# COVER SHEET

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|---|---|---|---|---|---|---|---|---|---|---|---|

SEC Registration Number

DMCI HOLDINGS, INC. AND SUBSIDIARIES

(Company's Full Name)

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

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

**Herbert M. Consunji**
(Contact Person)

**888-3000**
(Company Telephone Number)

| 1 | 2 | | 3 | 1 |
|---|---|---|---|---|

*Month* *Day*
(Fiscal Year)

**AAFS**
(Form Type)

*Month* *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

---

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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SGV & Co

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

■ Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

**INDEPENDENT AUDITORS' REPORT**

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

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

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

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

**Auditors' Responsibility**

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

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

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

**Opinion**

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

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-1
Tax Identification No. 102-082-365
PTR No. 0017580, January 3, 2008, Makati City

April 24, 2008

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

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

(Forward)

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

*See accompanying Notes to Consolidated Financial Statements.*

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

For the year ended December 31, 2007

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

For the year ended December 31, 2006

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

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

*See accompanying Notes to Consolidated Financial Statements.*

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

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

*See accompanying Notes to Consolidated Financial Statements.*

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

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

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2007** | 2006 | 2005 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Decrease (increase) in: | | | |
| Investments in associates, jointly controlled entities and others | **₱13,531,843** | (₱2,734,369,225) | (₱432,018,220) |
| Noncurrent receivables | **(1,295,673,555)** | 324,907,718 | 287,561,694 |
| Investment properties | **218,128,932** | 674,115,305 | (69,189,461) |
| Other noncurrent assets | **(56,103,874)** | 13,080,898 | (67,806,532) |
| Proceeds from disposals of: | | | |
| Available-for-sale investments (Note 5) | **21,038,450** | 510,088,533 | – |
| Property and equipment | – | 23,425,061 | 15,914,131 |
| Additions to: | | | |
| Available-for-sale investments (Note 5) | **–** | (17,602,963) | (762,406,309) |
| Property, plant and equipment (Note 13) | **(1,232,883,828)** | (818,017,618) | (1,271,881,508) |
| Dividends received | **3,937,366** | – | 5,777,090 |
| Net cash used in investing activities | **(2,328,024,666)** | (2,024,372,291) | (2,294,049,115) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Availments of long-term debt | **1,248,442,770** | 2,919,140,201 | 1,181,042,796 |
| Payments of long-term debt | **(2,012,503,054)** | (1,965,530,632) | (1,048,212,512) |
| Payments of bank loans | **(763,357,235)** | (132,039,359) | (621,836,130) |
| Redemption of preferred shares | **–** | (2,618,850) | (190,354,750) |
| Dividends paid | **(381,208,493)** | (243,007,220) | (22,301,149) |
| Proceeds from: | | | |
| Bank loans | **749,857,219** | 71,191,728 | 332,610,023 |
| Additional subscriptions to capital stock | **2,763,456,700** | – | 1,623,018,435 |
| Sale of treasury shares | **–** | – | 6,113,600 |
| Payment on acquisition of shares held in treasury | **–** | – | (383,633,460) |
| Increase (decrease) in: | | | |
| Payable to related parties | **(497,069,277)** | 294,453,909 | 595,428,053 |
| Other noncurrent liabilities | **1,066,588** | 71,471,488 | – |
| Net cash provided by financing activities | **1,108,685,218** | 1,013,061,265 | 1,471,874,906 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **2,287,736,414** | (697,799,806) | 1,732,586,428 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **1,251,911,185** | 1,949,710,991 | 217,124,563 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 4) | **₱3,539,647,599** | ₱1,251,911,185 | ₱1,949,710,991 |

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

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

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

## 2. Summary of Significant Accounting policies

Basis of Preparation

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

Statement of Compliance

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

Basis of Consolidation

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

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

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

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

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

| | Effective Percentages of Ownership | |
|---|---|---|
| | **2007** | 2006 |
| 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** | 50.77 |
| Raco Haven Automation Philippines, Inc. (Raco) [2] | **50.14** | 50.14 |
| Coal Mining: | | |
| Semirara Mining Corporation (Semirara) | **55.30** | 58.31 |
| DMCI Mining Corporation | **100.00** | |
| Real Estate Development: | | |
| DMCI Project Developers, Inc. (PDI) | **100.00** | 100.00 |
| Hampstead Gardens Corporation (Hampstead) [3] | **100.00** | 100.00 |
| Riviera Land Corporation (Riviera) [3] | **96.38** | 96.38 |
| Manufacturing: | | |
| Semirara Cement Corporation (SemCem) * | **100.00** | 100.00 |
| Oriken Dynamix Company, Inc. (Oriken) [2] | **89.00** | 89.00 |
| Wire Rope Corporation of the Philippines (Wire Rope) | **61.70** | 61.70 |
| Marketing Arm: | | |
| DMCI Homes, Inc. (DMCI Homes) [3] | **100.00** | 100.00 |
| Power: | | |
| DMCI Power Corporation (DPC) (formerly DMCI Energy Resources Unlimited Inc.) * (Note 12) | **100.00** | 100.00 |
| DMCI Masbate Power Corporation (DMCI Masbate) | **100.00** | – |

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

[1] Also engaged in real estate development

[2] DMCI's subsidiaries

[3] PDI's subsidiaries

*Power Supply Agreement (PSA)*

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

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

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

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

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

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

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

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

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

The principal effects of these changes are as follows:

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

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

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

Philippine Interpretation IFRIC 8, *Scope of PFRS 2*
This Interpretation requires PFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. The adoption of this Philippine Interpretation has no impact on the consolidated financial statements as the Group has no share-based payments.

