COVER SHEET

AS095-002283

SEC Registration Number

DMCI HOLDINGS, INC. AND SUBSIDIARIES

(Company's Full Name)

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

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

Mr. Herbert M. Consunji	888-3000
(Contact Person)	(Company Telephone Number)

12	31	AAFS		
Month	*Day*	(Form Type)	*Month*	*Day*
(Fiscal Year)			(Annual Meeting)	

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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SGVMC107155

DMCI HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2004 and 2003
and Years Ended December 31, 2004, 2003 and 2002

and

Report of Independent Auditors

SGVMC107155

SGV & Co

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

■ Phone: (632) 891-0307
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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-F

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2004 and 2003, 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, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the Philippines.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-A
Tax Identification No. 102-082-365
PTR No. 1195834, January 3, 2005, Makati City

May 3, 2005

Report of Independent Auditors

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

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Jessie D. Cabaluna
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SEC Accreditation No. 0069-A
Tax Identification No. 102-082-365
PTR No. 1195834, January 3, 2005, Makati City

May 3, 2005

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2004	2003 (As restated - Note3)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱217,124,563**	₱247,590,446
Receivables - net (Note 5)	**2,556,171,445**	2,028,151,546
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 6)	**112,260,407**	85,761,744
Inventories - net (Note 7)	**630,834,236**	591,794,231
Real estate for sale and development (Note 8)	**3,568,147,187**	3,561,761,874
Other current assets (Note 9)	**129,643,761**	133,295,807
Total Current Assets	**7,214,181,599**	6,648,355,648
Noncurrent Assets		
Noncurrent receivables - net (Note 5)	**1,095,275,329**	1,173,602,549
Investments in associates, jointly controlled entities and others - net (Note 10)	**414,255,220**	440,428,451
Investment properties - net (Note 11)	**984,309,477**	1,010,110,160
Property, plant and equipment - net (Note 12)	**2,563,480,585**	2,379,813,545
Other noncurrent assets - net (Note 13)	**457,262,203**	606,360,585
Total Noncurrent Assets	**5,514,582,814**	5,610,315,290
	₱12,728,764,413	₱12,258,670,938
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes payable (Note 14)	**₱403,884,707**	₱823,617,491
Accounts and other payables (Note 15)	**3,029,621,939**	2,693,739,192
Current portion of long-term debt (Note 16)	**1,048,212,512**	772,335,328
Estimated liability for property development	**38,005,374**	26,541,992
Billings in excess of costs and estimated earnings on uncompleted contracts (Note 6)	**144,500,642**	422,554,809
Total Current Liabilities	**4,664,225,174**	4,738,788,812
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 16)	**1,272,665,087**	1,597,725,549
Payable to related parties (Note 27)	**851,922,968**	1,124,295,963
Other noncurrent liabilities (Note 17)	**319,599,291**	380,942,914
Total Noncurrent Liabilities	**2,444,187,346**	3,102,964,426
Total Liabilities	**7,108,412,520**	7,841,753,238
Minority Interest in Consolidated Subsidiaries	**173,087,816**	219,225,595
Stockholders' Equity (Note 18)		
Preferred stock	**342,240**	451,690
Common stock	**2,255,494,000**	2,255,494,000
Additional paid-in capital	**2,827,839,006**	2,929,845,102
Retained earnings (deficit) (Notes 2 and 3)	**602,685,131**	(750,810,720)
	5,686,360,377	4,434,980,072
Preferred shares held in treasury - at cost	**(239,096,300)**	(237,287,967)
Total Stockholders' Equity	**5,447,264,077**	4,197,692,105
	₱12,728,764,413	₱12,258,670,938

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See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2004	2003 (As restated - Note 3)	2002 (As restated - Note 3)
SALES AND SERVICES (Note 19)	**₱7,761,079,671**	₱4,615,830,531	₱3,217,586,192
COSTS OF SALES AND SERVICES (Note 20)	**5,250,877,724**	3,619,619,700	2,668,424,936
GROSS PROFIT	**2,510,201,947**	996,210,831	549,161,256
OPERATING EXPENSES (Note 21)	**(765,117,893)**	(581,048,737)	(679,468,309)
OTHER OPERATING INCOME - Net (Note 22)	**113,895,921**	40,101,178	103,132,557
INCOME (LOSS) FROM OPERATIONS (Note 2)	**1,858,979,975**	455,263,272	(27,174,496)
OTHER EXPENSES - Net			
Interest and other charges - net (Note 23)	**365,148,608**	383,695,711	321,079,908
Equity in net losses (earnings) of associates and jointly controlled entities (Note 10)	**7,333,838**	(899,614)	35,208,916
	372,482,446	382,796,097	356,288,824
INCOME (LOSS) BEFORE INCOME TAX AND MINORITY INTEREST	**1,486,497,529**	72,467,175	(383,463,320)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 24)	**58,069,653**	(166,333,817)	(91,832,693)
INCOME (LOSS) BEFORE MINORITY INTEREST	**1,428,427,876**	238,800,992	(291,630,627)
MINORITY INTEREST	**(74,932,025)**	(39,963,614)	70,770,639
NET INCOME (LOSS) (Notes 2, 3 and 26)	**₱1,353,495,851**	₱198,837,378	(₱220,859,988)
Basic Earnings (Loss) Per Share (Note 25)	**₱0.59**	₱0.07	(₱0.14)

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Years Ended December 31		
	2004	2003 (As restated - Note 3)	2002 (As restated - Note 3)
CAPITAL STOCK (Note 18)			
Preferred stock - ₱1 par value, cumulative and convertible			
Balance at beginning of year	**₱451,690**	₱1,288,265	₱2,400,000
Retirement of preferred shares	**(109,450)**	(836,575)	(1,111,735)
Balance at end of year	**342,240**	451,690	1,288,265
Common stock - ₱1 par value	**2,255,494,000**	2,255,494,000	2,255,494,000
	2,255,836,240	2,255,945,690	2,256,782,265
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	**2,929,845,102**	3,743,129,855	4,717,685,929
Retirement of preferred shares	**(102,006,096)**	(813,284,753)	(974,556,074)
Balance at end of year	**2,827,839,006**	2,929,845,102	3,743,129,855
RETAINED EARNINGS (DEFICIT) (Notes 2 and 3)			
Balance at beginning of year, as previously reported	**(723,585,843)**	(920,090,570)	(697,931,129)
Effect of change in accounting for income taxes	**(27,224,877)**	(29,557,528)	(30,856,981)
Balance at beginning of year, as restated	**(750,810,720)**	(949,648,098)	(728,788,110)
Net income (loss) (Note 26)	**1,353,495,851**	198,837,378	(220,859,988)
Balance at end of year	**602,685,131**	(750,810,720)	(949,648,098)
PREFERRED SHARES HELD IN TREASURY (Note 18)			
Balance at beginning of year	**(237,287,967)**	(1,030,183,051)	(574,290,761)
Redemption of preferred shares	**(103,923,879)**	(21,226,244)	(1,431,560,099)
Retirement of preferred shares	**102,115,546**	814,121,328	975,667,809
Balance at end of year	**(239,096,300)**	(237,287,967)	(1,030,183,051)
	₱5,447,264,077	₱4,197,692,105	₱4,020,080,971

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax and minority interest	**₱1,486,497,529**	₱72,467,175	(₱383,463,320)
Adjustments for:			
Depreciation, depletion and amortization (Notes 11, 12, 13 and 20)	**763,888,367**	542,871,194	579,816,498
Interest expense (Note 23)	**368,317,069**	354,278,164	315,978,046
Write-off of:			
Property, plant and equipment	**223,998,632**	–	–
Other noncurrent assets	**159,497,726**	–	–
Inventories (Note 21)	**–**	–	44,270,114
Provisions for:			
Doubtful accounts (Note 21)	**17,252,778**	118,367,851	178,544,280
Inventory obsolescence and losses (Note 21)	**17,070,283**	557,940	–
Probable losses on noncurrent assets (Note 21)	**12,214,617**	–	–
Probable losses on investments (Note 21)	**2,000,000**	11,459,652	44,787,767
Foreign exchange losses - net (Note 23)	**7,844,204**	36,975,433	31,958,010
Equity in net losses (earnings) of associates and jointly controlled entities (Note 11)	**7,333,838**	(899,614)	35,208,916
Loss (gain) on disposals of:			
Property and equipment (Note 22)	**(35,433,935)**	54,878,513	11,002,600
Investments (Note 22)	**(3,006,213)**	(3,965,480)	14,692,000
Interest income (Note 23)	**(11,012,665)**	(7,557,886)	(26,856,148)
Reversal of allowance for doubtful accounts (Note 22)	**–**	–	(22,400,272)
Operating income before changes in working capital	**3,016,462,230**	1,179,432,942	823,538,491
Decrease (increase) in:			
Receivables	**(540,158,552)**	346,826,946	172,560,442
Inventories	**(17,195,344)**	31,575,101	(247,095,186)
Real estate for sale and development	**(6,385,313)**	(403,310,659)	(116,685,001)
Other current assets	**3,652,046**	(55,795,190)	(19,122,649)
Increase (decrease) in:			
Accounts and other payables	**715,287,560**	199,720,595	(1,205,157,662)
Estimated liability for property development	**11,463,382**	9,617,857	(51,114,760)
Billings in excess of costs and estimated earnings on uncompleted contracts - net	**(304,552,830)**	(56,098,574)	(7,629,716)
Deferred revenue on real estate sales	**12,446,400**	23,305,518	(7,798,538)
Realized customers' deposits	**24,825,957**	(16,030,021)	–
Cash generated from (used in) operations	**2,915,845,536**	1,259,244,515	(658,504,579)
Interest received	**8,904,753**	7,545,040	107,097,746
Interest paid	**(882,213,119)**	(281,888,442)	(239,932,022)
Income taxes paid	**(97,962,415)**	(65,543,017)	(46,112,366)
Net cash provided by (used in) operating activities	**1,944,574,755**	919,358,096	(837,451,221)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Noncurrent receivables	**106,713,588**	(493,547,247)	490,989,135
Other noncurrent assets	**(48,322,695)**	(56,623,565)	(7,153,074)
Investments	**–**	8,041,165	(45,996,085)

(Forward)

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	Years Ended December 31		
	2004	2003	2002
Proceeds from disposals of:			
Property and equipment	**₱144,894,771**	₱41,181,545	₱795,294
Investment properties	**20,360,233**	–	–
Investments	**4,691,638**	5,612,001	13,528,692
Additions to property, plant and equipment	**(898,314,205)**	(168,725,854)	(213,633,822)
Net cash provided by (used in) investing activities	**(669,976,670)**	(664,061,955)	238,530,140
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of long-term debt	**405,687,511**	208,259,249	50,649,357
Payments of long-term debt	**(910,485,523)**	(539,696,389)	(102,250,351)
Net availments (payments) of notes payable	**(419,732,784)**	79,929,723	63,392,197
Increase (decrease) in payable to related parties	**(333,977,795)**	38,173,861	754,800,557
Redemption of preferred shares	**(28,673,759)**	(19,226,244)	(223,849,370)
Decrease in other noncurrent liabilities	**(17,881,618)**	(12,272,519)	(27,525,035)
Net cash provided by (used in) financing activities	**(1,305,063,968)**	(244,832,319)	515,217,355
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(30,465,883)**	10,463,822	(83,703,726)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**247,590,446**	237,126,624	320,830,350
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱217,124,563**	₱247,590,446	₱237,126,624

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

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

The Company is the holding company of DMCI Group which is primarily engaged in general construction, coal mining, infrastructure and real estate development and manufacturing (see Notes 3 and 26).

