

SEC Number AS095-002283
File Number _____

DMCI HOLDINGS, INC. AND SUBSIDIARIES

(Company's Full Name)

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

(Company's Address)

888-30-00

(Telephone Number)

December 31

(Calendar Year Ended)

Audited Financial Statements

Form Type

Amendment Designation (if applicable)

December 31, 2001

Period Ended Date

(Secondary License Type and File Number)

SGVMC102639

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2001 AND 2000
AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2001

SGV & Co

Report of Independent Public Accountants

SyCip Gorres Velayo & Co

6760 Ayala Avenue
1226 Makati City
Philippines

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

We have audited the accompanying consolidated balance sheets of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

As more fully discussed in Note 1 to the consolidated financial statements, the Company has a 46% equity investment in and notes receivable from Atlantic, Gulf and Pacific Company of Manila, Incorporated (AG&P) with an aggregate carrying value of ₱180 million, net of allowance for probable losses of ₱586.5 million as of December 31, 2001. Realization of the net carrying value of the investment and notes receivable depends upon the ability of AG&P to continue operating in the normal course of business; which ability, in turn, is dependent on the success of the implementation of AG&P's rehabilitation plan and its future operations.

SGVMC102639

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the Philippines.

The accompanying consolidated financial statements have been prepared assuming that the Company and certain subsidiaries will continue operating in the normal course of business. As also discussed in Note 27, the Company was unable to redeem all of its cumulative preferred shares originally due for redemption on April 7, 2002. Management's plans with regard to these matters are also described in Notes 1 and 27. The Company's and certain Subsidiaries' ability to operate in the normal course of business depends, among others, on the successful restructuring and settlement of its preferred share obligations, and its ability to obtain other sources of financing to support its current operations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets on the amount and classification of liabilities that might result should the Company and certain subsidiaries be unable to continue operating in the normal course of business.

PTR No. 6723207
January 2, 2002
Makati City

May 31, 2002

SGV & Co

Report of Independent Public Accountants

SyCip Gorres Velayo & Co

6760 Ayala Avenue
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The Stockholders and the Board of Directors
DMCI Holdings, Inc.
3rd Floor, DACON Building
2281 Don Chino Roces Avenue
Makati City

We have audited the accompanying consolidated balance sheets of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

As more fully discussed in Note 1 to the consolidated financial statements, the Company has a 46% equity investment in and notes receivable from Atlantic, Gulf and Pacific Company of Manila, Incorporated (AG&P) with an aggregate carrying value of ₱180 million, net of allowance for probable losses of ₱586.5 million as of December 31, 2001. Realization of the net carrying value of the investment and notes receivable depends upon the ability of AG&P to continue operating in the normal course of business; which ability, in turn, is dependent on the success of the implementation of AG&P's rehabilitation plan and its future operations.

SGVMC102639

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the Philippines.

The accompanying consolidated financial statements have been prepared assuming that the Company and certain subsidiaries will continue operating in the normal course of business. As also discussed in Note 27, the Company was unable to redeem all of its cumulative preferred shares originally due for redemption on April 7, 2002. Management's plans with regard to these matters are also described in Notes 1 and 27. The Company's and certain Subsidiaries' ability to operate in the normal course of business depends, among others, on the successful restructuring and settlement of its preferred share obligations, and its ability to obtain other sources of financing to support its current operations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets on the amount and classification of liabilities that might result should the Company and certain subsidiaries be unable to continue operating in the normal course of business.

J. D. CABALUNA
Partner
CPA Certificate No. 36317
PTR No. 6723207
January 2, 2002
Makati City

May 31, 2002

SGV & Co

Report of Independent Public Accountants On Supplementary Schedules

SyCip Gorres Velayo & Co

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1226 Makati City
Philippines

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

We have audited in accordance with auditing standards generally accepted in the Philippines, the consolidated financial statements of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2001 and 2000 and for each of the three years in the period ended December 31, 2001, included in this Form 17-A and have issued our report thereon dated May 31, 2002. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Company's management and are presented for purposes of complying with the Securities Regulation Code Rule 68 and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

J. D. CABALUNA
Partner
CPA Certificate No. 36317
PTR No. 6723207
January 2, 2002
Makati City

May 31, 2002

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DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2001	2000
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	P320,830,350	P705,939,312
Receivables - net (Note 4)	2,453,776,490	2,528,277,760
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 5)	26,865,851	53,551,903
Inventories - net (Note 6)	421,102,200	394,712,932
Real estate for sale and development - net (Note 8)	2,905,162,931	2,913,843,911
Prepaid expenses and other current assets (Note 7)	58,377,968	65,919,372
Total Current Assets	6,186,115,790	6,662,245,190
Noncurrent Receivables (Note 4)	1,826,211,913	1,490,113,235
Investments - net (Note 9)	1,509,768,127	1,836,352,764
Property, Plant and Equipment - net (Note 10)		
At cost	1,408,766,229	1,627,879,018
At revalued amounts	2,060,314,356	1,790,027,373
Deferred Charges and Other Assets - net (Notes 1 and 11)	306,715,359	131,405,506
	P13,297,891,774	P13,538,023,086
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes payable (Note 12)	P1,015,200,345	P1,194,520,560
Accounts and other payables (Note 13)	3,382,427,275	3,788,924,808
Acceptances and trust receipts payable (Note 16)	374,214,130	529,822,493
Payables to property sellers (Note 14)	289,737,787	302,495,591
Dividends payable (Note 21)	32,455,890	32,455,890
Total Current Liabilities	5,094,035,427	5,848,219,342
Long-Term Debt - net of current portion (Note 16)	1,254,491,804	461,786,496
Subscriptions Payable (Note 9)	3,750,000	183,750,000
Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts (Note 5)	427,387,206	440,133,626
Deferred Credits (Note 15)	507,968,990	605,300,002
Minority Interest in Consolidated Subsidiaries	291,949,858	286,275,573
	7,579,583,285	7,825,465,039
Stockholders' Equity		
Capital stock (Note 21)	2,257,894,000	2,257,894,000
Additional paid-in capital (Note 21)	4,717,685,929	4,729,474,553
Deficit	(682,980,679)	(700,519,745)
	6,292,599,250	6,286,848,808
Less preferred shares held in treasury (Note 21)	574,290,761	574,290,761
	5,718,308,489	5,712,558,047
	P13,297,891,774	P13,538,023,086

See accompanying Notes to Consolidated Financial Statements.

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DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2001	2000	1999
REVENUES			
Construction contracts	₱2,316,520,900	₱3,497,159,691	₱5,880,876,542
Coal sales (Note 24)	1,360,355,866	770,559,591	758,239,076
Real estate sales	346,058,754	235,972,422	40,572,497
Merchandise sales	43,085,602	88,141,259	37,672,506
Equity in net earnings of unconsolidated affiliated companies, real estate and unincorporated construction joint ventures (Note 9)	18,264,642	-	-
Interest and others - net	175,680,451	226,232,279	407,732,724
	4,259,966,215	4,818,065,242	7,125,093,345
COSTS AND EXPENSES			
Construction contracts	2,126,505,941	3,058,522,992	5,291,172,979
Coal sold (Note 24)	969,566,108	740,229,087	713,479,340
Cost of real estate	263,733,459	197,925,966	41,469,253
Merchandise sold	39,864,775	60,807,420	22,961,689
General and administrative (Note 22)	573,948,852	483,735,588	497,117,900
Interest expense (Notes 12 and 16)	344,773,783	425,059,159	224,829,704
Equity in net losses of unconsolidated affiliated companies, real estate and unincorporated construction joint ventures (Note 9)	-	65,386,295	183,953,675
Provisions for probable losses on assets and other charges	-	746,852,923	85,419,258
Nonrecurring charges (Note 1)	-	948,425,523	-
	4,318,392,918	6,726,944,953	7,060,403,798
INCOME (LOSS) BEFORE INCOME TAX AND MINORITY INTEREST	(58,426,703)	(1,908,879,711)	64,689,547
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 17)			
Current	51,562,200	166,270,668	164,255,549
Deferred	(118,667,095)	(158,743,262)	(83,526,978)
	(67,104,895)	7,527,406	80,728,571
INCOME (LOSS) BEFORE MINORITY INTEREST	8,678,192	(1,916,407,117)	(16,039,024)
MINORITY INTEREST	8,860,874	300,285,174	47,070,034
NET INCOME (LOSS)	₱17,539,066	(₱1,616,121,943)	₱31,031,010
Earnings (Loss) Per Common Share (Note 19)	₱0.01	(₱0.77)	(₱0.05)

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2001	2000	1999
CAPITAL STOCK (Note 21)			
Cumulative and convertible			
Preferred stock - ₱1 par value			
Authorized - 100,000,000 shares			
Issued - 2,400,000 shares	₱2,400,000	₱2,400,000	₱2,400,000
Common stock - ₱1 par value			
Authorized - 5,900,000,000 shares			
Issued - 2,255,494,000 shares	2,255,494,000	2,255,494,000	2,255,494,000
	2,257,894,000	2,257,894,000	2,257,894,000
ADDITIONAL PAID-IN CAPITAL (Note 21)			
Balance at beginning of year	4,729,474,553	4,732,946,596	4,732,946,596
Reversal of disposal of URPHI shares during the year	(11,788,624)	(3,472,043)	—
Balance at end of year	4,717,685,929	4,729,474,553	4,732,946,596
RETAINED EARNINGS (DEFICIT)			
Balance at beginning of year	(700,519,745)	1,043,839,598	1,153,190,488
Net income (loss) for the year	17,539,066	(1,616,121,943)	31,031,010
Cash dividends declared on preferred shares	—	(128,237,400)	(140,381,900)
Balance at end of year	(682,980,679)	(700,519,745)	1,043,839,598
PREFERRED SHARES HELD IN TREASURY (Note 21)			
Balance at beginning of year	(574,290,761)	(408,546,492)	(408,546,492)
Acquisitions during the year	—	(165,744,269)	—
Balance at end of year	(574,290,761)	(574,290,761)	(408,546,492)
	₱5,718,308,489	₱5,712,558,047	₱7,626,133,702

