

SEC Number AS095-002283  
File Number \_\_\_\_\_

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**DMCI HOLDINGS, INC. AND SUBSIDIARIES**

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(Company's Full Name)

**3<sup>rd</sup> Floor, DACON Building  
2281 Don Chino Roces Avenue  
Makati City**

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(Company's Address)

**888-30-00**

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(Telephone Number)

**December 31, 2000**

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(Calendar Year Ended)

**Audited Financial Statements**

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Form Type

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Amendment Designation (if applicable)

**December 31, 2000**

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Period Ended Date

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(Secondary License Type and File Number)

**\*SGVMC101452\***

**DMCI HOLDINGS, INC. AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2000 AND 1999 AND FOR  
EACH OF THE THREE YEARS IN THE PERIOD  
ENDED DECEMBER 31, 2000

\*SGVMC101452\*

## **Report of Independent Public Accountants**

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

We have audited the accompanying consolidated balance sheets of DMCI Holdings, Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

As discussed in Note 1 to the consolidated financial statements, Semirara Mining Corporation [formerly Semirara Coal Corporation] (Semirara), a 74.4% consolidated subsidiary, incurred significant net losses for each of the three years in the period ended December 31, 2000 that resulted in a cumulative deficit of ₱1.7 billion and net capital deficiency of ₱117.2 million as of December 31, 2000. As of such date, Semirara's current liabilities also exceeded its current assets by ₱1.9 billion. These factors, among others, indicate that Semirara may face difficulties to continue operating in the normal course of business. The recoverability and classification of Semirara's asset carrying amounts or the amount and classification of its liabilities depend upon Semirara's ability to continue operating in the normal course of business.

As also discussed in Note 1 to the consolidated financial statements, the Company has an equity investment in and notes receivable from Atlantic, Gulf and Pacific Company of Manila, Incorporated (AG&P) with an aggregate carrying value of ₱180 million, net of allowance for probable losses of ₱586.5 million, as of December 31, 2000. Realization of the net carrying value of the investment and notes receivable depends upon the ability of AG&P to continue operating in the normal course of business.

**\* SGVMC101452 \***

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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the Philippines.

PTR No. 7738110  
January 6, 2001  
Makati City

May 2, 2001

# SGV & Co

## Report of Independent Public Accountants

**SyCip Gorres Velayo & Co**  
A member firm of Arthur Andersen

6760 Ayala Avenue  
1226 Makati City  
Philippines

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

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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.

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\* SGVMC101452 \*

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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the Philippines.

J. D. CABALUNA  
Partner  
CPA Certificate No. 36317  
PTR No. 7738110  
January 6, 2001  
Makati City

May 2, 2001

# SGV & Co

## Report of Independent Public Accountants On Supplementary Schedules

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

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements of DMCI Holdings, Inc. and subsidiaries as of December 31, 2000 and 1999 and for each of the three years in the period ended December 31, 2000, included in this Form 11-A and have issued our report thereon dated May 2, 2001. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Company's management and are presented for purposes of complying with the Securities and Exchange Commission's Rule 48 and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

J. D. CABALUNA  
Partner  
CPA Certificate No. 36317  
PTR No. 7738110  
January 6, 2001  
Makati City

May 2, 2001

\*SGVMC101452\*

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

	December 31	
	2000	1999
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	P705,939,312	P796,124,297
Receivables - net (Note 3)	3,799,950,833	4,540,355,273
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 4)	53,551,903	91,591,756
Inventories - net (Note 5)	394,712,932	317,508,980
Prepaid expenses and other current assets (Note 6)	65,919,372	115,254,163
Total Current Assets	5,020,074,352	5,860,834,469
<b>Real Estate Held for Sale and Development</b> (Note 7)	2,913,843,911	2,776,836,286
<b>Investments</b> - net (Note 8)	1,804,102,055	1,935,479,801
<b>Property, Plant and Equipment</b> - net (Note 9)	3,450,157,100	4,256,288,412
<b>Deferred Charges and Other Assets</b> - net of allowance for losses of P317,583 in 2000 and P714,616,355 in 1999 (Notes 1 and 10)	131,405,506	770,434,433
	<b>P13,319,582,924</b>	<b>P15,599,873,401</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Notes payable (Note 11)	P1,194,520,560	P658,015,751
Accounts payable (Note 12)	1,442,251,950	1,408,313,737
Acceptances and trust receipts payable (Note 15)	529,822,493	402,793,349
Income tax payable	51,579,119	54,964,570
Accrued costs, expenses and other payables	1,867,757,039	1,720,249,598
Payables to property sellers (Note 13)	302,495,591	315,304,488
Payables to affiliated companies (Note 17)	74,683,240	153,683,148
Customers' deposits	39,383,158	30,484,171
Dividends payable (Note 19)	32,455,890	34,042,050
Total Current Liabilities	5,534,949,040	4,777,850,862
<b>Non-Current Liabilities</b> - net of current maturities (Note 15)	461,786,496	793,670,063
<b>Subscriptions Payable</b> (Note 8)	183,750,000	183,750,000
<b>Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts</b> (Note 4)	440,133,626	700,775,346
<b>Deferred Credits</b> (Note 14)	986,405,715	954,982,935
<b>Minority Interest</b> (Note 20)	-	562,710,493
<b>Stockholders' Equity</b>		
Capital stock (Note 19)	2,257,894,000	2,257,894,000
Additional paid-in capital (Note 19)	4,729,474,553	4,732,946,596
Retained earnings (deficit) (Note 20)	(700,519,745)	1,043,839,598
	6,286,848,808	8,034,680,194
Less cost of preferred shares held in treasury (Note 19)	574,290,761	408,546,492
	5,712,558,047	7,626,133,702
	<b>P13,319,582,924</b>	<b>P15,599,873,401</b>

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2000	1999	1998
<b>REVENUES</b>			
Construction contracts	P3,497,159,691	P5,880,876,542	P8,096,606,146
Coal sales (Note 22)	770,559,591	758,239,076	873,549,381
Real estate sales	235,972,422	40,572,497	71,202,378
Merchandise sales	88,141,259	37,672,506	19,319,698
Interest and others - net (Note 21)	226,232,279	407,732,724	698,448,113
	<b>4,818,065,242</b>	<b>7,125,093,345</b>	<b>9,759,125,716</b>
<b>COSTS AND EXPENSES</b>			
Construction contracts	3,058,522,992	5,291,172,979	6,951,767,057
Coal sold	740,229,087	713,479,340	849,096,019
Cost of real estate	197,925,966	41,469,253	54,178,892
Merchandise sold	60,807,420	22,961,689	8,800,176
General and administrative (Note 18)	483,735,588	497,117,900	591,095,187
Interest expense (Notes 11 and 15)	425,059,159	224,829,704	169,054,232
Equity in net losses of unconsolidated affiliated companies, real estate joint ventures, and unincorporated construction joint ventures (Note 8)	65,386,295	183,953,675	392,323,984
Provisions for probable losses on assets and other charges	746,852,923	85,419,258	107,659,141
Nonrecurring charges (Note 1)	948,425,523	-	-
	<b>6,726,944,953</b>	<b>7,060,403,798</b>	<b>9,123,974,688</b>
<b>INCOME (LOSS) BEFORE INCOME TAX AND MINORITY INTEREST</b>			
	<b>(1,908,879,711)</b>	64,689,547	635,151,028
<b>PROVISION FOR INCOME TAX (Note 16)</b>			
Current	166,270,668	164,255,549	150,509,713
Deferred	(158,743,262)	(83,526,978)	128,931,868
	<b>7,527,406</b>	<b>80,728,571</b>	<b>279,441,581</b>
<b>INCOME (LOSS) BEFORE MINORITY INTEREST</b>	<b>(1,916,407,117)</b>	<b>(16,039,024)</b>	<b>355,709,447</b>
<b>MINORITY INTEREST</b>	<b>300,285,174</b>	47,070,034	(47,187,412)
<b>NET INCOME (LOSS)</b>	<b>(P1,616,121,943)</b>	<b>P31,031,010</b>	<b>P308,522,035</b>
<b>Earnings (Loss) Per Common Share</b>			
Basic	<b>(P0.77)</b>	(P0.05)	P0.09
Diluted (Note 19)	-	-	0.08

