

COVER SHEET

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(Company's Full Name)

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

Herbert M. Consunji

(Contact Person)

888-3000

(Company Telephone Number)

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(Annual Meeting)					

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(Secondary License Type, If Applicable)

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings			
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To be accomplished by SEC Personnel concerned

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of DMCI Holdings, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2006 and 2005, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

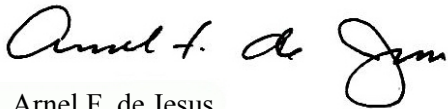
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2006 and 2005, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2006 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Arnel F. de Jesus

Partner

CPA Certificate No. 43285

SEC Accreditation No. 0075-AR-1

Tax Identification No. 152-884-385

PTR No. 0266544, January 2, 2007, Makati City

April 3, 2007



DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6 and 34)	₱1,251,911,185	₱1,949,710,991
Available-for-sale investments - net (Notes 7 and 34)	259,591,510	817,994,916
Receivables - net (Notes 8, 21 and 34)	3,714,848,789	3,449,861,208
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 9)	17,016,194	24,978,834
Inventories - net (Note 10)	4,714,825,303	3,156,774,370
Other current assets (Note 11)	379,056,837	146,097,160
Total Current Assets	10,337,249,818	9,545,417,479
Noncurrent Assets		
Noncurrent receivables - net (Notes 8 and 34)	687,640,695	1,023,328,313
Investments in associates, jointly controlled entities and others - net (Note 12)	3,266,772,765	158,695,998
Investment properties - net (Note 13)	2,279,058,851	2,668,005,309
Property, plant and equipment - net (Note 14)	3,295,499,363	3,002,282,247
Deferred tax assets (Note 29)	219,867,967	133,103,596
Other noncurrent assets - net (Note 15)	486,279,193	500,624,000
Total Noncurrent Assets	10,235,118,834	7,486,039,463
	₱20,572,368,652	₱17,031,456,942
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 16 and 34)	₱53,810,969	₱114,658,600
Accounts and other payables (Notes 17 and 34)	3,015,060,317	2,472,167,891
Current portion of long-term debt (Notes 18 and 34)	1,122,684,780	604,055,741
Billings in excess of costs and estimated earnings on uncompleted contracts (Note 9)	20,565,739	18,887,729
Income tax payable	43,891,708	332,279,952
Total Current Liabilities	4,256,013,513	3,542,049,913
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 18 and 34)	3,476,920,586	2,254,343,639
Payable to related parties (Notes 21 and 34)	473,162,605	177,608,696
Deferred tax liability (Note 29)	263,768,032	271,819,933
Pension liabilities (Note 22)	47,171,177	16,044,404
Other noncurrent liabilities (Notes 19 and 34)	395,142,363	289,992,592
Total Noncurrent Liabilities	4,656,164,763	3,009,809,264
Total Liabilities	8,912,178,276	6,551,859,177

(Forward)



	December 31	
	2006	2005
Equity (Notes 7 and 20)		
Equity attributable to equity holders of the parent:		
Paid-up capital	₱4,659,283,306	₱4,849,112,806
Retained earnings	5,103,727,748	4,193,977,659
Unrealized gain on available-for-sale investments	39,872,880	2,402,067
Preferred shares held in treasury	(1,100,000)	(187,210,650)
	9,801,783,934	8,858,281,882
Minority interests	1,858,406,442	1,621,315,883
Total Equity	11,660,190,376	10,479,597,765
	₱20,572,368,652	₱17,031,456,942

See accompanying Notes to Consolidated Financial Statements.



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

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT								
	For the year ended December 31, 2006								
	Capital Stock	Additional Paid-in Capital	Total Paid-up Capital	Retained Earnings	Unrealized Gain on Available-for-Sale Investments	Preferred Shares Held in Treasury	Total	ATTRIBUTABLE TO MINORITY INTERESTS	TOTAL EQUITY
As of December 31, 2005	₱2,255,638,480	₱2,593,474,326	₱4,849,112,806	₱4,193,977,659	₱2,402,067	(₱187,210,650)	₱8,858,281,882	₱1,621,315,883	₱10,479,597,765
Cancellation/retirement of issued preferred shares (Note 20)	(139,000)	(189,690,500)	(189,829,500)	–	–	189,829,500	–	–	–
Redemption of preferred shares (Note 20)	–	–	–	–	–	(3,718,850)	(3,718,850)	–	(3,718,850)
Net income for the year	–	–	–	1,135,299,489	–	–	1,135,299,489	247,271,762	1,382,571,251
Change in fair value of assets (Note 7)	–	–	–	–	37,470,813	–	37,470,813	–	37,470,813
Dividends	–	–	–	(225,549,400)	–	–	(225,549,400)	–	(225,549,400)
Decrease in minority interests	–	–	–	–	–	–	–	(10,181,203)	(10,181,203)
Balances at December 31, 2006	₱2,255,499,480	₱2,403,783,826	₱4,659,283,306	₱5,103,727,748	₱39,872,880	(₱1,100,000)	₱9,801,783,934	₱1,858,406,442	₱11,660,190,376
	For the year ended December 31, 2005								
As of December 31, 2004									
as previously reported	₱2,255,836,240	₱2,827,839,006	₱5,083,675,246	₱643,926,308	₱–	(₱239,096,300)	₱5,488,505,254	₱173,986,410	₱5,662,491,664
PAS 39 adjustments (Note 2)	–	–	–	(41,459,151)	2,402,067	–	(39,057,084)	–	(39,057,084)
Balance at January 1, 2005									
as restated	2,255,836,240	2,827,839,006	5,083,675,246	602,467,157	2,402,067	(239,096,300)	5,449,448,170	173,986,410	5,623,434,580
Cancellation/retirement of issued preferred shares (Note 20)	(197,760)	(234,364,680)	(234,562,440)	–	–	234,562,440	–	–	–
Redemption of preferred shares (Note 20)	–	–	–	–	–	(182,676,790)	(182,676,790)	–	(182,676,790)
Net income for the year	–	–	–	3,591,510,502	–	–	3,591,510,502	589,134,270	4,180,644,772
Increase in minority interest	–	–	–	–	–	–	–	858,195,203	858,195,203
Balances at December 31, 2005	₱2,255,638,480	₱2,593,474,326	₱4,849,112,806	₱4,193,977,659	₱2,402,067	(₱187,210,650)	₱8,858,281,882	₱1,621,315,883	₱10,479,597,765



ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

For the year ended December 31, 2004

	Capital Stock	Additional Paid-in Capital	Total Paid-up Capital	Retained Earnings	Unrealized Gain on Available-for-Sale Investments	Preferred Shares Held in Treasury	ATTRIBUTABLE TO MINORITY INTERESTS Total	TOTAL EQUITY	
As of December 31, 2003	₱2,255,945,690	₱2,929,845,102	₱5,185,790,792	(₱823,053,751)	₱-	(₱237,287,967)	₱4,125,449,074	₱225,516,009	₱4,350,965,083
Cancellation/retirement of issued preferred shares (Note 20)	(109,450)	(102,006,096)	(102,115,546)	-	-	102,115,546	-	-	-
Redemption of preferred shares (Note 20)	-	-	-	-	-	(103,923,879)	(103,923,879)	-	(103,923,879)
Net income for the year	-	-	-	1,466,980,059	-	-	1,466,980,059	74,486,535	1,541,466,594
Increase in minority interest	-	-	-	-	-	-	-	(126,016,134)	(126,016,134)
Balances at December 31, 2004	₱2,255,836,240	₱2,827,839,006	₱5,083,675,246	₱643,926,308	₱-	(₱239,096,300)	₱5,488,505,254	₱173,986,410	₱5,662,491,664

See accompanying Notes to Consolidated Financial Statements.



DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2006	2005	2004
SALE OF GOODS AND SERVICES (Note 23)	₱8,701,603,065	₱10,029,481,190	₱7,761,079,671
COSTS OF SALES AND SERVICES (Note 24)	6,503,714,975	7,207,382,249	5,122,120,780
GROSS PROFIT	2,197,888,090	2,822,098,941	2,638,958,891
OPERATING EXPENSES (Note 25)	1,121,010,338	944,779,655	776,012,651
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES, JOINTLY CONTROLLED ENTITIES AND OTHERS (Note 12)	27,839,119	32,987,135	(7,333,838)
FINANCE INCOME (Note 26)	357,997,191	206,378,552	11,012,665
FINANCE COSTS (Note 27)	(351,688,635)	(220,019,630)	(368,317,069)
OTHER INCOME (Note 28)	734,173,627	2,850,855,160	106,051,717
INCOME BEFORE INCOME TAX	1,845,199,054	4,747,520,503	1,604,359,715
PROVISION FOR INCOME TAX (Note 29)	462,627,803	566,875,731	62,893,121
NET INCOME	₱1,382,571,251	₱4,180,644,772	₱1,541,466,594
ATTRIBUTABLE TO			
Equity holders of the parent	₱1,135,299,489	₱3,591,510,502	₱1,466,980,059
Minority interests	247,271,762	589,134,270	74,486,535
	₱1,382,571,251	₱4,180,644,772	₱1,541,466,594
Basic / Diluted Earnings Per Share (Note 30)	₱0.50	₱1.59	₱0.64