As of December 31, 2004 and 2003, the Company and its subsidiaries had 1,425 and 1,529 employees, respectively.

The accompanying consolidated financial statements of DMCI Holdings, Inc. and Subsidiaries (the Group) were authorized for issue by the Board of Directors (BOD) and Audit Committee on May 3, 2005.

2. **Status of Operations**

As shown in the consolidated financial statements, the Group has retained earnings of ₱603 million as of December 31, 2004, compared to a cumulative deficit of ₱751 million (as restated) as of December 31, 2003 and ₱950 million (as restated) as of December 31, 2002. In 2003, the Group's financial position indicates that sufficient cash flows have to be generated to finance its operations and to fully service its maturing obligations. The Group's interest-bearing obligations amounted to ₱2,725 million as of December 31, 2004 and ₱3,194 million as of December 31, 2003. Interest expense amounted to ₱368 million, ₱354 million, and ₱316 million for the years ended December 31, 2004, 2003, and 2002, respectively (see Note 23).

In 2004, the performance of the Group improved due to (a) favorable results in its mining operations and infrastructure and real estate development operations; (b) Group's management efforts to identify certain assets to provide the Group with additional sources of liquidity; (c) general cost reduction measures; and (d) reorganization of management and administrative support functions. Revenue increased resulting in an income from operations of ₱1,859 million and ₱455 million in 2004 and 2003, respectively, against a loss from operations of ₱27 million in 2002. The Group posted a net income of ₱1,353 million and ₱199 million (as restated) in 2004 and 2003, respectively, against a net loss of ₱221 million (as restated) in 2002. The Group was able to reduce its maturing financial obligations by ₱925 million in 2004 (net of availments) and ₱252 million (net of availments) in 2003.

3. Summary of Significant Accounting Policies

Basis of Financial Statement Preparation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines (Philippine GAAP) using the historical cost basis except for certain property, plant and equipment, which are carried at adjusted cost (see Note 12).

Use of Estimates

The preparation of consolidated financial statements in conformity with Philippine GAAP requires the Company to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of date of the consolidated financial statements. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any change in estimates will be recorded in the consolidated financial statements as they become reasonably determinable.

Adoption of New Accounting Standards

On January 1, 2004, the Group adopted the following Statements of Financial Accounting Standards (SFAS)/International Accounting Standards (IAS):

- SFAS 12/IAS 12, *Income Taxes*, prescribes the accounting treatment for current and deferred income taxes. The standard requires the use of the balance sheet liability method in accounting for deferred income taxes. As a result of the adoption of SFAS 12/IAS 12, the deferred tax assets on temporary deductible differences previously covered with valuation allowance are no longer recognized as deferred tax assets (see Note 24). Also, a certain subsidiary derecognized deferred tax assets not covered with valuation allowance in prior years to conform to the standard. This resulted in a retroactive upward adjustment to beginning balance of deficit as of December 31, 2003, 2002 and 2001 amounting to ₱27 million, ₱30 million and ₱31 million, respectively. Net income increased by ₱2 million and ₱1 million in 2003 and 2002, respectively. Additional disclosures required by the new standard were included in the consolidated financial statements.

- SFAS 17/IAS 17, *Leases*, which prescribes the accounting policies and disclosures applicable to finance and operating leases. The new standard also requires the recognition of lease payments under operating leases on a straight-line basis unless another systematic basis is more representative of the time pattern of the user's benefit. The adoption of SFAS 17/IAS 17 did not have a material impact on the consolidated financial statements.

Basis of Consolidation

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

The consolidated financial statements include the financial statements of the Company and the following subsidiaries (which were all incorporated in the Philippines) as of December 31:

	Effective Percentages of Ownership	
	2004	2003
General Construction:		
D.M. Consunji, Inc. (DMCI)	**100.00**	100.00
DMCI International, Inc. (DMCII)	**100.00**	100.00
OHKI-DMCI Corporation (OHKI)	**100.00**	60.00
DMCI-Laing Construction, Inc. (DMCI-Laing)	**60.00**	60.00
Beta Electric Corporation (Beta Electric)	**56.57**	50.10
Infrastructure and Real Estate Development:		
DMCI Project Developers, Inc. (PDI)	**100.00**	100.00
Contech Products Corporation (Contech)	**100.00**	100.00
Constress Philippines, Inc. (Constress)	**100.00**	50.71
Hampstead Gardens Corporation (Hampstead)	**60.00**	60.00
Riviera Land Corporation (Riviera)	**51.00**	51.00
Coal Mining:		
Semirara Mining Corporation (Semirara)	**94.53**	74.40
Manufacturing:		
Semirara Cement Corporation (SemCem)*	**100.00**	100.00
Wire Rope Corporation of the Philippines (Wire Rope)	**61.70**	61.70
Contech Products South Corporation (Contech South)	**52.00**	52.00

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

DMCI's subsidiaries include DMCII, DMCI-Laing, OHKI, Beta Electric, Constress and Contech South.

PDI's subsidiaries include Contech and Hampstead.

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

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

<u>Cash and Cash Equivalents</u>

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

Receivables
Receivables are recognized and carried at the original contract price or invoice amount, less allowance for any uncollectible amount. An estimate for doubtful accounts is made when collection of the full amount is no longer probable or when the amounts anticipated to be received in settlement of such receivables are less than the amounts due. The allowance for doubtful accounts is maintained at a level considered adequate to provide for potential losses on receivables and is determined after a study of the estimated collectibility of receivable balances and evaluation of such factors as aging of the accounts, collection experience in relation to the particular receivables, past and expected loss experiences and specifically identified doubtful accounts.

Inventories
Inventories are valued at the lower of cost or net realizable value (NRV). NRV is the estimated replacement cost or the selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The cost of coal inventory is determined by the weighted average production cost method. The cost of equipment parts, materials and supplies is determined substantially by the average cost methods (either by moving average or weighted average production cost). The cost of equipment parts, materials and supplies determined by the first-in, first-out method accounts for about 7% of total inventories.

Real Estate for Sale and Development
Real estate for sale and development are carried at the lower of cost or NRV. Real estate costs include those costs that relate to the acquisition, development, improvement and construction of the real estate projects. Borrowing costs are capitalized while the development and construction of the real estate projects are in progress, and to the extent that these are expected to be recovered in the future. NRV is the selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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

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

Investments in shares of stock of companies in which the Group does not exercise significant influence are carried at cost. An allowance is set up for any substantial and presumably permanent decline in the carrying value of these investments.

Investment Properties

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

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

Property, Plant and Equipment

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

Certain land and land improvements, buildings and building improvements and conventional and continuous mining equipment of Semirara acquired up to April 30, 1997 are stated at adjusted cost (as a result of Semirara's quasi-reorganization as of December 31, 1997) (see Note 12) as determined by an independent firm of appraisers as of that date less accumulated depreciation and amortization and any impairment in value. Subsequent additions are stated at cost, less any impairment in value.

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

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

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

Depletion of mining properties, mine exploration and development costs are calculated based on the units-of-production method.

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

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

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

Stripping Costs
Stripping costs are deferred based on the difference between the actual stripping ratio (ratio of waste moved to coal mined) and the estimated stripping ratio established in accordance with the survey conducted on the mine. These costs, included under the “Other noncurrent assets” account in the consolidated balance sheets, are amortized using the units-of-production method.

Impairment of Assets
An assessment is made at balance sheet date to determine whether there is any indication of impairment of any long-lived assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset’s recoverable amount is estimated. An asset’s recoverable amount is calculated as the higher of the asset’s value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to operations in the period in which it arises.

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

Borrowing Costs

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

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

Revenue and Cost Recognition

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

Construction Contracts

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

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

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

Real Estate Sales
Revenue from real estate sales, which consists primarily of the sale of housing and condominium units, with material obligations under the sales contracts to provide improvements after the property is sold, is accounted for under the percentage of completion method. Under this method, the revenue is deferred and presented as “Deferred revenue on real estate sales” under the “Other noncurrent liabilities” account in 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 related deferred gross profit are deducted from current year revenue and costs.

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

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

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

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

Interest Income
Interest income is recognized as it accrues.

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

<u>Retirement Costs</u>
Most of the Group’s retirement costs are actuarially determined using either the projected unit credit method or the attained age cost method. The projected unit credit method reflects the services rendered by employees to the date of valuation and incorporates assumptions concerning employees’ projected salaries. Retirement costs include current service costs plus amortization of past service costs, experience adjustments and changes in actuarial assumptions over the expected remaining working lives of the covered employees. Certain subsidiaries determined their

retirement costs using the attained age cost method. Under the attained age cost method, past service costs, experience adjustments and the effects of changes in actuarial assumptions are amortized over the expected remaining working lives of the covered employees. Of the consolidated retirement costs, 53% was determined using the projected unit credit method and 43% using the attained age cost method.

Income Taxes

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

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, and the carryforward benefits of the excess of minimum corporate income tax (MCIT) over regular corporate income tax, and net operating loss carryover (NOLCO) to the extent that it is probable that taxable income will be available against which the deferred tax asset can be used or when there are sufficient taxable temporary differences which are expected to reverse in the same period as the expected reversal of the deductible temporary differences.