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

Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*
The Group adopted the Interpretation beginning January 1, 2007, which prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. Adoption of the Interpretation did not have any significant impact on the consolidated financial statements.

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

PAS 1, *Presentation of Financial Statements (Revised) (effective for annual periods beginning on or after January 1, 2009)*
The revised standard requires that the statement of changes in equity includes only transactions with owners and all non-owner changes are presented in equity as a single line with details included in a separate statement.

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

PAS 23, *Borrowing Costs (Effective for annual periods beginning on or after January 1, 2009)*
The Standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

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

Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions (Effective for annual periods beginning on or after March 1, 2007)*
This Philippine Interpretation requires arrangements whereby an employee is granted rights to a Group's equity instruments to be accounted for as an equity-settled scheme by the Group even if: (a) the Group chooses or is required to buy those equity instruments (e.g. treasury shares) from another party, or (b) the shareholders of the Group provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to equity instruments of the parent. The adoption of this Philippine Interpretation will have no impact on the Group's financial statements.

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

Philippine Interpretation IFRIC 12, "*Service Concession Arrangements*" *(effective January 1, 2008)*
This Interpretation establishes the accounting to be applied for certain infrastructure that is constructed, acquired or provided by the grantor for the purposes of meeting the concession. Philippine Interpretation IFRIC 12 prescribed the accounting for the rights which the Operator receives from the Grantor using either:

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

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

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

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

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

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

Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes (Effective for annual periods beginning on or after July 1, 2008)*
This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the awards credits and deferred over the period that the award credits are fulfilled. The Group does not expect this Interpretation to have a significant impact on the consolidated financial statements as no such scheme currently exists.

Philippine Interpretation IFRIC 14, *PAS 19 - Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2008)*
This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group does not expect this Interpretation to have a significant impact on the consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Derecognition of Financial Assets and Liabilities

*Financial assets*

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

- the rights to receive cash flows from the asset has expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

*Financial liabilities*

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

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

Inventories

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

*Coal inventory*

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

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

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

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

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

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

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

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

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

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

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

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

Investment Properties

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

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

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

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

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

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

| | Years |
|---|---|
| Condominium units | 5 |
| Buildings and improvement | 5-25 |

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of nonfinancial assets

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

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

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

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

Treasury Shares

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

Revenue and Cost Recognition

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

*Construction contracts*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

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

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

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

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

## 3. Significant Accounting Estimates, Judgments and Assumptions

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

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

a.) Coal

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

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

b.) Real estate

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

c.) Construction

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 4. Cash and Cash Equivalents

This account consists of:

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

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

5. **Available-for-Sale Financial Assets**

This account consists of:

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

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

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

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

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

| | 2007 | 2006 |
|---|---|---|
| Balance at beginning of year | **₱105,388,649** | ₱2,000,000 |
| Provision for probable losses for the year (see Note 26) | **–** | 103,388,649 |
| Balance at end of year | **₱105,388,649** | ₱105,388,649 |

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

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

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

(a) Restructuring of loans due to various banks subject to the following: (i) repayment of principal and capitalized interest over a term of 7 years, with a 2-year grace period; and (ii) fixed interest rate of 9.5% for 7 years and possibility of settling outstanding debt through dacion en pago or friendly foreclosure;

(b) Reconfiguration of unsold regular lots to smaller lot sizes; and

(c) Change in Montecito's existing payment terms for contracts receivables from 4 years to 3 years.

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

(a) Reduction of debt in full or in part, via dacion en pago for creditor banks;

(b) The North-South Spine Road shall be completed on or before July 31, 2005;

(c) Atlantic Gulf & Pacific shall improve the site facilities to attract foreign interests/investors;

(d) The two year grace period on principal on the restructured bank loans shall start on July 1, 2005; and

(e) Interest expense on the restructured loans shall be made current starting July 1, 2005.

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

## 6. Receivables

This account consists of:

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

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

**2007**

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

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

**2006**

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

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

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

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

Trade receivable

*Real estate*

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

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

*General construction*

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

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

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

Receivable from related parties
Receivable from related parties are due and demandable.

*Receivables from AG&P*
On January 31, 2002, AG&P filed a petition for rehabilitation (after approval of AG&P's stockholders and BOD on January 29, 2002) with the RTC of Batangas City. On February 21, 2002, the RTC issued a stay order prohibiting AG&P from selling, encumbering, transferring or disposing any of its properties in any manner except in the ordinary course of business.

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

*Receivables from Universal Rightfield Property Holdings, Inc. (URPHI)*
The receivables from URPHI arose from the construction agreements with the Group for the development of Pioneer Highlands and Dansalan projects.

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

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

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

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

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

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

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

## 8. Inventories

This account consists of:

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

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

Inventories written off in 2006 amounted to ₱39.79 million.

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

## 9. Other Current Assets

This account consists of:

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

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

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

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

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

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

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

Investments in Associates - At Equity

*Subic Water*

On January 22, 1997, PDI subscribed to 3,262,320 shares at the par value of ₱10 per share for an aggregate value of ₱32.62 million in Subic Water, a joint venture company with Subic Bay Metropolitan Authority (a government-owned corporation), Olongapo City Water District, and Cascal Services Limited (a company organized under the laws of England). The agreement executed by the parties on November 24, 1996 stipulated, among others, that PDI shall have an equity participation equivalent to 40% in Subic Water amounting to ₱74.80 million (based on the initial subscribed and paid-in capital of ₱187.00 million). The balance of PDI's committed subscription to Subic Water of ₱38.00 million (net of additional subscription payment of ₱4 million in 1998) is expected to be paid on or before the second anniversary of the said effective date. As of December 31, 2007 and 2006, such committed subscription has not yet been paid.