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2006	2005	2004
Income before income tax	₱1,845,199,054	₱4,747,520,503	₱1,604,359,715
Adjustments for:			
Depreciation, depletion and amortization (Notes 13, 14, 15 and 24)	1,419,254,315	1,341,042,862	763,888,367
Finance expense (Note 27)	351,688,635	220,019,630	368,317,069
Write-off of:			
Property, plant and equipment (Note 14)	–	–	223,998,632
Other noncurrent assets	–	–	159,497,726
Recovery of provision for doubtful accounts	–	(3,432,945)	–
Provisions for:			
Inventory obsolescence (Note 10)	39,787,613	–	17,070,283
Doubtful accounts (Note 25)	105,840,759	92,323,339	17,252,778
Probable losses on:			
Investments (Note 25)	103,388,649	–	2,000,000
Noncurrent assets (Note 25)	–	–	12,214,617
Foreign exchange losses - net	(85,605,985)	(74,911,051)	7,844,204
Equity in net losses (earnings) of associates and jointly controlled entities (Note 12)	(27,839,119)	(32,987,135)	7,333,838
Gain on disposals of:			
Property and equipment and investments	(379,301,077)	(2,673,349,780)	(38,440,148)
Interest income (Note 26)	(357,997,191)	(206,378,552)	(11,012,665)
Dividend income (Note 28)	(6,972)	(5,777,090)	–
Pension expense (Note 22)	31,126,773	21,218,673	16,255,220
Operating income before changes in working capital	3,045,535,454	3,425,288,454	3,150,579,636
Decrease (increase) in:			
Receivables	(433,729,309)	406,754,149	(527,712,152)
Inventories	(506,131,780)	(587,453,307)	(17,195,344)
Costs and estimated earnings in excess of billings	7,962,640	94,361,673	–
Real estate for sale and development	(1,389,358,769)	(187,635,193)	5,078,069
Other current assets	(235,879,358)	(78,620,610)	3,652,046
Increase (decrease) in:			
Accounts and other payables	(123,202,098)	(239,964,548)	714,618,736
Customer's deposits	659,075,659	(59,663,472)	24,825,957
Billings in excess of costs and estimated earnings on uncompleted contracts	1,678,010	(129,589,246)	(304,552,830)
Cash generated from operations	1,025,950,449	2,643,477,900	3,049,294,118
Interest received	421,148,736	226,214,603	8,904,753
Interest paid (Note 27)	(321,433,930)	(254,152,784)	(882,213,119)
Income taxes paid	(812,154,035)	(60,779,082)	(97,962,415)
Net cash provided by operating activities	313,511,220	2,554,760,637	2,078,023,337

(Forward)



Years Ended December 31			
	2006	2005	2004
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Investments in associates, jointly controlled entities and others	(₱2,734,369,225)	(₱432,018,220)	₱-
Noncurrent receivables	324,907,718	287,561,694	106,713,588
Investment properties	674,115,305	(69,189,461)	-
Other noncurrent assets	13,080,898	(67,806,532)	(177,079,639)
Proceeds from disposals of:			
Available-for-sale investments (Note 7)	510,088,533	-	-
Investment properties	-	-	20,360,233
Property and equipment	23,425,061	15,914,131	144,894,771
Additions to:			
Available-for-sale investments (Note 7)	(17,602,963)	(762,406,309)	-
Property, plant and equipment (Note 14)	(818,017,618)	(1,271,881,508)	(898,314,205)
Dividends received	-	5,777,090	-
Net cash used in investing activities	(2,024,372,291)	(2,294,049,115)	(803,425,252)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of long-term debt	2,919,140,201	1,181,042,796	405,687,511
Payments of long-term debt	(1,965,530,632)	(1,048,212,512)	(910,485,523)
Net payments of notes payable	(60,847,631)	(289,226,107)	(419,732,784)
Redemption of preferred shares	(2,618,850)	(190,354,750)	(28,673,759)
Dividends paid	(243,007,220)	(22,301,149)	-
Proceeds from:			
Additional subscriptions to capital stock	-	1,623,018,435	-
Sale of treasury shares	-	6,113,600	-
Payment on acquisition of shares held in treasury	-	(383,633,460)	-
Increase (decrease) in:			
Payable to related parties	294,453,909	595,428,053	(333,977,795)
Other noncurrent liabilities	71,471,488	-	(17,881,618)
Net cash provided by (used in) financing activities	1,013,061,265	1,471,874,906	(1,305,063,968)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(697,799,806)	1,732,586,428	(30,465,883)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,949,710,991	217,124,563	247,590,446
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	₱1,251,911,185	₱1,949,710,991	₱217,124,563

See accompanying Notes to Consolidated Financial Statements.



DMCI HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

DMCI Holdings, Inc. (the Company/DMCI-HI) is incorporated in the Philippines. The Company's registered office address is 3rd Floor, Dacon Building, 2281 Don Chino Roces Avenue, Makati City.

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

2. Basis of Preparation

The consolidated financial statements of the Group have been prepared using the historical cost basis, except for available-for-sale financial assets (AFS) that have been measured at fair value. The consolidated financial statements are presented in Philippine Pesos.

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as of December 31, 2006, 2005 and 2004. Under PFRS, it is acceptable to use, for consolidation purposes, the financial statements of subsidiaries for fiscal periods differing from that of the Company if the difference is not more than three months.

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

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

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

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

	Effective Percentages of Ownership	
	2006	2005
General Construction:		
D.M. Consunji, Inc. (DMCI) ¹	100.00	100.00
DMCI International, Inc. (DMCII) ²	100.00	100.00
OHKI-DMCI Corporation (OHKI) ²	100.00	100.00
DMCI-Laing Construction, Inc. (DMCI-Laing) ²	60.00	60.00
Beta Electric Corporation (Beta Electric) ²	50.77	50.77
Raco Haven Automation Philippines, Inc. (Raco) ²	50.14	50.14
Coal Mining:		
Semirara Mining Corporation (Semirara)	58.31	62.92
Infrastructure and Real Estate Development:		
DMCI Project Developers, Inc. (PDI)	100.00	100.00
Constress Philippines, Inc. (Constress) ³	—	100.00
Hampstead Gardens Corporation (Hampstead) ³	100.00	100.00
Riviera Land Corporation (Riviera) ³	96.38	96.38
Manufacturing:		
Semirara Cement Corporation (SemCem) *	100.00	100.00
Oriken Dynamix Company, Inc. (Oriken) ²	89.00	89.00
Wire Rope Corporation of the Philippines (Wire Rope)	61.70	61.70
Marketing Arm:		
DMCI Homes, Inc. (DMCI Homes) ³	100.00	100.00
Utilities:		
DMCI Power Corporation * (Note 12)	100.00	—

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

¹ Also engaged in real estate development

² DMCI's subsidiaries

³ PDI's subsidiaries

On November 2, 2005, the BOD approved the merger of the PDI with Constress Philippines, Inc., with the PDI as the surviving corporation. On March 7, 2006, the SEC has approved the said merger. The merger was accounted for at cost similar to a pooling of interest since the entities that were merged are under common control.



3. Changes in Accounting Policies

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

The Group has adopted the following new and amended Philippine Financial Reporting Standards (PFRS) and Philippine Interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group. These, however, give rise to additional disclosures in the consolidated financial statements.

Philippine Accounting Standards (PAS) 19, Amendment - Employee Benefits

- PAS 21, *Amendment - The Effects of Changes in Foreign Exchange Rates*
- PAS 39, *Amendments - Financial Instruments: Recognition and Measurement*
- PFRS 6, *Exploration for and Evaluation of Mineral Resources*
- PIC Q&A 2006-1, *PAS 18, Appendix, paragraph 9-Revenue Recognition for Sales of Property Units under Pre-completion Contracts*
- Philippine Interpretation - International Financial Reporting Interpretations Committee (IFRIC) 4 - *Determining whether an Arrangement Contains a Lease*
- Philippine Interpretation IFRIC 5 - *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- Philippine Interpretation IFRIC 6 - *Liabilities arising from Participating in a Specific Market-Waste Electrical and Electrical Equipment*

The principal effects of these changes are as follows:

PAS 19 - Employee Benefits

As of January 1, 2006, the Group adopted the amendments to PAS 19. As a result, additional disclosures are made providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has resulted in additional disclosures being included in the consolidated financial statements (Note 22) but has not had a recognition or measurement impact, as the Group chose not to apply the new option offered to recognize actuarial gains and loss outside of the consolidated statement of income.

PAS 21 - The Effects of Changes in Foreign Exchange Rates

As of January 1, 2006, the Group adopted the amendments to PAS 21. Under this amendment, all exchange differences arising from a monetary item that forms part of the Group's investment in a foreign operation are recognized in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. This change did not impact the consolidated financial statements as there are no investments in foreign operation.

PAS 39 - Financial Instruments: Recognition and Measurement

Amendment for financial guarantee contracts - amended the scope of PAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognized initially at fair value and to be remeasured at the higher of the amount determined in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially



recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18, *Revenue*. The effect of the adoption of the amendment was not significant to the consolidated financial statements.

Amendment for hedges of forecast intragroup transactions - amended PAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated statement of income. As the Group has no such transactions, the amendment did not have any effect on the consolidated financial statements.

Amendment for the fair value option - amended PAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the consolidated statement of income. The Group had not previously used this option; hence, the amendment will not have any effect on the consolidated financial statements.

As allowed under PFRS 1, PAS 32 and PAS 39 were adopted from January 1, 2005. The effect of adopting these standards, were charged against retained earnings as of January 1, 2005.

The adoption of the fair value measurement of AFS investments and the adoption of the provision of PAS 39 on the classification and related measurement of financial assets and liabilities on the consolidated financial statements resulted in the recognition of unrealized gain on AFS investments shown as a separate equity item amounting to ₱2.40 million as of January 1, 2005. In addition, installment receivable was discounted in compliance with PAS 39 and resulted to ₱41.46 million decrease in retained earnings.

PFRS 6, Exploration for and Evaluation of Mineral Resources

This standard requires a company to develop its own accounting policy for the recognition and measurement of exploration and evaluation of assets without specifically considering the requirements of paragraphs 11 and 12 of PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. Thus, a company adopting PFRS 6 may continue to use the accounting policies applied immediately before adopting the PFRS. This includes continuing to use recognition and measurement practices that are part of those accounting policies. The standard also specifies the circumstances in which the companies recognized exploration and evaluation assets should test such assets for impairment in accordance with PAS 36, *Impairment of Assets*. The standard also requires companies engaged in the exploration for and evaluation of mineral resources to disclose information about exploration and evaluation assets, the level at which such assets are assessed for impairment and any impairment losses recognized. The adoption of this standard did not have a material impact on the Group's consolidated financial statements as the Group is not presently engaged in any exploration for and evaluation of mineral resources. The adoption, however, resulted to the reclassification of the costs of acquisition of the mining rights from "Property, plant and equipment" to "Mining rights acquisition cost" account shown under the "Other noncurrent assets" account in the consolidated balance sheet.