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2000	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income (loss)	(P1,616,121,943)	P31,031,010	P308,522,035
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, depletion and amortization	901,536,660	1,041,439,743	890,075,378
Write-offs of deferred charges, various idle and nonoperating assets and capitalized foreign exchange losses	948,425,523	-	-
Provisions for:			
Doubtful accounts	574,440,235	-	-
Probable losses	172,412,688	-	-
Losses on abandoned joint venture	-	-	9,289,736
Equity in net losses of affiliated companies, real estate joint ventures, and unincorporated construction joint ventures	65,386,295	183,953,675	392,323,984
Income (loss) applicable to minority interest	(300,285,174)	(47,070,034)	47,187,412
Provision for (benefit from) deferred income tax	(158,743,262)	(83,526,978)	128,931,868
Gain on disposals of:			
Investments	(23,069,745)	(158,207,411)	(57,198,507)
Property, plant and equipment	(20,127,702)	(41,548,625)	(18,891,579)
Marketable equity securities	-	-	(29,573,422)
Changes in operating assets and liabilities:			
Net decrease (increase) in:			
Receivables	154,415,794	679,848,453	(165,896,836)
Inventories	(77,203,952)	52,034,487	25,170,048
Prepaid expenses and other current assets	49,334,791	13,963,414	(88,609,847)
Increase (decrease) in:			
Accounts payable	33,938,213	96,818,863	(968,126,386)
Acceptances and trust receipts payable	127,029,144	(224,295,406)	151,654,266
Income tax payable	(3,385,451)	19,631,139	(9,278,198)
Accrued costs, expenses and other payables	9,253,002	(48,840,493)	725,782,308
Payables to affiliated companies	(70,100,921)	40,527,817	(143,128,502)
Billings in excess of costs and estimated earnings on uncompleted contracts - net	(222,601,867)	(810,746,616)	(783,753,926)
Deferred credits - net	183,714,453	21,682,614	(31,344,957)
<b>Net cash provided by operating activities</b>	<b>728,246,781</b>	<b>766,695,652</b>	<b>383,134,875</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposals of:			
Investments	50,446,363	227,462,541	136,659,190
Property, plant and equipment	22,197,767	44,107,112	38,712,091
Marketable equity securities	-	-	60,704,651
Acquisitions of property, plant and equipment	(329,658,753)	(463,057,789)	(1,442,754,178)
Decrease (increase) in:			
Real estate held for sale and development	(92,485,007)	1,516,496	(272,579,436)
Investments - net	(26,087,927)	26,404,154	(249,808,689)
Deferred charges and other assets - net	(76,663,406)	(445,945,885)	42,429,796
<b>Net cash used in investing activities</b>	<b>(452,250,963)</b>	<b>(609,513,371)</b>	<b>(1,686,636,575)</b>

(Forward)

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	<b>Years Ended December 31</b>		
	<b>2000</b>	1999	1998
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net availments (payments) of:			
Notes payable	<b>₱523,695,912</b>	₱197,015,680	₱67,344,515
Non-current liabilities	<b>(331,883,567)</b>	26,691,688	578,680,782
Acquisitions of preferred treasury shares	<b>(165,744,269)</b>	(307,917,740)	(181,057,908)
Dividends paid:			
Preferred shares	<b>(129,823,560)</b>	(133,371,850)	(97,976,950)
Minority interest	<b>(40,000,000)</b>	(15,996,800)	(15,996,800)
Net increase (decrease) in minority interest	<b>(222,425,319)</b>	28,753,775	(16,616,357)
Proceeds from reissuance of preferred shares held in treasury	-	52,952,728	45,143,181
Net cash provided by (used in) financing activities	<b>(366,180,803)</b>	(151,872,519)	379,520,463
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(90,184,985)</b>	5,309,762	(923,981,237)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>796,124,297</b>	790,814,535	1,714,795,772
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>₱705,939,312</b>	₱796,124,297	₱790,814,535
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>			
Cash paid during the year for:			
Interest	<b>₱188,819,490</b>	₱184,817,063	₱136,619,221
Income taxes	<b>116,046,709</b>	171,980,049	159,757,911
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING ACTIVITIES</b>			
Shares of stock assigned to the Company by AG&P as partial payment of AG&P's notes payable to the Company (see Note 1)	-	₱22,010,775	-
Machinery and equipment received by D.M. Consunji, Inc. (DMCI) as payment of AG&P's liabilities to DMCI	-	14,820,000	-

See accompanying Notes to Consolidated Financial Statements.

## DMCI HOLDINGS, INC. AND SUBSIDIARIES

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

##### Semirara Mining Corporation (formerly Semirara Coal Corporation) (Semirara)

Semirara, a 74.4% owned consolidated subsidiary, had incurred significant net losses for each of the three years in the period ended December 31, 2000 that resulted in a cumulative deficit of ₱1.7 billion (after the effect of the quasi-organization that eliminated the cumulative deficit of ₱3.7 billion as of December 31, 1997) and net capital deficiency of ₱117.2 million as of December 31, 2000. As of such date, Semirara's current liabilities of ₱2.4 billion also exceeded its current assets by ₱1.9 billion. Further, total interest expense for the year ended December 31, 2000 on Semirara's interest-bearing obligations of ₱1.7 billion as of December 31, 2000 amounted to ₱189.7 million. These factors, among others, indicate that Semirara may face difficulties to continue operating in the normal course of business. The continuance of its operations in the normal course of business is dependent upon its ability to generate sufficient cash flows to meet its obligations on a timely basis and eventually regain profitability.

In view of the foregoing conditions, the operating management of Semirara is currently undertaking measures geared towards ensuring the feasibility and profitability of the Semirara's future operations. These measures included, among others, the negotiations with Semirara's major customer, National Power Corporation (NPC), for the increase in coal supply from an average of 76,720 metric tons (MT) per month in 2000 to a minimum of 130,000 MT per month; the development of other markets for Semirara's coal production; and negotiations with Semirara's creditor banks and major suppliers for the restructuring of its maturing obligations.

On August 12, 1999, Semirara obtained from the Department of Environment and Natural Resources the environmental compliance certificate for the Panian mine, which has an estimated recoverable coal reserves of 60 million MT based on the study conducted by a third-party consultant dated November 1998. This was a significant development considering the depletion of mineable coal reserves at the Unong mine. Consequently, Semirara is assured of the availability of mineable coal reserves to service its commitments under its Coal Supply Agreement (CSA) with NPC (see Notes 22 and 25) and the requirements of its existing and prospective customers.

Meanwhile, in line with the measures being undertaken by its operating management, Semirara's Board of Directors approved on August 12 and 25, 2000 the write-off of deferred charges and various idle and nonoperating assets amounting to ₱843.2 million and capitalized foreign exchange losses of ₱105.2 million for a total nonrecurring charges of ₱948.4 million effective as of March 31, 2000. Semirara's Board of Directors also approved on August 25, 2000 the write-off of various deferred charges amounting to ₱714.3 million which were fully provided with an allowance for probable losses in prior years.

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

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

The unfavorable economic developments since the latter half of 1997, which led to volatility in the value of the peso against major foreign currencies and slower economic activity, continued to affect the general business climate in the Philippines during 2000 particularly the construction industry. The difficult economic conditions and the consequent weakness of the construction industry once again hampered AG&P's ability to obtain substantial-sized construction and fabrication contracts. Projects that were pursued by AG&P in the previous years also remained

deferred. AG&P was likewise unsuccessful in its efforts to reduce the level of its borrowings and the related interest expense to improve its liquidity. Although there were several interested buyers of AG&P's properties in Batangas and Baguio City, the prices offered were significantly lower than the properties' appraised values. Meanwhile, negotiations for the sale of a certain parcel of land to a foreign investor were already concluded; however, the sale did not materialize due to the investor's concerns about the continued weakness of the local economy and the country's political instability. Furthermore, the planned increase of ₱204 million in AG&P's capitalization to provide liquidity and to improve its capital base, which is necessary to enable AG&P to secure large construction and fabrication contracts, was not pursued in view of the petition filed by AGP Industrial Corporation (AGPI), a stockholder, with the Securities and Exchange Commission (SEC) for the annulment of the resolution increasing AG&P's authorized capital stock and issuance by the SEC of a temporary restraining order.

Although it was able to fully pay certain loans in 2000, AG&P's serious cash flow problems caused it to default on its loan and other credit arrangements with local banks and a major supplier. Total interest-bearing obligations (including accrued interest and penalties thereon) to local banks and to its stockholders amounted to ₱1.5 billion (including past due loans of ₱510.9 million in 2000) as of December 31, 2000 and 1999. Interest expense on such obligations amounted to ₱158.5 million and ₱126.9 million (excluding the interest on the outstanding obligations to the Company which has been suspended for three years since January 1999 in recognition of AG&P's deteriorating financial condition) for the years ended December 31, 2000 and 1999, respectively. Moreover, AG&P's current liabilities exceeded its current assets by ₱1.7 billion as of December 31, 2000.

Meanwhile, in the absence of new contract awards, the nearing completion of most of the projects, and the high operating and financing costs, AG&P's management decided in 2000 to temporarily scale down its manpower. The consequent temporary lay-offs of a large number of its employees, however, were met with resistance from AG&P's labor force which led to the ongoing plant-wide labor strike, and eventually to the suspension of operations at AG&P's Batangas Fabrication Yard. At the end of 2000, AG&P's remaining projects consisted mainly of its overseas manpower supply contracts which have not been adversely affected by the labor strike.

In light of the foregoing events and conditions, AG&P registered a net loss of ₱218.6 million for the year ended December 31, 2000, which exceeded the previous years' net losses of ₱209.2 million in 1999 and ₱82.7 million in 1998. In addition, the recoverability of AG&P's deferred tax assets amounting to ₱153.7 million depends on the eventual realization of income from AG&P's operations and from the sale of certain properties owned by AG&P. These factors, among others, indicate that AG&P is facing difficulties operating in the normal course of business.