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

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

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

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 currency 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 translated to Philippine Pesos at prevailing Philippine Dealing System rates at balance sheet dates. Exchange gains or losses resulting from rate fluctuations upon actual settlement and from restatement at year-end are credited to or charged against current operations.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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

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

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

Diluted earnings per share is calculated by dividing the net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of dilutive convertible redeemable preferred shares. The net income (loss) attributable to common shareholders is increased by the dividends on convertible redeemable preferred shares. The weighted average number of common shares is increased by the weighted average number of additional common shares which would be issued assuming the conversion of all dilutive potential common shares.

Diluted earnings (loss) 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.

Segments
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products. Financial information on business segments is presented in Note 26 to the consolidated financial statements.

New and Revised Accounting Standards Effective in 2005
New and revised accounting standards based on revised IAS and new International Financial Reporting Standards (IFRS) referred to as Philippine Accounting Standards (PAS) and Philippine Financial Reporting Standards (PFRSs), respectively, will become effective in 2005.

Beginning January 1, 2005, the Company will adopt the following relevant new accounting standards:

- PAS 19, *Employee Benefits*, prescribes the accounting and disclosures by employers for employee benefits, including short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits. For post-employment benefits classified as defined benefit retirement plans, the standard will require the use of the projected unit credit method in measuring the retirement benefit expense and will result in change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. The Company's subsidiaries using an actuarial valuation method other than the projected unit credit method are in the process of having their actuarial valuation made using the projected unit credit method to determine the net impact of adopting PAS 19. The Group will engage a qualified actuary to perform an actuarial valuation of the retirement benefit obligations in accordance with PAS 19, and to determine the amount of transitional liability or asset that will be adjusted against January 1, 2005 retained earnings.

- PAS 21, *The Effects of Changes in Foreign Exchange Rates*, eliminates the capitalization of foreign exchange losses. The standard also requires a company to determine its functional currency and measure its results and financial position in that currency. The adoption of PAS 21 will not have an impact on the consolidated financial statements.

- PAS 32, *Financial Instruments: Disclosure and Presentation*, covers the disclosure and presentation of all financial instruments. This standard requires more comprehensive disclosures about a company's financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include terms and conditions of financial instruments used by the company, types of risks associated with both recognized and unrecognized financial instruments (market risk, price risk, credit risk, liquidity risk, and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the company's financial risk management policies and objectives. The standard also requires financial instruments to be classified as either liabilities or equity in accordance with its substance and not its legal form. Disclosures required by PAS 32 will be included upon adoption in 2005.

- PAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for recognizing and measuring a company's financial assets and financial liabilities. The standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, a company should continue to measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are to be measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as "at fair value through profit and loss" and derivatives, which are subsequently to be measured at fair value.

PAS 39 also covers the accounting for derivative instruments. This standard has expanded the definition of a derivative instrument to include derivatives (and derivative-like provisions) embedded in non-derivative contracts. Under the standard, every derivative instrument is recorded in the balance sheet as either an asset or liability measured at its fair value. Derivatives that do not qualify as hedges are adjusted to fair value through income. If a derivative is designated and qualifies as a hedge, depending on the nature of the hedging relationship, changes in the fair value of the derivative are either offset against the changes in fair value of the hedged assets, liabilities, and firm commitments through earnings, or recognized in stockholders' equity until the hedged item is recognized in earnings. The Company must formally document, designate and assess the hedge effectiveness of derivative transactions that receive hedge accounting treatment.

Given the complexities of PAS 39, the Group will undertake certain detailed procedures to quantify the potential financial statements impact of this standard in 2005.

- PAS 40, *Investment Property*, prescribes the accounting treatment for investment property and related disclosure requirements. This standard permits the company to use either the fair value model or cost model in accounting for investment property. The fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the statements of income. The cost model requires that an investment property should be measured at depreciated cost less any accumulated impairment losses. Upon effectivity of PAS 40, the Group will adopt the cost model and will continue to carry their investment properties at depreciated cost less any accumulated impairment losses. Additional disclosures required by the standard will be included in the 2005 consolidated financial statements.

- PFRS 3, *Business Combination*, which will result in the cessation of the amortization of goodwill and a requirement for an annual test for goodwill impairment. Any resulting negative goodwill after performing a reassessment will be credited to income. Moreover, pooling of interests in accounting for business combination will no longer be permitted. The Group does not expect that the effect of adopting PFRS 3 will be material.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, specifies the accounting for assets held for sale and the presentation and disclosure of discontinued operations. It requires assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and the depreciation on such assets to cease. Furthermore, assets that meet the criteria to be classified as held for sale should be presented separately on the face of the balance sheet and the results of discontinued operations to be presented separately in the statements of income. The adoption of PFRS 5 will not have a material impact on the consolidated financial statements.

The group will also adopt in 2005 the following relevant revised accounting standards:

- PAS 1, *Presentation of Financial Statements*, provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or noncurrent; prohibits the presentation of income from operating activities and extraordinary items as separate line items in statement of income; and specifies the disclosures about key sources of estimation, uncertainty and judgments that management has made in the process of applying the entity's accounting policies. It also requires changes in the presentation of minority interest in the consolidated balance sheets and consolidated statements of income.

- PAS 2, *Inventories*, reduces the alternatives for measurement of inventories by disallowing the use of the last in, first out (LIFO) formula. Moreover, the revised standard does not permit foreign exchange differences arising directly on the recent acquisition of inventories invoiced in a foreign currency to be included in the cost of purchase of inventories.

- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting errors.

- PAS 10, *Events After the Balance Sheet Date*, provides a limited clarification of the accounting for dividends declared after the balance sheet date.

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

- PAS 17, *Leases*, provides a limited revision to clarify the classification of a lease of land and buildings and prohibits expensing of initial direct costs in the financial statements of the lessors.

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

- PAS 27, *Consolidated and Separate Financial Statements*, reduces alternatives in accounting for subsidiaries in the separate financial statements of a parent, venturer or investor. Investments in subsidiaries will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. This standard also requires strict compliance with adoption of uniform accounting policies and requires the parent to make appropriate adjustments to the subsidiary's financial statements to conform them to the parent's accounting policies for reporting like transactions and other events in similar circumstances.

- PAS 28, *Investments in Associates*, reduces alternatives in accounting for associates in the separate financial statements of an investor. Investments in associates will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. This standard also requires strict compliance with adoption of uniform accounting policies and requires the investor to make appropriate adjustments to the associate's financial statements to conform them to the investor's accounting policies for reporting like transactions and other events in similar circumstances.

- PAS 31, *Interests in Joint Ventures*, reduces the alternatives in accounting for interests in joint ventures in the separate financial statements of a venturer. Interests in joint ventures will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements.

- PAS 33, *Earnings Per Share*, prescribes principles for the determination and presentation of earnings per share for entities with publicly traded shares, entities in the process of issuing ordinary shares to the public, and any entities that calculate and disclose earnings per share. The standard also provides additional guidance in computing earnings per share including the effects of mandatorily convertible instruments and contingently issuable shares, among others.

- PAS 36, *Impairment of Assets*, establishes frequency of impairment testing for certain intangibles and provides additional guidance on the measurement of an asset's value in use.

- PAS 38, *Intangible Assets*, provides additional clarification on the definition and recognition of certain intangibles. Moreover, this revised standard requires that an intangible asset with an indefinite useful life should not be amortized but will be tested for impairment by comparing its recoverable amount with its carrying amount annually and whenever there is an indication that the intangible asset may be impaired.

The adoption of the above revised accounting standards is not expected to have a material impact on the consolidated financial statements. Additional disclosures and presentation changes required by the revised accounting standards will be included in the 2005 consolidated financial statements.

4. Cash and Cash Equivalents

This account consists of:

	2004	2003
Cash on hand and in banks - net of restricted cash of ₱3 million in 2003 (see Note 13)	**₱163,811,072**	₱240,607,499
Short-term investments	**53,313,491**	6,982,947
	₱217,124,563	₱247,590,446

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

5. **Receivables**

This account consists of:

	2004	2003
Trade receivables:		
Construction (including retention receivables on uncompleted contracts of ₱389 million in 2004 and ₱530 million in 2003	**₱778,878,879**	₱1,098,263,034
Coal sales (see Notes 16 and 29)	**872,530,970**	386,158,618
Real estate (see Notes 14 and 16)	**528,710,378**	302,913,152
Other trade receivables	**247,290,525**	260,657,041
	2,427,410,752	2,047,991,845
Receivable from related parties (see Note 27)	**1,095,275,329**	1,173,602,549
Receivable from subcontractors and suppliers	**308,572,876**	180,713,509
Other receivables	**75,815,511**	123,476,269
	3,907,074,468	3,525,784,172
Less allowance for doubtful accounts	**255,627,694**	324,030,077
	3,651,446,774	3,201,754,095
Less noncurrent receivables - net	**1,095,275,329**	1,173,602,549
	₱2,556,171,445	₱2,028,151,546

As of December 31, 2004 and 2003, total trade receivables - real estate amounting to ₱282 million and ₱193 million, respectively, was used to secure the Group's bank loans (see Notes 14 and 16).

<u>Receivables from Atlantic, Gulf and Pacific Company of Manila, Incorporated (AG&P)</u>
The Company's subsidiary has an outstanding receivable from AG&P amounting to ₱775 million in 2004 and 2003. On January 31, 2002, AG&P filed a petition for rehabilitation (after approval of AG&P's stockholders and BOD on January 29, 2002) with the Regional Trial Court (RTC) of Batangas City. On February 21, 2002, the RTC issued a stay order prohibiting AG&P from selling, encumbering, transferring or disposing any of its properties in any manner except in the ordinary course of business.

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

<u>Receivables from Universal Rightfield Property Holdings, Inc. (URPHI)</u>
The Group's receivables from URPHI, a related party, amounted to ₱319 million as of December 31, 2004 and 2003. The receivables from URPHI arose from the construction agreements with the Group for the development of Pioneer Highlands and Dansalan projects.