*Vulcan*

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

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

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

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

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

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

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

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

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

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

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

(Forward)

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

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

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

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

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

a. decrease in the authorized capital stock of Maynilad through a reduction in the par value of its shares from ₱100 to ₱1 per share and the surrender of the shares of Benpres Holdings Corporation (BHC) and Suez Environnement (Suez Env);

b. increase in the authorized capital stock of Maynilad to ₱1.48 billion comprising of 1,475,000,000 shares with a par value of ₱1.00 per share, with DMCI-MPIC subscribing to 1,238,476,000 Class A common shares [inclusive of 88,500,000 Employees' Stock Option Plan (ESOP) shares representing 6% of the outstanding capital stock of Maynilad upon the effective date of the increase in capital of the Company], and Lyonnaise Asia Water (Holdings) Pte Ltd (LAWL) subscribing to an additional 225,520,000 Class B common shares (plus an additional paid-in capital of ₱56.0 million), paid for by way of conversion of debt to equity, in compliance with paragraphs a, b, c, d, e and f of Clause 2.6 of the DCRA;

c. confirmation of valuation under Section 62 of the Corporation Code for the issuance by Maynilad of 7,600,000 shares out of the unsubscribed portion of its authorized capital stock, paid for by way of conversion of debt to equity in relation to the subscriptions of DMCI-MPIC and LAWL;

d. creation of additional paid-in capital (APIC) aggregating ₱2.0 billion resulting from the write-off of BHC of its advances amounting to ₱658.0 million (or equivalent to approximately US$12 million) and from the write-off by the Suez Group [Suez Env and LAWL, excluding Ondeo Services Philippines, Inc. (OSPI)] of its loans and advances amounting to ₱1.4 billion (or equivalent to approximately US$25.0 million), which write-offs have been confirmed in writing by BHC and the Suez Group on December 22, 2006 and January 4, 2007, respectively, in compliance with paragraphs a, b and c of Clause 2.4 of the DCRA;

e. equity restructuring to wipe out the previously reported deficit of Maynilad as of December 31, 2005 amounting to ₱7.0 billion (such amount was retroactively adjusted to ₱6.5 billion in 2006 as discussed below) against the APIC amounting to ₱2.1 billion and reduction surplus amounting to ₱5.2 billion resulting from the decrease in capital, in compliance with Clause 2.5 of the DCRA, subject to the condition that the remaining APIC of ₱342.0 million shall not be used to wipe out losses that may be incurred in the future without prior SEC approval; and

f. corresponding amendments to the Articles of Incorporation of Maynilad to reflect the decrease and increase in capital stock of the Company, in compliance with paragraphs a and b of Clause 19.2 of the DCRA.

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

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

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

**including directors' qualifying shares*

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

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

Rehabilitation Exit Plan

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

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

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

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

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

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

On December 19, 2007, the Rehabilitation Court issued an Order approving the PSA and declaring that Maynilad has successfully implemented the 2005 Rehabilitation Plan on the date it has implemented the "Full Prepayment" and the "Settlement" as set forth in the PSA and has satisfied all other payment requirements under Clause 5 of the PSA, all in accordance with the terms of the PSA, and that accordingly, the rehabilitation proceedings are terminated, effective on such date, pursuant to the last sentence of Section 27 of Rule 4 of the Interim Rules of Procedure on Corporate Rehabilitation upon issuance by the Rehabilitation Court of a subsequent Order confirming the termination of the rehabilitation proceedings after submission by Maynilad and the Receiver of separate sworn certifications on the said implementation of the PSA and submission of proof of payment of the proper filing/docket fees. The Rehabilitation Court further resolved the disputed claims of the Suez Group and MWSS in favor of Maynilad, ruling that no amount is due to the said claimants for their respective disputed claims, upholding the recommendations of the Receiver.

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

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

<u>Pending Case on Maynilad's Corporate Rehabilitation Proceedings</u>

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

<u>Pending Case Assailing the Approval and Implementation of the ₱30.19 Rebased Tariff of Maynilad</u>

A complaint with prayer for the issuance of a cease and desist order against Maynilad, MWSS and the MWSS-RO was filed by certain civil society groups before the National Water Resources Board (NWRB) contesting the approval by the MWSS Board of Trustees of the MWSS-RO resolution approving the rebased tariff of ₱30.19 per cubic meter (all-in average tariff) effective January 1, 2005 for Maynilad. The complaint alleges, among others, that the increase in the water tariff rate was without adequate public consultation and sufficient basis and that the application filed by Maynilad for the said rate increase had no imprimatur from the Receiver. Claiming that the NWRB had no jurisdiction to hear and decide the aforesaid complaint, Maynilad and MWSS filed separate motions to dismiss, which were both denied. The NWRB has yet to rule on the said complaint. Following the denial of its motion to dismiss, Maynilad filed a petition for certiorari with the Court of Appeals. Alleging grave abuse of discretion on the part of the NWRB, Maynilad claims that there is no law conferring any power upon the NWRB to assume jurisdiction over disputes relating to water tariff rates for MWSS' concessionaires and that the powers of the Public Service Commission were not transferred to the NWRB. In a decision dated May 28, 2007, the Court of Appeals dismissed Maynilad's petition for certiorari and declared that the NWRB is empowered to review the subject all-in average tariff rate of ₱30.19 per cubic meter. Maynilad has sought a reconsideration of the said decision. In a subsequent development, MWSS filed a motion seeking to intervene in the certiorari proceedings. On February 20, 2008, the Court of Appeals denied Maynilad's motion for reconsideration and MWSS' motion for intervention. MWSS filed a motion for reconsideration of the denial of its motion for intervention, which is currently pending. Maynilad is set to file with the Supreme Court its petition for review to assail the rulings of the Court of Appeals in this case.

