every reporting date.

When financial assets are recognized initially, they are measured at fair value. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognized on the trade date, (i.e. the date that the Group commits to purchase the asset). Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

Financial assets at FVPL

Financial assets classified as held for trading are included in the category financial assets at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognized in the consolidated statements of income.

AFS investments

AFS investments are financial assets that are designated as AFS or are not classified in any of the preceding categories. AFS investments include financial assets not quoted in an active market and are classified as AFS when purchased and held indefinitely, but which the Group anticipates to sell in response to liquidity requirements or in anticipation of changes in interest rates or other factors. Financial assets may be designated under this category provided such are not held for trading. AFS investments are carried at fair market value. Changes in the fair value of AFS investments are recognized in equity, except for the foreign exchange fluctuations on AFS debt securities and the related effective interest which are taken directly to the consolidated statements of income. These changes in fair values are recognized in equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated statements of income.

AFS investments including investments in unquoted equity investments where the Group does not exercise significant influence or where control is likely to be temporary are initially recorded at cost, being the fair value of the investment at the time of acquisition inclusive of direct acquisition charges associated with the investment. In subsequent measurement, the Group carries such investments at cost due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value.

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

HTM investments

Nonderivative financial assets with fixed or determinable payments and fixed maturity are classified as HTM when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be HTM, such as bonds, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, debt issuance costs and all other premiums and discounts. For investments at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in consolidated statements of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Group's loans and receivables include trade and other receivables.

Trade receivables are recognized initially at original invoice amount and subsequently measured at amortized cost using the effective interest method, less an allowance for impairment losses.

A provision for impairment losses on trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Said provision is recognized in the consolidated statements of income.

The Group has no derivatives that are accounted for as hedges. For derivatives that are not designated or accounted for as hedges, including derivatives that are embedded in the host financial and nonfinancial contracts, the changes in the fair values are recorded immediately in the consolidated statements of income.

Policies prior to January 1, 2005

Temporary investments are comprised of long-term debt securities and marketable equity securities.

Investments in marketable securities classified as current are stated at the lower of the aggregate cost or market value, determined at the balance sheet date. The amount by which aggregate cost exceeds market value is accounted for as a valuation allowance and changes in the valuation allowance are included in the consolidated statements of income. Realized gains and losses from the sale of current marketable securities are included in the consolidated statements of income.

The cost of marketable securities used for determining the gain or loss on the sale of such securities is computed using the average method.

Investments in long-term debt securities are carried at amortized cost less any provision for permanent impairment in value.

Investments in shares of stock of companies in which the Group does not exercise significant influence are initially carried at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. Any substantial and presumably permanent decline in the value of investments in shares of stock was set up as an allowance with the corresponding loss taken to the consolidated statements of income.

Derecognition of Financial Assets and Liabilities

A financial asset (or where applicable, a part of a group of financial assets) is derecognized when: (a) the rights to receive cash flows from the assets have expired; (b) 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 (c) the Group has transferred substantially all the risks and rewards of the asset, or 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 risks 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.

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

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

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.

Receivables

Receivables are recognized and carried at the original contract price or invoice amount, less allowance for any uncollectible amount. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. The provision is recognized in the consolidated statements of income.

Inventories

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

Coal inventory

The cost of coal inventory is determined by the weighted average production cost method.

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 methods (either by moving average or weighted average production cost).

Real estate inventories

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

Investments in Associates, Jointly Controlled Entities and Others

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

If the Group's share in the losses of an investee equals or exceeds the carrying amount of its investment, the Group ordinarily discontinues recognizing its share of further losses and the investment is reported at nil value. Additional losses are provided for to the extent that the Group has incurred obligations or made payments on behalf of the investee to satisfy obligations of the investee that the Group has guaranteed or otherwise committed. If the investee subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits equals the share of net losses not recognized.

Investment in shares of stock of companies in which the Group does not exercise significant influence are carried at cost less any significant and apparently permanent decline in aggregate carrying values of these investments.

The accounting policies of these investee companies conform to those used by the Group for like transactions and events in similar circumstances.

Investment Properties

Investment properties consist of land, condominium units and buildings and improvements in excess of the Group's requirements and that are leased to others and for investment purposes. These are carried at cost less any accumulated depreciation and any impairment in value, except for land which are carried at cost less any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the condominium units and buildings and improvements ranging from 5 to 10 years.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statements of income in the year of retirement or disposal.

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

Transfers between investment property, owner-occupied property and inventories do no change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Property, Plant and Equipment

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

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

As discussed in Note 2, the Group availed of the optional exemption available under PFRS 1, and has chosen to measure at cost items of property, plant and equipment of Semirara, which were previously stated at fair values, and used those fair values as their deemed cost at the date of transition to PFRS.

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

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

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

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

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

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

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

Asset Retirement Obligation (ARO)

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

Mine Exploration and Development Costs

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

Stripping Costs

As discussed in Note 2, the Group changed its accounting for production-related stripping costs in the removal of overburden and other mine waste materials to access mineral deposits. Inventories consisting of extracted minerals and stock pile are allocated a portion of the production-related

stripping costs. All other production-related stripping costs incurred are recognized as a component of the costs of sales in the same period.

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 sheets. Subsequently, 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 computer software (not an integral part of its related hardware) and bring it 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.

Gain 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 statements of income when the asset is derecognized.

Impairment of Assets

An assessment is made at each balance sheet date whether there is objective evidence that a specific financial or nonfinancial asset may be impaired. If such evidence exists, any impairment loss is recognized in the consolidated statements of income.