PIC Q&A 2006-1, *PAS 18, Appendix, paragraph 9-Revenue Recognition for Sales of Property Units under Pre-completion Contracts*, which states that the law in different countries may determine the point in time at which the entity transfers the significant risks and rewards of ownership and that the examples in the Appendix need to be read in the context of the laws relating to the sale of goods in the country in which the transaction takes place. In the Philippines, equitable interest may vest in the buyer before a condominium building is complete and before legal title passes since the concept of equitable interest is recognized in Presidential Decree 957, known as the *Condominium and Subdivision Buyers' Protective Decree*. Although the sale of property units under pre-completion contracts is not within the scope of PAS 11, *Construction Contracts*, the method of determining the stage of completion and revenue recognition as provided in that Standard may be referred to for guidance in determining revenue as the acts are performed.

The effect of the adoption of the interpretation was not significant to the consolidated financial statements.

Philippine Interpretation IFRIC 4 - *Determining Whether an Arrangement Contains a Lease*
The Group adopted IFRIC 4 as of January 1, 2006, which provides guidance in determining whether a lease contained an arrangement to which lease accounting must be applied. This change in accounting policy did not impact the consolidated financial statements.

The following Philippine Interpretations and accounting standards have been issued but effective for financial statements after January 1, 2006. The Group did not early adopt these Philippine Interpretations and accounting standards.

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2 (effective for financial years beginning on or after June 1, 2006)*. This IFRIC Interpretation clarifies that PFRS 2, *Share-based Payment*, will apply to any arrangement when equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group, when the identifiable consideration appears to be less than the fair value of the instruments given. The adoption of this Philippine Interpretation will not impact the consolidated financial statements as the Group has no share-based payments.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives (effective for financial years beginning on or after June 1, 2006)*. This Philippine Interpretation requires an entity to assess whether a contract contains an embedded derivative at the date an entity first become a party to the contract and prohibits reassessment unless there is change to the contract that significantly modifies the cash flows. The Group will reassess to determine whether or not embedded derivatives were assessed at the date of transition to PFRS rather than at the date of entering into the contract. This Philippine Interpretation requires the Group to revisit and revise accounting for embedded derivatives.
- Philippine Interpretation IFRIC 10, *Interim financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006)*. This Philippine Interpretation addresses an inconsistency between PAS 34, *Interim Financial Reporting* and the impairment requirements relating to goodwill in PAS 36, *Impairment of Assets* and equity instruments classified as available for sale in PAS 39, *Financial Instruments: Recognition and Measurement*. The interpretation states that the specific requirements of PAS 36 and PAS 39 take precedence over the general requirements of PAS 34 and, therefore, any impairment loss



recognized for these assets in an interim period may not be reversed in subsequent interim periods. The Group will assess the impact of this Philippine Interpretation.

- PFRS 7, *Financial Instruments - Disclosures (effective for annual periods beginning on or after January 1, 2007)*. PFRS 7 includes all of the disclosure requirements relating to financial instruments and will replace the disclosure section of PAS 32, *Financial Instruments: Disclosure and Presentation* and all of PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*. PAS 32 will then contain only presentation requirements for financial instruments. The most significant additional disclosure requirements of PFRS 7 (compared to PAS 32 and PAS 30) are as follows: (a) qualitative risk disclosures are to include information on the processes that an entity uses to manage and measure its risks, (b) quantitative data about the exposure to each type of risk (including credit risk, liquidity risk and market risk) arising from financial instruments, (c) information about the credit quality of financial assets that are neither past due nor impaired, (d) an analysis of financial assets that are past due or impaired, including a description of collateral held as security and its fair value, (e) a market risk sensitivity analysis which includes the effect of a reasonably possible change in the risk variables, along with the methods and assumptions used in preparing the analysis. The Group will assess whether the processes and systems in place are capable of collecting these information and making any necessary changes. The Group will reassess to determine whether documented policies are comprehensive and complete. The amendment requires presentation of comparative information in the consolidated financial statements.
- Amendments to PAS 1, *Presentation of Financial Statements - Capital Disclosure*. This amendment, which is effective for annual periods beginning on or after January 1, 2007, requires entities to disclose information that enables readers to evaluate the entity's objectives, policies and processes for managing capital. The disclosures are based on information provided internally to key management personnel, and will include: (a) the objectives, procedures and policies used to manage capital, (b) a description of what the entity manages as capital, the nature of any externally imposed capital requirements (if any) and how it meets objectives for managing capital, (c) quantitative information about what the entity manages as capital and any changes from the prior period, (d) whether the entity complied with externally imposed capital requirements and the consequences of any non-compliance, (if applicable). The Group will consider what information is currently used internally and how this is to be incorporated into the disclosures.
- Philippine Interpretation IFRIC 7, *Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after January 1, 2007)*. This Philippine Interpretation requires entities to apply PAS 29, *Financial Reporting in Hyper-inflationary Economies*, in the reporting period in which an entity first identifies the existence of hyperinflation in the economy of its functional currency as if the economy had always been hyperinflationary. This Philippine Interpretation is not applicable to the Group.



- Philippine Interpretation IFRIC 11, *PFRS2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007)*. This Philippine Interpretation requires arrangements whereby an employee is granted rights to equity instruments to be accounted for as an equity-settled scheme by the Group even if: (a) the Group chooses or is required to buy those equity instruments (e.g. treasury shares) from another party, or (b) the shareholders of the Group provide the equity instruments needed. The adoption of this Philippine Interpretation will not impact the consolidated financial statements.
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements (effective for annual periods beginning on or after January 1, 2008)*. This Philippine Interpretation outlines an approach to account for contractual arrangements arising from entities providing public services. It provides that the operator should not account for the infrastructure as property, plant and equipment, but recognize a financial asset and/or an intangible asset. The Group will assess the impact of this Philippine Interpretation since the Group will now be involved in providing public services with the acquisition of water and power distribution facilities.
- PFRS 8, *Operating Segments (effective for annual periods beginning on or after January 1, 2009)*. This amendment was issued as part of the convergence project with the US Financial Accounting Standards Board. This new standard replaces PAS 14, *Segment Reporting* and adopts a management approach to segment reporting as required in the US Standard SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the consolidated balance sheet and consolidated statement of income and entities will need to provide explanations and reconciliations of the differences. As the information required to be disclosed will likely be readily available as it is already used internally, the Group will reassess to determine whether additional processes should be put into place to reconcile information to the consolidated balance sheet and consolidated statement of income.

4. Summary of Significant Accounting Policies

Revenue Recognition

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

Construction Contracts

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



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

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

Real Estate

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

Real estate sales are accounted for under the percentage-of-completion method when: (a) equitable interest and/or legal title to the subject property is transferred to the buyer; (b) the seller is obliged to perform significant acts after the subject properties are sold; (c) the amount of revenue can be measured reliably; (d) the costs incurred or to be incurred can be measured reliably; and (e) it is probable that the economic benefits will flow to the entity. Under this method, the revenue and cost of sale is recognized as the acts are performed.

If any of the criteria under the full accrual method or the percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the "*Customers' deposits*" account which is shown as part of the "*Accounts and Other Payables*" account in the liabilities section of the consolidated balance sheet.

Interest income

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



Coal sales

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

Merchandise sales

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

Dividend income

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

Rental Income

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

Cash and Cash Equivalents

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

Financial Instruments

Financial assets within the scope of PAS 39 are classified as either financial assets at fair value through profit and loss (FVPL), loans and receivables, held-to-maturity (HTM) investments and AFS financial assets, as appropriate. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities carried at cost. When financial assets are recognized initially, these are measured at fair value, plus, in the case of investments measured not at FVPL, directly attributable costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at FVPL when analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales - are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets and financial liabilities at fair value through profit and loss (FVPL)

Financial assets and financial liabilities at FVPL include financial assets and liabilities held for trading, financial assets and financial liabilities designated upon initial recognition as at FVPL, and derivative instruments.

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Included in this classification are debt and equity securities which have been acquired principally during trading purposes.



Financial assets and liabilities may be designated at initial recognition as FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or (b) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (c) the financial asset contains an embedded derivative that would need to be separately recorded. As of December 31, 2006 and 2005, no financial assets have been designated as at FVPL.

HTM investments

HTM investments are quoted non-derivative financial assets which carry fixed or determinable payments and fixed maturities which the Group has the positive intention and ability to hold to maturity. After initial measurement, HTM investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process. As of December 31, 2006 and 2005, no financial assets have been designated as at HTM investments.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well through the amortization process. The Group's loans and receivables consist mainly of receivable from customers and related parties.

AFS Investments

AFS investments are those non derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial measurement, AFS are measured at fair value with unrealized gains or losses being recognized directly in equity in the unrealized gain on AFS investments. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the consolidated statement of income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the consolidated statement of income when the right to receive has been established. The Group considers its quoted and unquoted securities, mutual funds, private bonds and government securities as its AFS investments (Note 7).



Fair Value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using arm's length market transactions; references to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

Interest Bearing Loans and Borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized costs using the effective interest method.

Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

Derecognition of Financial Assets and Liabilities

Financial Assets

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial Liabilities

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



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

Offsetting

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

Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial assets' original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income during the period in which it arises.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.



AFS financial investments

If an AFS asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statement of income, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as AFS are not recognized in the consolidated statement of income. Reversals of impairment losses on the debt instruments are reversed through the consolidated statement of income; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income.

Inventories

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

Coal inventory

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

Materials in-transit

Cost is determined using the specific identification basis.