To address the deterioration in its financial and operating conditions, AG&P's management is vigorously pursuing the following measures:

- a) negotiations with creditor banks to restructure past due and maturing debt;
- b) sale and/or lease of certain portions of the Batangas Fabrication Yard;
- c) settlement of liabilities using certain AG&P properties;
- d) disposal of non-strategic assets;
- e) submission of tender offers for prospective overseas manpower supply contracts and on-site fabrication and construction projects; and,
- f) collection of outstanding receivables and other claims.

As of December 31, 2000, the Company's net exposure to AG&P consists of an equity investment and a note receivable with an aggregate carrying value of ₱180 million, net of allowance for probable losses of ₱586.5 million. The recoverability of the Company's net investment and receivable from AG&P is dependent upon AG&P's ability to continue operating in the normal course of business.

DMCI Project Developers, Inc. (PDI)

The effects of the aforementioned economic events on the construction industry has likewise extended to the real estate industry whose consequent weakness has also correspondingly adversely affected the operations of PDI. In response to these events, PDI's management is currently undertaking certain measures that will ensure the feasibility of its operations to enable PDI to meet its various commitments relative to its existing real estate development projects, and fully service its liabilities and recover its investments. Accordingly, in 2000, PDI entered into a joint venture with third parties covering the development of a certain parcel of land (see Note 7) into a residential condominium project. This project is expected to boost the Company's sales performance and consequently improve its liquidity and profitability. Moreover, management is continuing its efforts to identify certain assets and investments for disposition to provide PDI with additional sources of liquidity.

**2. Summary of Significant Accounting Policies**

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the following subsidiaries:

<b>Subsidiary</b>	<b>Principal Activity</b>	<b>Percentage of Ownership</b>		
		<b>2000</b>	1999	1998
D.M. Consunji, Inc. (DMCI)	General Construction Infrastructure and Real Estate	<b>100.00</b>	100.00	100.00
PDI	Development	<b>100.00</b>	100.00	100.00
Semirara Cement Corporation*	Cement Manufacturing	<b>100.00</b>	100.00	100.00
Semirara**	Coal Mining	<b>74.40</b>	74.40	74.40
Wire Rope Corporation of the Philippines (Wire Rope)	Manufacturing	<b>61.70</b>	61.70	16.02
Riviera Land Corporation (Riviera)	Real Estate Development	<b>51.00</b>	51.00	34.11

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

\*\* Formerly Semirara Coal Corporation.

The financial statements of DMCI include the accounts of its consolidated subsidiaries, namely: DMCI International, Inc. (DMCII) (100%-owned), DMCI-Laing Construction, Inc. (DMCI-Laing) (60%-owned), OHKI-DMCI Corporation (60%-owned), Obayashi Philippines Corporation (56%-owned), Beta Electric Corporation (Beta Electric) (50.1%-owned), and Contech Products South Corporation (Contech South) (85%-owned).

The financial statements of PDI include the accounts of its consolidated subsidiaries, namely: Contech Products Corporation (100%-owned) and Hampstead Gardens Corporation (60%-owned) in 2000; and Contech Products Corporation in 1999.

The supplementary information on the Company's significant consolidated subsidiaries as of and for each of the three years in the period ended December 31, 2000 is presented as follows (amounts in millions):

	DMCI and Subsidiaries			PDI and Subsidiaries			Semirara		
	2000	1999	1998	2000	1999	1998	2000	1999	1998
Total assets	<b>₱7,055</b>	₱7,224	₱8,383	<b>₱3,867</b>	₱3,894	₱4,284	<b>₱2,736</b>	₱3,666	₱3,506
Total liabilities	<b>3,875</b>	4,137	5,105	<b>1,791</b>	1,793	2,022	<b>2,853</b>	2,715	2,248
Gross revenues	<b>3,717</b>	6,003	8,463	<b>170</b>	229	175	<b>799</b>	788	928

All significant intercompany transactions and balances among the subsidiaries are eliminated in consolidation.

Revenue and Cost Recognition

*Construction.* Revenues from construction contracts are recognized on the percentage of completion method and are measured principally on the basis of the estimated completion of a physical proportion of the contract work. Contracts to manage, supervise, or coordinate the construction activity of others and those contracts wherein the materials and services are supplied by contract owners are recognized only to the extent of the contracted fee revenue.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenues. The amount of such loss is determined irrespective of: (a) whether or not work has commenced on the contract; (b) the stage of completion of contract activity; or (c) 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 profits are recognized in the year in which the changes are determined. Profit incentives are recognized as revenues when their realization is reasonably assured.

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

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

The cost of residential and condominium units sold before completion of the projects is determined based on the actual costs incurred and cost-to-complete estimates as determined by the subsidiaries' contractors and technical staff. The estimated future expenditures for the completion of sold residential and condominium units are included under the "Accrued costs, expenses and other payables" account in the liabilities section of the consolidated balance sheets.

#### Cash Equivalents

All highly liquid instruments maturing within three months or less from the dates of acquisition are considered as cash equivalents.

#### Allowance for Doubtful Accounts

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

#### Inventories

Inventories are stated at the lower of cost or market. The cost of each inventory category is determined as follows: (a) coal inventory by the weighted average production cost method; (b) construction materials, parts and supplies, by the first-in, first-out method; (c) installation materials, and equipment parts and supplies by the moving average method; and (d) industrial raw materials and supplies by the weighted average method.

#### Real Estate Held for Sale and Development

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

Real estate held for sale and development is carried at the acquisition costs of the real estate properties plus the costs incurred for the construction, development and improvement of the real estate projects. Valuation allowances are provided on real estate held for sale and development when the net realizable values of the properties are less than their carrying costs. No significant decline was expected in the net realizable values of such properties as of December 31, 2000 and 1999; accordingly, no valuation allowance was provided.

#### Investments

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



Information on the investee companies and unincorporated construction joint ventures are as follows:

Investee Companies and Joint Ventures	Percentage of Ownership		
	2000	1999	1998
Shares of Stock:			
Eco Process & Equipment Phils., Inc.	50.00	50.00	50.00
Raco-Haven Automation Philippines, Inc.	50.00	50.00	50.00
Bachy Soletanche Philippines Corporation	49.00	49.00	49.00
Vulcan Materials Corporation	49.00	49.00	49.00
CSN Properties, Inc.	45.00	45.00	45.00
AG&P (see Notes 1 and 8)	46.00	40.00	40.00
Subic Water and Sewerage Company, Inc. (Subic Water - see Note 8)	40.00	40.00	40.00
Monarca Greenworld Corp. (Monarca - see Note 24)	35.00	35.00	35.00
Constress Philippines, Inc.	33.10	33.10	33.10
Freyssinet (Davao), Inc.	33.06	33.06	33.06
Freyssinet Philippines, Inc.	31.90	31.90	31.90
Montecito Properties Incorporated	25.00	25.00	25.00
Metro Tagaytay Land Company, Inc. (MTLCI - see Note 8)	22.00	22.00	22.00
Universal Rightfield Property Holdings, Inc. (URPHI - see Note 8)	1.58	1.97	25.02
Unincorporated Construction Joint Ventures (see Note 8):			
Subic Water	50.00	50.00	50.00
DMCI/WPC	50.00	50.00	50.00
Real Estate Joint Ventures:			
Diamond Bay Tower Project	20.00	20.00	20.00
West Tower Project	20.00	20.00	20.00

Other investments in shares of stock are carried at cost.

An allowance is set up for any substantial decline in value of individual investments. When there is a significant and apparently permanent decline in value of the individual investment, the carrying amount of the individual investment is written down to fair value.

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

Property, Plant and Equipment

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

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

#### Deferred Mine Exploration and Development Costs

Expenditures for mine exploration and development activities on mining properties are deferred as incurred. These deferred costs are charged to expense when the results of the exploration activities are determined to be negative or not commercially viable. When exploration results are positive or commercially viable, the exploration expenses and subsequent development costs are capitalized and carried as "Deferred mine exploration and development costs" under the "Deferred Charges and Other Assets" account in the consolidated balance sheets. Upon the start of commercial production, such costs are accordingly transferred to the "Property, Plant and Equipment" account and amortized using the unit of production method. As of December 31, 2000, all deferred mine exploration and development costs have been written-off (see Note 1).

#### Stripping Costs

Stripping costs are capitalized and amortized based on the difference between the actual stripping ratio (ratio of waste moved to coal mined) and the standard stripping ratio established in accordance with the survey conducted on the mine.

#### Preoperating Costs and Expenses

Expenses incurred prior to the start of the Company and PDI's commercial operations are capitalized and amortized over five years.

Costs and expenses incurred by Semirara prior to the start of its commercial operations, net of incidental revenues earned, were capitalized and allocated between the Unong and Panian Mines in relation to these mines' respective estimated reserves. These allocated preoperating costs and expenses were separately amortized upon the start of commercial production of the mine using the straight-line method over the life of the respective mines' estimated recoverable reserves. As of December 31, 2000, the remaining allocated preoperating costs and expenses have been written-off (see Note 1).

#### Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to: (a) differences between the financial reporting bases of assets and liabilities and their related tax bases; (b) carryforward benefit of the excess of the minimum corporate income tax (MCIT) over normal income tax; and (c) net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the income tax rates expected to apply to taxable income in the year in which those temporary differences, MCIT carryforward benefit and NOLCO are expected to be recovered or applied. The net effect on the deferred tax assets and liabilities arising from any change in the applicable income tax rates is included in the computation of the provision for deferred income tax for the year.

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

As discussed in Note 16, construction contracts entered into and started on January 1, 1998 are reported for income tax purposes using the percentage of completion method of accounting; whereas, uncompleted contracts already started prior to January 1, 1998 may still be reported for income tax purposes under the completed contract method of accounting provided certain conditions are met.

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

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

#### Foreign Currency Transactions

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

In March 2000, the Accounting Standards Council issued Exposure Draft No. 37 (ED 37). "The Effects of Changes in Foreign Exchange Rates (revised)", which will eliminate the deferral of foreign exchange differentials but will allow the capitalization of foreign exchange differentials only under modified conditions effective January 1, 2002. As discussed above, Semirara's practice has been to capitalize foreign exchange losses on long-term foreign currency-denominated debt arising directly on the acquisition of property, plant and equipment. Semirara will adopt the provisions on capitalization of foreign exchange losses on a prospective basis as allowed by ED 37.

#### Retirement Costs

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

#### Earnings (Loss) Per Common Share

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

### 3. Receivables

This account consists of receivables from:

	2000	1999
Contracts:		
Construction (including retention receivables on uncompleted contracts of ₱1,092,342,573 in 2000 and ₱1,164,617,300 in 1999)	<b>₱2,296,047,890</b>	₱2,378,868,469
Real estate	<b>65,244,767</b>	16,400,506
Related parties (see Notes 8 and 17):		
Notes receivable from AG&P	<b>732,437,289</b>	748,535,406
Others	<b>296,022,399</b>	467,631,551
Trade:		
Receivables from NPC	<b>153,655,061</b>	130,126,489
Others	<b>150,781,850</b>	110,489,031
Subcontractors and suppliers	<b>527,977,731</b>	521,713,860
Others	<b>439,267,325</b>	453,633,205
	<b>4,661,434,312</b>	4,827,398,517
Less allowance for doubtful accounts	<b>861,483,479</b>	287,043,244
	<b>₱3,799,950,833</b>	₱4,540,355,273

The notes receivable from AG&P originally bear interest at 15% per annum and an additional 12% per annum on such overdue amount computed from maturity date to the date that the overdue amount is paid in full. However, on January 21, 1998, the Company agreed to align the interest rate of 15% per annum to the interest rate being charged by AG&P's creditor banks and waived the 12% penalty which was supposed to be charged on the unpaid loans beyond the 90-day term as provided for in the promissory notes. The interest income on these notes for the year ended December 31, 1998 amounted to ₱159 million (see Note 21). However, the interest accruing on the notes receivable for 2000 and 1999 have been suspended for three years since January 1999 in recognition of AG&P's deteriorating financial condition. The notes are partly collateralized by a participation in the mortgage trust indenture covering substantially all of AG&P's existing real properties. As of December 31, 2000, all of the notes receivable from AG&P have already matured and were due for collection. In view of the financial difficulties AG&P is currently experiencing, the Company has provided an allowance of ₱552 million on its receivables from AG&P.

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

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

	2000	1999
Total costs incurred	<b>₱13,905,833,201</b>	₱16,476,897,780
Add estimated earnings	<b>3,152,574,334</b>	3,133,865,478
	<b>17,058,407,535</b>	19,610,763,258
Less total billings (including unliquidated advances from contract owners of ₱497,505,118 in 2000 and ₱791,661,557 in 1999)	<b>17,444,989,258</b>	20,219,946,848
	<b>(₱386,581,723)</b>	(₱609,183,590)

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

	<b>2000</b>	1999
Costs and estimated earnings in excess of billings on uncompleted contracts	<b>P53,551,903</b>	P91,591,756
Billings in excess of costs and estimated earnings on uncompleted contracts	<b>(440,133,626)</b>	(700,775,346)
	<b>(P386,581,723)</b>	(P609,183,590)

#### 5. Inventories

The details of inventories are as follows:

	<b>2000</b>	1999
Construction materials, industrial raw materials and supplies, and equipment parts and supplies	<b>P364,477,586</b>	P337,704,588
Coal and other inventories held for sale	<b>64,998,951</b>	48,496,004
	<b>429,476,537</b>	386,200,592
Less allowance for inventory obsolescence	<b>62,177,939</b>	71,731,353
	<b>367,298,598</b>	314,469,239
Equipment parts, materials and supplies in transit	<b>27,414,334</b>	3,039,741
	<b>P394,712,932</b>	P317,508,980

#### 6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consists of the following:

	<b>2000</b>	1999
Prepaid expenses	<b>P43,084,244</b>	P20,655,121
Creditable taxes withheld	<b>11,252,310</b>	64,861,721
Value added input taxes	<b>567,149</b>	26,000,673
Deposits and others	<b>11,015,669</b>	3,736,648
	<b>P65,919,372</b>	P115,254,163

#### 7. Real Estate Held for Sale and Development

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

	<b>2000</b>	1999
Housing and condominium units held for sale and development	<b>P707,912,228</b>	P518,157,925
Land held for future development (see Note 13)	<b>2,205,931,683</b>	2,258,678,361
	<b>P2,913,843,911</b>	P2,776,836,286

PDI has a memorandum of agreement with URPHI effective February 15, 1996 for the development of a certain real estate property. As stipulated in this agreement, PDI contributed certain parcels of land at an agreed valuation of ₱60 million which URPHI shall develop into high-rise, mixed-use condominiums, the cost of which shall be shared equally by URPHI and PDI. PDI has committed to contribute ₱935 million under this agreement. As of December 31, 2000 and 1999, the costs incurred by PDI for the real estate project amounted to ₱329 million, which were included as part of the "Housing and condominium units for sale and development" account. The development activities in the real estate property, however, have been temporarily suspended since 1998.

As of December 31, 2000, certain parcels of land held for future development with an aggregate book value of ₱150.0 million are mortgaged by PDI to guarantee various credit facilities granted to Semirara (see Note 17).

## 8. Investments

The details of this account are as follows:

	2000	1999
Shares of Stock:		
At equity:		
Acquisition cost:		
Balance at beginning of year	<b>₱996,669,479</b>	₱1,201,038,830
Additions during the year	<b>21,800,120</b>	24,207,649
Disposals and other movements during the year	<b>(2,368,194)</b>	(228,577,000)
Balance at end of year (subscriptions payable on which amounted to ₱180,000,000)	<b>1,016,101,405</b>	996,669,479
Accumulated equity in net losses:		
Balance at beginning of year	<b>(317,871,426)</b>	(233,808,036)
Equity in net losses during the year	<b>(73,371,923)</b>	(206,548,366)
Disposals and other movements during the year	<b>735,855</b>	122,484,976
Balance at end of year	<b>(390,507,494)</b>	(317,871,426)
Excess of equity in net assets over carrying value of PDI's investment in URPHI (see Note 19)	<b>11,788,624</b>	15,260,667
	<b>637,382,535</b>	694,058,720
Allowance for probable losses	<b>(35,910,514)</b>	(1,752,265)
	<b>601,472,021</b>	692,306,455

(Forward)

	2000	1999
At cost:		
Balance at beginning of year	<b>₱133,958,471</b>	₱268,473,081
Additions during the year	<b>20,400,000</b>	80,000
Disposals and other movements during the year	-	(134,594,610)
Balance at end of year (subscriptions payable on which amounted to ₱3,750,000)	<b>154,358,471</b>	133,958,471
	<b>755,830,492</b>	826,264,926
Deposits on Future Subscriptions	<b>300,000,000</b>	300,000,000
Real Estate Joint Ventures:		
Acquisition cost:		
Balance at beginning of year	<b>65,256,494</b>	91,740,000
Additional contributions during the year	<b>1,368,352</b>	-
Disposals during the year	<b>(15,516,494)</b>	(26,483,506)
Balance at end of year	<b>51,108,352</b>	65,256,494
Accumulated equity in net losses	<b>(6,664,189)</b>	(6,664,189)
	<b>44,444,163</b>	58,592,305
Allowance for probable losses	<b>(20,889,954)</b>	(20,889,954)
	<b>23,554,209</b>	37,702,351
Equity in Accumulated Earnings of Unincorporated Construction Joint Ventures	<b>43,130,127</b>	35,144,499
Real Estate Properties:		
Land	<b>601,669,790</b>	661,573,627
Condominium units - net of accumulated depreciation of ₱2,572,317 in 2000 and ₱5,108,319 in 1999	<b>79,917,437</b>	74,794,398
	<b>681,587,227</b>	736,368,025
	<b>₱1,804,102,055</b>	₱1,935,479,801

### Shares of Stock

#### *AG&P*

On October 10, 1996, the Company, together with Buenaventura, Filamor and Echauz (BFE), entered into a memorandum of agreement (amended on October 29, 1996) with AGPI and Marubeni Philippines Corporation (Marubeni), AG&P's major existing shareholders as of such date, wherein which, the Company and BFE will invest ₱400 million into AG&P in exchange for 51% of its outstanding capital stock. The Company and BFE had fully paid the ₱400 million investment on January 7, 1997 and were issued on February 26, 1997, 1,144,877 Class A shares and 555,123 Class B shares by AG&P, both at a par value of ₱100 per share or an aggregate par value of ₱170 million as partial consideration for the investment. On March 17, 1997, AG&P issued 1,065,955 Class A shares and 55,301 Class B shares; both at ₱100 par value per share or an aggregate value of ₱112,125,600 in full consideration of the ₱400 million investment.