12. **Investment Properties**

The movement of this account follow:

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

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

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

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

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

## 13. **Property, Plant and Equipment**

The movements in this account follow:

2007

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

2006

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

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

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

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

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

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

## 14. Other Noncurrent Assets

The details of other noncurrent assets follow:

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

Deposits in Northrail of ₱300.00 million represents contributions made by the Group relative to a joint venture with the Bases Conversion Development Authority (BCDA) (a government-owned corporation), Philippine National Railways and a consortium of foreign investors and local partners which would undertake the construction of a multi-phase double-track railway system. The covering joint venture agreement provided, among others, the increase in capitalization of Northrail, the primary purpose of which is to construct, operate and manage such railway system. The deposits on subscriptions made by the joint venture partners are committed to be converted into equity upon the approval of increase in capital stock of Northrail.

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

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

## 15. Bank Loans

The Group's bank loans in 2007 and 2006 consist of peso-denominated short-term borrowings from local banks which bear interest at prevailing market rates and are payable on monthly, quarterly and lump sum bases on various maturity dates within the next 12 months after the balance sheet dates. The bank loans are generally unsecured which are secured by a real estate mortgage over the Group's housing and condominium units; a deed of assignment on certain real estate receivables of PDI, DMCI and Hampstead (see Note 6); corporate guarantee and suretyship agreement issued by the Company and DMCI; and PDI, DMCI and Hampstead's customers' post-dated checks.

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

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

## 16. Liabilities for Purchased Land

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

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

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

## 17. Accounts and Other Payables

This account consists of the following:

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

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

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

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

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

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

## 18. Customers' Deposits

The customers' deposits are due to the following:

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

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

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

## 19. Long-term Debt

Long-term debt pertains to the following obligations:

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

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

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

Details of the long-term debt follow:

*Semirara*

| Loan Type | Date of Availment | Outstanding Balance 2007 | 2006 | Maturity | Interest Rate | Payment Terms | Covenants/Collaterals |
|---|---|---|---|---|---|---|---|
| | | (In Million) | | | | | |
| **Local bank loans** | | | | | | | |
| Loan 1 | September 30, 2005 | ₱120.67 | ₱179.81 | October 5, 2009 | 9% fixed p.a. | Payable in 48 equal monthly installments commencing on November 5, 2005 | Secured by collaterals on mining equipment (Note 8) |
| Other loans | Various in 2007 | 258.35 | - | Various in 2007 and 2008 | 8% fixed p.a. | Various | None |
| **Foreign bank loans** | | | | | | | |
| Loan 1 | December 14, 2005 | 193.54 | 306.50 | November 30, 2010 | Based on SIBOR plus 1.95% p.a. | Repriceable and payable in 16 equal quarterly installments to commence 2 months after the draw down dates | Unconditional and irrevocable guarantee issued by Komatsu Asia and Pacific Pte Ltd. and other covenants |
| Other loans | Various availments in 2004 and 2005 | 304.52 | 510.14 | Various maturities in 2009 and 2010 | Based on 6-month USD LIBOR plus 1.5% p.a. | Payable in 10 equal consecutive semi-annual instalments, the first of which was due and payable 6 months after the starting point | Unconditional and irrevocable guarantee issued by the Company (Note 19) |
| | | 877.08 | 996.45 | | | | |
| **Payable to foreign suppliers** | | | | | | | |
| Supplier 1 | December 31, 2005 | – | 6.44 | December 4, 2007 | 5.7% p.a. compounded quarterly | Payable in 8 equal quarterly installments | None |
| Supplier 2 | August 20, 2004 | – | 2.45 | September 15, 2006 | 5% p.a. compounded monthly | Payable in 18 equal monthly installments | Unconditional and irrevocable guarantee issued by the Company (Note 19) |
| | | | 8.89 | | | | |
| **Various Letters of Credits** | Various dates of availments | 291.51 | 713.49 | Various maturities in 2008 | Interest ranging from 8% to 11% p.a. | Payable within 1 year | None |
| | | ₱1,168.59 | ₱1,718.83 | | | | |
| *The Company* | | | | | | | |
| **Local bank loan** | | | | | | | |
| Equitable PCI Bank | October 23, 2006 | ₱– | ₱1,500.00 | October 23, 2014 | 3-month MART1 plus 3% spread plus GRT | Payable in 28 equal monthly installments to commence at the end of the first quarter from initial drawdown date | Real estate receivables and investments in shares of stocks of Semirara |
| *Other Subsidiaries* | | | | | | | |
| **Other borrowings** | | | | | | | |
| Various | Various | ₱2,696.72 | ₱1,410.54 | Various | 10% to 13% p.a. | Payable in equal monthly installments over a period ranging from 5 to 15 years | Real estate receivables |
| **TOTAL** | | **₱3,865.31** | **₱4,629.37** | | | | |

(a) Semirara

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

(b) The Company

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

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

(c) Sale of real estate receivables by other subsidiaries

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

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

## 20. **Other Noncurrent Liabilities**

The details of this account consist of:

| | **2007** | 2006 |
|---|---|---|
| Provision for decommissioning and site rehabilitation | **₱12,205,199** | ₱11,138,611 |
| Subscriptions payable | **4,750,000** | 4,750,000 |
| | **₱16,955,199** | ₱15,888,611 |

## 21. Noncurrent Assets Held for Sale

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

On January 31, 2002, AG&P filed a petition for rehabilitation (after the approval of AG&P's stockholders and BOD on January 29, 2002) with the RTC of Batangas City. On February 21, 2002, the RTC issued a stay order prohibiting AG&P from selling, encumbering, transferring or disposing any of its properties in any manner except in the ordinary course of business.

