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	3 1	**SEC Form 17-Q Second Quarter Interim Report 2006**	0 7	2 6
Month	Day	FORM TYPE	Month	Day

Fiscal Year

Annual Meeting

N.A.

Secondary License Type, If Applicable

C F D

Dept Requiring this Doc

Amended Articles Number / Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarter ended **June 30, 2006**

2. SEC Identification No. AS095-002283 3. BIR Tax Identification No. 004-703-376

DMCI Holdings, Inc.

4. Exact name of issuer as specified in its charter

5. Philippines 6. [ ] (SEC Use Only)

Province, Country or other jurisdiction of incorporation or organization

Industry Classification Code:

7. 3rd Floor, Dacon Building, 2281 Pasong Tamo Ext., Makati city 1231
Address of principal office Postal Code

8. Tel. (632) 888-3000 Fax (632) 816-7362
Issuer's telephone number, including area code

9. Not applicable
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares, Php 1.00 Par	1,127,747,000
Preferred Shares, Php 1.00 Par	5,880
Common Shares, Php 1.00 Par	150,000,000

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

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

Yes [X] No [ ]

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

Philippine Stock Exchange — Class “A” Shares
Preferred Shares

12. Indicate by check mark whether the registrant:

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

Yes [X] No [ ]

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

Yes [X] No [ ]

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

The Financial Statements for the quarter and period ended **June 30, 2006** are contained herein.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

PART II--OTHER INFORMATION

1. This interim financial report is in compliance with generally accepted accounting principles;
2. The same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements;
3. The company's operation is a continuous process. It is not dependent on any cycle or season;
4. There were no dividends declared and paid of whatever nature;
5. There were no subsequent events that have not been reflected in the financial statements for the period that the company have knowledge of;
6. There are no contingent accounts in the balance sheet of the corporation;
7. Except for interest payments on loans, which the Company can fully service, the only commitment that would have a material impact on liquidity are construction guarantees. These are usually required from contractors in case of any damage / destruction to a completed project.
8. Any known trends or any known demands, commitments, events or uncertainties that will result in or that will have a material impact on the registrant's liquidity. - **NONE**
9. The Company recognizes that the continuing slump in the property sector would keep both real estate sales and construction revenues moderate. Nonetheless, the Group's venture into middle-income housing development is expected to significantly contribute to revenues and income.

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

For the period ended June 30, 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	1,412,905	1,949,711
Available-for-sale investments	1,130,299	529,179
Receivables - net	4,622,670	3,944,805
Costs and estimated earnings in excess of billings on uncompleted contract	0	24,979
Inventories - net	4,537,967	3,393,811
Prepaid expenses and other current assets	194,540	146,097
Total Current Assets	11,898,381	9,988,582
Noncurrent Assets		
Noncurrent receivables - net	863,807	905,137
Investments in associates, jointly controlled entities and others - net	714,217	447,512
Investment properties - net	1,884,173	2,668,005
Property, Plant and Equipment - net	3,612,699	3,097,363
Deferred tax assets	0	20,937
Pension assets	0	33,011
Other non-current assets - net	406,335	445,215
Total Noncurrent Assets	7,481,232	7,617,180
Total Assets	19,379,613	17,605,762

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Bank Loans	114,451	114,659
Accounts and other payables	3,110,012	2,969,042
Current portion of long-term debt	770,047	604,056
Billings in Excess of Costs on Uncompleted Contracts	0	18,888
Income Tax Payable	176,733	332,280
Total Current Liabilities	4,171,243	4,038,924
Noncurrent Liabilities		
Long-Term Debt - net of current portion	2,619,028	2,254,344
Payables to related parties	356,140	177,609
Deferred Tax Liability	145,152	159,653
Deferred revenues	580,388	376,753
Pension Liabilities	43,834	49,056
Other Noncurrent Liabilities	14,750	289,992
Total Noncurrent Liabilities	3,759,291	3,307,407
Total Liabilities	7,930,534	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	5,037,729	4,193,978
Cumulative translation adjustment	2,402	2,402
Preferred shares held in treasury (Note 3)	(1,572)	(187,211)
	9,667,506	8,638,115
Minority Interest	1,781,573	1,621,316
Total Equity	11,449,079	10,259,431
	19,379,613	17,605,762