Spare parts and other supplies

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

Real estate inventories

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

Investments in Associates, Jointly Controlled Entities and Others

Investments in associates and jointly controlled entities (investee companies) are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.



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

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

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

Investment Properties

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

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

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

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

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



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

	<u>Years</u>
Condominium units	5
Buildings and improvement	5-25

Property, Plant and Equipment

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

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

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

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

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

Depletion of mining rights is calculated based on the units-of-production method.

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



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

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

Asset Retirement Obligation (ARO)

The Group is legally required to fulfill certain obligations as required under its Environmental Compliance Certificate (ECC) issued by Department of Environment and Natural Resources (DENR). When appropriate, the Group recognizes the liability for these obligations and this is included as part of the cost of property, plant and equipment.

Mine Exploration and Development Costs

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

Intangible Assets

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

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

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



Impairment of nonfinancial assets

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

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

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

Borrowing Costs

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

Treasury Shares

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



Income Tax

Current Tax

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

Deferred Income Tax

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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



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

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

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

Foreign Currency Transactions

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

Retirement Cost

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

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

Leases

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



Group as a Lessee

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

Group as a Lessor

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

Earnings Per Share

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

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

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products. Financial information on business segments is presented in Note 33 to the consolidated financial statements.

Provisions

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

Contingencies

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



Subsequent Events

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

5. Significant Accounting Estimates, Judgments and Assumptions

Judgments

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

Revenue recognition

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

a.) Coal

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

There is no assurance that the use of estimates may not result in material adjustments in future periods. Revenue from coal sales amounted to ₱4,687.69 million, ₱5,552.89 million and ₱5,065.86 million for the years ended December 31, 2006, 2005 and 2004, respectively (Note 23).

b.) Real estate

Selecting an appropriate revenue recognition method for a particular sale transaction requires certain judgments based on the sufficiency of the investment of the buyer and the real estate's stage of completion among others. Revenue from real estate sales amounted to ₱1,905.08 million, ₱1,508.48 million and ₱718.36 million for the years ended December 31, 2006, 2005 and 2004, respectively (Note 23).

c.) Construction

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

There is no assurance that the use of estimates may not result in material adjustments in future periods. Revenue from construction contracts amounted to ₱1,746.75 million, ₱2,790.48 million and ₱1,952.56 million for the years ended December 31, 2006, 2005 and 2004, respectively (Note 23).



Distinction between investment properties and owner-occupied properties

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

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

Operating lease commitments

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

Estimates and Assumptions

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

Allowance for doubtful accounts

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

The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in the allowance for impairment losses on receivables would increase recorded operating expenses and decrease total assets. Provision for impairment losses of the Group amounted to ₱105.84 million, ₱92.32 million and ₱17.25 million in 2006, 2005 and 2004, respectively (Note 25). Receivables of the Group, net of allowance for impairment losses of ₱182.42 million and ₱161.70 million as of December 31, 2006 and 2005, respectively, amounted to ₱3,714.85 million and ₱3,449.86 million as of December 31, 2006 and 2005, respectively (Note 8).



Stock pile inventory quantities

The Group estimates the stock pile inventory of coal by conducting a topographic survey which is performed by in house surveyors. The survey is conducted on a monthly basis with a reconfirmatory survey at year end. The process of estimation involves a predefined formula which considers an acceptable margin of error of plus or minus 3%. Thus, an increase or decrease in the estimation threshold for any period would differ if the Group utilized different estimates and this would either increase or decrease the profit for the year. The stock pile inventory of coal as of December 31, 2006 and 2005 amounted to ₱1,017.02 million and ₱552.62 million, respectively (Note 10).

Net Realizable Value (NRV) of Materials, Parts and Supplies

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

Provision for inventory obsolescence amounted to ₱39.79 million and ₱17.07 million in 2006 and 2004, respectively (Note 10). Inventories of the Group, net of allowance for inventory obsolescence amounting to ₱99.76 million and ₱59.97 million as of December 31, 2006 and 2005, respectively, amounted to ₱4,714.83 million and ₱3,156.77 million as of December 31, 2006 and 2005, respectively (Note 10).

ARO

The Group is legally required to fulfill certain obligations under its DENR issued ECC when it abandons depleted mine pits. These costs are accrued based on in-house estimate, which incorporates estimates of the amount of obligations and interest rates, if appropriate. The Group recognizes the fair value of the liability for these obligations and these are shown as part of the related "Accounts and other payables" account in the consolidated balance sheet (Note 17). Assumptions used to compute the ARO are reviewed and updated annually.

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

As of December 31, 2006 and 2005, the Group's ARO has a carrying value of ₱11.14 million and ₱10.00 million, respectively.

Financial assets and liabilities

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



The fair value of financial assets as of December 31, 2006 and 2005 amounted to ₱6,153.74 million and ₱7,437.91 million, while the fair value of financial liabilities amounted to ₱8,536.78 million and ₱5,912.83 million, respectively (Note 34).

Useful lives of property, plant and equipment, investment properties and mining rights acquisition cost

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

The net book value of property, plant and equipment of the Group amounted to ₱3,295.50 million and ₱3,002.28 million as of December 31, 2006 and 2005, respectively (Note 14). The net book value of investment properties of the Group amounted to ₱2,279.06 million and ₱2,668.01 million as of December 31, 2006 and 2005, respectively (Note 13). The net book value of mining rights acquisition cost of the Group amounted to ₱80.41 and ₱95.08 million as of December 31, 2006 and 2005 (Note 15).

Impairment of nonfinancial assets

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

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

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

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



As of December 31, 2006 and 2005, the balances of the Group's nonfinancial assets, net of accumulated depreciation, depletion and amortization and accumulated provisions for impairment losses follow:

	2006	2005
Property, plant and equipment	₱3,295,499,363	₱3,002,282,247
Investments in associates, jointly controlled entities and others	3,266,772,764	158,695,998
Investment properties	2,279,058,851	2,668,005,309
Mining rights acquisition cost	80,411,136	95,080,680

Deferred tax assets

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

The deferred tax assets amounted to ₱219.87 million and ₱133.10 million as of December 31, 2006 and December 31, 2005, respectively. The unrecognized deferred tax assets of the Group amounted to ₱24.61 million and ₱69.83 million as of December 31, 2006 and 2005, respectively (Note 29).

Pension and other retirement benefits

The determination of the obligation and cost of retirement and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rates (Note 22). Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

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

As of December 31, 2006 and 2005, the balances of the Group's net pension liabilities and unrecognized actuarial gain or loss follow:

	2006	2005
Pension liabilities	₱47,171,177	₱16,044,404
Unrecognized actuarial gain (loss)	76,525,534	(5,556,444)



Contingencies

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

6. Cash and Cash Equivalents

This account consists of:

	2006	2005
Cash on hand and in banks	₱724,603,701	₱473,086,680
Cash equivalents	527,307,484	1,476,624,311
	₱1,251,911,185	₱1,949,710,991

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

7. Available-for-Sale Investments

This account consists of:

	2006	2005
Quoted securities		
Balance at beginning of year	₱41,233,575	₱22,188,339
Additions	17,252,963	16,770,369
Disposal	-	(127,200)
Balance at end of year	58,486,538	38,831,508
Unrealized gain	37,470,813	2,402,067
	95,957,351	41,233,575
Unquoted securities		
Balance at beginning of year	790,220,993	44,585,053
Additions	350,000	745,635,940
Disposals	(510,088,533)	-
Balance at end of year	280,482,460	790,220,993
Allowance for probable loss	(116,848,301)	(13,459,652)
	163,634,159	776,761,341
	₱259,591,510	₱817,994,916



The disposal of unquoted AFS investments in 2006 represents withdrawal made by the Group from its Investment Management Account which consisted of private bonds, mutual fund and government securities. The proceeds from the withdrawal were used to finance the acquisition of Maynilad. No gain or loss was recognized on this transaction. Gain on disposal of quoted AFS investments amounted to ₱0.02 million in 2005. There had been no recognized gain in 2006 as there are no disposals of quoted securities.

Montecito

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

- (a) Restructuring of loans due to various banks subject to the following: (i) repayment of principal and capitalized interest over a term of 7 years, with a 2-year grace period; and (ii) fixed interest rate of 9.5% for 7 years and possibility of settling outstanding debt through dacion en pago or friendly foreclosure;
- (b) Reconfiguration of unsold regular lots to smaller lot sizes; and
- (c) Change in Montecito's existing payment terms for contracts receivables from 4 years to 3 years.

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

- (a) Reduction of debt in full or in part, via dacion en pago for creditor banks;
- (b) The North-South Spine Road shall be completed on or before July 31, 2005;
- (c) AG&P shall improve the site facilities to attract foreign interests/investors;
- (d) The two year grace period on principal on the restructured bank loans shall start on July 1, 2005; and
- (e) Interest expenses on the restructured loans shall be made current starting July 1, 2005.

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



8. Receivables

This account consists of:

	2006	2005
Real estate	₱1,883,601,265	₱673,988,685
Receivable from related parties (Note 21)	1,030,436,373	1,502,868,413
Construction (including retention receivables on uncompleted contracts of ₱239.14 million in 2006 and ₱383.18 million in 2005)	980,232,180	1,209,313,799
Coal	380,932,381	1,093,097,146
Other receivables	309,703,369	155,618,410
	4,584,905,568	4,634,886,453
Less allowance for doubtful accounts	182,416,084	161,696,932
	4,402,489,484	4,473,189,521
Less noncurrent receivables - net	687,640,695	1,023,328,313
	₱3,714,848,789	₱3,449,861,208

Real estate receivables principally consist of amounts arising from sale of real estate subdivision units which are collectible within 1 to 10 years with interest at prevailing market rates. The corresponding titles to the subdivision units sold under this arrangement are transferred to the buyers only upon full payment of the contract price.