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax and minority interest	(P58,426,703)	(P1,908,879,711)	P64,689,547
Adjustments to reconcile income (loss) before income tax and net losses applicable to minority interest to operating income before changes in working capital:			
Depreciation, depletion and amortization	633,428,539	901,536,660	1,041,439,743
Interest expense	345,094,630	425,059,159	224,829,704
Provisions for:			
Doubtful accounts	65,928,080	574,440,235	-
Decline in value of condominium units	8,116,977	-	-
Probable losses	-	172,412,688	-
Loss (gain) on disposals of:			
Property, plant and equipment	17,793,838	(20,127,702)	(41,548,625)
Investments	5,143,417	(23,069,745)	(158,207,411)
Interest income	(87,349,927)	(66,507,199)	(124,557,962)
Equity in net losses (earnings) of affiliated companies, real estate and unincorporated construction joint ventures	(18,264,642)	65,386,295	183,953,675
Write-offs of deferred charges, various idle and nonoperating assets and capitalized foreign exchange losses	-	948,425,523	-
Operating income before changes in working capital	911,464,209	1,068,676,203	1,190,598,671
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	(86,123,634)	(64,024,368)	679,848,453
Inventories	(26,389,268)	(77,203,952)	52,034,487
Real estate for sale and development	(130,819,319)	(92,485,007)	1,516,496
Prepaid expenses and other current assets	55,161,651	49,334,791	21,687,914
Increase (decrease) in:			
Accounts and other payables	(472,905,143)	46,735,476	(111,875,315)
Acceptances and trust receipts payable	(155,608,363)	127,029,144	(224,295,406)
Billings in excess of costs and estimated earnings on uncompleted contracts - net	13,939,632	(222,601,867)	(810,746,616)
Cash generated from operations	108,719,765	835,460,420	798,768,684
Interest received	24,117,857	66,507,199	124,557,962
Interest paid	(278,687,020)	(188,819,490)	(184,817,063)
Income tax paid	(99,182,447)	(166,270,668)	(171,980,049)
Net cash provided by (used in) operating activities	(245,031,845)	546,877,461	566,529,534
(Forward)			

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	Years Ended December 31		
	2001	2000	1999
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposals of:			
Investments	₱73,554,173	₱50,446,363	₱227,462,541
Property, plant and equipment	9,898,054	22,197,767	44,107,112
Decrease (increase) in:			
Investments	46,193,281	(58,338,636)	431,404,154
Deferred charges and other assets	(56,642,758)	(76,663,406)	(670,945,885)
Increase (decrease) in deferred credits	(97,331,012)	(197,391,260)	21,682,614
Acquisitions of property, plant and equipment	(366,675,651)	(297,408,044)	(463,057,789)
Net cash used in investing activities	(391,003,913)	(557,157,216)	(409,347,253)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net availments (payments) of:			
Non-current liabilities	398,969,656	(331,883,567)	26,691,688
Notes payable	(162,578,019)	523,695,912	197,015,680
Net increase in minority interest in consolidated subsidiaries	14,535,159	23,850,254	12,756,975
Acquisitions of preferred treasury shares	-	(165,744,269)	(307,917,740)
Dividends paid - preferred shares	-	(129,823,560)	(133,371,850)
Proceeds from reissuance of preferred shares held in treasury	-	-	52,952,728
Net cash provided by (used in) financing activities	250,926,796	(79,905,230)	(151,872,519)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(385,108,962)	(90,184,985)	5,309,762
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	705,939,312	796,124,297	790,814,535
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱320,830,350	₱705,939,312	₱796,124,297

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General and Status of Operations of Semirara, AG&P and PDI

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

The Company is an investment holding company. It has investments in D.M. Consunji, Inc. (DMCI), DMCI Property Developers Inc. (PDI), Semirara Mining Corporation, and Wire Rope Corporation of the Philippines (Wire Rope).

The Company and its subsidiaries' employees averaged 1,302 in 2001 and 1,342 in 2000.

Semirara Mining Corporation

Semirara, a 74.4%-owned subsidiary, had incurred significant net losses for each of the three years in the period ended December 31, 2001 that resulted in a cumulative deficit of ₱1.8 billion (after the effect of the quasi-organization that eliminated the cumulative deficit of ₱3.7 billion as of December 31, 1997) and net capital deficiency of ₱139 million as of December 31, 2001. As of such date, Semirara's current liabilities of ₱2.1 billion exceeded its current assets by ₱1.6 billion. Further, total interest expense for the year ended December 31, 2001 on Semirara's interest-bearing obligations of ₱1.9 billion as of December 31, 2001 amounted to ₱256 million. These factors, among others, indicate that Semirara may face difficulties in continuing to operate in the normal course of business.

In view of the foregoing conditions, the operating management of Semirara is currently undertaking measures geared towards ensuring the feasibility and profitability of Semirara's future operations. With the operation of the Panian mine and the result of the pricing changes in Amendment No. 1 to the Coal Supply Agreement (CSA) with National Power Corporation (NPC), Semirara posted an operating income of ₱230 million in 2001 as compared to the previous years' operating losses of ₱104 million in 2000 and ₱124 million in 1999.

To further improve Semirara's performance, efforts are being exerted to bring down costs through efficient operation. This is in line with the finalization of the Amendment No. 2 to the CSA with NPC, which highlights an increase in the maximum volume of coal deliveries to NPC from 1.2 million metric tons (MT) to 2.4 million MT. Also, management plans to diversify its market and sell to other coal power plants of NPC and to other coal users like cement plants.

In 2001, debt restructuring agreements with the majority of Semirara's creditors, particularly with three (3) banks and a major supplier were finalized (see Note 16), while negotiations with other banks are still ongoing. Under the covenant section of the debt restructuring agreements, Semirara shall not make any capital expenditure without the consent of the creditors nor incur any debt with maturity of more than one year. Also, under the events of default section of the debt restructuring agreements, if any affiliate of Semirara defaults in its obligation with the respective creditors or is unable to pay its debts as they mature, this shall constitute an event of default.

The Board of Directors (BOD) of Semirara approved on August 12 and 25, 2000 the write-off of deferred charges and various idle and nonoperating assets amounting to P843 million and capitalized foreign exchange losses of P105 million for a total nonrecurring charges of P948 million as of March 31, 2000. The BOD also approved on August 25, 2000 the write-off of various deferred charges amounting to P714 million already fully provided for in prior years against corresponding allowance for probable losses.

The recoverability and classification of the carrying amounts of Semirara's assets or the amount and classification of its liabilities depend on Semirara's ability to continue operating in the normal course of business and the success of its future operations.

Atlantic, Gulf & Pacific Company of Manila, Incorporated (AG&P, a 46%-owned investee)

Difficult economic conditions hampered AG&P's ability to obtain significant construction and fabrication contracts. Also, projects that were pursued by AG&P in previous years remain deferred. AG&P was likewise unsuccessful in its efforts to reduce the level of its borrowings and the related interest expense to improve its liquidity. Although there were several interested buyers in AG&P's properties in Batangas and Baguio City, the prices offered were significantly lower than the properties' appraised values. Negotiations for the sale of a certain parcel of land to a foreign investor were already concluded; however, the sale did not materialize due to the investor's concerns about the continued weakness of the local economy. Furthermore, the planned increase in AG&P's capitalization of P204 million to provide liquidity and improve AG&P's capital base, which is necessary to enable AG&P to secure large construction and fabrication contracts, was not pursued in view of the petition filed by AGP Industrial Corporation (AGPI), a stockholder, with the Securities and Exchange Commission (SEC) for the annulment of the resolution increasing AG&P's authorized capital stock and issuance by the SEC of a temporary restraining order.

AG&P's serious cash flow problems caused it to default under its loan and other credit arrangements with local banks. Total interest-bearing obligations (including accrued interest and penalties thereon) to local banks and to its stockholders amounted to P1.6 billion (including past due loans of P818 million) and P1.5 billion as of December 31, 2001 and 2000, respectively. Interest expense on such obligations amounted to P224 million and P158 million (excluding the interest on the outstanding obligations to the Company which has been suspended for three years from January 2000 in recognition of AG&P's deteriorating financial condition) for the years ended December 31, 2001 and 2000, respectively. Moreover, AG&P's current liabilities exceeded its current assets by P1.8 billion and P1.7 billion as of December 31, 2001 and 2000, respectively.

In the absence of new contract awards, the deferral of the completion of most of the projects, and the high operating and financing costs, AG&P's management decided in 2000 to temporarily scale down its manpower. The consequent temporary lay-offs, however, were met with resistance from the labor force which led to the ongoing plant-wide labor strike, and eventually to the suspension of operations at AG&P's Batangas Fabrication Yard.

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

As of December 31, 2001, the Company's net exposure to AG&P consists of an equity investment and a note receivable with an aggregate carrying value of P180 million, net of allowance for probable losses of P586 million. The recoverability of the Company's net investment in and receivable from AG&P is dependent on AG&P's ability to continue operating in the normal course of business; which ability, in turn, is dependent on the success of the implementation of AG&P's rehabilitation plan and its future operations.

DMCI Project Developers, Inc. (PDI)

The operations of PDI, a wholly owned subsidiary, have been significantly affected by the present economic downturn which has caused the general decline in the real estate industry. Further, there has been a slowdown in the development of new projects and huge landholdings primarily due to unavailability of necessary capital and credit. In response to these events, PDI's management is currently undertaking certain measures that will ensure the feasibility of its operations to meet the various commitments relative to its existing real estate development projects and fully service its liabilities and recover its investments. In 2000, PDI entered into a joint venture with third parties covering the development of a certain parcel of land (see Note 8) into a residential condominium project. This project is expected to increase PDI's sales performance and consequently improve its liquidity and profitability. Also, management is continuing its efforts to identify certain assets and investments for disposition to provide PDI with additional sources of liquidity.

PDI will continue to be affected by the slower economic activity particularly in the real estate industry. Thus, there remain uncertainties that may affect the recoverability of its assets, its ability to maintain or pay debts as they mature and generally, its future operations.

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in preparing the financial statements of the Company and its subsidiaries are as follows:

Basis of Preparation

The accompanying financial statements are prepared in accordance with the accounting principles generally accepted in the Philippines and under the historical cost convention.