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

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

6. Costs, Estimated Earnings and Billings on Uncompleted Contracts

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

	2004	2003
Total costs incurred	**₱1,066,757,257**	₱2,310,426,831
Add estimated earnings recognized	**125,960,819**	380,480,507
	1,192,718,076	2,690,907,338
Less total billings (including unliquidated advances from contract owners of ₱218 million in 2004 and ₱499 million in 2003)	**1,224,958,311**	3,027,700,403
	(₱32,240,235)	(₱336,793,065)

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

	2004	2003
Costs and estimated earnings in excess of billings on uncompleted contracts	**₱112,260,407**	₱85,761,744
Billings in excess of costs and estimated earnings on uncompleted contracts	**(144,500,642)**	(422,554,809)
	(₱32,240,235)	(₱336,793,065)

7. Inventories

This account consists of:

	2004	2003
Equipment parts, materials and supplies, at NRV	**₱477,942,394**	₱448,580,418
Coal, at cost	**138,757,876**	138,233,994
Equipment parts, materials and supplies in transit, at cost	**14,133,966**	4,979,819
	₱630,834,236	₱591,794,231

The cost of equipment parts, materials and supplies amounted to ₱540 million and ₱494 million as of December 31, 2004 and 2003, respectively.

8. Real Estate for Sale and Development

This account consists of:

	2004	2003
Housing and condominium units for sale and development (see Notes 14, 16 and 17)	**₱1,688,378,317**	₱2,276,789,463
Land for sale and development (see Notes 16 and 18)	**1,879,768,870**	1,284,972,411
	₱3,568,147,187	₱3,561,761,874

Housing and condominium units for sale and development with an aggregate carrying value of ₱118 million and ₱69 million, as of December 31, 2004 and 2003, respectively, were mortgaged by the Group to secure its various bank loans and notes payable to certain preferred shareholders of the Company (see Notes 14 and 16).

Land for sale and development with an aggregate carrying value of ₱773 million and ₱1,085 million as of December 31, 2004 and 2003, respectively, were mortgaged by the Group to guarantee various credit facilities and secure the Group's bank loans, indebtedness of Semirara to a foreign supplier and notes payable to certain preferred shareholders of the Company (see Notes 16 and 18).

Total interest capitalized by PDI and Hampstead, as part of "Housing and condominium units for sale and development" amounted to ₱24 million and ₱9 million and in 2004 and 2003, respectively. The capitalization rates used in 2004, 2003 and 2002 ranged from 8% to 14%.

9. Other Current Assets

This account consists of:

	2004	2003
Creditable taxes withheld	**₱93,227,613**	₱56,199,607
Value added input tax	**18,594,854**	46,012,289
Prepaid expenses	**7,003,379**	21,341,531
Others	**10,817,915**	9,742,380
	₱129,643,761	₱133,295,807

10. Investments in Associates, Jointly Controlled Entities and Others

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

	2004	2003
Investments - At Equity:		
Investments in associates		
Acquisition cost:		
Balance at beginning of year	**₱504,852,468**	₱496,032,468
Additions during the year	**–**	8,820,000
Reclassification to investment at cost	**(10,000,000)**	–
Balance at end of year	**494,852,468**	504,852,468
Accumulated equity in net losses:		
Balance at beginning of year	**(378,574,111)**	(378,282,252)
Equity in net losses during the year	**(7,616,307)**	(291,859)
Reclassification to investment at cost	**(2,981,605)**	–
Balance at end of year	**(389,172,023)**	(378,574,111)
	105,680,445	126,278,357
Allowance for probable losses	**(35,910,514)**	(35,910,514)
	69,769,931	90,367,843
Jointly controlled entities		
Acquisition cost	**32,125,000**	32,125,000
Accumulated equity in net earnings:		
Balance at beginning of year	**56,542,584**	55,351,111
Equity in net earnings during the year	**282,469**	1,191,473
Disposals and other movements	**(12,147,755)**	–
Balance at end of year	**44,677,298**	56,542,584
	76,802,298	88,667,584
Allowance for probable losses	**(20,889,954)**	(20,889,954)
	55,912,344	67,777,630
	125,682,275	158,145,473
Investments - At Cost:		
Balance at beginning of year	**293,742,630**	292,556,898
Additions and reclassification from investment at equity	**15,296,830**	7,635,410
Disposals during the year	**(7,006,863)**	(6,449,678)
Balance at end of year (subscriptions payable on which amounted to ₱4 million - see Note 17)	**302,032,597**	293,742,630
Allowance for probable losses	**(13,459,652)**	(11,459,652)
	288,572,945	282,282,978
	₱414,255,220	₱440,428,451

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

	Percentages of Ownership		Equity in Net Assets	
	2004	2003	**2004**	2003
Associates:				
Bachy Soletanche Philippines Corporation	**49.00**	49.00	**₱43,622,926**	₱43,119,553
Vulcan Materials Corporation (Vulcan)	**49.00**	49.00	**20,686,808**	27,262,320
Obayashi Philippines Corporation (OPC)	**39.55**	39.55	**5,329,141**	5,498,695
Raco-Haven Automation Philippines, Inc.	**44.11**	44.11	**131,056**	1,505,670
Systems Powermark Corporation	**18.67**	50.00	**–**	12,981,605
AG&P	**46.00**	46.00	**–**	–
Subic Water and Sewerage Company, Inc. (Subic Water)	**40.00**	40.00	**–**	–
			69,769,931	90,367,843
Jointly Controlled Entities:				
DMCI/WPC Joint Venture	**50.00**	50.00	**39,181,239**	39,108,452
Obayashi-DMCI Joint Venture	**40.00**	40.00	**1,730,226**	13,475,433
Eco Process & Equipment Philippines, Inc.	**50.00**	50.00	**1,116,193**	1,177,338
Others	**Various**	Various	**13,884,686**	14,016,407
			55,912,344	67,777,630
			₱125,682,275	₱158,145,473

Summarized financial information pertaining to the Group's significant joint ventures follow:

	2004	2003
DMCI/WPC Joint Venture		
Current assets	**₱8,414,113**	₱9,102,952
Noncurrent assets	**78,036,094**	77,577,402
Current liabilities	**8,087,730**	8,463,452
Revenue	**145,575**	14,865,058
Costs and expenses	**–**	13,446,946
Net income	**145,575**	1,418,112

	2004	2003
Obayashi-DMCI Joint Venture		
Current assets	**₱8,501,700**	₱58,193,674
Noncurrent assets	**550,003**	4,087,638
Current liabilities	**4,726,137**	28,592,730
Revenue	**1,630,060**	7,742,672
Costs and expenses	**952,994**	6,038,643
Net income	**677,066**	1,704,029

Investments in Associates - At Equity

OPC

On March 24, 2003, OPC's BOD approved the cessation of OPC's operations effective April 30, 2003. The activities of OPC after this date consisted mainly of collection of receivables, disposition of assets and payment of liabilities.

Subic Water

On January 22, 1997, PDI subscribed to 3,262,320 shares at the par value of ₱10 per share for an aggregate value of ₱33 million in Subic Water, a joint venture company with Subic Bay Metropolitan Authority (a government-owned corporation), Olongapo City Water District, and Cascal Services Limited (a company organized under the laws of England). The agreement executed by the parties on November 24, 1996 stipulated, among others, that PDI shall have an equity participation equivalent to 40% in Subic Water amounting to ₱75 million (based on the initial subscribed and paid-in capital of ₱187 million). The balance of PDI's committed subscription to Subic Water of ₱38 million (net of additional subscription payment of ₱4 million in 1998) is expected to be paid on or before the second anniversary of the said effective date. As of May 3, 2005, such committed subscription has not yet been paid.

As of December 31, 2004 and 2003, PDI's accumulated equity in the net losses of Subic Water exceeded the carrying amount of its related investment. Thus, no further share in the net losses of Subic Water is recorded. Unrecognized losses amounted to ₱1 million and ₱36 million as of December 31, 2004 and 2003, respectively.

AG&P

As of December 31, 2001, the Group's accumulated equity in net losses of AG&P equals the carrying amount of its investment. The Group discontinued the recognition of its share of further losses in AG&P as it is not committed to provide financial support to the latter. Unrecognized share in losses of AG&P amounted to ₱136 million and ₱128 million as of December 31, 2004 and 2003, respectively.

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

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

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

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

(b) AG&P should proportionately pay all creditors, depending on their respective credit exposure, whatever cash inflows it will receive from all the transactions it will enter into, except those that will come from sale or lease of properties covered by the Mortgage Trust Indenture (MTI) which should be paid to MTI banks, especially the ₱70 million earmarked for its employees, from the time the Petition was filed and up to the time the approved rehabilitation plan subsists; and

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

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

(a) PNB agreed to withdraw its objections to the payment of the advance lease proceeds from Amstel-Phil Shipbreaking Corporation, (Amstel, AG&P's potential lessee) the amount of ₱70 million to the labor union;

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

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

On August 14, 2003, the Secretary of Department of Environment and Natural Resources issued the Environmental Compliance Certificate to Amstel for its ship dismantling and recycling project. However, in January 2004, Amstel expressed its decision to defer the project.

<u>Investments - At Cost</u>
Montecito
On October 9, 2003, the RTC of Calamba City issued a stay order prohibiting Montecito from selling, encumbering, transferring or disposing any of its properties in any manner except in the ordinary course of business. In connection with this, a Rehabilitation Plan was prepared which includes, among others, the following:

(a) Restructuring of loans due to various banks subject to the following: (i) repayment of principal and capitalized interest over a term of 7 years, with a 2-year grace period; and

(ii) fixed interest rate of 9.5% for 7 years and possibility of settling outstanding debt through dacion en pago or friendly foreclosure;

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

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

As of May 3, 2005, the terms of the Rehabilitation Plan is still pending approval by the RTC and Montecito's major creditors.

Jointly Controlled Entities

DMCI/WPC Joint Venture and Obayashi-DMCI Joint Venture

As of May 3, 2005, the activities of DMCI/WPC Joint Venture and Obayashi-DMCI Joint Venture consisted mainly of collection of receivables, disposition of assets and payment of liabilities.

11. Investment Properties

The movement of this account follow:

	2004	2003
Land	**₱947,029,896**	₱967,442,799
Condominium units - net of accumulated depreciation of ₱14 million in 2004 and ₱11 million in 2003	**16,277,204**	19,390,000
Buildings and improvements - net of accumulated depreciation of ₱6 million in 2004 and ₱4 million in 2003	**21,002,377**	23,277,361
	₱984,309,477	₱1,010,110,160

Consolidated depreciation on investment properties amounted to ₱5 million, ₱3 million and ₱2 million in 2004, 2003 and 2002, respectively (see Note 20).