The following presents the breakdown of real estate receivables by maturity dates:

Due in:	
2007	₱217,873,766
2008	217,820,194
2009	205,723,198
2010	209,381,612
2011 and thereafter	1,032,802,495
	₱1,883,601,265

Certain subsidiaries are liable to local commercial banks relative to the discounting of real estate receivables (Note 21).

As of December 31, 2006 and 2005, total real estate receivables amounting to ₱615.6 million and ₱555.00 million, respectively, was used to secure the Group's bank loans (Note 18).

Receivables from Atlantic, Gulf and Pacific Company of Manila, Incorporated (AG&P)

The Group has an outstanding receivable from AG&P amounting to ₱763.66 million and ₱791.82 million as of December 31, 2006 and 2005. On January 31, 2002, AG&P filed a petition for rehabilitation (after approval of AG&P's stockholders and BOD on January 29, 2002) with the Regional Trial Court (RTC) of Batangas City. On February 21, 2002, the RTC issued a stay order prohibiting AG&P from selling, encumbering, transferring or disposing any of its properties in any manner except in the ordinary course of business.



In 2006, the Group provided a valuation allowance on its outstanding receivable from AG&P which amounted to ₱385.00 million.

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

The Group's receivables from URPHI, a related party, amounted to ₱213.62 million and ₱243.6 million as of December 31, 2006 and 2005. The receivables from URPHI arose from the construction agreements with the Group for the development of Pioneer Highlands and Dansalan projects.

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

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

9. Costs, Estimated Earnings and Billings on Uncompleted Contracts

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

	2006	2005
Total costs incurred	₱336,468,965	₱208,164,822
Add estimated earnings recognized	90,207,432	39,012,468
	426,676,397	247,177,290
Less total billings (including unliquidated advances from contract owners of ₱23.31 million in 2006 and ₱32.58 million in 2005)	430,225,942	241,086,185
	(₱3,549,545)	₱6,091,105

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

	2006	2005
Costs and estimated earnings in excess of billings on uncompleted contracts	₱17,016,194	₱24,978,834
Billings in excess of costs and estimated earnings on uncompleted contracts	(20,565,739)	(18,887,729)
	(₱3,549,545)	₱6,091,105



10. Inventories

This account consists of:

	2006	2005
At Cost:		
Real estate held for sale and development	₱2,784,313,482	₱1,692,606,616
Coal inventory	1,017,024,549	552,615,554
Equipment parts, materials and supplies in transit	57,095,396	12,449,824
At NRV:		
Equipment parts, materials and supplies	856,391,876	899,102,276
	₱4,714,825,303	₱3,156,774,270

The cost of equipment parts, materials and supplies at NRV amounted to ₱956.15 million and ₱959.07 million as of December 31, 2006 and 2005, respectively.

The amount of writedown of inventories recognized as expense amounted to ₱39.79 million and ₱17.07 million in 2006 and 2004, respectively. There were no provisions for writedown in 2005.

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

11. Other Current Assets

This account consists of:

	2006	2005
Creditable taxes withheld	₱216,776,141	₱104,740,448
Value added input tax	131,471,126	36,370,928
Prepaid expenses	29,625,744	4,138,554
Others	1,183,826	847,230
	₱379,056,837	₱146,097,160



12. Investments in Associates, Jointly Controlled Entities and Others

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

	2006	2005
Investments - At Equity:		
Investments in associates		
Acquisition cost:		
Balance at beginning of year	₱492,101,021	₱494,852,468
Additions during the year	3,070,237,648	-
Disposals	(20,685,361)	(2,751,447)
Balance at end of year	3,541,653,308	492,101,021
Accumulated equity in net losses:		
Balance at beginning of year	(344,622,851)	(389,172,023)
Equity in net income during the year	28,022,080	33,218,773
Reclassification to investment at cost	-	11,330,399
Balance at end of year	(316,600,771)	(344,622,851)
	3,225,052,537	147,478,170
Allowance for probable losses	(44,621,969)	(65,307,330)
	3,180,430,568	82,170,840
Jointly controlled entities:		
Acquisition cost	57,547,028	32,125,000
Transfers from investment properties	-	25,422,028
	57,547,028	57,547,028
Accumulated equity in net earnings:		
Balance at beginning of year	44,445,660	44,677,298
Equity in net losses during the year	(182,961)	(231,638)
Balance at end of year	44,262,699	44,445,660
	101,809,727	101,992,688
Allowance for probable losses	(25,467,530)	(25,467,530)
	76,342,197	76,525,158
Other:		
Acquisition cost	10,000,000	-
	₱3,266,772,765	₱158,695,998



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

	Percentages of Ownership		Equity in Net Assets	
	2006	2005	2006	2005
Associates:				
Bachy Soletanche Philippines Corporation (Bachy)	49.00	49.00	₱42,651,374	₱43,332,817
Vulcan Materials Corporation (Vulcan)	49.00	49.00	–	–
Obayashi Philippines Corporation (OPC)	39.55	39.55	1,078,532	1,135,558
Subic Water and Sewerage Company, Inc. (Subic Water)	40.00	40.00	66,223,665	37,702,465
AG&P	46.00	46.00	–	–
			109,953,571	82,170,840
Jointly Controlled Entities:				
DMCI-MPIC Water Co. Inc.	50.00	–	₱3,070,476,997	₱–
DMCI/WPC Joint Venture	50.00	50.00	39,181,239	39,181,239
Obayashi-DMCI Joint Venture	40.00	40.00	1,730,226	1,730,226
Eco Process & Equipment Philippines, Inc.	50.00	50.00	569,875	752,836
DMCI-HI - Investment in Mahogany Place	50.00	50.00	25,422,028	25,422,028
Subic Water Construction Joint Venture	50.00	50.00	9,438,829	9,438,829
			3,146,819,194	76,525,158
Other				
DMCI Power Corporation	100.00	–	10,000,000	–
			₱3,266,772,765	₱158,695,998

Investments in Associates - At Equity

Subic Water

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

As of December 31, 2004, PDI's accumulated equity in the net losses of Subic Water exceeded the carrying amount of its related investment. Thus, no further share in the net losses of Subic Water is recorded. Unrecognized losses amounted to ₱1 million as of December 31, 2004. Subic Water reported favourable results of operations in 2006 and 2005, accordingly, PDI recognized equity in net earnings amounting to ₱28.52 and ₱37.70 million in 2006 and 2005, respectively, after the share in unrecorded losses.



AG&P

As of December 31, 2001, the Group's accumulated equity in net losses of AG&P equalled the carrying amount of its investment. The Group discontinued the recognition of its share of further losses in AG&P as it is not committed to provide financial support to the latter. Unrecognized share in net income of AG&P amounted to ₱27.21 million and ₱14.45 million as of December 31, 2006 and 2005, respectively.

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

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

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

- (a) AG&P should remit to PNB a part of the advance rentals AG&P received as payment in the lease transaction entered into between AG&P and Babcock Hitachi Philippines, Inc. in July 2001 totaling ₱18 million with interest;
- (b) AG&P should proportionately pay all creditors, depending on their respective credit exposure, whatever cash inflows it will receive from all the transactions it will enter into, except those that will come from sale or lease of properties covered by the Mortgage Trust Indenture (MTI) which should be paid to MTI banks, especially the ₱70.0 million earmarked for its employees, from the time the Petition was filed and up to the time the approved rehabilitation plan subsists; and
- (c) PNB will accede to the proposal of AG&P to restructure the latter's loan on the condition that the loan obligation of AG&P with PNB shall consistently earn interest depending on the prevailing rates in the market, otherwise, the approved "suspension of interest charges on all interest-bearing obligations from February 2002 up to December 2002 pending review and approval of AG&P's rehabilitation plan by the court" and "restructuring of outstanding PNB loans for a ten-year period with 2 years grace period in the payment of principal, interest rate for the first 5 years is proposed at 6% and 12% for the next 5 years" should be disapproved and deleted.

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

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



- (b) AG&P and PNB agree to subject the issue of interest during the restructuring period to further discussions; and
- (c) PNB is withdrawing its objection since AG&P had withdrawn its proposal to transfer the BFY property by way of dacion en pago arrangement to the former.

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

- a. Acceptance by the rank and file of the revised payment package in full settlement of separation benefits, labor cases, commutation of sick and vacation leaves and reimbursement of tax withheld.
- b. Conversion to equity of PNB's loans and DMCI's advances amounting to ₱223.00 million and ₱591.00 million, respectively. The present authorized capital stock of AG&P of ₱36.00 million will be increased to ₱1,500.00 million before conversion of debt to equity.
- c. Partial settlement of DMCI loan thru transfer of 20% equity shares in associate owned by AG&P in Bauan International Port, Inc. to DMCI.
- d. Restructuring of residual loans from PNB and advances from DMCI.
- e. Settlement by DMCI of loans from a local commercial bank with the underlying collaterals to be assumed by DMCI via "dacion en pago".
- f. Quasi-reorganization through application of additional paid-in capital of and revaluation increment in property against deficit.

Acquisition of Maynilad Water Services Inc. (Maynilad)

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

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

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

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



Since DMCI-MPIC is a jointly-controlled entity, the Group adopted proportionate consolidation in accounting for the financial results and financial position of its investment in DMCI-MPIC.

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

50% share on consideration:	in million
Cash and cash equivalents	₱1,116,081
50% share on net assets:	
Cash and cash equivalents	977,600
Accounts receivable, other receivables and prepayments (current)	1,135,285
Property and equipment	3,038,242
Concession assets	6,387,052
Other noncurrent assets	773,904
Total Assets	12,312,083
Accounts payable, other payables and accruals	2,489,229
Borrowings	3,666,287
Deferred liabilities and provisions	821,757
Payable to MWSS	3,295,783
Other liabilities	411,425
Total Liabilities	10,684,481
Minority interest	260,416
	10,944,897
Total share of net assets acquired at fair value	1,367,186
 Excess of cash consideration over the cost of a business combination to be recognized as income	 ₱251,105

Power Supply Agreement

In 2006, the DMCI-HI incorporated a new company, DMCI Power Corporation (DPC) (formerly DMCI Energy Resources Unlimited, Inc.) that will handle its power business in line with plans to increase the group's exposure in this sector. DPC will put up coal-fired power plants and participate in the privatization of the power supply of off-grid islands and remote villages. DPC is a new wholly owned subsidiary of DMCI-HI.