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

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

(a) AG&P should remit to PNB a part of the advance rentals AG&P received as payment in the lease transaction entered into between AG&P and Babcock Hitachi Philippines, Inc. in July 2001 totaling ₱18 million with interest;

(b) AG&P should proportionately pay all creditors, depending on their respective credit exposure, whatever cash inflows it will receive from all the transactions it will enter into, except those that will come from sale or lease of properties covered by the Mortgage Trust Indenture (MTI) which should be paid to MTI banks, especially the ₱70.0 million earmarked for its employees, from the time the Petition was filed and up to the time the approved rehabilitation plan subsists; and

(c) PNB will accede to the proposal of AG&P to restructure the latter's loan on the condition that the loan obligation of AG&P with PNB shall consistently earn interest depending on the prevailing rates in the market, otherwise, the approved "suspension of interest charges on all interest-bearing obligations from February 2002 up to December 2002 pending review and approval of AG&P's rehabilitation plan by the court" and "restructuring of outstanding PNB loans for a ten-year period with 2 years grace period in the payment of principal, interest rate for the first 5 years is proposed at 6% and 12% for the next 5 years" should be disapproved and deleted.

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

(a) PNB agreed to withdraw its objections to the payment of the advance lease proceeds from Amstel-Phil Shipbreaking Corporation, (Amstel, AG&P's potential lessee) the amount of ₱70.00 million to the labor union;

(b) AG&P and PNB agree to subject the issue of interest during the restructuring period to further discussions; and

(c) PNB is withdrawing its objection since AG&P had withdrawn its proposal to transfer the BFY property by way of dacion en pago arrangement to the former.

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

a. Acceptance by the rank and file of the revised payment package in full settlement of separation benefits, labor cases, commutation of sick and vacation leaves and reimbursement of tax withheld.

b. Conversion to equity of PNB's loans and DMCI's advances amounting to ₱223.00 million and ₱591.00 million, respectively. The present authorized capital stock of AG&P of ₱36.00 million will be increased to ₱1,500.00 million before conversion of debt to equity.

c. Partial settlement of DMCI loan thru transfer of 20% equity shares in associate owned by AG&P in Bauan International Port, Inc. to DMCI.

d. Restructuring of residual loans from PNB and advances from DMCI.

e. Settlement by DMCI of loans from a local commercial bank with the underlying collaterals to be assumed by DMCI via "dacion en pago".

f. Quasi-reorganization through application of additional paid-in capital of and revaluation increment in property against deficit.

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

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

The results of AG&P are presented below:

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

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

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

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

| | |
|---|---|
| **ASSETS** | |
| **Current Assets** | |
| Cash and cash equivalents | ₱189,453,932 |
| Receivables | 248,282,344 |
| Inventories | 101,049,305 |
| Other current assets - net | 32,522,398 |
| Total Current Assets | 571,307,979 |
| **Noncurrent Assets** | |
| Available-for-sale fa | 7,255,141 |
| Investments in subsidiary and associate | 143,462,575 |
| Investment properties | 186,741,902 |
| Property, plant and equipment | 2,059,836,977 |
| Pension assets | 8,004,097 |
| Total Noncurrent Assets | 2,405,300,692 |
| **Assets held for sale** | ₱2,976,608,671 |

| | |
|---|---|
| **LIABILITIES** | |
| **Current Liabilities** | |
| Loans payable | ₱891,260,530 |
| Notes payable | 113,037,580 |
| Accounts and other payables | 753,887,833 |
| Due to a stockholder | 210,102,403 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 15,298,177 |
| Total Current Liabilities | 1,983,586,523 |
| **Noncurrent Liabilities** | |
| Deferred tax liabilities | 353,388,981 |
| **Liabilities directly attributable to assets held for sale** | ₱2,336,975,504 |

## 22. Equity

The Parent Company's capital stock consists of:

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount |
| Preferred stock - ₱1 par value cumulative and convertible | | | | |
| Authorized | **100,000,000** | **₱100,000,000** | 100,000,000 | ₱100,000,000 |
| Issued | | | | |
| Balance at beginning of year | **5,480** | **₱5,480** | 144,480 | ₱144.480 |
| Cancellation/retirement of shares | **(1,000)** | **(1,000)** | (139,000) | (139.000) |
| Balance at end of year | **4,480** | **4,480** | 5,480 | 5,480 |
| Common stock - ₱1 par value | | | | |
| Authorized | **5,900,000,000** | **5,900,000,000** | 5,900,000,000 | 5,900,000,000 |
| Issued | | | | |
| Balance at beginning of year | **2,255,494,000** | **2,255,494,000** | 2,255,494,000 | 2,255,494,000 |
| Issuance of shares | **400,000,000** | **400,000,000** | – | – |
| Balance at end of year | **2,655,494,000** | **2,655,494,000** | 2,255,494,000 | 2,255,494,000 |
| Preferred shares held in treasury | | | | |
| Balance at beginning of year | **(1,000)** | **(1,000)** | (136,950) | (136,950) |
| Redemption of shares | **–** | **–** | (3,050) | (3,050) |
| Cancellation/retirement of shares | **1,000** | **1,000** | 139,000 | 139,000 |
| Balance at end of year | **–** | **₱–** | (1,000) | (₱1,000) |