The Group's investment properties - land with a carrying value of ₱268 million and ₱289 million as of December 31, 2004 and 2003, respectively, were used as collateral under real estate mortgages to secure the indebtedness of the Group to local banks and a foreign supplier and notes payable to certain preferred shares of the Company (see Notes 14 and 16).

12. **Property, Plant and Equipment**

The movements in this account follow:

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

	Mining Properties, Mine Exploration and Development Costs	Leasehold Improvements	Construction in Progress	Total 2004	2003
Cost					
At January 1	**₱503,388,113**	**₱59,120,394**	**₱43,981,404**	**₱9,434,222,402**	₱9,778,886,000
Additions	**–**	**–**	**111,165,115**	**1,335,056,157**	256,414,421
Transfers and retirements/disposals	**(321,936,502)**	**(94,536)**	**(77,796,118)**	**(773,070,815)**	(601,078,019)
At December 31	**181,451,611**	**59,025,858**	**77,350,401**	**9,996,207,744**	9,434,222,402
Accumulated Depreciation Depletion and Amortization					
At January 1	**207,691,735**	**51,543,890**	**–**	**7,054,408,857**	7,024,251,879
Depreciation, depletion and amortization	**29,402,753**	**6,784,923**	**–**	**750,628,337**	529,399,396
Transfers and retirements/disposals	**(183,547,709)**	**–**	**–**	**(372,310,035)**	(499,242,418)
At December 31	**53,546,779**	**58,328,813**	**–**	**7,432,727,159**	7,054,408,857
Net Book Value	**₱127,904,832**	**₱697,045**	**₱77,350,401**	**₱2,563,480,585**	₱2,379,813,545

The assets of Semirara (included in the above movement analysis), which are carried at adjusted cost (arising from its quasi-reorganization) follow:

	Land and Land Improvements	Buildings and Building Improvements	Conventional and Continuous Mining Equipment	Total 2004	2003
At Adjusted Cost	**₱146,388,235**	**₱486,594,149**	**₱581,857,987**	**₱1,214,840,371**	₱1,214,840,371
Accumulated Depreciation Depletion and Amortization on Adjusted Cost					
At January 1	**111,363,683**	**287,105,946**	**348,939,104**	**747,408,733**	685,401,424
Depreciation, depletion and amortization	**5,891,103**	**17,573,202**	**38,045,191**	**61,509,496**	62,007,309
At December 31	**117,254,786**	**304,679,148**	**386,984,295**	**808,918,229**	747,408,733
Net Book Value at Adjusted Cost	**₱29,133,449**	**₱181,915,001**	**₱194,873,692**	**₱405,922,142**	₱467,431,638

Construction equipment which are fully depreciated as of December 31, 2004 and 2003 were used as collateral to secure the indebtedness of Semirara to local banks and a foreign supplier, bank loans of PDI and notes payable of DMCI to preferred shareholders of the Company (see Note 16).

Semirara's conventional and continuous mining equipment with a carrying value of ₱239 million and ₱185 million as of December 31, 2004 and 2003, respectively, were pledged as collateral under chattel mortgages to secure the indebtedness of Semirara to local banks and a foreign supplier (see Note 16).

Certain machinery and equipment with a carrying value of about ₱122 million in 2004 and 2003, was used as collateral to secure the indebtedness of Contech (see Note 16).

Consolidated depreciation, depletion and amortization on property, plant and equipment (including depreciation on the adjusted cost of ₱62 million in 2004, 2003 and 2002) amounted to ₱751 million, ₱529 million and ₱569 million in 2004, 2003 and 2002, respectively (see Note 20).

13. Other Noncurrent Assets

The details of other noncurrent assets follow:

	2004	2003
Deposits in North Luzon Railways Corporation (Northrail)	**₱300,000,000**	₱300,000,000
Deferred stripping and development costs - net of accumulated amortization of ₱3 million in 2004 and ₱29 million in 2003 (see Note 20)	**34,279,279**	193,412,727
Deferred tax assets (see Note 24)	**23,015,064**	40,904,218
Refundable deposits	**80,648,491**	55,130,431
Others (see Note 4)	**19,319,369**	16,913,209
	₱457,262,203	₱606,360,585

Deposits in Northrail of ₱300 million represents contributions made by the Group relative to a joint venture with the Bases Conversion Development Authority (BCDA) (a government-owned corporation), Philippine National Railways and a consortium of foreign investors and local partners which would undertake the construction of a multi-phase double-track railway system. The covering joint venture agreement provided, among others, the increase in capitalization of Northrail, the primary purpose of which is to construct, operate and manage such railway system. The deposits on subscriptions made by the joint venture partners are committed to be converted into equity upon the approval of increase in capital stock of Northrail.

In 2001, due to the uncertainty surrounding the Northrail project, the Group decided to pull out of the joint venture. As of May 3, 2005, the Group is still claiming from BCDA/Northrail for the recovery of its contribution to the Northrail Project, which the Group's management believes, is fully recoverable.

14. Notes Payable

Notes payable consist of the following:

	2004	2003
Bank loans	**₱403,884,707**	₱744,647,579
Payables to related parties (see Note 27)	**–**	78,969,912
	₱403,884,707	₱823,617,491

The Group's bank loans consist of peso-denominated short-term borrowings from local banks which bear interest at prevailing market rates and are payable on monthly, quarterly and lump sum bases on various maturity dates within the next 12 months after the balance sheet dates. The bank loans are generally unsecured, except for ₱278 million in 2004 and ₱240 million in 2003, which are secured by a real estate mortgage over the Group's housing and condominium units (see Note 8); a deed of assignment on certain real estate receivables of PDI, DMCI and Hampstead (see Note 5); corporate guarantee and suretyship agreement issued by the Company and DMCI; and PDI, DMCI and Hampstead's customers' post-dated checks.

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

As of December 31, 2004 and 2003, the Group was in compliance with the loan covenants required by the banks.

15. **Accounts and Other Payables**

This account consists of the following:

	2004	2003
Accrued costs and expenses	**₱1,488,451,413**	₱1,238,730,100
Payables to suppliers	**756,684,912**	657,914,270
Payables to subcontractors	**406,136,983**	543,492,730
Customers' deposits	**149,303,041**	124,477,084
Acceptances and trust receipts payable	**82,662,996**	13,058,242
Other payables	**146,382,594**	116,066,766
	₱3,029,621,939	₱2,693,739,192

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

Semirara's liabilities to DOE represents the share of DOE in the gross revenue from Semirara's coal production (including accrued interest on the outstanding balance) computed in accordance with the coal operating contract between Semirara and DOE dated July 11, 1997 as amended on January 16, 1981. The contract is for a maximum period of 35 years (inclusive of the developmental stage and renewals) up to July 2012.

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

Customers' Deposits

On September 28, 1990, Semirara entered into a Memorandum of Agreement (MOA) with National Power Corporation (NPC) to provide NPC Selectively Mined Coal (Select) or its Run of Mine coal equivalent, free of shipping cost to NPC, over a certain period. Total committed volume of coal was 150,000 Metric Ton (MT) of Select coal with a total price of ₱179 million which formed part of the minimum contracted quantity that NPC agreed to purchase for the year 1990 under the Coal Supply Agreement (CSA) (see Note 29) between Semirara and NPC. The accumulated coal lifted and delivered under such MOA totaled 92,733 MT and 72,656 MT of Select coal equivalent or its peso equivalent of ₱117 million and ₱94 million as of December 31, 2004 and 2003, respectively.

On August 26, 2004, Semirara entered into a MOA with TransEnergy Grinding Inc., a related party and the marketing arm of Apo Cement Corporation (APO), a customer. The MOA provided for the delivery of coal to APO of 60,000 MT or an equivalent of 10,000 MT per month. In connection with the MOA, APO made an advance payment amounting to US$2.0 million or its peso equivalent of ₱111.0 million. As of December 31, 2004, Semirara made coal deliveries to APO of 33,682 MT or its peso equivalent of ₱58.2 million.

Other amounts included under customers deposits are for real estate transactions.

16. **Long-term Debt**

Long-term debt pertains to the following obligations:

	2004	2003
Long-term:		
Bank loans	**₱1,154,179,120**	₱753,041,367
Payable to foreign suppliers	**922,256,061**	753,126,488
Notes payable to preferred shareholders	**244,442,418**	513,719,256
Acceptances and trust receipts payable	**–**	350,173,766
	2,320,877,599	2,370,060,877
Less current portion of:		
Bank loans	**648,390,375**	306,446,662
Payable to foreign suppliers	**274,870,602**	255,447,968
Notes payable to preferred shareholders	**124,951,535**	1,943,287
Acceptances and trust receipts payable	**–**	208,497,411
	1,048,212,512	772,335,328
	₱1,272,665,087	₱1,597,725,549

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

(a) The bank loan drawn by PDI amounting to ₱91 million and ₱247 million in 2004 and 2003, respectively, bears interest at 12%. This loan is payable in various maturity dates up to 2007 and is secured by a real estate mortgage over PDI's real estate for sale and development (see Note 8);

(b) Semirara's bank loans amounting to ₱23 million and ₱256 million as of December 31, 2004 and 2003, respectively, include a peso-denominated loan from a local bank which bears interest at 91-day T-Bill rate plus 3.25%. These loans are payable in 11 equal quarterly installments starting June 2000 up to December 2002. The loan was secured by a deed of suretyship of the Company and a deed of undertaking executed on December 4, 1998, 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.

On June 15, 2001, Semirara and this local bank agreed to restructure the loan. This loan, with interest at 91-day T-Bill rate plus 3.25%, is now payable in 19 equal quarterly amortizations or six years from date of availment, including an 18-month grace period. Also, the loans are now secured by real estate mortgages over DMCI's and PDI's real estate for sale and development, and a suretyship agreement issued by DMCI (see Note 8). The agreement also provides for the maintenance of financial ratios at a certain level. This has been fully paid on January 7, 2005.