The privatization of Small Power Utilities Group (SPUG) Areas was mandated by Department of Energy (DOE) Circular No. 2004-01-001 issued on January 26, 2004. The circular called for the periodic assessment of the requirements and prospects of bringing power generation and associated power delivery systems to commercial viability on an area-by-area basis, including a program to encourage private sector participation in the SPUG areas. In line with this, DMCI-HI participated in the bid of Masbate SPUG. On January 15, 2007, the National Power Corporation bids and awards committee has awarded the Masbate's SPUG rights to DMCI HI which will be transferred to DPC.



13. Investment Properties

The movement of this account follow:

	2006	2005
Land	₱2,242,788,671	₱2,627,972,914
Condominium units - net of accumulated depreciation of ₱1.02 million in 2006 and ₱0.68 million in 2005	680,000	1,020,000
Buildings and improvements - net of accumulated depreciation of ₱12.05 million in 2006 and ₱8.62 million in 2005	35,590,180	39,012,395
	₱2,279,058,851	₱2,668,005,309

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

Depreciation expense on investment properties amounted to ₱3.76 million, ₱2.63 million and ₱2.62 million in 2006, 2005 and 2004, respectively (Note 24).

The aggregate fair value of the Group's investment properties amounted to ₱2,612.12 million and ₱2,788.63 million as of December 31, 2006 and 2005, respectively. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm's length transaction at the date of valuation.

Consolidated rental income from investment properties amounted to ₱3.60 million, ₱5.15 million and ₱2.80 million for the years ended December 31, 2006, 2005 and 2004, respectively (Note 28).



14. Property, Plant and Equipment

The movements in this account follow:

2006

	Land and Land Improvements	Buildings and Building Improvements	Construction Equipment, Machinery and Tools	Office Furniture, Fixtures and Equipment	Transportation Equipment	Conventional and Continuous Mining Equipment	Leasehold Improvements	Construction in Progress	Total
Cost									
At January 1	₱419,971,441	₱1,156,425,129	₱221,601,982	₱39,931,013	₱63,030,122	₱7,293,681,965	₱1,214,425	₱207,688,749	₱9,403,544,826
Additions	805,909	3,397,412	119,352,923	27,137,537	21,643,296	1,109,577,187	268,506	409,110,828	1,691,293,598
Transfers and retirements/ disposals	9,960,303	106,648,241	(8,982,577)	(3,308,946)	(1,355,273)	47,226,690	–	(235,070,791)	(84,882,353)
At December 31	430,737,653	1,266,470,782	331,972,328	63,759,604	83,318,145	8,450,485,842	1,482,931	381,728,786	11,009,956,071
Accumulated Depreciation Depletion and Amortization									
At January 1	335,879,181	801,734,928	134,303,728	25,680,074	28,122,785	5,074,346,508	1,195,375	–	6,401,262,579
Depreciation, depletion and amortization	28,309,704	46,641,628	35,915,050	11,576,035	14,466,235	1,260,932,533	61,688	–	1,397,902,873
Transfers and retirements/ disposals	–	–	(8,980,756)	(3,231,810)	(988,364)	(71,507,814)	–	–	(84,708,744)
At December 31	364,188,885	848,376,556	161,238,022	34,024,299	41,600,656	6,263,771,227	1,257,063	–	7,714,456,708
Net Book Value	₱66,548,768	₱418,094,226	₱170,734,306	₱29,735,305	₱41,717,489	₱2,186,714,615	₱225,868	₱381,728,786	₱3,295,499,363



2005

	Land and Land Improvements	Buildings and Building Improvements	Construction Equipment, Machinery and Tools	Office Furniture, Fixtures and Equipment	Transportation Equipment	Conventional and Continuous Mining Equipment	Leasehold Improvements	Construction in Progress	Total
Cost									
At January 1	₱419,971,441	₱1,162,843,253	₱2,107,970,623	₱167,484,010	₱136,944,596	₱5,683,165,951	₱59,025,858	₱77,350,401	₱9,814,756,133
Additions	–	18,377,241	82,215,457	13,953,859	15,436,706	1,610,516,014	818	145,242,811	1,885,742,906
Transfers and retirements/ disposals	–	(24,795,365)	(1,968,584,098)	(141,506,856)	(89,351,180)	–	(57,812,251)	(14,904,463)	(2,296,954,213)
At December 31	419,971,441	1,156,425,129	221,601,982	39,931,013	63,030,122	7,293,681,965	1,214,425	207,688,749	9,403,544,826
Accumulated Depreciation Depletion and Amortization									
At January 1	321,413,165	783,228,619	2,029,287,989	161,734,382	102,775,784	3,922,411,628	58,328,813	–	7,379,180,380
Depreciation, depletion and amortization	14,466,016	43,301,674	72,232,502	5,450,469	14,698,081	1,151,934,880	678,813	–	1,302,762,435
Transfers and retirements/ disposals	–	(24,795,365)	(1,967,216,763)	(141,504,777)	(89,351,080)	–	(57,812,251)	–	(2,280,680,236)
At December 31	335,879,181	801,734,928	134,303,728	25,680,074	28,122,785	5,074,346,508	1,195,375	–	6,401,262,579
Net Book Value	₱84,092,260	₱354,690,201	₱87,298,254	₱14,250,939	₱34,907,337	₱2,219,335,457	₱19,050	₱207,688,749	₱3,002,282,247



The assets of Semirara (included in the above movement analysis) as of December 31, 2006, which are carried at deemed cost follow (Note 2):

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

Certain conventional and continuous mining equipment items with an aggregate book value of ₱8.07 million and ₱143.62 million as of December 31, 2006 and 2005, respectively, have been pledged as collaterals to secure the indebtedness of Semirara to local banks and foreign suppliers.

Depreciation, depletion and amortization expense on property, plant and equipment (including depreciation on the adjusted cost of ₱62 million in 2004) amounted to ₱1,415.49 million, ₱1,335.59 million and ₱750.63 million in 2006, 2005 and 2004, respectively (Note 24).

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

Losses on Property and Equipment

In 2004, Semirara has written-off property and equipment with net book value of ₱224.00 million consisting mainly of development costs and certain continuous mining equipment. This has resulted from Semirara's annual review of the EUL and impairment of assets where management determined that there has been a significant change in the use and expected economic benefits from the said assets.



15. Other Noncurrent Assets

The details of other noncurrent assets follow:

	2006	2005
Deposits in North Luzon Railways Corporation (Northrail)	300,000,000	300,000,000
Refundable deposits (Note 34)	80,218,125	49,424,051
Mining rights acquisition cost - net	80,411,136	95,080,680
Marginal deposits	5,684,483	42,818,880
Software cost - net	3,406,919	1,032,598
Others	16,558,530	12,267,791
	₱486,279,193	₱500,624,000

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

In 2001, due to the uncertainty surrounding the Northrail project, the Subsidiary decided to pull out of the joint venture. As of May 15, 2006, a claim has been filed and is still pending with the court for the recovery of its contribution to the Northrail Project, which the Group's management believes is fully recoverable.

The movements in the mining rights acquisition cost account follow:

	2006	2005
At cost		
January 1 and December 31	₱181,451,611	₱181,451,611
Accumulated depletion and amortization		
January 1	86,370,931	53,546,677
Depletion	14,669,544	32,824,254
December 31	101,040,475	86,370,931
Net Book Value	₱80,411,136	₱95,080,680

Depletion charged to operations amounted to ₱14.67 million, ₱32.82 million and ₱28.85 million for the years ended December 31, 2006, 2005 and 2004, respectively (Note 24).



16. Bank Loans

The Group's bank loans in 2006 and 2005 consist of peso-denominated short-term borrowings from local banks which bear interest at prevailing market rates and are payable on monthly, quarterly and lump sum bases on various maturity dates within the next 12 months after the balance sheet dates. The bank loans are generally unsecured which are secured by a real estate mortgage over the Group's housing and condominium units; a deed of assignment on certain real estate receivables of PDI, DMCI and Hampstead (Note 8); corporate guarantee and suretyship agreement issued by the Company and DMCI; and PDI, DMCI and Hampstead's customers' post-dated checks.

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

As of December 31, 2006 and 2005, the Group was in compliance with the loan covenants required by the banks.

17. Accounts and Other Payables

This account consists of the following:

	2006	2005
Accrued costs and expenses	₱980,907,691	₱1,213,224,381
Payables to suppliers	766,749,431	603,122,781
Customers' deposits	732,944,117	73,868,458
Payables to subcontractors	224,554,744	229,403,102
Acceptances and trust receipts payable	29,761,472	117,828,868
Other payables	280,142,862	234,720,301
	₱3,015,060,317	₱2,472,167,891

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

Semirara's liability to DOE and local government units represents the share of DOE and local government units in the gross revenue from Semirara's coal production (including accrued interest on the outstanding balance) computed in accordance with the coal operating contract between Semirara and DOE and local government units dated July 11, 1997 as amended on January 16, 1981. The contract is for a maximum period of 35 years (inclusive of the developmental stage and renewals) up to July 2012. Total payable to DOE and local government units amounted to ₱28.51 million and ₱46.14 million in 2006 and 2005, respectively.



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

Customers' Deposits

National Power Corporation (NPC)

These deposits represent advances from customers of Semirara, mainly, National Power Corporation (NPC). These deposits are applied against future coal deliveries which occur within one year from the dates the deposits were made. The deliveries are in accordance with the existing coal supply agreements (CSA) and/or memorandum of agreements (MOA) with these customers (Note 31).