The preparation of financial statements in accordance with accounting principles generally accepted in the Philippines requires the Company and its subsidiaries to make estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and disclosures of contingent assets and liabilities. Management believes that actual results will not be materially different from those estimates.

Adoption of New Statements of Financial Accounting Standards (SFAS)

The Company and its subsidiaries adopted the following SFAS which became effective on January 1, 2001:

- SFAS No. 1 (revised 2000), Presentation of Financial Statements;
- SFAS No. 4 (revised 2000), Inventories;
- SFAS No. 13 (revised 2000), Net Income or Loss for the Period, Fundamental Errors and Changes in Accounting Policies;

- SFAS No. 22 (revised 2000), Cash Flow Statements; and,
- SFAS No. 31 (revised 2000), Segment Reporting.

Following the new presentation rules under SFAS No. 1 (revised 2000) and SFAS No. 22 (revised 2000), prior year financial statements were restated to follow the prescribed formats. Changes made pertain principally to the presentation formats of the statements of cash flows, the inclusion of statements of changes in stockholders' equity and additional disclosures required by these new standards. The effect of adopting SFAS 4 on the financial statements is not material.

Principles of Consolidation

As of December 31, 2001, the consolidated financial statements include the accounts of the Company and the following subsidiaries:

Subsidiary	Principal Activity	Percentage of Ownership
DMCI	General Construction	100.00
PDI	Infrastructure and Real Estate Development	100.00
Semirara Cement Corporation*	Cement Manufacturing	100.00
Semirara	Coal Mining	74.40
Wire Rope	Manufacturing	61.70
Riviera Land Corporation (Riviera)	Real Estate Development	51.00

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

The financial statements of DMCI include the accounts of its consolidated subsidiaries, namely: DMCI International, Inc. (DMCII) (100%-owned), DMCI-Laing Construction, Inc. (DMCI-Laing) (60%-owned), OHKI-DMCI Corporation (60%-owned), Beta Electric Corporation (Beta Electric) (50.1%-owned), Contech Products South Corporation (Contech South) (85%-owned), and Constress Philippines, Inc. (Constress) (50.71%-owned).

The financial statements of PDI include the accounts of its consolidated subsidiaries, namely: Contech Products Corporation (100%-owned) and Hampstead Gardens Corporation (60%-owned).

All significant intercompany transactions and balances are eliminated in consolidation.

Revenue and Cost Recognition

Construction. Revenues from construction contracts are recognized on the percentage of completion method of accounting and are 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. Revenues from cost plus contracts are 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 revenues. The amount of such loss is determined irrespective of whether or not work has commenced on the contract; the stage of completion of contract activity; or the amount of profits expected to arise on other contracts which are not treated as a single construction contract. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined. Profit incentives are recognized as revenues when their realization is reasonably assured.

The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents total costs incurred and estimated earnings recognized in excess of amounts billed. The liability, "Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts," represents billings in excess of total contract costs incurred and estimated earnings recognized. Contract retentions are included as part of construction contracts receivable under the "Receivables" account in the assets section of the consolidated balance sheets.

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

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

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.

Allowance for Doubtful Accounts

Specific valuation allowances are provided for receivable accounts which collection becomes reasonably doubtful and when the amounts anticipated to be received in settlement of such receivables are less than the amounts due. The allowance for doubtful accounts is determined after a study of the estimated collectibility of receivable balances and evaluation of such factors as aging of the accounts, collection experience of the Company and its subsidiaries in relation to the particular receivables, past and expected loss experiences and specifically identified doubtful accounts.

Inventories

Effective January 1, 2001, the Company's subsidiaries changed their method of accounting for inventories from the "Lower of cost or market" to "Lower of cost or net realizable value", after provision for obsolete items, to conform with SFAS 4 (revised 2000), the revised standards on inventories. The adoption of the revised accounting standard has no effect in the financial statements of the Company's subsidiaries since costs of the inventories are below their net realizable value. The cost of each inventory category is determined as follows: (a) coal inventory by the weighted average production cost method; (b) materials, parts and supplies, by the first-in, first-out method; (c) installation materials, and equipment parts and supplies by the moving average method; and (d) industrial raw materials and supplies by the weighted average method.

Real Estate for Sale and Development

Real estate costs that relate to the acquisition, development, improvement and construction of the real estate projects are capitalized. Interest costs are capitalized while the development and construction of the real estate projects are in progress.

Real estate for sale and development is carried at the acquisition costs of the real estate properties plus the costs incurred for the construction, development and improvement of the real estate projects. Valuation allowances are provided on real estate for sale and development when the net realizable values of the properties are less than their carrying costs. No significant decline was expected in the net realizable values of such properties as of December 31, 2001 and 2000; accordingly, no valuation allowance was provided.

Investments

Investments in shares of stock and in real estate and construction joint ventures wherein the Company and/or its subsidiaries hold at least 20% ownership interest, or where the Company and/or its subsidiaries exercise significant influence, are accounted for by the equity method. Under the equity method, investments in shares of stock and, real estate and unincorporated construction joint ventures are carried at cost and adjusted principally for the Company and its subsidiaries' equity in the net earnings or losses of the investee companies and unincorporated construction joint ventures from dates of acquisition. Equity in net earnings or losses of investee companies is also adjusted for the straight-line amortization of the difference between the cost of the investments and the Company's and its subsidiaries' underlying equity in the net assets of the investee companies at dates of acquisition. Any increase or decrease in the Company's and its subsidiaries' ownership percentage and equity in the net assets of the investee companies resulting from the issuance of shares of stocks by the investee companies are credited or charged to additional paid-in capital.

The Company's and certain of its subsidiaries' share in the net losses of their investees may equal or exceed the related carrying amounts of the investments plus any advances made. The Company and certain of its subsidiaries discontinue applying the equity method when the investment and net advances are reduced to zero. Accordingly, additional losses are not recognized unless the Company and certain of its subsidiaries have guaranteed certain obligations of the investee or are otherwise committed to provide further financial support for such investee. When the investee subsequently reports net income, the Company and certain of its subsidiaries will resume applying the equity method but only after their share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

Unrealized intercompany profits are eliminated to the extent of the Company's and/or its subsidiaries' proportionate share thereof.

Other investments in shares of stock are carried at cost. When there is a significant and apparently permanent decline in value of the individual investment, the carrying amount of the individual investment is written down to fair value.

An allowance is set up for any substantial decline in value of individual investments.

Investments in real estate properties, except for land, are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the properties.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation, depletion and amortization. Substantially all of the property, plant and equipment of Semirara acquired up to April 30, 1997, except mining properties and mine exploration and development costs which are stated at cost, are stated at appraised values as determined by an independent firm of appraisers as of that date. Subsequent additions are stated at cost. Depreciation, depletion and amortization of property, plant and equipment, except for mining properties, are computed on the straight-line method over the estimated useful lives of the properties or the life of the mine, whichever is shorter. Depletion of mining properties is calculated based on the unit of production method. Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

Minor repairs and maintenance costs are charged to income as incurred; significant renewals and improvements are capitalized. When assets are retired or otherwise disposed of, both the cost and revaluation increment and their related accumulated depreciation, depletion and amortization are removed from the accounts and any resulting gain or loss is credited or charged to income for the year.

Deferred Mine Exploration and Development Costs

Expenditures for mine exploration and development activities on mining properties are deferred as incurred. These deferred costs are charged to expense when the results of the exploration activities are determined to be negative or not commercially viable. When exploration results are positive or commercially viable, the exploration expenses and subsequent development expenses are capitalized and presented as part of "Deferred Charges and Other Assets" account in the consolidated balance sheets. Upon the start of commercial production, such costs are accordingly transferred to the "Property, Plant and Equipment" account and amortized using the unit of production method.

Stripping Costs

Stripping costs are capitalized based on the difference between the actual stripping ratio (ratio of waste moved to coal mined) and the standard stripping ratio established in accordance with the survey conducted on the mine. These costs, included under "Deferred Charges and Other Assets" account in the consolidated balance sheets, are amortized using the unit-of-production method.

Preoperating Costs and Expenses

Expenses incurred prior to the start of the Company and PDI's commercial operations are capitalized and amortized over five years and are presented as part of "Deferred Charges and Other Assets" account in the consolidated balance sheets.

Costs and expenses incurred by Semirara prior to the start of its commercial operations, net of incidental revenues earned, were capitalized and allocated between the Unong and Panian Mines in relation to these mines' respective estimated reserves. These allocated preoperating costs and expenses were separately amortized upon the start of commercial production of the mine using the straight-line method over the life of the respective mines' estimated recoverable reserves. As of December 31, 2001, the remaining allocated preoperating costs and expenses have been written-off (see Note 1).

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax benefits or consequences attributable to: (a) differences between the financial reporting bases of assets and liabilities and their related tax bases; (b) carryforward benefit of the minimum corporate income tax (MCIT); and, (c) net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, and the carryforward benefit of the MCIT and NOLCO are expected to be applied.

An allowance is provided for deferred tax assets that are not reasonably expected to be realized in the future. Any change in the valuation allowance on deferred tax assets is included in the computation of the provision for deferred income tax for the year.

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

Real estate sales with collections in the year of sale of 25% or more of the contracted amount are subject to income tax using the full accrual method; while those contracts with collections in the year of sale of less than 25% of the contracted amount are subject to income tax on installment basis.

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

Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded using the exchange rate prevailing as of the date of the transactions. Outstanding foreign currency-denominated assets and liabilities at year-end are restated using the closing rate. Exchange gains or losses resulting from rate fluctuations upon actual settlement and from restatement at year-end are credited or charged to current operations. However, exchange rate differences affecting liabilities arising directly from the acquisition by Semirara of property, plant and equipment invoiced and payable in foreign currency are accounted for as an adjustment to cost and included in the carrying amount of the related assets, provided that the carrying amount of those assets do not exceed the lower of replacement cost and the recoverable amount from their use or sale. As mentioned in Note 1, Semirara wrote off in 2000 its capitalized foreign exchange losses.