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital Management

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

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

23. **Related Party Transactions**

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

(a) Comprehensive surety, corporate and letters of guarantee issued by the Company and DMCI for various credit facilities granted to and for full performance of certain obligations by certain related parties (Notes 14, 16 and 31). Such outstanding surety and/or guarantees amounted to ₱354 million as of December 31, 2004. These obligations were paid in 2005.

(b) Interest and noninterest-bearing cash and operating advances made by the Group to and from various associates and other related parties.

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

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

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

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

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

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

## 24. Employee Benefits

Retirement Plans

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

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

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

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

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

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

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

Liability to be recognized in the consolidated balance sheet:

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

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

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

The amounts for the current and the previous period follow:

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

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

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Discount rate | **7.97% to 10.43%** | 12% | 12% |
| Salary increase rate | **10%** | 10% | 10% |
| Expected rate of return on plan assets | **7%** | 12% | 8% |

## 25. Costs of Sales and Services

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

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

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

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

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

## 26. **Operating Expenses**

This account consists of:

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

## 27. **Finance Income**

Finance income is derived from the following sources:

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

## 28. Finance Costs

The finance costs are incurred from the following:

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

## 29. Other income (charges)

This account consists of:

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

## 30. Income Taxes

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

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

(Forward)

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

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

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

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

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

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

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

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

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

Republic Act (RA) No. 9337

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

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

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

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

## 31. Basic / Diluted Earnings Per Share

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

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

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

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

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

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

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

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

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

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

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

f) changes in the computation of the adjustment for penalty or bonus from the base price per MT.

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

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

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

Solid and SSP

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

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

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

Semirara has a Coal Operating Contract with DOE dated July 11, 1977, as amended on January 16, 1981, for the exploration, development, mining and utilization of coal over Semirara Island, Antique under the terms and conditions provided therein and pursuant to the provisions of Presidential Decree No. 972, otherwise known as the Coal Development Act of 1976. The contract is for a maximum period of 35 years (inclusive of the developmental stage and renewals) up to July 2012. The contract also provides for the manner and basis of sharing the gross proceeds from coal production between the Company and DOE. The Company's liabilities to DOE (including accrued interest computed at 14% per annum on outstanding balance) under this contract and to the different local government units in the province of Antique, under the provisions of the Local Government Code of 1991, amounted to ₱53.56 million and ₱28.51 million as of December 31, 2007 and 2006, respectively. These liabilities are included under the "Accounts and other payables" account in the balance sheet (see Note 17).

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

## 34. Segment Reporting

Business Segment Information

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

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

Business Segments

The following tables present revenue, net income (loss) and depreciation, depletion and amortization information regarding business segments for the years ended December 31, 2007, 2006 and 2005 and property, plant and equipment additions, total assets and total liabilities for the business segments as of December 31, 2007, 2006 and 2005 (amounts in millions):

2007

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

2006

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

2005

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

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

## 35. **Financial Instruments**

Fair value information

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

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

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

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

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

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

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

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

Financial Liabilities

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

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

Financial Risk Management Objectives and Policies

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

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

*Foreign exchange risk*

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

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

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

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

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

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

| | | |
|---|---|---|
| Increase/(decrease) in Peso per U.S. Dollar rates | ₱1 | (₱1) |
| Effect on profit before tax | 27,301,969 | (27,301,969) |
| Effect on equity | 17,746,280 | (17,746,280) |

| | | |
|---|---|---|
| Increase/(decrease) in Peso per Japanese Yen | ₱0.05 | (₱0.05) |
| Effect on profit before tax | 2,000,000 | (2,000,000) |
| Effect on equity | 1,300,000 | (1,300,000) |

| | | |
|---|---|---|
| Increase/(decrease) in Peso per UK Pounds | ₱8 | (₱8) |
| Effect on profit before tax | 1,866,936 | (1,866,936) |
| Effect on equity | 1,213,508 | (1,213,508) |

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

*Credit risk*

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

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

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

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

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

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

| | **Neither past due nor impaired** | | | **Past due or Individually impaired** | |
|---|---|---|---|---|---|
| | **Grade A** | **Grade B** | **Grade C** | | **Total** |
| Cash and cash equivalents | ₱3,539,647,599 | ₱– | ₱– | ₱– | ₱3,539,647,599 |
| Avialable-for-sale financial assets | 202,673,060 | | | | 202,673,060 |
| Trade: | | | | | |
| Real estate | 1,032,693,661 | 753,875,283 | – | 967,117,427 | 2,753,686,371 |
| General construction | 283,341,804 | 212,285,519 | – | 38,463,527 | 534,090,850 |
| Coal Mining | 663,816,967 | 90,726,026 | – | 312,395,999 | 1,066,938,992 |
| Receivable from related parties | 303,614,528 | – | – | – | 303,614,528 |
| Advances to officers and employees | 11,848,505 | – | – | – | 11,848,505 |
| Other receivables | 223,374,401 | – | – | 7,380,686 | 230,755,087 |
| Refundable deposits | 142,846,122 | – | – | – | 142,846,122 |
| Total | ₱6,403,856,647 | ₱1,056,886,828 | ₱– | ₱1,325,357,639 | ₱8,786,101,114 |