In 2002, Semirara's bank loans also include a loan amounting to ₱98 million, which was reclassified from the "Notes payable" account under the current liabilities section of the consolidated balance sheets in accordance with the restructuring agreement with a local bank. The loan now bears interest at 91-day T-Bill rate plus 5% per annum spread and is payable in 11 quarterly installments starting June 2002 until December 2004. Further, this loan is secured by a chattel mortgage on the three (3) floating vessels owned by DMC Construction Equipment Resources, Inc., a related party, a continuing suretyship agreement issued by the Company and an assignment of trade receivables from NPC up to the extent of the loan (see Note 5). The restructuring agreement also provided for the maintenance of Semirara's operational deposit account with the said bank and the conditional waiver of penalties amounting to ₱13 million, which was accrued as of December 31, 2002. In the event of default, said penalties shall automatically be reinstated to form part of the obligation to be called due and demandable. This has been fully paid on December 29, 2004.

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

In December 2004, Semirara entered into a term loan agreement with a local bank amounting to ₱86.9 million to finance the importation of certain conventional mining equipment. The loan is payable in 16 equal quarterly installment to commence at the end of the 5th quarter from initial draw down date. The interest shall be based on the applicable MART1 (base rate) plus spread of 3.5%, repriceable and payable quarterly. This loan is covered by an existing company guarantee issued by DMCI. This has been fully paid on March 17, 2005;

(c) Contech South's outstanding bank loan amounting to ₱100 million in 2004 and 2003 was obtained to partly finance the second phase of its hollow-core wall panel manufacturing project. The loan bears interest at 12% and is payable in 16 equal quarterly installments, starting 2001 until 2003. The loan is secured by a real estate mortgage over DMCI's real estate held for sale and development with an aggregate book value of ₱31 million and ₱18 million in 2004 and 2003, respectively (see Note 8), a first lien chattel mortgage over certain machinery and equipment acquired out of the proceeds of the loan (see Note 12), a continuing suretyship by the Company, and endorsement or assignment in favor of the creditor bank of any insurance policies covering the mortgaged assets. As of May 3, 2005, Contech is still negotiating for the payment/settlement of the loans; and

(d) The bank loans drawn by Hampstead amounting to ₱97 million in 2004 and ₱51 million in 2003, represent net proceeds from the sale with recourse of a portion of Hampstead's contracts receivable to local banks pursuant to receivable purchase agreements entered into by Hampstead with such banks. Such loans bear interest at 16% and are payable in various maturity dates. The loans are secured by a real estate mortgage over Hampstead's condominium units with a carrying value of ₱86 million and ₱85 million in 2004 and 2003, respectively (see Note 8); a deed of assignment over Hampstead's related contracts receivable (see Note 5); and a suretyship agreement executed by DMCI, in favor of the banks to further secure the collectibility of the collateralized receivables.

Acceptances and Trust Receipts Payable

Acceptances and trust receipts payable include Semirara's liabilities amounting to ₱350 million in 2003, under a three-year deferred issuance letters of credit obtained from a local bank for the acquisition of various mining equipment. This has been fully paid on August 18, 2004.

In 2001, the trust receipts and acceptances payable of Semirara with this local bank were restructured. The loan now bears interest at 18.50%, payable until October 2007, and is secured by a surety agreement by the Company, chattel mortgages over DMCI's construction equipment and real estate mortgages over DMCI's real estate for sale and development (see Notes 8 and 12).

In 2002, Semirara's restructuring agreements with two other local banks have been finalized. The loan with one of the local banks now bears interest at 91-day T-Bill rate plus 3.25%, and is payable in 19 quarterly installments until December 2008. The agreement with this local bank also provided that, should the spin-off of Semirara's assets and liabilities to its wholly owned subsidiary ("NewCo"), which is in the process of incorporation, pushes through, the term loan shall be assumed by NewCo and the annual capital expenditures for the first 3 years shall not exceed ₱223 million. The other restructured loan now bears interest at prevailing market rates and payable in 18 equal quarterly installments starting February 2003 until May 2007. Semirara's loans with the two local banks are secured by real estate mortgages over DMCI's real estate for sale and development, chattel mortgages over Semirara's conventional and continuous mining equipment and a surety agreement issued by the Company (see Notes 8 and 12). These have been fully paid on August 13, 2004.

In 2004, the debt restructuring agreement between Semirara and another local bank has been finalized. The liability from this local bank is now payable in three years with thirty-six equal principal amortization. The loan has no grace period on the principal payment. Interest is computed on the first 31 days at 12% per annum and subsequent payments at prevailing market rate, payable monthly. This is secured by a mortgage on properties owned by DMCI and a suretyship also issued by DMCI. This has been fully paid on November 19, 2004.

Notes Payable to Preferred Shareholders

The Group's long-term notes payable as of December 31, 2004 include outstanding peso-denominated obligations of the Company, DMCI and PDI to certain preferred shareholders of the Company amounting to ₱45 million, ₱146 million and ₱53 million, respectively, which are payable in various maturity dates starting February 2007 until April 2009, pursuant to loan agreements evidenced by Promissory Notes (PNs) dated April 7, 2002 entered into by the Company, DMCI and PDI in connection with the redemption of 513,055 preferred shares under Options A and B of the Exchange Offer (see Note 18). The obligations of DMCI and PDI are secured by real estate mortgages over DMCI's and PDI's real estate for sale and development (see Note 8), and certain real estate properties of other related parties while the obligations of the Company are unsecured.

In 2004 and 2003, the details of the foregoing PNs are presented below:

	2004	2003
Prevailing interest rate of the 91-day T-Bill plus a spread of up to 2%, payable in quarterly payments in arrears	**₱138,722,813**	₱237,783,471
Fixed interest at 13%, payable in quarterly payments in arrears	**102,028,705**	272,244,885
Fixed interest at 13% for the first 5 years; prevailing interest rate of the 91-day T-Bill plus a spread of up to 3% for the last 2 years, payable in quarterly payments in arrears	**3,690,900**	3,690,900
	₱244,442,418	₱513,719,256

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

Payables to Foreign Suppliers

On June 18, 2004, Semirara purchased seven units of mining equipment from a foreign supplier for US$4 million. This loan is payable in: (a) 12 quarterly payments of principal each in an amount equal to 6.5% of the original loan amount commencing on the date falling 12 months from the drawdown date; and (b) a balloon payment in the amount equal to 22% of the original loan amount. This loan bears interest at prevailing market rates and payable over 16 quarterly payments. This is secured by a chattel mortgage on the mining equipment purchased and a corporate guarantee issued by the Company.

The Group's payables to foreign suppliers include Semirara's foreign currency-denominated long-term obligations of about ₱224 million (US$4 million) in 2004 and ₱312 million (US$6 million) in 2003 to a foreign supplier arising from acquisitions of certain mining equipment, parts and supplies (see Note 12). These notes bear interest based on SIBOR plus 3.75% and are payable in 18 consecutive quarterly installments until December 15, 2006. Further, the loans are secured by real estate mortgages over DMCI's real estate for sale and development, chattel mortgages over DMCI's construction equipment and Semirara's conventional and continuous mining equipment which are fully depreciated as of December 31, 2004 and with a total carrying value of ₱140 million as of December 31, 2003, and a letter of guarantee issued by the Company (see Notes 8 and 12). The agreement also provided for the maintenance of a financial ratio at a certain level. This has been fully paid on March 7, 2005.

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

The Group's payables to foreign suppliers also include Semirara's foreign currency-denominated long-term obligations amounting to about US$5 million in 2004 and US$8 million in 2003 arising from the acquisition of conventional mining equipment (see Note 12). These obligations bear interest at 8.25% plus establishment fee of 2.75% and commitment fee of 1% and is payable for 5 years in 10 equal semi-annual installments after the 12-month grace period. Title to the mining equipment amounting to ₱489 million will pass to Semirara only upon full settlement of its obligations. The amount due is secured by a corporate guarantee issued by the Company and the existence of the CSA (see Note 29) evidencing a 10-year contract for a supply of up to 2,400,000 MT of coal per year.

In 2003, Semirara acquired on account from the same foreign supplier units of conventional and continuous mining equipment. The foreign-currency denominated loan amounting to US$1.5 million is payable in 18 months after a three months grace period with interest at 5.75% per annum. This has been fully paid on February 15, 2005.

As of December 31, 2004 and 2003, the Group was in compliance with the loan covenants required by the creditors.

17. Other Noncurrent Liabilities

The details of this account consist of:

	2004	2003
Payable to property sellers	**₱243,929,192**	₱261,810,810
Deferred revenue on real estate sales	**57,610,128**	45,163,728
Deferred tax liabilities (see Note 24)	**14,309,971**	70,218,376
Subscriptions payable (see Note 10)	**3,750,000**	3,750,000
	₱319,599,291	₱380,942,914

Payable to Property Sellers

Payable to property sellers represents the balance of the Group's obligations to various real estate property sellers for the acquisition of certain parcels of land and housing and 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 the Group.

18. **Capital Stock**

The changes in the number of shares follow:

	2004	2003
Preferred stock - ₱1 par value cumulative and convertible to common stock		
Authorized	**100,000,000**	100,000,000
Issued		
Balance at beginning of year	**451,690**	1,288,265
Retirement of preferred shares	**(109,450)**	(836,575)
Balance at end of year	**342,240**	451,690
Common stock - ₱1 par value		
Authorized	**5,900,000,000**	5,900,000,000
Issued	**2,255,494,000**	2,255,494,000
Preferred shares held in treasury		
Balance at beginning of year	**(183,700)**	(945,125)
Redemption of preferred shares	**(111,250)**	(75,150)
Retirement of preferred shares	**109,450**	836,575
Balance at end of year	**(185,500)**	(183,700)

The preferred shareholders' right of converting the preferred shares to common shares expired in March 2002.

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

Option A - Secured 5-Year Term Loan

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

As of December 31, 2004, the Group issued PNs amounting to ₱139 million (net of payments of ₱99 million in 2004) for the redemption of 310,700 preferred shares, respectively, under Option A (see Note 33).

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

As of December 31, 2004, the Group issued PNs amounting to ₱106 million (net of payments of ₱170 million in 2004) for the redemption of 202,355 preferred shares under Option B (see Note 33).

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

As of December 31, 2004, the Company redeemed 659,279 preferred shares under Option C in exchange for Asian Hospital, Inc. (AHI) shares; certain construction equipment owned by DMCI amounting to ₱50 million and other certain assets of the Group amounting to ₱586 million in favor of Dacon Corporation (Dacon), a major stockholder (see Note 33); proceeds from sale of various condominium units owned by Constress and PDI totaling to ₱56 million in favor of certain preferred shareholders; and condominium units owned by PDI with an aggregate value of ₱6 million in favor of certain preferred shareholders.