The memorandum of agreement also provided that the Company and BFE, subject to their business judgement, shall extend such advances, credit facilities or other funds to AG&P totalling ₱800 million, to be secured by AG&P's real estate properties, to enable AG&P to pay its trade creditors, or otherwise service its debt obligations. As of December 31, 2000 and 1999, the Company's advances to AG&P which were presented as "Notes receivable from AG&P" under the "Receivables" account in the consolidated balance sheets amounted to ₱732,437,289 and ₱748,535,405, respectively (see Note 3). A corresponding allowance for noncollection of ₱552,360,000 was provided in 2000.

On August 12, 1999, AG&P's stockholders approved the increase in AG&P's authorized capital stock from ₱36,000,000 consisting of 4.5 million Class A shares and 1.5 million Class B shares, both at ₱6 par value per share to ₱240,000,000 divided into 30 million Class A shares and 10 million Class B shares, both with par value of ₱6 per share; with a qualification by the representatives of AGPI that their final and unqualified approval shall be subject to the submission by its management of an acceptable rehabilitation plan for AG&P on or before December 31, 1999. On February 1, 2000, after a unanimous approval of AG&P's rehabilitation plan, AGPI through its representatives gave its final and unqualified approval to the said increase in AG&P's capital stock. On the same day, AG&P's Board of Directors approved the assignment, if applicable, by the corporate stockholders of AG&P of the whole or a portion of their respective pre-emptive rights to the increase in AG&P's capital stock subject to the resolutions adopted by AG&P's board of directors on June 23, 1999 and by its stockholders on February 1, 2000 relative to the increase in AG&P's capital. As of May 2, 2001, the planned increase in AG&P's capitalization has not yet been pursued in view of the petition filed by AGPI with the SEC (see Note 1).

On December 1, 2000, BFE assigned in favor of the Company its shareholdings in AG&P equivalent to 260,091 Class A shares and 71,817 Class B shares as payment for its liability amounting to ₱18,000,000.

#### *URPHI*

On May 3, 1996, the SEC approved the merger of Universal Petroleum Equity and Property Ventures, Inc., Rightfield Property Ventures, Inc. (Rightfield) and URPHI as provided for in the Plan of Merger executed by the parties. As a result of the merger, PDI's equity amounting to ₱568,423,087, in the resulting net assets of URPHI as of May 3, 1996 (inclusive of subscriptions receivable amounting to ₱393,743,750), net of goodwill recognized by URPHI of ₱463,224,010 as a result of the merger transaction, exceeded by ₱269,990,985 the carrying value of PDI's investment in the shares of stock of URPHI of ₱298,432,102.

As of December 31, 2000, PDI has sold since 1998 a total of 706 million URPHI shares resulting to the reduction of PDI's equity in URPHI to only 1.58% and the realization of an accumulated gain of ₱207.9 million (₱5.5 million from disposals in 2000, ₱145.2 million in 1999 and ₱57.2 in 1998). The excess of PDI's equity in the net assets of URPHI over the carrying value of its investment amounted to ₱11,788,624 and ₱15,260,667 as of December 31, 2000 and 1999, respectively, which are included in the "Additional paid-in capital" account in the stockholders' equity section of the consolidated balance sheets.

#### *MTLCI*

On April 23, 1996, PDI together with URPHI, entered into a memorandum of agreement with Landco Asset Management, Inc. (LAMI) and Metro Pacific Corporation (MPC) with the concurrence of MTLCI. The memorandum of agreement provided, among others, that PDI and URPHI shall subscribe to a portion amounting to ₱330 million each (equivalent to 22% equity each) of the unissued capital stock of MTLCI based on the agreed valuation of ₱150 per square meter of certain parcels of land, described in the memorandum of agreement of which MTLCI is either the beneficial owner and/or the legal claimant.

Pursuant to the provisions of the memorandum of agreement and in accordance with the subscription agreement dated November 15, 1996 executed between PDI and URPHI and MTLCI, with the conformity of LAMI and MPC, PDI and URPHI subscribed to 785,714 shares each out of the unissued capital stock of MTLCI for a total subscription price of ₱330 million each, payable on installments up to 1999. As of December 31, 2000, PDI has already paid ₱150 million of its subscription.



On November 10, 1998, however, PDI and URPHI sent a notice to MTLCI terminating the memorandum of agreement and related contracts on the basis of the alleged failure of LAMI and MPC to comply with certain warranties and representations contained in the memorandum of agreement and related contracts as enumerated in the said notice. On December 9, 1998, MTLCI sent its reply affirming its position that MTLCI, LAMI and MPC did not commit any breach of warranty or misrepresentation under the memorandum of agreement and related contracts. In the same letter, MTLCI demanded for the installment payment of the unpaid subscriptions of PDI and URPHI amounting to ₱90 million each which became due on June 30, 1998. On March 12, 1999, PDI and URPHI proposed for the arbitration of the issues which MTLCI, MPC and LAMI affirmed on their communication dated April 23, 1999. As of May 2, 2001, the arbitration has not yet commenced.

#### *Subic Water*

On January 22, 1997, PDI subscribed to 3,262,300 shares at a par value of ₱10 per share for an aggregate value of ₱32,623,200 in Subic Water, a joint venture company with Subic Bay Metropolitan Authority (a government corporation), Olongapo City Water District, and Biwater International Limited (presently known as Cascall) (a company organized under the laws of England). Subic Water was organized primarily to engage in the provision, improvement, operation and maintenance of water and sewerage facilities and systems in the Subic Special Economic and Free Port Zone. The joint venture agreement executed by the parties on November 24, 1996 provided that the total initial authorized capital stock of Subic Water shall be ₱250,000,000 consisting of 25,000,000 shares with a par value of ₱10 per share, of which the total initial subscribed and paid-in capital within three years from the effective date of the joint venture agreement (defined therein to be the date on which certain conditions stipulated in the joint venture agreement shall have been complied with) shall be ₱187,200,000. The joint venture agreement further stipulated that PDI shall have an equity participation equivalent to 40% in Subic Water amounting to ₱74,880,000 based on the foregoing initial subscribed and paid-in capital. The balance of PDI's committed subscription to Subic Water of ₱38,256,800 (net of additional subscription payment of ₱4,000,000 in 1998) is expected to be paid on or before the second anniversary of the effective date. As of December 31, 2000, such committed subscription has not yet been paid.

#### *Asian Hospital, Inc. (AHI)*

On December 9, 1997, the Company subscribed to 133,333,000 shares of the capital stock of AHI at a subscription price of ₱1 per share or a total subscription price of ₱133,333,000, representing 11.11% of the total outstanding capital stock of AHI. On March 22, 1999, the Company waived its subscriptions to the remaining ₱100,000,000 worth of shares, upon which AHI applied the paid subscription of ₱33,333,000 as full payment for the equivalent 33,333,000 shares of the capital stock of AHI. During 2000, the Company acquired additional 20,000,000 shares of stock for a total subscription price of ₱20,000,000.

#### Deposits on Future Stock Subscription

On June 10, 1995, the Bases Conversion Development Authority (BCDA) (a government corporation), Philippine National Railways (PNR), and a consortium comprised of foreign investors and local partners entered into a joint venture agreement to undertake the construction of a double-track railway system from Metro Manila to Clark (as Phase I) with an extension to Subic Bay Freeport Zone (as Phase II), and a possible extension to San Fernando, La Union (as Phase III), and finally to Laoag, Ilocos Norte and to San Jose City (as Phase IV) [hereinafter referred to as the "Project"]. The joint venture agreement also provided for the incorporation of North Luzon

Railways Corporation (Northrail), initially as a wholly-owned corporation of BCDA, the primary purpose of which, among others, is to construct, operate and manage a railroad system to serve Northern and Central Luzon; and to develop, construct, manage, own, lease, sublease and operate establishments and facilities of all kinds related to the railroad system.

On February 6, 1996, pursuant to an amendment to the joint venture agreement, PDI was included as a strategic partner on the basis of its qualifications for the implementation of the Project. Consequently, on February 8, 1996, the partners in the joint venture agreement, including PDI, entered into a memorandum of agreement to set the mechanics for raising the seed capitalization needed by Northrail to accelerate the implementation of the Project. The amounts contributed by the joint venture partners are committed to be converted into equity when Northrail is privatized. As of December 31, 2000 and 1999, PDI's contribution of ₱300,000,000 to Northrail is presented as "Deposits on Future Stock Subscriptions" under the "Investments" account in the consolidated balance sheets.