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
For the period ended June 30, 2006 and 2005 and for the quarter ended June 30, 2006 and 2005
(Amounts in Thousands of Philippine Pesos)

	For the period		For the quarter	
	2006	**2005**	**2006**	**2005**
SALES & SERVICES				
Construction Contracts	1,053,420	1,088,931	441,226	673,397
Coal Sales	2,767,701	2,306,546	1,382,887	1,305,149
Real Estate Sales	665,842	616,131	7,014	381,513
Merchandise sales	61,452	37,477	3,183	22,842
Gain on Sale of Investment	356,050	2,006,231	356,050	0
	4,904,465	**6,055,316**	**2,190,360**	**2,382,901**
COSTS OF SALES & SERVICES				
Construction costs and expenses	743,453	1,054,518	150,007	671,282
Cost of Coal Sales	1,963,428	1,476,423	1,004,747	872,367
Cost of Real Estate Sold	460,811	417,764	(9,686)	253,496
Cost of merchandise sales	50,138	30,054	(3,035)	19,900
	3,217,830	**2,978,759**	**1,142,033**	**1,817,045**
GROSS PROFIT	**1,686,635**	**3,076,557**	**1,048,327**	**565,856**
OTHER INCOME AND COSTS				
Equity in net earnings of unconsolidated affiliates	(2,078)	(3,927)	39	(1,681)
General and administrative	(361,111)	(327,307)	(208,985)	(164,169)
Interest and others - net	534	(359)	8,356	3,817
	(362,655)	(331,593)	(200,590)	(162,033)
INCOME/(LOSS) BEFORE INCOME TAX	**1,323,980**	**2,744,964**	**847,737**	**396,189**
PROVISION FOR INCOME TAX	**311,389**	**43,458**	**174,683**	**28,877**
INCOME BEFORE MINORITY INTEREST	**1,012,591**	**2,701,506**	**673,054**	**367,312**
MINORITY INTEREST	**168,839**	**266,176**	**70,336**	**133,115**
NET INCOME (LOSS)	**843,752**	**2,435,330**	**602,718**	**234,197**
RETAINED EARNINGS/(DEFICIT), BEG.	**4,193,978**	**602,685**	**4,435,012**	**2,803,818**
DIVIDENDS	**0**	**0**	**0**	**0**
RETAINED EARNINGS/(DEFICIT), END	**5,037,730**	**3,038,015**	**5,037,730**	**3,038,015**
Earnings per Common share				
Basic*	0.37	1.08	0.27	0.10
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 JUNE 30, 2006 AND 2005

	JUNE 2006	JUNE 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	(2,392,970)	(2,243,260)
	7,030	156,740
Reclassification of preferred stock to	(7,030)	
liability	-	
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
	2,255,494,000	2,255,650,740
ADDITIONAL PAID-IN CAPITAL		
Balance at the beginning	2,827,839,006	2,827,839,006
Retirement of Preferred Shares	(406,599,480)	(218,941,600)
	2,421,239,526	2,608,897,406
Reclassification of preferred shares-APIC to liability	(47,787,123)	
	2,373,452,403	2,608,897,406
RETAINED EARNINGS (DEFICIT)		
Balance at beginning of the period	4,193,977,659	602,685,131
Net income(loss) for the period	843,751,460	2,435,329,442
Accrued dividends declared	-	-
Balance at end of the period	5,037,729,119	3,038,014,573
Cumulative Translation Adjustment	2,402,067	-
PREFERRED SHARES HELD IN TREASURY		
Balance at beginning of the period	(187,210,650)	(239,096,300)
Acquisitions for the period	(2,072,050)	-
Redemption/Retirement of preferred shares	187,710,650	238,686,200
Balance at end of the period	(1,572,050)	(410,100)
TOTAL STOCKHOLDERS' EQUITY	**9,667,505,539**	**7,902,152,619**

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended June 30, 2006 and 2005

(Amounts in Thousands of Philippine Pesos)