<u>Option D - Cash Payment</u>
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.

As of December 31, 2004 and 2003, the Group redeemed 341,510 and 286,160 preferred shares, respectively, under Option D.

As of December 31, 2004 and 2003, the outstanding obligations of the Group relative to the issuance of PNs to certain preferred shareholders of the Company amounted to ₱244 million and ₱514 million, respectively (see Note 16).

As of May 3, 2005, the Group has redeemed 2,243,260 preferred shares (including 729,416 preferred shares which were redeemed prior to the Final Redemption Date).

As of December 31, 2004, 2003 and 2002, dividends in arrears for preferred shares amounted to ₱25 million, ₱33 million and ₱92 million, respectively.

Retained earnings is restricted to the extent of the acquisition price of the treasury shares amounting to ₱239 million and ₱237 million as of December 31, 2004 and 2003, respectively.

19. Sales and Services

This account consists of:

	2004	2003	2002
Coal sales (see Note 29)	**₱5,065,864,642**	₱2,177,241,132	₱1,517,087,114
Construction contracts (see Note 27)	**1,952,555,721**	1,948,531,466	1,343,032,243
Real estate sales	**718,360,031**	470,404,931	328,982,155
Merchandise sales and others	**24,299,277**	19,653,002	28,484,680
	₱7,761,079,671	₱4,615,830,531	₱3,217,586,192

20. Costs of Sales and Services

This account consists of:

	2004	2003	2002
Coal sales (see Note 29)	**₱2,919,456,427**	₱1,531,563,928	₱1,129,910,394
Construction contracts (see Note 27)	**1,833,959,651**	1,720,573,564	1,305,984,905
Real estate sales	**483,637,012**	349,098,992	216,391,961
Merchandise sales and others	**13,824,634**	18,383,216	16,137,676
	₱5,250,877,724	₱3,619,619,700	₱2,668,424,936

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

	2004	2003	2002
Included in:			
Coal sales	**₱685,147,488**	₱427,588,926	₱399,907,592
Construction contracts	**52,791,573**	86,998,949	141,034,378
Operating expenses (see Note 21)	**25,949,306**	28,283,319	38,874,528
	₱763,888,367	₱542,871,194	₱579,816,498

	2004	2003	2002
Depreciation, depletion and amortization of:			
Property, plant and equipment (see Note 12)	**₱750,628,337**	₱529,399,396	₱569,409,943
Deferred stripping and development costs (see Note 13)	**7,819,580**	10,092,324	8,018,587
Investments in properties (see Note 11)	**5,440,450**	3,379,474	2,387,968
	₱763,888,367	₱542,871,194	₱579,816,498

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

	2004	2003	2002
Included in:			
Costs of construction contracts	**₱361,408,793**	₱371,553,582	₱339,002,631
Operating expenses (see Note 21)	**162,569,578**	132,543,814	149,131,566
Costs of coal sales	**156,171,333**	130,580,212	109,655,629
	₱680,149,704	₱634,677,608	₱597,789,826

21. **Operating Expenses**

This account consists of:

	2004	2003	2002
Salaries, wages and employee benefits (see Notes 20 and 28)	**₱162,569,578**	₱132,543,814	₱149,131,566
Government share	**148,623,317**	65,221,117	27,052,157
Taxes and licenses	**100,344,339**	24,092,125	22,090,673
Outside services	**79,498,019**	68,377,780	36,281,100
Commission	**40,187,940**	17,060,321	7,118,673
Advertising	**33,180,094**	30,865,672	22,140,948
Depreciation and amortization (see Note 20)	**25,949,306**	28,283,319	38,874,528
Communication, light and water	**19,959,588**	17,759,528	11,735,700
Entertainment, amusement and recreation	**18,590,054**	12,714,061	6,321,047
Rent (see Note 30)	**17,533,933**	12,358,626	22,427,700
Provisions for:			
Doubtful accounts	**17,252,778**	118,367,851	178,544,280
Inventory obsolescence and losses	**17,070,283**	557,940	–
Probable losses on noncurrent assets	**12,214,617**	–	–
Probable losses on investments	**2,000,000**	11,459,652	44,787,767
Transportation and travel	**12,831,281**	6,671,750	4,402,391
Supplies	**8,306,427**	7,862,440	4,273,125
Repairs and maintenance	**5,879,737**	6,361,810	11,187,363
Insurance	**3,865,648**	2,866,792	2,022,696
Inventories written-off	**–**	–	44,270,114
Miscellaneous	**39,260,954**	17,624,139	46,806,481
	₱765,117,893	₱581,048,737	₱679,468,309

22. Other Operating Income

This account consists of:

	2004	2003	2002
Gain (loss) on sale of property and equipment and investments - net	**₱38,440,148**	(₱50,913,033)	(₱25,694,600)
Rental income	**22,100,235**	30,863,463	18,719,184
Indent commission	**–**	1,231,481	10,140,607
Reversal of allowance for doubtful accounts	**–**	–	22,400,272
Miscellaneous - net	**53,355,538**	58,919,267	77,567,094
	₱113,895,921	₱40,101,178	₱103,132,557

23. Interest and other Charges

This account consists of:

	2004	2003	2002
Interest expense (see Notes 2, 14 and 16)	**₱368,317,069**	₱354,278,164	₱315,978,046
Foreign exchange losses - net	**7,844,204**	36,975,433	31,958,010
Interest income	**(11,012,665)**	(7,557,886)	(26,856,148)
	₱365,148,608	₱383,695,711	₱321,079,908

24. Income Taxes

As discussed in Note 2, the Group adopted SFAS 12/IAS 12, *Income Taxes,* effective January 1, 2004. The information below includes the additional disclosures required by the new standard.

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

	2004	2003 (As restated)
Deferred tax assets on:		
Allowance for:		
Doubtful accounts	**₱63,595,083**	₱74,127,798
Inventory obsolescence	**19,955,656**	14,493,165
Accrued expenses	**33,696,860**	25,733,685
Accrued retirement costs	**30,202,632**	21,287,608
Unrealized foreign exchange loss	**2,879,450**	32,889,179
NOLCO	**–**	12,683,544
MCIT	**–**	1,794,165
Excess of tax over book basis of deferred gross profit on real estate sales	**–**	299,707
Others	**7,773,197**	7,173,491
	158,102,878	190,482,342

(Forward)

	2004	2003 (As restated)
Deferred tax liabilities on:		
Incremental cost of property, plant and equipment	**(₱129,895,085)**	(₱149,578,124)
Excess of book over tax income pertaining to construction contracts and real estate sales	**(10,216,878)**	(65,548,247)
Capitalized interest on real estate for sale and development deducted in advance	**(8,327,481)**	(2,732,580)
Others	**(958,341)**	(1,937,549)
	(149,397,785)	(219,796,500)
	₱8,705,093	(₱29,314,158)

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

	2004	2003 (As restated)
NOLCO	**₱469,681,763**	₱1,846,047,088
MCIT	**75,926,721**	36,674,283
Accrued expenses	**68,411,200**	39,042,734
Allowance for doubtful accounts	**56,893,059**	71,982,003
Accrued retirement costs	**2,000,000**	13,001,428
Others	**7,816**	9,488

The deferred income tax effects of the above deductible temporary differences for which no deferred tax assets are recognized amounted to ₱267 million and ₱667 million as of December 31, 2004 and 2003, respectively. Deferred tax assets are recognized only to extent that taxable income will be available against which the deferred tax assets can be used. The Group assesses the unrecognized deferred tax assets and will recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

The components of deferred tax assets and liabilities are included in the following accounts in the consolidated balance sheets:

	2004	2003 (As restated)
Other noncurrent assets - net (see Note 13)	**₱23,015,064**	₱40,904,218
Other noncurrent liabilities (see Note 17)	**(14,309,971)**	(70,218,376)
	₱8,705,093	(₱29,314,158)

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

	2004	2003 (As restated)	2002 (As restated)
Current	**₱90,458,793**	₱72,896,628	₱47,461,856
Deferred	**(32,389,140)**	(239,230,445)	(139,294,549)
	₱58,069,653	(₱166,333,817)	(₱91,832,693)

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

	2004	2003 (As restated)	2002 (As restated)
Statutory income tax rate	**32.00%**	32.00%	(32.00%)
Adjustments for:			
Nondeductible depreciation expense on adjusted cost	**1.32**	27.38	5.14
Nondeductible expenses	**0.11**	0.06	0.09
Nondeductible interest expense	**0.01**	0.70	–
Changes in unrecognized deferred tax assets	**(29.68)**	(289.68)	11.19
Nondeductible (nontaxable) equity in net losses (earnings) of associates and jointly controlled entities	**(0.15)**	0.40	1.20
Interest income subjected to final tax at a lower rate - net	**(0.03)**	(1.00)	(0.45)
Nondeductible loss (nontaxable gain) on sale of investments in shares of stock	**(0.02)**	(0.87)	1.17
Unrealized gain on redemption of preferred shares	**–**	–	(0.31)
Others - net	**0.35**	1.48	(9.98)
Effective income tax rate	**3.91%**	(229.53%)	(23.95%)

25. **Basic Earnings (Loss) Per Share**

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

	2004	2003 (As restated)	2002 (As restated)
Net income (loss)	**₱1,353,496**	₱198,837	(₱220,860)
Less dividends on preferred shares	**24,641**	32,522	92,755
	1,328,855	166,315	(313,615)
Divided by weighted average number of common shares	**2,255,494**	2,255,494	2,255,494
Basic earnings (loss) per share	**₱0.59**	₱0.07	(₱0.14)

The assumed conversion of the Company's preferred shares has no dilutive effect in 2002. The preferred shareholders' right of conversion expired in March 2002. Accordingly, no diluted earnings per share is presented in the accompanying consolidated statements of income for such years.

26. Segment Reporting

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

The industry segments where the Group operates are: general construction, coal mining, infrastructure and real estate development and manufacturing.