Exposure Draft (ED) No. 37 (as revised) of the Accounting Standards Council (ASC), "The Effects of Changes in Foreign Exchange Rates", proposes restrictive conditions for the capitalization of foreign exchange differentials. ED 37 will become effective on January 1, 2005. Under the proposed standards, Semirara will no longer be able to capitalize foreign exchange differentials effective January 1, 2005.

Retirement Costs

Retirement costs are determined using the projected unit credit method for DMCI and attained age cost method for Semirara and Beta Electric. Past service costs, experience adjustments and the effects of changes in actuarial assumptions are amortized over the expected remaining working lives of covered employees.

Earnings (Loss) Per Common Share

Earnings (Loss) per common share is computed by dividing net income (loss), after deducting the preferred dividend requirements, by the weighted average number of common shares and potential common shares outstanding during the year and adjusted to give retroactive effect to any stock dividends declared during the year. Potential common shares consist of shares potentially issuable upon conversion of preferred shares. Diluted earnings per share assumes the conversion of the outstanding preferred shares. When the effect of the conversion of such preferred shares is anti-dilutive, no diluted earnings per share is presented.

3. Cash and Cash Equivalents

This account consists of:

	2001	2000
Cash on hand and in banks	P151,874,432	P72,210,836
Short-term investments	168,955,918	633,728,476
	P320,830,350	P705,939,312

4. Receivables

This account consists of receivables from:

	2001	2000
Contracts:		
Construction (including retention receivables on uncompleted contracts of P742,752,631 in 2001 and P1,092,342,573 in 2000)	P2,278,213,440	P2,296,047,890
Real estate	101,419,383	65,244,767
Related parties (see Notes 9 and 18):		
Notes receivable from AG&P	732,437,289	732,437,289
Others	858,701,200	514,462,561
Trade:		
Receivables from NPC (see Notes 12 and 24)	327,965,888	153,655,061
Others	18,865,000	150,781,850
Subcontractors and suppliers	395,720,107	527,977,731
Others	427,713,140	439,267,325
	5,141,035,447	4,879,874,474
Less allowance for doubtful accounts	861,047,044	861,483,479
	4,279,988,403	4,018,390,995
Less noncurrent portion	1,826,211,913	1,490,113,235
	P2,453,776,490	P2,528,277,760

Notes receivable from AG&P

The notes receivable from AG&P of ₱732 million bear interest at a rate equal to that charged by AG&P's creditor banks. The Company waived the 12% penalty which was supposed to be charged on the unpaid loans beyond the 90-day term as provided for in the promissory notes. Further, the interests accruing for 2001 and 2000 on the notes receivable have been suspended for three years since January 1999 in recognition of AG&P's deteriorating financial condition. The notes are partly collateralized by a participation in the mortgage trust indenture covering substantially all of AG&P's real properties. As of December 31, 2001, all of the notes receivable from AG&P have already matured and were due for collection. In view of the financial difficulties AG&P is currently experiencing, the Company has provided an allowance of ₱552 million on its notes receivable from AG&P in 2000.

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

Receivables of DMCI from URPHI, an affiliate, totaling ₱610.7 million (₱522.5 million of which is recorded as part of "Contracts receivable - construction", with the balance of ₱88.2 million included in the "Related party receivables - others" account) will be settled through assignment of condominium units to DMCI.

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

The details of the costs, estimated earnings, and billings on uncompleted contracts are as follows:

	2001	2000
Total costs incurred	₱15,879,929,124	₱13,905,833,201
Add estimated earnings	3,318,108,890	3,152,574,334
	19,198,038,014	17,058,407,535
Less total billings (including unliquidated advances from contract owners of ₱448,727,499 in 2001 and ₱497,505,118 in 2000)	19,598,559,369	17,444,989,258
	(₱400,521,355)	(₱386,581,723)

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

	2001	2000
Costs and estimated earnings in excess of billings on uncompleted contracts	₱26,865,851	₱53,551,903
Billings in excess of costs and estimated earnings on uncompleted contracts	(427,387,206)	(440,133,626)
	(₱400,521,355)	(₱386,581,723)

6. **Inventories**

The details of inventories are as follows:

	2001	2000
Equipment parts, materials and supplies	P461,842,820	P364,477,586
Coal and other inventories for sale	3,173,231	64,998,951
	465,016,051	429,476,537
Less allowance for inventory obsolescence	62,295,787	62,177,939
	402,720,264	367,298,598
Equipment parts, materials and supplies in transit	18,381,936	27,414,334
	P421,102,200	P394,712,932

7. **Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consist of the following:

	2001	2000
Value added input taxes	P27,173,927	P567,149
Prepaid expenses	18,498,508	43,084,244
Creditable taxes withheld	8,348,040	11,252,310
Deposits and others	4,357,493	11,015,669
	P58,377,968	P65,919,372

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

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

	2001	2000
Housing and condominium units for sale and development	P719,342,564	P707,912,228
Land for future development (see Note 14)	2,185,820,367	2,205,931,683
	P2,905,162,931	P2,913,843,911

PDI has a memorandum of agreement with URPHI, an affiliate, effective February 15, 1996 for the development of a certain real estate property. As stipulated in this agreement, PDI contributed certain parcels of land at an agreed valuation of P60 million which URPHI shall develop into high-rise, mixed-use condominiums, the cost of which shall be shared equally by URPHI and PDI. PDI has committed to contribute P935 million under this agreement. As of December 31, 2001 and 2000, total costs incurred by PDI for the real estate project amounted to P329 million, which were included as part of the "Housing and condominium units for sale and development" account. The development activities in the real estate property, however, have been temporarily suspended since 1998.

As of December 31, 2001, certain parcels of land for future development with an aggregate carrying value of P150 million were mortgaged by PDI to guarantee various credit facilities granted to Semirara (see Note 18).

Total interest capitalized by the Company's subsidiary as part of real estate for sale and development amounted to P7.7 million in 2001.

9. Investments

The details of this account are as follows:

	2001	2000
Shares of Stock:		
At equity:		
Acquisition cost:		
Balance at beginning of year	P1,016,101,405	P996,669,479
Additions during the year	560,000	21,800,120
Disposals and other movements during the year	(325,932,940)	(2,368,194)
Balance at end of year (subscriptions payable on which amounted to P180,000,000 in 2000)	690,728,465	1,016,101,405
Accumulated equity in net losses:		
Balance at beginning of year	(390,507,494)	(317,871,426)
Equity in net earnings (losses) during the year	191,638	(73,371,923)
Disposals and other movements during the year	(8,994,917)	735,855
Balance at end of year	(399,310,773)	(390,507,494)
Excess of equity in net assets over carrying value of PDI's investment in URPHI	-	11,788,624
	291,417,692	637,382,535
Allowance for probable losses	(35,910,514)	(35,910,514)
	255,507,178	601,472,021
At cost:		
Balance at beginning of year	154,358,471	133,958,471
Additions during the year	4,819,500	20,400,000
Disposals and other movements during the year	(5,910,105)	-
Balance at end of year (subscriptions payable on which amounted to P3,750,000)	153,267,866	154,358,471
	408,775,044	755,830,492
Deposits on Future Subscriptions	300,000,000	300,000,000
Real Estate Joint Ventures:		
At equity:		
Acquisition cost	32,000,000	32,000,000
Accumulated equity in net losses	(6,664,189)	(6,664,189)
Allowance for probable losses	(20,889,954)	(20,889,954)
	4,445,857	4,445,857

(Forward)

	2001	2000
At cost:		
Balance at beginning of year	P19,108,352	P33,256,494
Additional contributions during the year	13,520,000	1,368,352
Disposals during the year	(1,368,352)	(15,516,494)
Balance at end of year	31,260,000	19,108,352
	35,705,857	23,554,209
Equity in Accumulated Earnings of		
Unincorporated Construction Joint Ventures	59,281,168	43,130,127
Real Estate Properties:		
Land	633,995,499	633,920,499
Condominium units - net of accumulated depreciation of P3,606,621 in 2001 and P2,572,317 in 2000	72,010,559	79,917,437
	706,006,058	713,837,936
	P1,509,768,127	P1,836,352,764

The details of the Company's equity in the net assets of its investee companies and real estate and unincorporated construction joint ventures and the corresponding percentages of ownership are as follows:

Investee Companies and Joint Ventures:	Percentages of Ownership		Equity in Net Assets	
	2001	2000	2001	2000
Shares of Stock:				
Montecito Properties Incorporated	25.00%	25.00%	P198,786,073	P201,013,388
Bachy Soletanche Philippines Corporation	49.00	49.00	40,052,865	40,669,986
URPHI	1.58	1.58	6,095,347	6,095,347
Obayashi Philippines Corporation	39.55	56.00	6,007,717	-
Raco-Haven Automation Philippines, Inc.	50.00	50.00	3,681,637	3,650,876
Eco Process & Equipment Phils., Inc.	50.00	50.00	883,539	881,261
Metro Tagaytay Land Company, Inc. (MTLCI)	-	22.00	-	325,548,104
Freyssinet (Davao), Inc. (FDI)	-	33.06	-	13,662,976
Constress Philippines, Inc. (CPI)	-	33.10	-	9,950,083
Subic Water and Sewerage Company, Inc. (Subic Water)	40.00	40.00	-	-
AG&P (see Note 1)	46.00	46.00	-	-
			P255,507,178	P601,472,021
Unincorporated Construction Joint Ventures:				
DMCI/WPC	50.00	50.00	P37,778,271	P33,423,089
Obayashi - DMCI	40.00*	40.00	31,411,612	-
Subic Water	50.00	50.00	9,707,038	9,707,038
			P78,896,921	P43,130,127
Real Estate Joint Venture:				
Diamond Bay Tower Project	20.00	20.00	P4,445,857	P4,445,857

* Formed on October 24, 2000.

* SGVMC102639*

Shares of Stock

MTLCI

Pursuant to the provisions of the memorandum of agreement entered into by PDI and URPHI with Landco Asset Management, Inc. (LAMI) and Metro Pacific Corporation (MPC) (with the concurrence of MTLCI) and in accordance with the subscription agreement dated November 15, 1996 executed between PDI and URPHI and MTLCI (with the conformity of LAMI and MPC), PDI and URPHI subscribed to 785,714 shares each out of the unissued capital stock of MTLCI for a total subscription price of ₱330 million each, payable on installments up to 2000. As of December 31, 2001, PDI has already paid ₱150 million of its subscription.