	2006	**2005**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss)/ Income	843	2,435,330
Adjustments to reconcile net income (loss) to net cash:		
Equity in net losses (earnings) of affiliates	2,078	3,927
Depreciation, depletion and amortization	166,760	262,247
Income (Loss) applicable to Minority Interest	(168,839)	(266,176)
Changes in assets and liabilities:		
Decrease / (Increase) in :		
Receivables- net	(636,535)	(358,254)
Inventories - net	(1,144,156)	(495,406)
Prepaid expenses and other current assets	(48,443)	(266,877)
Increase/ (Decrease) in :		
Accounts payable and accrued expenses	140,970	810,132
Current portion of long-term debt	165,992	(723,737)
Non current liabilities	451,885	(242,876)
Billings in excess of cost of uncompleted contracts	6,091	95,348
Income Tax Payable	(155,547)	0
Net cash provided by operating activities	(375,993)	1,253,658
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Available for sale investments	(601,120)	0
Investments - net	517,127	(375,235)
Property, plant and equipment - net	0	(108,295)
Deferred charges and other assets - net	(515,336)	(532,048)
Net cash provided by investing activities	(506,501)	(1,011,979)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net availments (payments) of:		
Notes payable	(208)	335,711
Redemption of preferred shares from treasury	185,639	238,686
Accrual of Dividends paid:		
Preferred Shares	0	0
Net increase (decrease) in minority interest	160,257	1,325,931
Net cash provided by financing activities	345,688	1,900,328
NET INCREASE (DECREASE) IN CASH		
AND CASH EQUIVALENTS	(536,806)	2,142,007
CASH AND CASH EQUIVALENTS, BEGINNING	1,949,711	217,125
CASH AND CASH EQUIVALENTS, ENDING	1,412,905	2,359,132

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:

  <u>Financial Instruments</u>
  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.

  <u>Property, Plant and Equipment - Fair Value as Deemed Cost</u>
  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 restrospectively 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.

<u>Derecognition of Financial Assets and Liabilities</u>
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.

<u>Cash and Cash Equivalents</u>
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.

<u>Asset Retirement Obligation (ARO)</u>
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.

<u>Mine Exploration and Development Costs</u>
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.

<u>Stripping Costs</u>
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.

<u>Short-term and Long-term Debts</u>
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 installement 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).

<u>Pension Cost</u>
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.

<u>Borrowing Costs</u>
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.

<u>Income Tax</u>
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:

	June 30, 2006	December 31, 2005
Preferred stock - 1 par value cumulative and convertible to common stock		
Authorized	**100,000,000**	**100,000,000**
Issued		
Balance at beginning of year	**144,480**	**342,240**
Retirement of preferred shares	**(137,450)**	**(197,760)**
Balance at end of year	**7,030**	**144,480**
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	**(136,950)**	**(185,500)**
Redemption of preferred shares	**(1,650)**	**(149,210)**
Retirement of preferred shares	**137,450**	**197,760**
Balance at end of period year	**(1,150)**	**(136,950)**

In compliance with PAS 32, all of the Company's outstanding preferred shares were reclassified from equity to liabilities as of December 31, 2005 and subsequently as of June 30, 2006.

The preferred shareholders' right of converting the preferred shares to common shares expired in March 2002. The remaining outstanding preferred shares totalling 7,030 shares are currently unsettled.

For the period ending June 30, 2006 and for the year 2005, the Group retired 137,450 and 197,760 preferred shares respectively.

2. Business Segments

The following tables gross profit information regarding business segments for the period and quarter ended June 30, 2006 and 2005 (amounts in thousand):

Gross Profit

	For the Period		For the Quarter	
	2006	2005	2006	2005
General Construction	309,967	34,413	291,219	2,115
Coal Mining	804,273	830,123	378,140	432,782
Infrastructure and Real Estate Development	205,031	198,367	16,700	128,018
Manufacturing and Parent Company	367,364	2,013,654	362,268	2,942
	1,686,635	3,076557	1,048,327	565,856

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.