Business Segments
The following tables present revenue, net income (loss) and depreciation, depletion and amortization information regarding business segments for the years ended December 31, 2004, 2003 and 2002 and property, plant and equipment additions, total assets and total liabilities for the business segments as of December 31, 2004 and 2003 (amounts in millions):

	Revenue			**Net Income (Loss)**			**Depreciation, Depletion and Amortization**		
	2004	2003	2002	**2004**	2003 (As restated)	2002 (As restated)	**2004**	2003	2002
General Construction	**₱1,953**	₱1,949	₱1,343	**₱118**	₱127	(₱232)	**₱75**	₱87	₱141
Coal Mining	**5,066**	2,177	1,517	**1,246**	138	6	**685**	428	400
Infrastructure and Real Estate Development	**718**	470	329	**36**	(23)	43	**2**	26	31
Manufacturing and Parent Company	**24**	20	29	**(47)**	(43)	(38)	**2**	2	8
	₱7,761	₱4,616	₱3,218	**₱1,353**	₱199	(₱221)	**₱764**	₱543	₱580

	Property, Plant and Equipment Additions		**Segment Assets**		**Segment Liabilities**	
	2004	2003	**2004**	2003 (As restated)	**2004**	2003
General Construction	**₱22**	₱11	**₱2,393**	₱3,851	**₱1,632**	₱2,424
Coal Mining	**1,299**	229	**3,862**	3,099	**2,390**	2,540
Infrastructure and Real Estate Development	**14**	5	**6,196**	4,917	**1,882**	1,539
Manufacturing and Parent Company		11	**255**	351	**1,190**	1,269
	1,335	256	**12,706**	12,218	**7,094**	7,772
Deferred Tax Assets/Liabilities	**–**	–	**23**	41	**14**	70
Total Assets/Liabilities	**₱1,335**	₱256	**₱12,729**	₱12,259	**₱7,108**	₱7,842

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

27. **Related Party Transactions**

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

(a) Comprehensive surety, corporate and letters of guarantee issued by the Company and DMCI for various credit facilities granted to and for full performance of certain obligations by certain related parties (see Notes 14, 16 and 30). Such outstanding surety and/or guarantees amounted to ₱354 million and ₱468 million as of December 31, 2004 and 2003, respectively;

(b) Certain assets of the Group, associates and other related parties were placed under accommodation mortgages to secure the indebtedness of the Group, its associates and other related parties (see Notes 8, 10, 11, 12, 14 and 16);

(c) Interest and noninterest-bearing cash and operating advances made by the Group to and from various associates and other related parties (see Notes 5 and 14);

(d) Issuances of PNs and transfers of certain construction equipment by the Group in favor of certain preferred shareholders for the redemption of the Company's preferred shares (see Notes 16, 18 and 32); and

(e) Redemption of the Company's preferred shares by the Group in 2002 under Options B and C in exchange for a PN amounting to ₱44 million in favor of DMCI Retirement Fund and other assets amounting to ₱586 million in favor of Dacon (see Notes 16, 18 and 32).

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

	2004	2003
Receivable from related parties (see Note 5)	**₱1,095,275,329**	₱1,173,602,549
Payable to related parties	**851,922,968**	1,124,295,963
Notes payable to related parties (see Note 14)	**–**	78,969,912

28. **Retirement Plan**

The Group has a funded and formal noncontributory defined retirement plans covering substantially all of their regular employees. Total retirement costs charged to operations by the Group amounted to ₱23 million in 2004 and ₱21 million in 2003 and 2002 which were included as part of "Salaries, wages and employee benefits" under the "Operating expenses" account in the consolidated statements of income (see Note 21).

Based on the latest actuarial valuations of the Company and its subsidiaries, the aggregate actuarial present value pension benefits amounted to ₱167.9 million. The aggregate fair value of their respective plan assets amounted to ₱37.9 million. The principal actuarial assumptions used to determine the cost of pension benefits with respect to the discount rate, salary increases and return on plan assets were based on historical and projected normal rates. Actuarial valuations are made at least every two to three years.

29. **CSA with NPC**

Semirara has a CSA (see Notes 15, 16, 19 and 20) 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 and (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 where the base price per MT of coal is computed based on a formula stipulated in the CSA. The base price is subject to adjustment for penalty or bonus, which is determined on a per delivery basis, based on a set of coal quality standards also as stipulated in the CSA. The CSA is effective for 15 years up to May 2010. In 2001the first amendment was made to the CSA and on January 1, 2002, the second amendment to the CSA was finalized. The amendments made, among others, follow:

(a) supply of a revised annual minimum quantity of 1,200,000 MT up to a maximum quantity of 2,400,000 MT of coal, which was stipulated in the first amendment to the CSA dated January 15, 2001;

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

(c) conversion of the mode of delivery from FOB-Semirara to C&F-Calaca to simplify the payment and rescheduling of coal deliveries to Calaca I and Calaca II;

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

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

(f) inclusion of certain bases of NPC's exercise of its rights to reject and/or stop coal deliveries by 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;

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

(h) changes in the computation of the adjustment for penalty or bonus from the base price per MT;

(i) requirement for Semirara and NPC to reconcile payments made for coal deliveries for the immediate preceding pricing period within 30 calendar days from determination of the final base price by issuing a debit memo to the other;

(j) deletion of the CSA provision requiring NPC to make an equity investment in Semirara in the event that the aggregate deliveries of coal meeting the coal specifications taken by NPC within any calendar year is less than 900,000 MT; and

(k) inclusion of the provision allowing Semirara and the new owner or operator of Calaca I and Calaca II, in the event that Calaca I and Calaca II are privatized or its operation and maintenance is turned over to the private sector in conformity with the provisions of the Build-Operate-Transfer Law, as amended, or such other enabling statute, 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 this agreement amounted to ₱754 million and ₱252 million as of December 31, 2004 and 2003, respectively, and included in the "Receivables" account under "Trade - Coal Sales" in the consolidated balance sheets (see Note 5).

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

The services to be undertaken by Semirara in order to extend their service delivery service from discharge port to silos include coal unloading and handling; repairs and maintenance of coal handling facilities; stevedoring services; support activities and coal yard management; and tree planting, marine life protection program and environmental programs to enhance image of NPC power plants. Semirara recognized a net income of ₱18 million and ₱6 million from this handling operation for the years ended December 31, 2004 and 2003, respectively.

30. **Contingencies**

The Group is contingently liable for contractor's guarantees arising in the ordinary course of business, including letters of guarantee for performance, surety and warranty bonds for various construction projects amounting to ₱3,330 million and ₱1,002 million as of December 31, 2004 and 2003, respectively.

The Group is contingently liable for lawsuits or claims filed by third parties (substantially labor related and civil cases) which are either pending decision by the courts or are under negotiation, the outcomes of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments. No provisions were made during the year.

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

31. **Commitments**

The Group leases a portion of its office premises that are renewed under the terms and conditions agreed upon with the lessors.

Future minimum rentals payable (in millions) under non-cancelable operating leases of lessee subsidiaries are as follows as of December 31:

Within one year	₱10
After one year but not more than five years	56
After more than five years	5
	₱71

Beta has also entered into a lease agreement with a third party covering the lease of Beta's main office building. The lease has a term of 5 years.

As of December 31, 2004, the future minimum lease rentals receivable (in millions) under this operating lease follow:

Not later than one year	₱3
After one year but not more than five years	14
	₱17

32. **Capital Restructuring of Semirara**

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

The Capital Restructuring of Semirara includes the following:

(a) Reduction of the authorized capital stock from ₱1,812,200,000, divided into 1,662,200,000 common shares at ₱1 par value per share and 15,000 preferred shares at ₱10,000 par value per share to ₱21,370,448 divided into 21,370,448 common shares at ₱1 par value per share,

(b) Retirement and cancellation of the ₱150,000,000 authorized preferred shares;

(c) Issued and outstanding common shares will be used to eliminate deficit as of December 31, 2003 of ₱1,625,852,920, thus reducing issued and outstanding common shares to ₱5,342,612; and

(d) Increase in authorized capital stock from ₱21,370,448 divided into 21,370,448 common shares to ₱100,000,000 divided into 100,000,000 shares with a par value of ₱1 per share.

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

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

33. Note to Consolidated Statements of Cash Flows

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

	2004	2003	2002
Acquisitions of conventional and continuous mining equipment through availments of long-term debt	**₱434,125,210**	₱82,500,000	₱136,980,042
Redemption of preferred shares by related parties charged against advances (see Notes 18 and 27)	**61,604,800**	–	–
Redemption of preferred shares by the Group in exchange for PNs (see Notes 18 and 27)	**13,645,320**	2,000,000	571,228,721
Return of joint venture capital charged against advances	**12,147,755**	–	–
Sale of investment in shares of stocks on account	**3,006,213**	–	–
Acquisition of property, plant and equipment on account	**2,616,742**	–	–
Assignment of investments in condominium units in settlement of accounts payable	**–**	60,977,654	–
Receipt of a condominium unit from an associate as payment of its accounts payable	**–**	22,275,904	–
Additional subscriptions to capital stock of an associate in exchange for the claims against the associate	**–**	8,820,000	36,750,000
Redemption of preferred shares from Dacon by the Company on account (see Notes 18 and 27)	**–**	–	585,756,008
Transfer of AHI shares to a preferred shareholder as payment for the redemption of preferred shares by the Company (see Note 18)	**–**	–	50,276,000
Transfer of DMCI's construction equipment for the redemption of preferred shares (see Notes 18 and 27)	**–**	–	50,173,440

34. Subsequent Events

On February 4, 2005, Semirara successfully completed its international offer of 89,866,000 common shares at an offer price of ₱36 per share. The offered shares comprised 42,991,000 existing shares held by the Company and 46,875,000 new shares. Concurrently, the Company offered 15,180,000 existing shares to all of the trading participants of the PSE.

On April 4, 2005, Semirara's BOD approved the following:

(a) Appropriation for capital expenditure amounting to ₱1 billion from the unappropriated retained earnings as of December 31, 2004 of Semirara;

(b) The adoption of a dividend policy with a minimum dividend payout of 20% of the net income after taxes starting from the year ending December 31, 2005; subject to the financial requirements of Semirara. The policy further provides that Semirara's BOD may declare more than 20% cash dividends if there is excess cash and less than 20% if there is not enough cash available; and

(c) Revocation of Semirara's BOD resolution dated April 25, 2000 relating to the spin-off of certain assets and liabilities of Semirara as of March 31, 2000.