On March 20, 2001, PDI entered into a Share Purchase Agreement (SPA) with MPC whereby PDI assigned, transferred and conveyed its subscription rights over the 785,714 common shares of MTLCI to MPC. As consideration for such subscription rights, MPC agreed to pay PDI the amount of ₱150 million representing the amount already paid by PDI to MTLCI. Further, in accordance with the requirements of the SPA, PDI, MPC and MTLCI executed on the same date a Deed of Assignment of subscription rights to shares of stock. As provided in this agreement, MTLCI consented to the assignment, transfer and conveyance by PDI to MPC of all its rights, titles and interests in and to its subscription rights. On the same date, PDI assigned, with the consent of MPC, in favor of DMCI, an affiliated company, all its rights, titles and interests in and to its receivable from MPC amounting to ₱150 million.

OPC

On January 15, 2001, OPC's application for its increase in authorized capital stock was approved by the Securities and Exchange Commission. Relative to such increase, OPC issued 50,000 shares of stock by way of stock dividends and new stock subscriptions by certain majority shareholders. DMCI, however, waived its pre-emptive rights to subscribe to additional shares; thus translating to a dilution of its equity ownership in OPC from 56% in 2000 to only 39.55% in 2001. As a result of the foregoing, OPC's financial position and results of operations were deconsolidated from the Company's financial statements.

FDI and CPI

On September 1, 2001, DMCI, through a major stockholder, entered into a Memorandum of Understanding with the stockholders of Freyssinet Philippines, Inc. (FPI), FDI and CPI, whereby DMCI agreed to transfer its entire equity interest in FPI and FDI to a certain stockholder in exchange for such stockholders' investment in CPI. In addition, another shareholder's equity stake in CPI was also transferred in favor of DMCI in exchange for certain real estate property. As a result of the foregoing, DMCI's ownership and interest in CPI increased to 50.71% as of December 31, 2001 from 33.10% the previous year. The financial statements of CPI were consolidated into the Company starting 2001.

Subic Water

On January 22, 1997, PDI subscribed to 3,262,300 shares at a par value of ₱10 per share for an aggregate value of ₱33 million in Subic Water, a joint venture company with Subic Bay Metropolitan Authority (a government corporation), Olongapo City Water District, and Biwater International Limited (presently known as Cascas) (a company organized under the laws of England). The joint venture agreement executed by the parties on November 24, 1996 stipulated, among others, that PDI shall have an equity participation equivalent to 40% in Subic Water amounting to ₱75 million (based on the initial subscribed and paid-in capital of ₱187 million). The balance of PDI's committed subscription to Subic Water of ₱38 million (net of additional subscription payment of ₱4 million in 1998) is expected to be paid on or before the second anniversary of the effective date. As of December 31, 2001, such committed subscription has not yet been paid.

AG&P

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

On August 12, 1999, AG&P's stockholders approved the increase in AG&P's authorized capital stock from ₱36 million consisting of 4.5 million Class A shares and 1.5 million Class B shares, both at ₱6 par value per share to ₱240 million divided into 30 million Class A shares and 10 million Class B shares, both with par value of ₱6 per share; with a qualification by the representatives of AGPI that their final and unqualified approval shall be subject to the submission by its management of an acceptable rehabilitation plan for AG&P on or before December 31, 1999. On February 1, 2000, after a unanimous approval of AG&P's rehabilitation plan, AGPI through its representatives gave its final and unqualified approval to the said increase in AG&P's capital stock.

On the same day, AG&P's BOD approved the assignment, if applicable, by the corporate stockholders of AG&P of the whole or a portion of their respective pre-emptive rights to the increase in AG&P's capital stock subject to the resolutions adopted by AG&P's BOD on June 23, 1999 and by its stockholders on February 1, 2000 relative to the increase in AG&P's capital. As of May 2, 2001, the planned increase in AG&P's capitalization has not yet been pursued in view of the petition filed by AGPI with the SEC (see Note 1).

On December 1, 2000, BFE assigned in favor of the Company its shareholdings in AG&P equivalent to 260,091 Class A shares and 71,817 Class B shares as payment for its liability amounting to ₱18 million.

On January 29, 2002, AG&P's BOD and stockholders approved the filing of a petition for rehabilitation. On February 21, 2002, the court issued a stay order on the enforcement of all claims against AG&P. In connection with this, a rehabilitation plan was submitted by AG&P, which included, among others, the settlement of the Company's claims from AG&P.

Asian Hospital, Inc. (AHI)

On December 9, 1997, the Company subscribed to 133,333,000 shares of the capital stock of AHI at a subscription price of ₱1 per share or a total subscription price of ₱133 million, representing 11.11% of the total outstanding capital stock of AHI. On March 22, 2000, the Company waived its subscriptions to the remaining ₱100 million worth of shares, upon which AHI applied the paid subscription of ₱33 million as full payment for the equivalent 33,333,000 shares of the capital stock of AHI. During 2000, the Company acquired additional 20,000,000 shares of stock for a total subscription price of ₱20 million. As of March 26, 2002, the Company transferred and conveyed its AHI shares to a certain shareholder as payment in the redemption by the Company of such shareholder's preferred shares.

Deposits on Future Subscription

Deposits on future subscription of ₱300 million as of December 31, 2001 and 2000 represent contributions made by PDI relative to a joint venture with the Bases Conversion Development Authority (BCDA) (a government corporation), Philippine National Railways and a consortium of foreign investors and local partners which would undertake the construction of a multi-phase double-track railway system. The covering joint venture agreement provided, among others, the incorporation of North Luzon Railways Corporation (Northrail), the primary purpose of which is to construct, operate and manage such railway system. The contributions made by the joint venture partners are committed to be converted into equity upon the privatization of Northrail.

In 2001, due to the uncertainty surrounding the privatization of Northrail, PDI has decided to pull out of the joint venture. As of May 31, 2002, PDI is still negotiating with BCDA for the recovery of its ₱300 million contribution to Northrail, which management believes is fully recoverable.

Unincorporated Construction Joint Ventures

As of December 31, 2001 and 2000, the unincorporated construction joint ventures which were entered into by DMCI and by DMCII with various third parties have sufficient working capital for their operations and, accordingly, no actual fund contributions were required from the joint venture partners.

Real Estate Properties

Investments in real estate properties in 2001 and 2000 include ₱225 million worth of DMCI's contribution to a certain joint venture in the form of land, the title to which is being retained by DMCI until the joint venture starts commercial operations. Management believes that the successful commencement of the operations of such joint venture depends for the most part on the improvement of the conditions affecting the real estate industry. In addition, DMCI pledged certain investments in real estate with an aggregate book value of ₱162.1 million as of December 31, 2001 under various real estate mortgages as collateral for the indebtedness of certain affiliates to various banks and creditors (see Note 16).

Others

Certain proprietary club shares owned by PDI with a total cost of ₱7 million were used as collateral to guarantee the credit facilities granted to Celebrity Sports Plaza, Inc. (Celebrity), an affiliated company.

10. Property, Plant and Equipment

At cost:

	2001	2000
Land and land improvements	₱488,512,344	₱492,218,060
Buildings and building improvements	163,662,812	175,173,949
Construction equipment and tools	2,492,297,932	2,505,419,337
Machinery and other equipment	322,741,611	261,984,068
Office furniture, fixtures and equipment	165,946,570	159,661,249
Transportation equipment	133,384,974	136,522,770

(Forward)

	2001	2000
Mining fixed assets of Semirara:		
Mining properties	P181,451,613	P181,451,613
Mine exploration and development costs	321,936,500	321,936,500
Leasehold and other improvements	59,025,858	62,849,443
	4,328,960,214	4,297,216,989
Less accumulated depreciation and amortization	3,032,343,177	2,737,824,250
	1,296,617,037	1,559,392,739
Construction in progress	112,149,192	68,486,279
	P1,408,766,229	P1,627,879,018

At revalued amounts:

	2001	2000
Cost:		
Buildings and building improvements	P263,310,385	P233,413,473
Conventional and other mining equipment (see Note 16)	2,839,591,899	2,297,336,433
Continuous mining equipment	942,531,625	944,738,852
Power plants	302,873,126	302,873,126
Roads and bridges	101,725,815	94,927,468
	4,450,032,850	3,873,289,352
Less accumulated depreciation and amortization	2,980,726,225	2,735,336,847
	1,469,306,625	1,137,952,505
Appraisal increase:		
Buildings and building improvements	109,804,693	109,804,693
Conventional and other mining equipment (see Note 16)	45,594,012	45,594,012
Continuous mining equipment	536,263,975	536,263,975
Power plants	376,789,456	376,789,456
Roads and bridges	146,388,235	146,388,235
	1,214,840,371	1,214,840,371
Less accumulated depreciation and amortization	623,832,640	562,765,503
	591,007,731	652,074,868
	P2,060,314,356	P1,790,027,373

Certain subsidiaries have pledged a portion of their fixed assets under various real estate mortgages to secure the indebtedness of certain affiliates to various banks and creditors (see Notes 16 and 18).

11. Funds Held by Custodian Bank

The Company has a Custodianship Agreement with a local bank wherein the Company maintains a sinking fund account comprised of cash or money market instruments gradually set aside in order to cover the redemption of the 2,400,000 redeemable, convertible preferred shares by April 7, 2002 (Final Redemption Date - see Note 28). The annual deposits to the sinking fund are in accordance with an approved schedule of payments. As of December 31, 2001, the amount in the sinking fund account totalled P72 million .

12. Notes Payable

Notes payable consist of the following:

	2001	2000
Bank loans of:		
DMCI and subsidiaries	P442,249,234	P354,399,828
PDI	168,366,657	167,000,000
Semirara	137,000,000	137,000,000
Wire Rope	546,911	1,446,912
Notes payable to affiliated companies	193,978,629	87,072,133
Current maturities of long-term (see Note 16):		
Bank loans	18,323,632	194,009,153
Notes payable	54,735,282	253,592,534
	P1,015,200,345	P1,194,520,560

The bank loans of DMCI and its subsidiaries consist of peso denominated short-term borrowings from local banks which bear interest at prevailing market rates and are payable on monthly, quarterly and lump sum bases on various maturity dates in 2002. These are secured by various joint suretyship agreements entered into by the Company and certain individual stockholders of the Company.