#### Real Estate Joint Ventures

PDI has existing joint venture agreements with various third-party property owners, the primary purpose of which is to undertake the development of such real estate properties into various condominium projects. Under the terms of these agreements, PDI is committed to make equity contributions and/or share in the total estimated development costs of the projects. In consideration for its agreed cash contributions, PDI will share in the profits of the joint ventures in accordance with a predetermined proportion as agreed among the joint venture partners.

#### Unincorporated Construction Joint Ventures

As of December 31, 2000 and 1999, the unincorporated construction joint ventures which were entered into by DMCI and by DMCII with various third parties have sufficient working capital for their operations and, accordingly, no actual fund contributions were required from the joint venture partners.

#### Real Estate Properties

DMCI pledged certain investments in real estate with an aggregate book value of ₱162.1 million as of December 31, 2000 under various real estate mortgages as collateral for the indebtedness of certain affiliates to various banks and creditors (see Note 15).

#### Others

In 2000, certain proprietary club shares owned by PDI with a total cost of ₱7 million were used as collateral to guarantee the credit facilities granted to Celebrity Sports Plaza, Inc., an affiliated company.

## 9. Property, Plant and Equipment

Property, plant and equipment consists of:

	2000		1999	
	At Appraised Values (Cost Plus Appraisal Increase)	Appraisal Increase	At Appraised Values (Cost Plus Appraisal Increase)	Appraisal Increase
Land and land improvements	<b>₱524,468,769</b>	<b>₱-</b>	₱534,675,281	<b>₱-</b>
Buildings and building improvements	<b>518,392,115</b>	<b>109,804,693</b>	501,665,195	115,153,527
Construction equipment and tools	<b>2,505,419,337</b>	-	2,562,474,841	-
Machinery and other equipment	<b>261,984,068</b>	-	257,426,211	-
Office furniture, fixtures and equipment	<b>159,661,249</b>	-	161,616,844	-
Transportation equipment	<b>136,522,770</b>	-	133,694,069	-
Mining fixed assets of Semirara:				
Conventional and other mining equipment (see Note 15)	<b>2,342,930,445</b>	<b>45,594,012</b>	2,341,018,431	45,594,013
Continuous mining equipment	<b>1,481,002,827</b>	<b>536,263,975</b>	2,284,086,404	833,478,817
Power plants	<b>679,662,583</b>	<b>376,789,456</b>	679,662,583	376,789,456
Roads and bridges	<b>241,315,702</b>	<b>146,388,235</b>	266,532,545	166,247,770
Mining properties	<b>181,451,613</b>	-	68,548,387	-
Mine exploration and development costs	<b>321,936,500</b>	-	97,983,793	-
Leasehold and other improvements	<b>62,849,443</b>	-	62,849,443	-
	<b>9,417,597,421</b>	<b>1,214,840,371</b>	9,952,234,027	1,537,263,583
Less accumulated depreciation, depletion and amortization	<b>6,035,926,600</b>	<b>562,765,503</b>	5,697,849,238	592,813,712
	<b>3,381,670,821</b>	<b>652,074,868</b>	4,254,384,789	944,449,871
Construction in progress	<b>68,486,279</b>	-	1,903,623	-
	<b>₱3,450,157,100</b>	<b>₱652,074,868</b>	₱4,256,288,412	₱944,449,871

DMCI has pledged certain parcels of land with an aggregate book value of ₱188.0 million as of December 31, 2000 under various real estate mortgages to secure the indebtedness of Semirara to various banks and creditors (see Notes 15 and 17).

Depreciation, depletion and amortization charged to operations (including depreciation on appraisal increase of ₱70.9 million in 2000, ₱101.2 million in 1999 and ₱143.1 million in 1998) aggregated to ₱809.1 million in 2000, ₱958.0 million in 1999 and ₱970.0 million in 1998.

The appraisal increase of ₱652.1 million in 2000, ₱944.4 million in 1999 and ₱1.0 billion in 1998 resulted from the appraisal of Semirara's assets which was recognized prior to the Company's acquisition of its equity ownership in Semirara in 1997.

## 10. Funds Held by Custodian Bank

The Company has a Custodianship Agreement with a local bank wherein which the Company maintains a sinking fund account comprised of cash or money market instruments gradually set aside to cover the future redemption of 2,400,000 convertible preferred shares by April 7, 2002 (Final Redemption Date - see Note 19). The annual deposits to the sinking fund are in accordance with an approved schedule of payments. As of December 31, 2000 and 1999, the sinking fund account balances amounted to ₱52,791,800 and ₱38,317,700, respectively, and presented as part of the "Deferred Charges and Other Assets" account in the consolidated balance sheets.

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**11. Notes Payable**

Notes payable consists of the following:

	2000	1999
Bank loans of:		
DMCI and subsidiaries	<b>₱354,399,828</b>	₱103,661,195
PDI	<b>167,000,000</b>	165,500,000
Semirara	<b>137,000,000</b>	153,200,000
WireRope	<b>1,446,912</b>	-
Notes payable to affiliated companies	<b>87,072,133</b>	69,895,000
Current maturities of long-term (see Note 15):		
Bank loans	<b>194,009,153</b>	86,054,101
Notes payable	<b>253,592,534</b>	79,705,455
	<b>₱1,194,520,560</b>	₱658,015,751

The bank loans of DMCI and subsidiaries are secured by various joint suretyship agreements entered into by the Company and certain individual stockholders and bear interest at prevailing market rates.

PDI's bank loans represent peso-denominated short-term borrowings from local banks which bear interest at prevailing market rates and are secured by a corporate guarantee and a continuing surety agreement issued by the Company and certain stockholders of the Company.

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

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

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**12. Accounts Payable**

This account consists of obligations to the following:

	2000	1999
Suppliers	<b>₱745,574,886</b>	₱942,604,971
Subcontractors	<b>541,476,628</b>	347,214,425
Department of Energy (DOE) and local government units	<b>155,200,436</b>	118,494,341
	<b>₱1,442,251,950</b>	₱1,408,313,737

Semirara has a Coal Operating Contract with DOE dated July 11, 1977, as amended on January 16, 1981 for the exploration, development, mining and utilization of coal over Semirara Island, Antique under the terms and conditions provided therein and pursuant to the provisions of Presidential Decree No. 972, otherwise known as the Coal Development Act of 1976. The contract provides for the manner and basis of sharing the gross proceeds from coal production between Semirara and DOE. The contract is for a maximum period of 35 years (inclusive of the developmental stage and renewals) up to July 2012. Meanwhile, Semirara's liabilities to the different local government units in the Province of Antique arose from the provisions of the Local Government Code of 1991.

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### 13. Payables to Property Sellers

Payables to property sellers represent the balance of PDI's obligations to various real estate property sellers for the acquisition of certain parcels of land and residential condominium units (see Note 7). 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 transfer certificates of title covering the purchased parcels of land; (b) submission of certificates of non-delinquency on real estate taxes; and, (c) physical turnover of the acquired parcels of land to PDI.

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### 14. Deferred Credits

The details of this account consists of:

	2000	1999
Deferred income tax - net (see Note 16)	<b>P484,024,483</b>	P642,767,745
Excess of net assets acquired over the cost of investments - net (see Note 21)	<b>381,105,713</b>	189,729,730
Deferred:		
Revenues of Semirara	<b>114,823,929</b>	122,485,460
Gross profits of DMCI	<b>6,451,590</b>	-
	<b>P986,405,715</b>	P954,982,935

The deferred revenues of Semirara represent the balance of NPC's payments for the unlifted coal totalling 150,000 MT of Selectively Mined Coal (Select) priced at P178,615,000 and 31,034 MT Run-of-Mine (ROM) coal priced at P27,951,825, which formed part of the minimum contracted quantity that NPC agreed to purchase for the years 1990 and 1991, respectively, under the CSA (see Note 22) between the Company and NPC effective during those years. On September 28, 1990, the Company entered into a memorandum of agreement with NPC relative to the 150,000 MT Select coal, whereby the Company agreed to provide NPC 150,000 MT Select coal or its ROM coal equivalent, free of cost to NPC, over a period of seven consecutive years in equal tonnage beginning 1993 or when Calaca II power plant starts operations, whichever is earlier. As of December 31, 2000, total coal lifted under this memorandum of agreement amounted to 56,711 MT Select coal equivalent or its peso equivalent of P63,791,071. Deferred revenues as of December 31, 1999 included the balance of 31,034 MT of unlifted coal under a separate memorandum of agreement between the Company and NPC dated December 20, 1991 which coal were fully delivered as of December 31, 2000.

**15. Non-Current Liabilities**

Non-current liabilities pertains to the following obligations:

	2000	1999
Long-term notes payable of Contech South	<b>₱100,000,000</b>	₱100,000,000
Long-term obligations of Semirara:		
Bank loans	<b>303,100,062</b>	306,354,296
Notes payable	<b>506,288,121</b>	444,682,186
Acceptances and trust receipts payable	<b>359,569,079</b>	381,562,923
	<b>1,268,957,262</b>	1,232,599,405
Less current portion of:		
Bank loans (see Note 11)	<b>194,009,153</b>	86,054,101
Notes payable (see Note 11)	<b>253,592,534</b>	79,705,455
Acceptances and trust receipts payable	<b>359,569,079</b>	273,169,786
	<b>₱461,786,496</b>	₱793,670,063

In 1999, Contech South obtained a long-term loan of ₱100,000,000 with a development bank to partly finance the second phase of its hollow-core wall panel manufacturing project. The loan bears interest at the prevailing market rate and is payable in 16 equal quarterly installments, the first of which falls due on November 13, 2001. Further, the loan is secured by a mortgage on a parcel of land (see Note 8) owned by DMCI; a first chattel mortgage on certain machinery and equipment acquired out of the proceeds of the loan; a continuing suretyship by the Company; and endorsement or assignment in favor of the creditor bank of any insurance policies covering the mortgaged assets.