Real estate deposit

Customers' deposits represent reservation fees and advance payments. These will be recognized as revenues and will be applied against the receivable balance when it reach 20% of the total collection.

The customers' deposits are due to the following:

	2006	2005
Real estate customers	₱714,048,132	₱23,815,991
NPC	18,895,985	35,597,050
APO Cement Corporation	-	14,455,417
	₱732,944,117	₱73,868,458

The deposits to NPC and APO are applied against subsequent sales.

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

18. Long-term Debt

Long-term debt pertains to the following obligations:

	2006	2005
Long-term:		
Bank loans	₱3,906,983,116	₱2,127,665,960
Acceptances and trust receipts payable	683,728,838	262,957,904
Payable to foreign suppliers	8,893,412	467,775,516
	4,599,605,366	2,858,399,380

(Forward)



	2006	2005
Less current portion of:		
Acceptances and trust receipts payable	₱683,728,838	₱176,477,558
Bank loans	430,062,530	377,918,158
Payable to foreign suppliers	8,893,412	49,660,025
	1,122,684,780	604,055,741
	₱3,476,920,586	₱2,254,343,639

The maturities of long-term debt as of December 31, 2006 follow:

Due in:	
2007	₱1,122,684,780
2008	695,772,591
2009	647,488,936
2010	469,536,958
2011 and thereafter	1,664,122,101
	₱4,599,605,366

Details of the long-term debt follow:

Semirara

Loan Type	Date of Availment	Outstanding Balance		Maturity	Interest Rate	Payment Terms	Covenants/Collaterals
		2006	2005				
(In Million)							
Local bank loan							
Loan 1	September 30, 2005	₱179.81	₱224.80	October 5, 2009	13% fixed p.a.	Payable in 48 equal monthly installments to commence on November 5, 2005	Secured by collaterals on mining equipment
Foreign bank loans							
Loan 1	December 14, 2005	306.50	117.49	November 30, 2010	Based on SIBOR plus 1.95% p.a.	Repriceable and payable in 16 equal quarterly installments to commence 2 months after the drawn down dates	Unconditional and irrevocable guarantee issued by Komatsu Asia and Pacific Pte Ltd. and other covenants
Other loans	Various availments in 2004 and 2005	510.14	710.33	Various maturities in 2009 and 2010	Based on 6-month USD LIBOR plus 1.5% p.a.	Payable in 10 equal consecutive semi-annual installments, the first of which shall become due and payable 6 months after the starting point	Unconditional and irrevocable guarantee issued by DMCI-HI
		996.45	1,052.62				

(Forward)



Loan Type	Date of Availment	Outstanding Balance		Maturity	Interest Rate	Payment Terms	Covenants/Collaterals
		2006	2005				
Payable to foreign suppliers							
Supplier 1	October 15, 2004	₱-	₱458.28	January 26, 2010; prepaid fully in 2006	Based on 3 month SIBOR plus 4.25% p.a.	Payable in 16 consecutive equal quarterly installments	None
Supplier 2	December 31, 2005	6.44	10.72	December 4, 2007	5.7% p.a. compounded quarterly	Payable in 8 equal quarterly instalments	None
Supplier 3	August 20, 2004	2.45	23.88	September 15, 2006	5% p.a. compounded monthly	Payable in 18 equal monthly instalments	Unconditional and irrevocable guarantee issued by DMCI-HI
		8.89	492.88				
Various Letters of Credits	Various dates of availments	683.73	313.67	Various maturities in 2007	Interest ranging from 9% to 11% p.a.	Payable within 1 year or more	None
		₱1,689.07	₱1,859.17				
DMCI-HI							
Local bank loan							
Equitable PCI Bank	October 23, 2007	₱1,500.00	₱-	October 23, 2014	3-month MART1 plus 3% spread plus GRT	Payable in 28 equal monthly installments to commence at the end of the first quarter from initial drawdown date	Real estate receivables and investments in shares of stocks of Semirara
Other Subsidiaries							
Other borrowings							
Various	Various	₱1,410.54	₱999.23	Various	10% to 13% p.a.	Payable in equal monthly installments over a period ranging from 5 to 15 years	Real estate receivables
TOTAL		₱4,599.61	₱2,858.40				

(a) Semirara

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

The payable to foreign supplier 1 aggregating US\$7.53 million was paid on August 23, 2006. There had been no penalties in the prepayment of the full amount of this loan.

(b) DMCI-HI

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



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

(c) Sale of real estate receivables by other subsidiaries

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

The subsidiaries still retain the sold receivables in the receivables account and record the proceeds from these sales as loans payable which amounted to ₱615.62 million and ₱555.00 million as of December 31, 2006 and 2005, respectively. These loans bear fixed interest rates ranging from 10% to 13% and are payable on equal monthly installments over a period ranging from 5 to 15 years depending on the terms of the related installment contracts receivable.

19. Other Noncurrent Liabilities

The details of this account consist of:

	2006	2005
Payable to property sellers	₱390,392,363	₱286,242,592
Subscriptions payable	4,750,000	3,750,000
	₱395,142,363	₱289,992,592

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



20. Preferred and Common Stock

The changes in the number of shares follow:

	2006	2005
Preferred stock - ₱1 par value cumulative and convertible to common stock		
Authorized number of shares	100,000,000	100,000,000
Issued and outstanding		
Balance at beginning of year	144,480	342,240
Cancellation/retirement of issued preferred shares	(139,000)	(197,760)
Balance at end of year	5,480	144,480
Common stock - ₱1 par value		
Authorized number of shares	5,900,000,000	5,900,000,000
Issued and outstanding		
Preferred shares held in treasury		
Balance at beginning of year	(136,950)	(185,500)
Redemption of preferred shares	(3,050)	(149,210)
Cancellation/retirement of issued preferred shares	139,000	197,760
Balance at end of year	(1,000)	(136,950)

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

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

Option A - Secured 5-Year Term Loan

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



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

Option B - Secured 7-Year Term Loan

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

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

As of December 31, 2006 and 2005, the outstanding liabilities to preferred shareholders who opted for options A and B have fully paid.

Option C - Asset for Share Exchange

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

As of December 31, 2004, the Company redeemed 659,279 preferred shares under Option C in exchange for Asian Hospital, Inc. (AHI) shares; certain construction equipment owned by DMCI amounting to ₱50 million and other certain assets of the Group amounting to ₱586 million in favor of Dacon Corporation (Dacon), a major stockholder; proceeds from sale of various condominium units owned by Constress and PDI totaling to ₱56 million in favor of certain preferred shareholders; and condominium units owned by PDI with an aggregate value of ₱6 million in favor of certain preferred shareholders. As of December 31, 2006 and 2005, there have been no redemptions under Option C.

Option D - Cash Payment

Redemption of preferred shares for cash at a price of ₱775 per share, equivalent to the closing market price of such preferred shares on April 1, 2002 up to a maximum of ₱72 million (cap funds held by custodian bank for the redemption of preferred shares).

Should the total amount of all the preferred shares of the holders electing this option exceed the cap, the ₱72 million shall be allocated among all accepting shareholders on a pari passu basis; with the remaining preferred shares to be purchased under any of Options A, B or C.



As of December 31, 2006 and 2005, the Group redeemed 3,050 and 149,210 preferred shares, respectively, under Option D.

The Group cancelled/retired 139,000 and 197,760 issued preferred shares in 2006 and 2005, respectively. The difference between the par value and the redemption price amounting to ₱189.83 million and ₱234.36 million as of 2006 and 2005, respectively, were charged against the additional paid in capital account.

Appropriation

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

Dividends declared

On April 3, 2007 and June 15, 2006, the Parent Company's BOD approved and declared cash dividend of ₱0.10 per share or ₱225.55 million to stockholders of record as of April 30, 2007 and June 30, 2006, respectively. The 2006 cash dividend shall be paid on May 28, 2007 while the 2005 cash dividends were paid on July 20, 2006.

21. Related Party Transactions

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

- (a) Comprehensive surety, corporate and letters of guarantee issued by the Company and DMCI for various credit facilities granted to and for full performance of certain obligations by certain related parties (Notes 14, 16 and 31). Such outstanding surety and/or guarantees amounted to ₱354 million as of December 31, 2004. These obligations were paid in 2005.
- (b) Interest and noninterest-bearing cash and operating advances made by the Group to and from various associates and other related parties.

As of December 31, 2006 and 2005, the net receivable to affiliated companies amounted to ₱557.27 million and ₱1,325.26 million, respectively. Details are as follow:

	2006	2005
Receivable from Related Parties (Note 8)		
Atlantic Gulf & Pacific Company	₱483,287,770	₱791,818,941
DMC Urban Property Developers, Inc.	245,352,200	-
Universal Rightfield Property Holdings, Inc.	127,443,010	142,398,700
M & S Company	84,245,067	29,138,635
Constress Philippines, Inc.	-	101,193,797
UPDI Realty	-	189,869,005
Others	90,108,326	248,449,335
	1,030,436,373	1,502,868,413

(Forward)



	2006	2005
Payable to Related Parties		
DACON Corporation	₱200,000,000	₱-
M & S Company	99,881,140	-
One Asia Development Corporation	75,074,468	9,188,451
DMC Urban Property Developers, Inc.	27,746,204	99,646,027
Universal Rightfield Property Holdings, Inc.	-	17,501,359
Others	70,460,793	51,272,859
	473,162,605	177,608,696
Net Receivable to Related Parties	₱557,273,768	₱1,325,259,717

Outstanding balances as of December 31, 2006, which are unsecured and interest free, are all due within one year. The Group has provided allowance for doubtful accounts for amounts owned by related parties that are deemed uncollectible (Note 5). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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

	2006	2005
Short-term employee benefits	₱27,329,775	₱27,125,584
Post employment benefits (Note 22)	2,661,201	2,871,130
	₱29,990,976	₱29,996,714