DMCI HOLDINGS, INC.
AGING OF ACCOUNTS RECEIVABLE
AS OF JUNE 30, 2006

TYPE OF ACCOUNTS RECEIVABLE	T O T A L	1 MONTH	2 -3 MONTHS	4 - 6 MONTHS	7 MONTHS TO 1 YEAR	1 - 2 YEARS	3 - 5 YEARS	5 YEARS - ABOVE	Past Due Accts & Items for Litigation
A. TRADE RECEIVABLE - CONTRACT									
D.M. Consunji, Inc.	1,255,949,511.08	940,332,220.22	26,476,542.10	18,737,895.28	105,338,901.01		165,063,952.47	-	-
DMCI International, Inc.	24,686,393.00						24,686,393.00		
OHKI-DMCI Corporation	2,966,841.00	2,966,841.00	-	-	-				
Oriken Dynamix Company, Inc.	12,339,775.31	12,339,775.31							
Beta Electric Corporation	28,263,328.98	9,498,770.13	3,023,793.35	958,698.52	1,198,486.18	-	13,583,580.80		
Sub-total	1,324,205,849.37	965,137,606.66	29,500,335.45	19,696,593.80	106,537,387.19	-	203,333,926.27	-	-
DMCI Project Developers, Inc.	1,360,107,347.95	355,565,464.58	118,521,854.87	91,261,497.42	68,940,848.84	71,515,825.23	223,506,119.66	430,795,737.35	-
Semirara Mining Corporation	895,635,939.05	415,540,485.38	374,907,217.19	49,243,785.99	31,039,036.52	6,616,623.76	2,593,764.45	15,695,025.76	
Wire Rope Corporation of the Philippines	27,903,843.00	3,668,756.50	9,232,958.66	4,324,327.56	3,635,013.18	4,240,478.10	1,907,676.00		894,633.00
Sub-total	2,283,647,130.00	774,774,706.46	502,662,030.72	144,829,610.97	103,614,898.54	82,372,927.09	228,007,560.11	446,490,763.11	894,633.00
RETENTION RECEIVABLE - TRADE									
D.M. Consunji, Inc.	407,766,571.72	407,766,571.72							-
Beta Electric Corporation	29,038,614.62	29,038,614.62							
Sub-total	436,805,186.34	436,805,186.34	-	-	-	-	-	-	-
Total Contract/Retention Receivable - Trade	4,044,658,165.71	2,176,717,499.46	532,162,366.17	164,526,204.77	210,152,285.73	82,372,927.09	431,341,486.38	446,490,763.11	894,633.00
Less: Allowance for Doubtful Accounts	110,027,438.09								
Net Trade Receivable	**3,934,630,727.62**								

B. NON-TRADE RECEIVABLES	
ADVANCES -	
D.M. Consunji, Inc.	679,888,915.20
Oriken Dynamix Company, Inc.	5,210,123.42
Beta Electric Corporation	2,857,553.95
	687,956,592.57
DMCI Holdings, Inc.	1,120,082.26
DMCI Project Developers, Inc.	8,294,332.39
Semirara Mining Corporation	6,362,938.18
	15,777,352.83
Sub-total	703,733,945.40
AFFILIATES -	
D.M. Consunji, Inc.	413,848,718.27
DMCI-Laing Construction, Inc.	34,526,974.04
Beta Electric Corporation	15,937,858.09
	464,313,550.40
Semirara Mining Corporation	35,938,787.56
Sub-total	500,252,337.96

OTHER RECEIVABLES -	
D.M. Consunji, Inc.	44,519,526.38
Beta Electric Corporation	14,976,888.48
	59,496,414.86
DMCI Holdings, Inc.	21,242,707.79
DMCI Project Developers, Inc.	186,277,141.81
	96,538,730.00
Sub-total	363,554,994.46
Total Non-trade Receivables	1,567,541,277.82
Less: Allowance for Doubtful Accounts	15,695,026.00
Net Non-trade Receivables	**1,551,846,251.82**
TOTAL RECEIVABLES	**5,486,476,979.44**

DMCI HOLDINGS, INC.
ACCOUNTS RECEIVABLE DESCRIPTION
June 30, 2006

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

Normal Operating Cycle

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