Impairment of financial assets

Impairment of financial assets is determined as follows:

- Assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss is recognized in consolidated statements of income.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously

recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in consolidated statements of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

- Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument 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 discounted at the current market rate of return for a similar financial asset.

- AFS financial assets

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

Impairment of nonfinancial assets

Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. An asset's recoverable amount is calculated as the higher of an asset's value in use or its net selling price

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.

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

Short-term and Long-term Debts

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received less directly attributable debt issuance costs. After initial recognition, short-term and long-term debts are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized or impaired, as well as through the amortization process.

Treasury Shares

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

Provisions

A provision is recognized only when the Company 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.

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 which may result in revisions to estimated costs and gross margin 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 included as part of “*Trade receivables - construction*” under the “*Receivables*” account in the consolidated balance sheets.

Real estate sales

Income from sales of substantially completed projects where collectibility of sales price is reasonably assured is accounted for using the full accrual method while income from sales of projects where collectibility of sales price is not reasonably assured is recognized using the instalment method. Realized income on instalment sale is computed based on collections multiplied by the gross profit rates of individual sales contracts. If any of the criteria under the full accrual and instalment method is not met, the deposit method is applied until such criterion is met. Under the deposit method, revenue recognition is deferred until the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented as “*Customers’ deposits*”, included in the “*Accounts and other payables*” account in the liabilities section of the consolidated balance sheets. Cancellations of prior year sales and related deferred gross profit are deducted from current year revenue and costs.

The costs of related housing and condominium units sold before completion of the projects are determined based on the actual costs incurred and project cost estimates as determined by the contractors and technical staff of the Group. The estimated future expenditures for the completion of sold residential and condominium units are presented as “Estimated liability for property development” account in the consolidated balance sheets.

Coal sales

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

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.

Rental income

Rental income from investment properties is accounted for on a straight-line basis over the lease term.

Interest income

Interest income is recognized as it accrues (using the effective interest rate 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).

Pension 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 Company 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.

In accordance with PFRS 1, the effect of change in accounting policy includes all cumulative actuarial gains and losses at the date of transition to PFRS. In subsequent periods after the transition to PFRS, portion of actuarial gains and losses is recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of the 10% of the present value of defined benefit obligation or 10% of the fair value of the plan assets. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of housing and condominium units are capitalized as part of “Inventories” account in the consolidated balance sheets under the “Real estate for sale and development” account. Other borrowing costs are recognized as expense in the year in which these costs are incurred.

The capitalization of borrowing costs as part of the cost of housing and condominium units: (a) commences when the expenditures and borrowing costs for the housing and condominium units are being incurred and activities that are necessary to prepare the housing and condominium units for its intended use or sale are in progress; (b) is suspended during extended periods in which active development, improvement and construction of the housing and condominium units are interrupted; and (c) ceases when substantially all the activities necessary to prepare the housing and condominium units for its intended use or sale are complete. If the carrying amount of the assets exceeds its recoverable amount, an impairment loss is recorded.

Income Tax

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

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

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the rates that are expected to apply in the year when the asset is realized or the liability is settled, based on the tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements 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.

Leases

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

Foreign Currency Transactions

The functional and presentation currency of the Group is the Philippine Peso. Transactions denominated in foreign currency are recorded using the exchange rate prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rates prevailing at balance sheet dates. Exchange gains or losses resulting from rate fluctuations upon actual settlement and from restatement at year-end are credited to or charged against current operations.

Earnings Per Share

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

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

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products. Financial information on business segments is presented in Note 28 to the consolidated financial statements.

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.

2. Preferred and Common Stock

The changes in the number of shares follow:

	March 31, 2006	December 31, 2005
Preferred stock - 1 par value cumulative and convertible to common stock		
Authorized	<u>100,000,000</u>	<u>100,000,000</u>
Issued		
Balance at beginning of year	144,480	342,240
Retirement of preferred shares	(136,950)	(197,760)
Balance at end of year	<u>7,530</u>	<u>144,480</u>
Common stock - 1 par value		
Authorized	<u>5,900,000,000</u>	<u>5,900,000,000</u>
Issued	<u>2,255,494,000</u>	<u>2,255,494,000</u>
Preferred shares held in treasury		
Balance at beginning of year	(136,950)	(185,500)
Redemption of preferred shares	(500)	(149,210)
Retirement of preferred shares	136,950	197,760
Balance at end of year	<u>(500)</u>	<u>(136,950)</u>

Preferred shares were previously included in equity. In compliance with PAS 32, all of the Company's outstanding preferred shares were reclassified from equity to liabilities as of January 1, 2005 and 2004.

The preferred shareholders' right of converting the preferred shares to common shares expired in March 2002. The remaining outstanding preferred shares totalling 7,530 shares are currently outstanding.

For the period ending March 31, 2006 and in 2005, the Group retired 197,760 and 136,950 preferred shares respectively. The difference between the par value and the redemption price amounting to 234.4 million was charged against the additional paid in capital account.

Retained earnings is restricted to the extent of the acquisition cost of the treasury shares amounting to 187 million and 239 million as of December 31, 2005 and 2004, respectively.

2. Business Segments

The following tables gross profit information regarding business segments for the period and quarter ended March 31, 2006 and 2005 (amounts in thousand):

Gross Profit

	For the Period		For the Quarter	
	2005	2004	2005	2004
General Construction	18,748	32,298	18,748	32,298
Coal Mining	426,133	397,341	426,133	397,341
Infrastructure and Real Estate Development	188,331	70,350	188,331	70,350
Manufacturing and Parent Company	5,096	4,481	5,096	4,481
	638,308	504,470	638,308	504,470

3. Related Party Transactions

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

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