As of December 31, 2007, the aging analysis of the Company's receivables presented per class follows

| | Neither Due nor Impaired | Past due but not impaired | | | | | Impaired Assets | Total |
|---|---|---|---|---|---|---|---|---|
| | | **<30 days** | **30-60 days** | **60-90 days** | 90-120 days | >120 days | | |
| | | | | (In thousands) | | | | |
| Receivables | | | | | | | | |
| Trade | | | | | | | | |
| Real estate | ₱1,845,462,692 | ₱79,542,610 | ₱206,401,675 | ₱164,550,168 | ₱262,099,970 | ₱187,618,565 | ₱8,010,691 | ₱2,753,686,371 |
| General construction | 495,627,323 | | | | | | 38,463,527 | 534,090,850 |
| Coal Mining | 754,542,993 | 120,135,794 | 90,101,849 | 60,067,899 | 15,187,607 | – | 26,902,850 | 1,066,938,992 |
| Due from related parties | 303,614,528 | – | – | – | – | – | – | 303,614,528 |
| Advances to officers and employees | 11,848,505 | – | – | – | – | – | – | 11,848,505 |
| Other receivables | 223,374,401 | – | – | – | – | – | 7,380,686 | 230,755,087 |
| Refundable deposits | 142,846,122 | – | – | – | – | – | – | 142,846,122 |
| Total | ₱4,080,931,092 | ₱199,678,404 | ₱296,503,524 | ₱224,618,067 | ₱277,287,577 | ₱187,618,565 | ₱80,757,754 | ₱5,043,780,455 |

*Liquidity risk*

The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues both on-shore and off-shore.

**2007**

| | Within 1 year | 1-2 years | 2-3 years | 3-4 years | Total - Gross (In US$) | Total - Gross (in PHP) |
|---|---|---|---|---|---|---|
| **Liabilities:** | | | | | | |
| **Floating Rate** | | | | | | |
| US$15.14 million loan | | | | | | |
| 6 month USD LIBOR | | | | | | |
| plus 1.5% per annum | **$3,027,672** | **$3,027,672** | **$1,321,546** | **–** | **$7,376,890** | **₱304,518,019** |
| US$6.64 million loan | | | | | | |
| 3 month SIBOR | | | | | | |
| plus 1.95% per annum | **$1,562,824** | **$1,562,824** | **$1,562,824** | **–** | **$4,688,472** | **193,540,124** |
| **Fixed Rate** | | | | | | |
| Various letters of credits and suppliers debt with various interest rates | **₱302,211,822** | **–** | **–** | **–** | **–** | **302,211,822** |
| Various local bank loans 7.88% to 14.4% | **₱662,943,987** | **₱232,117,894** | **–** | **–** | **–** | **895,061,881** |
| Long-term debt (contracts receivables discounting) 7.5% to 10% | **₱647,748,066** | **₱405,858,732** | **₱286,149,892** | **₱789,377,919** | **—** | **2,129,134,609** |
| | | | | | **$12,065,362** | **₱3,824,466,454** |

2006

| | Within 1 year | 1-2 years | 2-3 years | 3-4 years | Total - Gross (In US$) | Total – Gross (in PHP) |
|---|---|---|---|---|---|---|
| **Liabilities:** | | | | | | |
| **Floating Rate** | | | | | | |
| US$15.14 million loan | | | | | | |
| 6 month USD LIBOR | | | | | | |
| plus 1.5% per annum | $3,027,672 | $3,027,672 | $3,027,672 | $1,321,546 | $10,404,562 | ₱510,135,675 |
| US$6.64 million loan | | | | | | |
| 3 month SIBOR | | | | | | |
| plus 1.95% per annum | $1,562,720 | $1,562,720 | $1,562,720 | $1,562,720 | $6,250,880 | 306,480,646 |
| ₱1,500 million loan | | | | | | |
| 3-month MART1 plus 3% spread plus GRT | ₱214,285,714 | ₱214,285,714 | ₱214,285,714 | ₱857,142,857 | – | 1,500,000,000 |
| **Fixed Rate** | | | | | | |
| Various letters of credits and suppliers debt with various interest rates | ₱713,489,588 | – | – | – | – | 713,489,588 |
| Various local bank loans 7.88% to 14.4% | ₱129,824,105 | ₱129,991,114 | 59,359,528 | – | – | 319,174,747 |
| Long-term debt (contracts receivables discounting) 7.5% to 10% | ₱242,488,654 | ₱175,918,789 | ₱130,144,000 | ₱731,534,016 | – | 1,280,085,460 |
| | | | | | $16,655,442 | ₱4,629,366,116 |

*Interest rate risk*
The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

The following table shows the information about the Group's significant financial instruments that are exposed to cash flow and fair value interest rate risks and presented by maturity profile.