Semirara's bank loans of ₱303,100,062 in 2000 consisted of: (a) a peso-denominated loan amounting to ₱300,000,000 from a local bank that has been outstanding since 1998; was used to refinance certain short-term loans and liabilities under letters of credit issued by the bank; bears interest at prevailing market rates, as defined in the pertinent loan agreement dated December 4, 1998; is secured by a chattel mortgage on certain property, machinery and equipment of Semirara, a deed of suretyship of the Company, and a deed of undertaking executed by the Company 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 the loan of Semirara with the local bank is outstanding; and is payable in 11 equal quarterly installments starting June 2000 up to December 2002; and, (b) a U.S. dollar-denominated loan of ₱3,100,062 (US\$52,548) and ₱6,354,296 (equivalent to US\$157,624) as of December 31, 2000 and 1999, respectively, from a foreign bank that was used to acquire mining equipment and parts; bears interest at the prevailing market rate; is secured by a letter of guarantee from the Company and DMCI; and is payable in four equal semi-annual installments starting September 1999 up to March 2001.

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

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

On March 20, 2001, Semirara and a foreign supplier to which Semirara has outstanding notes payable amounting to US\$9.7 million as of December 31, 2000, signed a Term Sheet for the restructuring of such obligations. The restructuring will be effective no later than September 15, 2001, subject to the fulfillment by Semirara of certain conditions precedent to be stated in the final Debt Restructuring Agreement. As of May 2, 2001, the Debt Restructuring Agreement has not yet been finalized.

## 16. Income Taxes

The significant components of the Company and its subsidiaries' net deferred tax liabilities which are included as part of the "Deferred Credits" account (see Note 14) in the liabilities section of the consolidated balance sheets are as follows:

	2000	1999
Deferred tax asset on:		
NOLCO	<b>P764,047,266</b>	P322,358,851
Allowance for doubtful accounts	<b>275,674,713</b>	91,955,464
Accrued expenses	<b>41,488,382</b>	30,074,773
Net unrealized foreign exchange loss	<b>25,960,794</b>	27,165,300
Allowance for inventory obsolescence	<b>19,896,940</b>	20,293,542
Unamortized past service cost contributions	<b>15,641,831</b>	11,646,060
MCIT carryforward benefit	<b>3,827,272</b>	3,161,004
Excess of tax over book basis of deferred gross profit on real estate sales	<b>1,737,335</b>	-
Allowance for losses on preoperating expenses, stripping and deferred mine exploration and development costs	-	228,575,607
Others	-	381,381
	<b>1,148,274,533</b>	735,611,982
Less valuation allowance	<b>1,074,485,357</b>	606,792,257
	<b>73,789,176</b>	128,819,725
Deferred tax liability on:		
Income on uncompleted construction contracts	<b>(555,989,344)</b>	(771,587,470)
Others	<b>(1,824,315)</b>	-
	<b>(557,813,659)</b>	(771,587,470)
Net deferred tax liability	<b>(P484,024,483)</b>	(P642,767,745)

The reconciliation of the provision for (benefit from) income tax computed at the statutory income tax rates to the provision for income tax shown in the consolidated statements of income for the years ended December 31, 2000, 1999 and 1998 follows:

	2000	1999	1998
Provision for (benefit from) income tax computed at the statutory income tax rate	<b>(P610,841,508)</b>	P21,383,520	P215,951,350
Adjustments to income tax expense resulting from:			
Write-off of deferred charges, various idle and nonoperating assets and capitalized foreign exchange losses	<b>107,367,787</b>	-	-
Nondeductible provision for probable losses on investments	<b>47,867,221</b>	-	-
Nondeductible loss on sale of investments in shares of stock	<b>45,056,000</b>	-	-
Depreciation on appraisal increase	<b>24,107,494</b>	27,148,510	48,652,108
Income from construction contracts already subjected to 8% final tax	<b>(62,281,596)</b>	-	-
Interest income subjected to final tax at a lower rate - net	<b>(7,760,370)</b>	(11,357,532)	(22,819,800)
Gain on sale of investments in shares of stock and marketable equity securities subjected to final taxes	<b>(7,368,558)</b>	(52,085,072)	(29,502,455)
Nondeductible equity in net losses of unconsolidated affiliated companies and real estate joint ventures	<b>23,479,015</b>	68,160,961	109,613,001
Net effect of change in the statutory income tax rate	-	(16,273,739)	(21,703,611)
Others - net	<b>(19,791,179)</b>	43,751,923	(20,749,012)
	<b>(460,165,694)</b>	80,728,571	279,441,581
Valuation allowance on deferred tax assets	<b>467,693,100</b>	-	-
Provision for income tax	<b>P7,527,406</b>	P80,728,571	P279,441,581

Under RA No. 8424 entitled "An Act Amending the National Internal Revenue Code, As Amended, and For Other Purposes" (the Act), the corporate income tax rates applicable in 2000, 1999 and 1998 are 32%, 33% and 34%, respectively. Interest allowed as a deductible expense is reduced by an amount equivalent to 41% starting 1998, 39% in 1999, and 38% in 2000 and onwards of interest income subjected to final tax. The Act also imposed the MCIT of 2% of gross income, as defined, and a three-year NOLCO. Furthermore, the Act provided for the mandatory use of the percentage of completion method in reporting income from long-term construction contracts entered into and started on January 1, 1998; whereas uncompleted contracts already started prior to January 1, 1998 may still be reported for income tax purposes under the completed contract method of accounting provided certain conditions are met.



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**17. Related Party Transactions**

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

- (a) Comprehensive Surety, Corporate and Letters of Guarantees issued by the Company, and/or/together with its consolidated subsidiaries in favor of certain third parties for various credit facilities granted to and for full performance of certain obligations by the Company and/or its consolidated subsidiaries' affiliated companies. As of December 31, 2000, the aggregate amount of outstanding surety and/or guarantees issued by the Company and/or/together with its consolidated subsidiaries in favor of certain subsidiaries and/or affiliated companies amounted to P647 million;
- (b) Certain real estate properties of a consolidated subsidiary were placed under accommodation mortgages to secure the bank loans of an affiliated company. In consideration of such accommodation mortgages, the consolidated subsidiary and the affiliated company executed a Continuing Indemnity Agreement to indemnify and hold free and harmless the Company and the consolidated subsidiary from any claims, liabilities, demands, actions, costs, expenses and consequences of whatever nature which may arise from the said accommodation mortgage;
- (c) Purchases of materials and equipment, construction contracts, assignment of assets and equipment rentals; and,
- (d) Cash and operating advances made by the Company and its consolidated subsidiaries to and from various affiliated companies.

Total receivables from and payables to various affiliated companies amounted respectively to P1.0 billion and P161.8 million in 2000 and P1.2 billion and P223.6 million in 1999. The receivables from certain affiliated companies are either partly or fully provided with allowances for noncollection.

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

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**18. Retirement Plan**

DMCI and Semirara have funded and formal noncontributory defined retirement plans covering their regular employees. Retirement benefits are computed principally on the member's latest monthly salary for each year of service. Total retirement costs charged to operations by DMCI and Semirara amounted to P24.5 million in 2000, P23.0 million in 1999 and P26.0 million in 1998.

The most recent actuarial valuation for DMCI dated December 31, 1998 reported actuarial accrued retirement benefits amounting to P130.0 million and plan assets with a fair market value in the amount of P60.0 million, resulting to an unfunded past service cost of P70.0 million. The principal actuarial assumptions used to determine the retirement benefits were an investment yield of 10% per year compounded annually, annual salary increases of 10% per year compounded annually, and normal retirement age of 60 or 30 years of service, whichever comes earlier.

On the other hand, the latest actuarial valuation for Semirara dated January 1, 1997 disclosed a present value of retirement benefits amounting to ₱85.0 million, while the fair value of the plan's net assets amounted to ₱46.0 million resulting to an unfunded present value of retirement benefits of ₱39.0 million. The principal actuarial assumptions used to determine retirement benefits was a uniform rate of 10% for discount, salary increases, and return on plan assets.

Beta Electric, which does not have any formal retirement plan for its regular employees, provides for estimated retirement benefits in accordance with RA No. 7641 to qualified employees. Retirement expense accrued by Beta Electric for the years ended December 31, 2000, 1999 and 1998 amounted to ₱904,697, ₱792,075 and ₱569,261, respectively. Based on the actuarial estimates for Beta Electric as of December 31, 1998 which is computed under the attained age normal method, the unfunded past service costs amounted to ₱2.0 million.