A significant portion of PDI's bank loans represent peso-denominated short-term borrowings from local banks which bear interest at prevailing market rates and are secured by a corporate guarantee and a continuing surety agreement issued by the Company and certain stockholders of the Company. Also, PDI and a local bank entered into a receivable purchase agreement in connection with the sale of PDI's club shares in Celebrity. The agreement provides for the submission and delivery of the said club shares and the related post-dated checks issued by Celebrity. The outstanding loans relative to such agreement amounted to P28 million and P19 million as of December 31, 2001 and 2000, respectively.

Semirara's bank loans represent peso-denominated short-term borrowings from local banks which bear interest at prevailing market rates and are collateralized by a chattel mortgage on three (3) floating vessels owned by an affiliate, a corporate guaranty of certain affiliates and assignment of receivables from NPC (see Note 4).

The notes payable to affiliated companies are unsecured operating cash advances from DMC-Construction Equipment Resources, Inc. and M & S Company.

13. Accounts and Other Payables

This account consists of obligations relative to the following:

	2001	2000
Suppliers	P770,113,140	P745,574,886
Subcontractors	462,108,444	541,476,628
Accrued expenses	1,386,024,506	1,962,587,179
Due to affiliated companies	518,474,701	293,123,402
Department of Energy (DOE) and local government units	212,138,793	155,200,436
Customers' deposits	33,567,691	39,383,158
Other payables	-	51,579,119
	P3,382,427,275	P3,788,924,808

Semirara has a Coal Operating Contract with DOE dated July 11, 1977, as amended on January 16, 1981, for the exploration, development, mining and utilization of coal over Semirara Island, Antique under the terms and conditions provided therein and pursuant to the provisions of Presidential Decree No. 972, otherwise known as the Coal Development Act of 1976. The contract also provides for the manner and basis of sharing the gross proceeds from coal production between Semirara and DOE. Semirara's liabilities to DOE 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 ₱212 million and ₱155 million as of December 31, 2001 and 2000, respectively. The contract is for a maximum period of 35 years (inclusive of the developmental stage and renewals) up to July 2012.

Accounts payable to suppliers included liabilities amounting to ₱269.2 million (US\$5.2 million) and ₱213.2 million (US\$4.3 million) to various foreign suppliers for open account purchases of equipment and equipment parts and supplies as of December 31, 2001 and 2000, respectively.

14. Payables to Property Sellers

Payables to property sellers, amounting to ₱289,737,787 in 2001 and ₱302,495,591 in 2000 represent the balance of PDI's obligations to various real estate property sellers for the acquisition of certain parcels of land and residential condominium units (see Note 8). The terms of the deeds of absolute sale covering the land acquisitions provided that such obligations are payable only after the following conditions, among others, have been complied with: (a) presentation by the property sellers of the original transfer certificates of title covering the purchased parcels of land; (b) submission of certificates of non-delinquency on real estate taxes; and, (c) physical turnover of the acquired parcels of land to PDI.

15. Deferred Credits

The details of this account consist of:

	2001	2000
Deferred income tax - net (see Note 17)	₱365,357,388	₱484,024,483
Deferred:		
Revenues of:		
Semirara	101,084,277	114,823,929
PDI	25,316,625	-
Hampstead Gardens	4,340,123	-
Gross profits of DMCI	-	6,451,590
Others	11,870,577	-
	₱507,968,990	₱605,300,002

Deferred revenues of Semirara represent the balance of NPC's payments for the unlifted coal totaling 150,000 MT of Selectively Mined Coal (Select) priced at ₱179 million which formed part of the minimum contracted quantity that NPC agreed to purchase for the year 1990 under the CSA between Semirara and NPC (see Note 24). On September 28, 1990, Semirara entered into a Memorandum of Agreement (MOA) with NPC, whereby Semirara agreed to provide NPC 150,000 MT Select coal or its ROM coal equivalent, free of shipping cost to NPC, over a period of seven consecutive years in equal tonnage beginning 1993 or when Calaca II power plant starts operations, whichever was earlier. The total coal lifted under such MOA totalled 68,249 MT and 56,711 MT of Select coal equivalent or its peso equivalent of ₱77 million and ₱64 million as of December 31, 2001 and 2000, respectively.

16. Long-Term Debt

Long-term debt pertains to the following obligations:

	2001	2000
Long-term notes payable of Contech South	P68,750,000	P100,000,000
Long-term obligations of Semirara:		
Bank loan	374,498,304	303,100,062
Notes payable	441,606,194	506,288,121
Acceptances and trust receipts payable	329,965,247	359,569,079
Payable to a foreign supplier	393,735,652	-
	1,608,555,397	1,268,957,262
Less current portion of:		
Bank loans (see Note 12)	18,323,632	194,009,153
Notes payable (see Note 12)	54,735,282	253,592,534
Acceptances and trust receipts payable	281,004,679	359,569,079
	P1,254,491,804	P461,786,496

Long-term Notes Payable of Contech South

In 2000, Contech South obtained a long-term loan of P100 million from a development bank to partly finance the second phase of its hollow-core wall panel manufacturing project. The loan bears interest at the prevailing market rate and is payable in 16 equal quarterly installments, the first of which falls due on November 13, 2001. Further, the loan is secured by a mortgage on a parcel of land (see Note 9) owned by DMCI; a first lien chattel mortgage on certain machinery and equipment acquired out of the proceeds of the loan; a continuing suretyship by the Company; and endorsement or assignment in favor of the creditor bank of any insurance policies covering the mortgaged assets.

Bank Loans

Semirara's bank loan of P374 million in 2001 represents a peso-denominated loan from a local bank that has been outstanding since 1998; was used to refinance certain short-term loans and liabilities under letters of credit issued by the bank; bears interest at prevailing market rates; was secured by a chattel mortgage on certain Semirara property, machinery and equipment (see Note 10), a deed of suretyship and a deed of undertaking executed by the Company, whereby the Company undertook and obligated itself in favor of the local bank not to sell, reduce, assign, pledge or transfer its shares in Semirara for as long as Semirara's loan with the local bank is outstanding; and, was payable in 11 equal quarterly installments starting June 2000 up to December 2002.

On June 15, 2001, Semirara and this local bank agreed to restructure such loan. After the restructuring, the loan is now secured by (a) a real estate mortgage (REM) constituted over the properties located at Taguig, Metro Manila and Laguna registered under the name of DMCI and PDI; (b) 14 condominium units and parking spaces of Pioneer Highlands Condominium registered under the name of URPHI; and (c) a Suretyship agreement executed by DMCI. The loan, with interest at 91-day T-bill rate + 3.25%, is now payable in 19 equal quarterly amortization or six years from date of availment, including an 18-month grace period. The agreement also provided that a ratio of current assets to current liabilities of at least 1:5 for the first four (4) years and 1:1 for the remaining two (2) years shall be maintained at all times.

Notes Payable

The notes payable represent Semirara's foreign currency-denominated long-term obligations amounting to about US\$8.5 million in 2001 and US\$10 million in 2000 to a foreign supplier arising from acquisitions of certain mining equipment, parts and supplies. These notes bear interest at prevailing market rates; are collateralized by the mining equipment acquired, an unconditional and irrevocable letter of guarantee issued by the Company, and an assignment agreement whereby Semirara assigned to the supplier its right to receive payment from NPC in case there is default in any of its payments; and are payable in various installments up to May 2003.

On December 19, 2001, Semirara and this foreign supplier finalized the Debt Restructuring Agreement for the restructuring of such obligations. These notes are now payable in 18 consecutive quarterly installments until December 15, 2006 and bear interest based on SIBOR + 3.75%. The notes are now secured by (a) an REM constituted over the properties located at Montecito Plantation and Ayala Canlubang Estate registered under the name of DMCI; (b) chattel mortgage of certain equipment owned by Semirara and DMCI; and (c) letter of guarantee issued by the Company. The agreement also provided that a ratio of current assets to current liabilities of at least 1:5 for the first four (4) years except for the year 2002 and 1:1 for the remaining two (2) years shall be maintained at all times.

Acceptances and Trust Receipts

The acceptances and trust receipts payable represent Semirara's liabilities under three-year deferred usance letters of credit obtained from local banks for the acquisition of certain mining equipment. These liabilities bear interest at prevailing market rates. These are secured by a surety agreement and/or real estate mortgages of affiliated companies and are payable in various annual installments until October 2001.

In 2001, trust receipts and acceptances payable with a certain local bank were restructured and are now payable until October 2007 with interest at 18.50%. However, a substantial portion of these acceptances and trust receipts are past due as of December 31, 2001. As a result, one of the local banks charged Semirara penalties of P2 million for the year ended December 31, 2001.

Payable to a Foreign Supplier

The payable to a foreign supplier account represents Semirara's foreign currency-denominated long-term obligations amounting to US\$7.6 million arising from the acquisition of certain equipment in 2001. This amount is payable over five years in ten equal semi-annual installments after the 12-month grace period, with interest at 8.25% plus establishment fee of 2.75% and commitment fee of 1%. Title to the properties will pass to Semirara only upon full settlement of its obligation. Also, the amount due is secured by a corporate guarantee issued by the Company and the visibility of the NPC/Semirara coal supply control, evidencing a ten-year contract for a supply of up to 2.4 million MT of coal per year.