2007

| | **Within 1 year** | **1-2 years** | **2-3 years** | **3-4 years** | **More than 4 years** | **Fair Value** |
|---|---|---|---|---|---|---|
| | | | (In Thousands) | | | |
| **Cash equivalents** | | | | | | |
| Interest Rates | | | | | | |
| 5.25% to 6.5% | **₱2,715,660** | **₱–** | **₱–** | **₱–** | **₱–** | **₱2,715,660** |
| **Contracts receivable** | | | | | | |
| Effective Interest Rates | | | | | | |
| 10% to 21.50% | **454,866** | **427,511** | **372,912** | **372,365** | **1,184,926** | **2,812,580** |
| | **₱3,170,526** | **₱427,511** | **₱372,912** | **₱372,365** | **₱1,184,926** | **₱5,528,240** |
| **Long-term debts** | | | | | | |
| Fixed Rate | | | | | | |
| Local bank loan(contracts receivables discounting) 7.5% to 10% interest rate | **₱647,748** | **₱405,859** | **₱286,150** | **₱211,514** | **₱577,864** | **₱2,129,135** |
| Various local bank loans 7.88% to 14.4% interest rate | **662,944** | **232,118** | – | – | – | **895,062** |
| Various letters of credit 8-11% interest rate | **302,212** | – | – | – | – | **302,212** |
| Floating Rate | | | | | | |
| $15.14 million loan (USD) 6 month USD LIBOR Plus 1.5% per annum | **124,982** | **124,982** | **54,554** | – | – | **304,518** |
| $6.64 million loan (USD) 3 month SIBOR Plus 1.95% per annum | **64,513** | **64,513** | **64,513** | – | – | **193,539** |
| | **₱1,802,399** | **₱827,472** | **₱405,218** | **₱211,514** | **₱577,864** | **₱3,824,466** |

2006

| | Within 1 year | 1-2 years | 2-3 years | 3-4 years | More than 4 years | Fair Value |
|---|---|---|---|---|---|---|
| | | | (In Thousands) | | | |
| **Cash equivalents** | | | | | | |
| Interest Rates | | | | | | |
| 4.5% to 6.75% | ₱527,307 | ₱– | ₱– | ₱– | ₱– | ₱527,307 |
| **Contracts receivable** | | | | | | |
| Effective Interest Rates | | | | | | |
| 16.50% to 18.70% | 268,564 | 230,500 | 227,500 | 226,795 | 930,241.92 | 1,883,601 |
| | ₱795,871 | ₱230,500 | ₱227,500 | ₱226,795 | ₱930,242 | ₱2,410,908 |

(Forward)

| | Within 1 year | 1-2 years | 2-3 years | 3-4 years | More than 4 years | Fair Value |
|---|---|---|---|---|---|---|
| | | | (In Thousands) | | | |
| **Long-term debts** | | | | | | |
| Fixed Rate | | | | | | |
| Local bank loan(contracts receivables discounting) 7.5% to 10% interest rate | ₱242,488 | ₱175,919 | ₱130,144 | ₱731,534 | ₱– | ₱1,280,085 |
| Various local bank loans 7.88% to 14.4% interest rate | 129,824 | 129,991 | 59,360 | – | – | 319,175 |
| Various letters of credit 8-11% interest rate | 713,490 | – | – | – | – | 713,490 |
| Floating Rate | | | | | | |
| $15.14 million loan (USD) 6 month USD LIBOR plus 1.5% per annum | 148,447 | 148,447 | 148,447 | 64,795 | – | 510,136 |
| $6.64 million loan (USD) 3 month SIBOR plus 1.95% per annum | 76,620 | 76,620 | 76,620 | 76,620 | – | 306,480 |
| ₱1,500 million loan 3-month MART1 plus 3% spread plus GRT | 214,286 | 214,286 | 214,286 | 214,286 | 642,856 | 1,500,000 |
| | ₱1,525,155 | ₱745,263 | ₱628,857 | ₱1,087,235 | ₱642,856 | ₱4,629,366 |

The following table demonstrates the sensitivity of the Company's profit before tax and equity to a reasonably possible change in interest rates on December 31, 2007, with all variables held constant, through the impact on floating rate borrowings.

| | Change in basis points | |
|---|---|---|
| | +100 basis points | |
| | **Effect on income before income tax** | **Effect on equity** |
| | (In thousands) | |
| Company - floating rate borrowings | (₱4,981) | (₱3,238) |

| | Change in basis points | |
|---|---|---|
| | -100 basis points | |
| | **Effect on income before income tax** | **Effect on equity** |
| | (In thousands) | |
| Company - floating rate borrowings | ₱4,981 | ₱3,238 |

## 36. Contingencies and Commitments

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

DMCI has a contingent claim from URPHI representing interest on contract receivables, the recoverability of which is dependent on the successful implementation of URPHI's rehabilitation plan.

Lease Commitments
*As Lessee*
The Group leases a portion of its office premises that are renewed under the terms and condition agreed with the lessors.

As of December 31, 2007, future minimum lease payments under the aforementioned finance lease and the present value of the net minimum lease payments (in millions) are as follows:

| | |
|---|---|
| Within one year | ₱108,289,540 |
| After one year but not more than five years | 112,312,950 |
| Total minimum lease payments | ₱220,602,490 |

## 37. Note to Consolidated Statements of Cash Flows

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

| | **2007** | 2006 |
|---|---|---|
| | (In Thousands) | |
| Conversion of advances for additional shares in AG&P | **₱478,152** | ₱– |
| Acquisition of conventional and continuous mining equipment through availments of long-term debt | – | 973,276 |
| Retirement of redeemed treasury shares | – | 189,830 |
| Redemption of preferred shares by related parties charged against advances | – | 1,100 |

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1



**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of DMCI Holdings, Inc. and Subsidiaries included in this Form 17-A and have issued our report thereon dated April 24, 2008. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management and are presented for purposes of complying with the Securities Regulation Code Rule 68.1 and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-1
Tax Identification No. 102-082-365
PTR No. 0017580, January 3, 2008, Makati City

April 24, 2008