Actuarial valuations are generally made every two years. Annual contributions to the retirement plans consisted of payments covering the normal service costs for the year and payments toward funding the unfunded actuarial liabilities.

## 19. Capital Stock

The changes in the Company's preferred stock, common stock, additional paid-in capital, and preferred shares held in treasury are accounted as follows:

	No. of Shares		Issued		Held in Treasury		Additional Paid-in Capital
	Authorized	Unissued	No. of Shares	Amount	No. of Shares	Amount	
Cumulative, convertible preferred stock- ₱1 par value:							
Balance as of							
December 31, 1999	100,000,000	97,600,000	2,400,000	₱2,400,000	(526,775)	(₱408,546,492)	₱2,344,233,527
Acquisitions of treasury shares	-	-	-	-	(202,641)	(165,744,269)	-
Balance as of							
December 31, 2000	100,000,000	97,600,000	2,400,000	2,400,000	(729,416)	(574,290,761)	2,344,233,527
Common stock- ₱1 par value:	5,900,000,000	*3,644,506,000	2,255,494,000	2,255,494,000	-	-	2,373,452,402
Excess of equity in net assets over carrying value of PDI's investment in URPHI (see Note 8)							
Balance as of							
December 31, 1999	-	-	-	-	-	-	15,260,667
Disposition of URPHI shares during the year	-	-	-	-	-	-	(3,472,043)
Balance as of							
December 31, 2000	-	-	-	-	-	-	11,788,624
	6,000,000,000	3,742,106,000	2,257,894,000	₱2,257,894,000	(729,416)	(₱574,290,761)	₱4,729,474,553

\* As of December 31, 2000, 163,706,910 common shares are potentially issuable upon the exercise by preferred shareholders of their rights to conversion.

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

The excess of the offer price over the par value of the preferred shares amounting to ₱2,326,566,774, net of the cost related to the offering, was credited to the "Additional paid-in capital" account in the stockholders' equity section of the consolidated balance sheets.

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

Total dividends declared on the preferred shares amounted to ₱128.2 million in 2000, ₱140.4 million in 1999 and ₱101.0 million in 1998. As of December 31, 2000, unpaid dividends amounted to ₱32.4 million.

On January 27, 1998, the Company's board of directors approved the reacquisition of its outstanding preferred shares, subject to management's discretion whenever conditions are deemed favorable to repurchase such shares. As of December 31, 2000, the number of preferred shares held in treasury, including 132,521 shares held by DMCI, totalled 729,416 shares with an aggregate cost of ₱574.3 million, inclusive of incidental expenses.

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## 20. Retained Earnings (Deficit)

The movements in the Company's retained earnings (deficit) follow:

	2000	1999
Balance at beginning of year	<b>P1,043,839,598</b>	P1,153,190,488
Transactions during the year:		
Net income (loss)	<b>(1,616,121,943)</b>	31,031,010
Cash dividends on preferred shares - 7.2% per share in 2000 and 5% in 1999 (see Note 19)	<b>(128,237,400)</b>	(140,381,900)
Balance at end of year	<b>(P700,519,745)</b>	P1,043,839,598

The excess amounting to P115,426,815 of cumulative losses applicable to minority interest over the minority's interest in the subsidiaries' capital as of December 31, 2000 was absorbed by the Company. Any subsequent profits earned by the subsidiaries under such circumstances that are applicable to the minority interest will be allocated to the Company to the extent minority losses have been previously absorbed.

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## 21. Interest and Other Income

Interest and other income consists of the following:

	2000	1999	1998
Net foreign exchange gain (loss)	<b>P96,072,115</b>	(P33,582,915)	P59,172,148
Amortization of excess of net assets acquired over costs of investments	<b>83,836,921</b>	83,836,921	83,836,921
Interest income	<b>66,507,199</b>	124,557,962	342,694,617
Reversal of provision for penalty charges and other reserves	<b>20,680,696</b>	-	74,887,743
Gain (loss) on sale of assets	<b>(84,007,274)</b>	199,756,036	105,663,508
Miscellaneous	<b>43,142,622</b>	33,164,720	32,193,176
	<b>P226,232,279</b>	P407,732,724	P698,448,113

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## 22. CSA with NPC

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

The CSA also provided for, among others, the pricing determination wherein the base price per MT of coal is determined every January 1 and July 1 and computed based on a formula as stipulated in the CSA. This base price is subject to adjustment for penalty or bonus which is determined on a per delivery basis based on a set of coal quality standards also as stipulated in the CSA. Semirara's receivables from NPC arising from the CSA amounted to ₱153,655,061 and ₱130,126,489 as of December 31, 2000 and 1999, respectively. The CSA is effective for 15 years up to May 2010.

The CSA was amended on January 15, 2001 (see Note 25).

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### 23. Contingencies

DMCI, DMCI-Laing, and Beta Electric are contingently liable for contractor's guarantees arising in the ordinary course of business, including letters of guarantee for performance, advance payment, surety and warranty bonds, and for contractual and other risks related to various construction projects amounting to ₱1.77 billion as of December 31, 2000. In addition, the Company and/or its consolidated subsidiaries issued various corporate guarantees in 2000 amounting to ₱938 million to secure the credit facilities granted to certain subsidiaries and affiliated companies by various creditors, and to secure the performance and guarantee bonds for various projects awarded to the Company's subsidiaries or affiliated companies.

There are pending legal cases against the Company and its subsidiaries as of December 31, 2000 that are being contested by the Company and its subsidiaries and their legal counsels. The management of the Company and its subsidiaries and their legal counsels believe that the final resolutions of these claims will not have a material effect on the financial position and operating results of the Company and its subsidiaries.

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### 24. Commitments

PDI signed a memorandum of agreement with a third party dated November 25, 1997 whereby PDI committed to make cash contributions to a real estate joint venture project totalling ₱375 million in a manner and after fulfillment of certain conditions precedent as defined in the memorandum of agreement. As of May 2, 2001, no contribution has been made by PDI.

In accordance with a shareholders' loan agreement among the shareholders of Monarca, PDI agreed to make available interest-bearing loans of up to ₱133 million to finance the development of a real estate project of Monarca. As of December 31, 2000, PDI's loans to Monarca under this agreement amounted to ₱33 million.

The Company and its subsidiaries lease a portion of their office premises that are renewed under such terms and conditions agreed upon with the lessors. The approximate minimum annual rentals on such leases after December 31, 2000 are not material to the Company and its subsidiaries' results of operations.

As of May 2, 2001, Semirara has outstanding purchase commitments to certain foreign and local suppliers for various equipment, equipment parts and supplies amounting to ₱15 million.

As of December 31, 2000, DMCI and Beta Electric have unused letters of credit amounting to ₱72.1 million.

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25. **Subsequent Events**

On January 15, 2001, Semirara and NPC amended their CSA (see Note 22) as follows, among others:

- (a) supply of a revised annual minimum quantity of 700,000 MT up to a maximum quantity of 1,200,000 MT of coal, which was stipulated in the CSA, in view of the depletion of the Unong mine;
- (b) conversion of the mode of delivery from FOB-Semirara to C&F-Calaca to simplify the payment and rescheduling of coal deliveries to Calaca I and Calaca II;
- (c) maintenance by Semirara, at its own expense, of a minimum coal running inventory of at least 50,000 MT that meets the applicable coal specifications set forth in the amended CSA and ready in all aspects for loading and delivery to Calaca I and Calaca II;
- (d) limitation in the coal's sulfur content to 1% in compliance with the Clean Air Act and reduction in its ash specification to 20% to minimize coal handling problems;
- (e) inclusion of certain bases of NPC's exercise of its rights to reject and/or stop coal deliveries by Semirara to NPC; consequences of coal rejection in terms of title and risk of loss to coal delivered, relief from payment by NPC, and removal of delivered coal from NPC premises; and remedies for Semirara in the event NPC exercises such rights;
- (f) changes in (i) the pricing periods to a three-month period which shall commence respectively at the beginning of a calendar quarter namely: January 1, April 1, July 1, and October 1; and (ii) the computation of the base price of Semirara's coal delivery including the determination of the initial and final base prices, to consider the volatile foreign exchange situation and the price of all NPC imported coal during the pricing period;
- (g) changes in the computation of the adjustment for penalty or bonus from the base price per MT;
- (h) requirement for Semirara and NPC to reconcile payments made for coal deliveries for the immediate preceding pricing period within 30 calendar days from determination of the final base price by issuing a debit memo to the other;
- (i) deletion of the CSA provision requiring NPC to make an equity investment in Semirara in the event that the aggregate deliveries of coal meeting the coal specifications taken by NPC within any calendar year is less than 900,000 MT; and,
- (j) inclusion of the provision allowing Semirara and the new owner or operator of Calaca I and Calaca II in the event that Calaca I and Calaca II are privatized or its operation and maintenance is turned over to the private sector conformably with the provisions of the Build-Operate-Transfer Law, as amended, or such other enabling statute to review the provisions of the CSA, provided that in the conduct of such review, the prevailing policy on the development of the country's indigenous energy resources as set forth in the DOE Act of 1992 including changes thereto shall be observed.