17. Income Taxes

The significant components of the Company's and its subsidiaries' net deferred tax liabilities which are included as part of the "Deferred Credits" account (see Note 15) in the liabilities section of the consolidated balance sheets are as follows:

	2001	2000
Deferred tax asset on:		
NOLCO	₱789,879,770	₱764,047,266
Allowance for doubtful accounts	73,623,727	275,674,713
Accrued expenses	61,453,325	41,488,382
Allowance for inventory obsolescence	19,934,652	19,896,940
Unamortized past service cost contributions	17,339,775	15,641,831
MCIT carryforward benefit	11,986,906	3,827,272
Net unrealized foreign exchange loss	9,636,391	25,960,794
Excess of tax over book basis of deferred gross profit on real estate sales	504,288	1,737,335
Others	13,442,866	-
	997,801,700	1,148,274,533
Less valuation allowance	923,260,768	1,074,485,357
	74,540,932	73,789,176
Deferred tax liability on:		
Income on uncompleted construction contracts	(437,433,919)	(555,989,344)
Excess of book over tax basis of deferred gross profit on real estate sales	(1,542,876)	-
Capitalized interest on real estate for sale and development	(921,525)	-
Others	-	(1,824,315)
	(439,898,320)	(557,813,659)
Net deferred tax liability	(₱365,357,388)	(₱484,024,483)

The reconciliation of the provision for (benefit from) income tax computed at the statutory income tax rates to the provision for (benefit from) income tax shown in the consolidated statements of income for the years ended December 31, 2001, 2000 and 1999 follows:

	2001	2000	1999
Provision for (benefit from) income tax computed at the statutory income tax rate	(₱10,603,865)	(₱610,841,508)	₱21,383,520
Adjustments to income tax expense (benefit) resulting from:			
Depreciation on appraisal increase	19,541,482	24,107,494	27,148,510
Interest income subjected to final tax at a lower rate - net	12,327,576	(7,760,370)	(11,357,532)
Nondeductible loss on sale of investments in shares of stock	274,724	45,056,000	-
Income from construction contracts already subjected to 8% final tax	(73,362,772)	(62,281,596)	-

(Forward)

	2001	2000	1999
Nondeductible (nontaxable) equity in net losses (earnings) of unconsolidated affiliated companies and, real estate and unincorporated construction joint ventures	(P8,247,658)	P23,479,015	P68,160,961
Gain on sale of investments in shares of stock and marketable equity securities already subjected to final taxes	(516,393)	(7,368,558)	(52,085,072)
Dividend income exempt from income tax	(353,087)	-	-
Write-off of deferred charges, various idle and nonoperating assets and capitalized foreign exchange losses	-	107,367,787	-
Nondeductible provision for probable losses on investments	-	47,867,221	-
Net effect of change in the statutory income tax rate	-	-	(16,273,739)
Others - net	752,592	(19,791,179)	43,751,923
	(60,187,401)	(460,165,694)	80,728,571
Less valuation allowance on deferred tax assets	6,917,494	467,693,100	-
Provision for (benefit from) income tax	(P67,104,895)	P7,527,406	P80,728,571

18. Related Party Transactions

In the regular course of business, the Company's and its subsidiaries' transactions with related parties consisted primarily of the following:

- (a) Comprehensive Surety, Corporate and Letters of Guarantees issued by the Company together with certain consolidated subsidiaries in favor of certain affiliates for various credit facilities granted to and for full performance of certain obligations by the Company and/or its consolidated subsidiaries' affiliated companies. As of December 31, 2001, the aggregate amount of outstanding surety and/or guarantees issued by the Company and/or its consolidated subsidiaries in favor of their affiliated companies amounted to P12.6 million;
- (b) Certain real estate properties of PDI placed under accommodation mortgages to secure the bank loans of an affiliated company. In consideration of such accommodation mortgages, PDI and the affiliated company executed a Continuing Indemnity Agreement to indemnify and hold free and harmless PDI from any claims, liabilities, demands, actions, costs, expenses and consequences of whatever nature which may arise from the said accommodation mortgages;
- (c) Interest and noninterest bearing cash and operating advances made by the Company and its subsidiaries to and from various affiliated companies; and,
- (d) Other transactions consisting of purchases of materials, construction contracts, sale and assignment of equipment and, rentals of office space and equipment rentals.

The effects of the foregoing transactions are shown under the appropriate accounts in the consolidated financial statements.

19. Earnings (Loss) Per Common Share

The following table presents information necessary to calculate basic loss per common share:

	2001	2000	1999
	(In thousands except basic loss per common share)		
Net income (loss)	₱17,539	(₱1,616,122)	₱31,031
Less dividends on preferred stock	-	128,237	140,382
Net loss applicable to common stock	₱17,539	(₱1,744,359)	(₱109,351)
Weighted average number of common shares	2,255,494	2,255,494	2,255,494
Earnings (loss) per common share	₱0.01	(₱0.77)	(₱0.05)

The assumed conversion of the Company's preferred shares has no dilutive effect in 2001, 2000 and 1999. Accordingly, no diluted earnings per share is presented in the accompanying consolidated statements of income for such years.

20. Retirement Plan

DMCI and Semirara have funded and formal noncontributory defined retirement plans covering their regular employees. Retirement benefits are computed principally on the member's latest monthly salary for each year of service. Total retirement costs charged to operations by DMCI and Semirara amounted to ₱15.7 million in 2001, ₱24.5 million in 2000 and ₱23 million in 1999.

As of December 31, 2000, the date of DMCI's recent actuarial valuation, the actuarial accrued retirement benefits amounted to ₱126.1 million while the fair market value of the plan assets amounted to ₱33.6 million, resulting in an unfunded past service cost liability of ₱92.5 million. The principal actuarial assumptions used to determine the retirement benefits were an investment yield and discount rate of 10% per year; annual salary increases of 10%; and, normal retirement age of 60 years or 30 years of service, whichever comes earlier. Actuarial valuations are made at least every two years. DMCI's annual contribution to the retirement plan consists of payments covering the normal service cost for the year and a payment toward funding the unfunded actuarial liability.

DMCI retrenched certain employees in 2001 and 2000. Retrenchment costs amounted to ₱9 million in 2001 and ₱2.8 million in 2000.

Semirara's latest actuarial valuation, on the other hand, dated December 31, 1999 disclosed accrued retirement benefits amounting to ₱24.5 million, while the fair value of the plan net assets amounted to ₱6.6 million resulting in unfunded retirement benefits of ₱17.9 million. The principal actuarial assumption used to determine retirement benefits was a uniform rate of 10% for discount, salary increases and return on plan assets. Valuation is made at least every three years. Semirara's contribution to the retirement plan, which is primarily dependent on Semirara's financial resources, consists of a payment covering the normal service costs for the year plus a payment toward funding the actuarial accrued liability.

Beta Electric, which does not have any formal retirement plan for its regular employees, provides for estimated retirement benefits in accordance with RA No. 7641 to qualified employees. Retirement expense accrued by Beta Electric for the years ended December 31, 2001, 2000 and 1999 amounted to ₱652,647, ₱904,697 and ₱792,075, respectively. Based on the actuarial estimates for Beta Electric as of December 31, 1998 which was computed under the attained age normal method, the unfunded past service costs amounted to ₱2 million.

21. Capital Stock

The Company's 2,400,000 cumulative, convertible preferred shares were listed with the Philippine Stock Exchange (PSE) on April 7, 1997 and are due for redemption on April 7, 2002 (Final Redemption Date) at the issue price of ₱1,000 per share, subject to, among others, the following terms and conditions: (a) the shares shall bear dividends at the following annual rates, payable semiannually in arrears and in cash, with the first dividend payment to commence at the end of the first semester from the date of the issuance of the shares (the "Issue Date"): Year 1, 4.0%; Year 2, 5.0%; and Years 3 to 5, 7.2%; (b) the shareholder may convert the preferred shares to common shares to be issued by the Company from its unissued capital stock, commencing on the sixth month from Issue Date and ending 30 calendar days before Final Redemption Date at a conversion price computed at the average market price of the common shares as traded at the PSE for a period of 15 consecutive trading days immediately preceding one day prior to the start of the Offer Period, plus a conversion premium of 10%, subject to certain adjustments due to the occurrence of certain events; and, (c) unless previously redeemed, purchased, cancelled, or converted, the preferred shares shall be redeemed by the Company at the end of five years from the Issue Date. Early redemption is also allowed under certain terms and conditions. Also, on February 13, 1997, the SEC issued a Permit to Offer Share for Sale for the underlying 150,000,000 unissued common shares with a par value of ₱1 per share for an aggregate value of ₱150 million, which will be issued subsequently upon exercise by the preferred shareholders of their right to conversion.

The excess of the offer price over the par value of the preferred shares amounting to ₱2,326 million, net of the cost related to the offering, was credited to the "Additional paid-in capital" account in the stockholders' equity section of the consolidated balance sheets.

On May 27, 1997, the SEC licensed the issuance of an additional 74,719,200 common shares, with a par value of ₱1 per share, to cover the additional underlying shares of convertible preferred shares at the adjusted conversion price of ₱10.68 per share. The adjustment of the conversion price was made to reflect the dilutive effect of the 100% stock dividend declared in 1997, so as to meet the conversion requirement of the preferred shares.

Total dividends declared on the preferred shares amounted to ₱128.2 million in 2000 and ₱140.4 million in 1999. As of December 31, 2001, dividends in arrears for preferred shares amounted to ₱129.8 million.

As of December 31, 2001 and 2000, the number of preferred shares held in treasury, including 132,521 shares held by DMCI, totalled 729,416 shares with an aggregate cost of ₱574.3 million, inclusive of incidental expenses.

22. General and Administrative Expenses

	2001	2000	1999
Salaries, wages and employee benefits	P126,800,943	P127,022,160	P153,709,191
Provision for probable losses	79,928,080	31,507,346	71,777,456
Shipping, hauling and shiploading costs	61,418,877	59,450,721	54,910,331
Government share	42,340,648	24,489,712	24,261,912
Depreciation and amortization	48,233,377	63,327,186	84,624,867
Advertising	31,410,124	11,879,557	2,616,905
General overhead	28,908,275	7,107,957	12,360,310
Outside services	29,189,928	37,433,489	25,030,519
Rental	22,490,337	21,131,431	24,260,287
Taxes and licenses	24,168,796	35,471,155	17,531,770
Communications, light and water	12,989,562	12,994,273	17,193,287
Repairs and maintenance	11,554,401	8,527,881	5,921,362
Miscellaneous	54,515,504	43,392,720	2,919,703
	P573,948,852	P483,735,588	P497,117,900

23. Business Segment Information

The Accounting Standards Council issued SFAS No. 31, Segment Reporting, effective for financial statements, as applicable, beginning on or after January 1, 2001. Such SFAS requires that a public business enterprise report financial and descriptive information about its reportable segments. Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources among operating segments.

The industry segments where the Company and its subsidiaries and affiliates operate are as follows: general construction, infrastructure and real estate development, coal mining, manufacturing and others.

Financial information about the operations of these business segments is summarized as follows (amounts in thousands):

	Revenues		Net Income (Loss)		Total Assets		Net Assets (Capital Deficiency)	
	2001	2000	2001	2000	2001	2000	2001	2000
General construction	P2,314,192	P3,686,809	P10,983	P65,531	P6,342,804	P7,025,300	P3,565,409	P3,527,755
Infrastructure and real estate development	346,059	235,972	60,141	(3,490)	3,671,671	4,118,100	2,384,553	2,374,950
Coal mining	1,360,356	770,559	(21,913)	(1,368,039)	3,245,078	2,741,117	(138,154)	118,241
Manufacturing	43,086	88,141	(40,398)	11,113	331,708	395,921	84,895	125,144
Holding company	230,110	175,849	17,539	(1,418,175)	6,934,612	6,837,327	5,778,242	5,692,420
Combined balances	4,293,803	4,957,330	26,352	(2,713,060)	20,525,873	21,117,765	11,674,945	11,838,510
Eliminations	(33,837)	(139,265)	(8,813)	1,096,938	(7,227,981)	(7,579,742)	(5,956,637)	(6,125,952)
Consolidated balances	P4,259,966	P4,818,065	P17,539	(P1,616,122)	P13,297,892	P13,538,023	P5,718,308	P5,712,558

24. CSA with NPC

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

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

On January 15, 2001, Semirara and NPC amended the CSA as follows, among others:

- (a) supply of a revised annual minimum quantity of 700,000 MT up to a maximum quantity of 1,200,000 MT of coal, which was stipulated in the CSA dated May 19, 1995, in view of the depletion of the Unong mine;
- (b) conversion of the mode of delivery from FOB-Semirara to C&F-Calaca to simplify the payment and rescheduling of coal deliveries to Calaca I and Calaca II;
- (c) maintenance by Semirara, at its own expense, of a minimum coal running inventory of at least 50,000 MT that meets the applicable coal specifications set forth in the amended CSA and ready in all aspects for loading and delivery to Calaca I and Calaca II;
- (d) 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;
- (e) inclusion of certain bases of NPC's exercise of its rights to reject and/or stop coal deliveries by Semirara to NPC; consequences of coal rejection in terms of title and risk of loss to coal delivered, relief from payment by NPC and removal of delivered coal from NPC premises; and remedies for Semirara in the event NPC exercises such rights;
- (f) changes in (i) the pricing periods to a three-month period which shall commence respectively at the beginning of a calendar quarter namely: January 1, April 1, July 1, and October 1; and, (ii) the computation of the base price of Semirara's coal delivery including the determination of the initial and final base prices, to consider the volatile foreign exchange situation and the price of all NPC imported coal during the pricing period;
- (g) changes in the computation of the adjustment for penalty or bonus from the base price per MT;
- (h) requirement for Semirara and NPC to reconcile payments made for coal deliveries for the immediate preceding pricing period within 30 calendar days from determination of the final base price by issuing a debit memo to the other;

- (i) deletion of the CSA provision requiring NPC to make an equity investment in Semirara in the event that the aggregate deliveries of coal meeting the coal specifications taken by NPC within any calendar year is less than 900,000 MT; and,
- (j) inclusion of the provision allowing Semirara and the new owner or operator of Calaca I and Calaca II in the event that Calaca I and Calaca II are privatized or its operation and maintenance is turned over to the private sector conformably with the provisions of the Build-Operate-Transfer Law, as amended, or such other enabling statute to review the provisions of the CSA, provided that in the conduct of such review, the prevailing policy on the development of the country's indigenous energy resources as set forth in the DOE Act of 1992 including changes thereto shall be observed.

Semirara's receivables from NPC arising from the CSA amounted to ₱220 million (net of allowance for doubtful accounts of ₱128 million) and ₱154 million as of December 31, 2001 and 2000, respectively.

25. Contingencies

DMCI, DMCI-Laing, and Beta Electric are contingently liable for contractor's guarantees arising in the ordinary course of business, including letters of guarantee for performance, advance payment, surety and warranty bonds, and for contractual and other risks related to various construction projects amounting to ₱940.9 million as of December 31, 2001. In addition, the Company and/or its consolidated subsidiaries issued various corporate guarantees in 2001 amounting to ₱689.4 million to secure the credit facilities granted to certain subsidiaries and affiliated companies by various creditors, and to secure the performance and guarantee bonds for various projects awarded to the Company's subsidiaries or affiliated companies.

There are pending legal cases against the Company and its subsidiaries and officers as of December 31, 2001 that are being contested by the Company and its subsidiaries and their legal counsels. The management of the Company and its subsidiaries and officers and their legal counsels believe that the final resolutions of these claims will not have a material effect on the financial position and operating results of the Company and its subsidiaries.

26. Commitments

PDI signed a memorandum of agreement with a third party dated November 25, 1997 whereby PDI committed to make cash contributions to a real estate joint venture project totalling ₱375 million in a manner and after fulfillment of certain conditions precedent as defined in the memorandum of agreement.

In accordance with a shareholders' loan agreement among the shareholders of Monarca Greenworld Corporation (Monarca), an affiliate, PDI agreed to make available interest-bearing loans of up to ₱133 million to finance the development of a real estate project of Monarca. As of December 31, 2001, PDI's loans to Monarca under this agreement amounted to ₱33 million.

The Company and its subsidiaries lease a portion of their office premises that are renewed under such terms and conditions agreed upon with the lessors. The approximate minimum annual rentals on such leases after December 31, 2001 are not material to the Company and its subsidiaries' results of operations.

As of December 31, 2001, DMCI and Beta Electric have unused letters of credit amounting to ₱72.1 million.

27. Subsequent Event

Due to its current liquidity problem, the Company was unable to redeem all of its cumulative preferred shares which were originally due for redemption on April 7, 2002. On April 1, 2002, the BOD of the Company approved the Exchange Offer involving the redemption of all of the Company's outstanding preferred shares totalling 1,670,584 shares as of December 31, 2001. The 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 Treasury Bill rates plus a 2% spread; and shall be secured by a mortgage on certain real estate properties owned by the Company and/or its subsidiaries and affiliates.

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 Treasury Bill rates plus a 3% spread; (b) fixed interest at 13% for the first 5 years of the loan and floating for the remaining 2 years at a rate equivalent to that contemplated in letter (a); and (c) fixed interest at 13% for the entire 7-year term; and shall be secured by a participation in a mortgage trust indenture covering various accounts receivables, inventory and equipment owned by the Company and/or its subsidiaries and affiliates; and a mortgage on certain provincial real estate properties.

Option C - Asset for Share Exchange

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

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). 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.

Such convertible preferred shares will remain outstanding until they are fully redeemed or repurchased by the Company through any one or more of the foregoing Options. In addition, 12,330 preferred shares have been repurchased by DMCI as of same date.

As of May 31, 2002, 125,770 preferred shares have already been redeemed by the Company under the Exchange Offer; while holders of 376,020 preferred shares have already agreed to the redemption of their shares through one or more of the foregoing Options. In addition, 12,870 preferred shares were repurchased by DMCI as of same date.

28. Note to Consolidated Cash Flow Statements

Supplemental disclosure of noncash investing and financing activities follows:

	2001	2000	1999
Acquisitions of conventional and other mining equipment (see Note 16)	₱393,735,652	₱-	₱-
Depreciation charged to deferred charges	42,653,482	90,628,369	168,446,010
Payments of notes and accounts payable in exchange for properties	29,500,000	-	-
Shares of stock assigned to the Company by AG&P as partial payment of AG&P's notes payable to the Company	-	-	22,010,775
Assignment of PDI's investment in Contech South to certain affiliates	28,169,784	-	-
Property plant and equipment received by DMCI as payment of AG&P's liabilities to DMCI	-	-	14,820,000
Deconsolidation of DMCI's investments in OPC	6,007,717	-	-
Deconsolidated balances of OPC:			
Operating assets	20,675,101	-	-
Investments	2,131,963	-	-
Property, plant and equipment	1,748,271	-	-
Deferred charges and other assets	94,900	-	-
Accounts and other payable	17,087,667	-	-
Billings in excess of costs and estimated earnings on uncompleted contracts	1,811,561	-	-
Stockholders' equity	6,674,936	-	-

29. Reclassification of Accounts

Certain accounts in the 2000 financial statements were reclassified to conform with the 2001 presentation of accounts.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the Philippines.

The accompanying consolidated financial statements have been prepared assuming that the Company and certain subsidiaries will continue operating in the normal course of business. As discussed in Note 1 to the consolidated financial statements, Semirara Mining Corporation's (Semirara) results of operations for the past years resulted in a cumulative deficit of ₱1.8 billion and capital deficiency of ₱139 million as of that date. Furthermore, as of that date, Semirara's current liabilities exceeded its current assets by ₱1.6 billion. Also, the operations of DMCI Project Developers, Inc. have been significantly affected by the general decline in the real estate industry. Further, there has been a slowdown in the development of new projects primarily due to unavailability of necessary capital and credit. As also discussed in Note 28, the Company was unable to redeem all of its cumulative preferred shares originally due for redemption on April 7, 2002. Management's plans with regard to these matters are also described in Notes 1 and 28. The Company's and certain Subsidiaries' ability to operate in the normal course of business depends, among others, on the successful restructuring and settlement of its preferred share obligations, and its ability to obtain other sources of financing to support its current operations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets on the amount and classification of liabilities that might result should the Company and certain subsidiaries be unable to continue operating in the normal course of business.

PTR No. 6723207
January 2, 2002
Makati City

May 31, 2002

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the Philippines.

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J. D. CABALUNA
Partner
CPA Certificate No. 36317
PTR No. 6723207
January 2, 2002
Makati City

May

31,

2002