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

22. Employee Benefits

As discussed in Note 3 to the consolidated financial statements, the Group adopted PAS 19 effective January 1, 2005. The information below includes the disclosure requirements under these new standards:

Retirement Plans

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



The following table summarizes the components of net pension expense (included in “Salaries, wages and employee benefits”) in the consolidated statement of income and the amounts recognized in the consolidated balance sheet for the plan:

	2006	2005	2004
Current service cost	₱28,500,069	₱10,484,508	₱8,831,742
Interest cost on benefit obligation	20,338,178	22,597,832	21,547,377
Expected return on plan assets	(12,730,102)	(12,730,102)	(14,523,719)
Net actuarial loss (gain) recognized during the year	(5,522,355)	466,615	–
Past service cost - non vested benefit	141,163	–	–
Amortization of transition obligation recognized during the year	399,820	399,820	399,820
Total pension expense	₱31,126,773	₱21,218,673	₱16,255,220

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

	2006	2005	2004
Balance at beginning of year	₱171,856,371	₱159,126,269	₱181,546,485
Expected return on plan assets	12,730,102	12,730,102	14,523,719
Actual contributions	19,650,846	–	–
Benefits paid	(5,412,093)	–	(6,398,821)
Actuarial gain (loss) – net	78,566,771	–	(30,545,114)
Balance at end of year	₱277,391,997	₱171,856,371	₱159,126,269

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

	2006	2005	2004
Balance at beginning of year	₱194,656,679	₱182,565,943	₱162,116,095
Interest cost	20,338,178	22,597,832	21,547,377
Current service cost	28,500,069	10,484,508	8,831,742
Past service cost-vested	1,468,002	–	–
Benefits paid	(5,412,093)	–	(6,398,821)
Actuarial (gain) loss – net	10,613,282	(20,991,604)	(3,530,450)
Balance at end of year	₱250,164,117	₱194,656,679	₱182,565,943

Liability to be recognized in the consolidated balance sheet:

	2006	2005	2004
Present value of unfunded obligation	₱250,164,117	₱194,656,679	₱182,565,943
Fair value of plan assets	277,391,997	171,856,371	159,126,269
Excess of fair value of plan assets over present value of unfunded obligation	(27,227,879)	22,800,308	23,439,674
Unrecognized actuarial gain (loss) - net	76,525,534	(5,556,444)	(27,014,664)
Unrecognized past service cost – non vested	(1,326,839)	–	–
Unrecognized net transition obligation	(799,639)	(1,199,460)	(1,599,279)
Liabilities to be recognized in the consolidated balance sheets	₱47,171,177	₱16,044,404	(₱5,174,269)



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

	2006	2005	2004
Balance at beginning of period	P16,044,404	(P5,174,269)	(P21,429,489)
Pension expense	31,126,773	21,218,673	16,255,220
Balance at end of period	P47,171,177	P16,044,404	P(5,174,269)

The amounts for the current and the previous period follow:

	2006
Excess of fair value of plant asset over present value of define benefit obligation	(27,227,880)
Experience adjustments on plan obligation	(5,116,687)
Experience adjustments on plan assets	-

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

	2006	2005	2004
Discount rate	12%	12%	14%
Salary increase rate	10%	10%	10%
Expected rate of return on plan assets	12%	8%	8%

The discount rate used in 2006 was 8%.

23. Sale of Goods and Services

This account consists of:

	2006	2005	2004
Coal sales	P4,687,694,870	P5,552,892,725	P5,065,864,642
Real estate sales	1,905,080,720	1,508,478,092	718,360,031
Construction contracts	1,746,748,032	2,790,475,944	1,952,555,721
Merchandise sales and others	362,079,443	177,634,429	24,299,277
	P8,701,603,065	P10,029,481,190	P7,761,079,671

24. Costs of Sales and Services

This account consists of:

	2006	2005	2004
Coal sales	P3,713,161,109	P3,305,420,022	P2,790,699,483
Construction contracts	1,324,265,776	2,547,425,062	1,833,959,651
Real estate sales	1,130,883,288	1,021,634,826	483,637,012
Investment, merchandise sales and others	335,404,802	332,902,339	13,824,634
	P6,503,714,975	P7,207,382,249	5,122,120,780



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

	2006	2005	2004
Included in:			
Coal sales	₱1,335,762,599	₱1,238,929,678	₱685,147,488
Construction contracts	34,777,833	72,722,175	52,791,573
Operating expenses (Note 25)	48,713,883	29,391,009	25,949,306
	₱1,419,254,315	₱1,341,042,862	₱763,888,367
	2006	2005	2004
Depreciation, depletion and amortization of:			
Property, plant and equipment (Note 14)	₱1,397,902,873	₱1,302,762,435	₱721,225,584
Other noncurrent assets (Note 15)	17,589,227	32,824,254	29,402,753
Real estate held for sale and development (Note 10)	-	2,822,796	2,822,796
Deferred stripping and development costs	-	-	7,819,580
Investment properties (Note 13)	3,762,215	2,633,377	2,617,654
	₱1,419,254,315	₱1,341,042,862	763,888,367

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

	2006	2005	2004
Included in:			
Costs of construction contracts	₱330,959,847	₱367,542,131	₱361,408,793
Operating expenses (Note 25)	200,688,257	198,701,631	173,762,266
Costs of coal sales	140,330,673	116,282,956	156,171,333
	₱671,978,777	₱682,526,718	₱691,342,392

25. Operating Expenses

This account consists of:

	2006	2005	2004
Salaries, wages and employee benefits (Note 24)	₱200,688,257	₱198,701,631	₱173,762,266
Government share	138,272,655	158,784,821	148,623,317
Provision for doubtful accounts	105,840,759	92,323,339	17,252,778
Probable losses on investments	103,388,649	-	2,000,000
Commission	94,521,259	45,723,198	40,187,940
Outside services	71,160,864	102,631,929	79,498,019
Taxes and licenses	56,956,000	54,018,437	100,344,339
Depreciation and amortization (Note 24)	48,713,883	29,391,009	25,949,306
Advertising	46,340,977	35,220,167	33,180,094
Transportation and travel	42,276,522	41,979,873	12,831,281

(Forward)



	2006	2005	2004
Provision for inventory obsolescence	₱39,787,613	₱-	₱17,070,283
Entertainment, amusement and recreation	35,762,538	39,553,521	18,590,054
Rent (Note 36)	31,336,803	23,334,957	17,533,933
Supplies	31,328,087	16,133,371	8,306,427
Communication, light and water	26,803,633	31,256,387	19,959,588
Probable losses on noncurrent assets	-	-	12,214,617
Repairs and maintenance	20,103,450	10,272,100	5,879,737
Insurance	3,096,183	3,211,300	3,865,648
Miscellaneous	24,632,206	62,243,615	38,963,024
	₱1,121,010,338	₱944,779,655	₱776,012,651

26. Finance Income

Finance income is derived from the following sources:

	2006	2005	2004
Interest on:			
Real estate receivable	₱215,878,662	₱66,243,952	₱-
Short-term placements	109,703,553	135,561,947	1,864,244
Bank savings account	32,414,976	4,572,653	9,148,421
	₱357,997,191	₱206,378,552	₱11,012,665

27. Finance Costs

The finance costs are incurred from the following:

	2006	2005	2004
Interest on:			
Long-term borrowings	₱193,193,414	₱179,792,385	₱137,419,409
Bank loans and short-term borrowings	130,542,853	31,119,055	230,897,660
Purchase contracts	23,974,286	-	-
Loans to affiliated entities	3,978,082	9,108,190	-
	₱351,688,635	₱220,019,630	₱368,317,069



28. Other income

This account consists of:

	2006	2005	2004
Gain on sale of investments in shares of stocks and property, plant and equipment - net	₱518,544,979	₱2,673,349,780	₱38,440,148
Foreign exchange gain (loss) – net	124,745,394	100,651,573	(7,844,204)
Rental income	12,174,806	5,151,492	22,100,235
Dividend income	6,972	5,777,090	–
Revenue from guarantees fees	–	25,760,109	–
Others	78,701,476	40,165,116	53,355,538
	₱734,173,627	₱2,850,855,160	₱106,051,717

Semirara Mining Corporation

On February 4, 2005, Semirara successfully completed its international offer of 89,866,000 shares. The offered shares comprised 42,991,000 existing shares held by DMCI-HI and 46,875,000 new shares. Concurrently, DMCI-HI offered 15,180,000 existing shares to all of the trading participants of the Philippine Stock Exchange. As a result of these offers, DMCI-HI recognized gains aggregating ₱2,016.91 million in 2005. On May 13, 2006, DMCI-HI has fully sold 16.50 million Semirara shares resulting to ₱356.05 million gain.

Contech Products South Corporation

On January 4, 2005, the Company converted its advances to Contech Products South Corporation in the amount of ₱62.56 million as of December 31, 2004, into Additional Paid-in Capital (APIC) in Contech, without issuance of additional shares. Also on January 14, 2005, the Company approved the sale, transfer and conveyance of its 52,410,500 shares of stock in Contech Products South Corporation with a total value of ₱88.89 million in favor of Asia Industries for a total consideration of ₱0.05 million. Total loss incurred on this transaction aggregated to ₱88.84 million.

29. Income Taxes

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

	2006	2005
Deferred tax assets on:		
Allowance for:		
Doubtful accounts	₱69,392,066	₱39,433,967
Inventory obsolescence	33,195,963	18,650,424
Contingencies	10,484,528	–
Probable loss	28,686,027	7,239,876

(Forward)



	2006	2005
Accrued expenses and other expense	₱41,599,587	₱35,520,070
Pension liabilities	16,509,912	14,816,323
NOLCO	12,485,454	12,485,454
Accrued retirement costs	5,881,525	2,268,279
MCIT	1,632,905	994,531
Excess of cost over NRV	-	1,661,427
Unrealized foreign exchange loss	-	33,245
	219,867,967	133,103,596
Deferred tax liabilities on:		
Incremental cost of property, plant and equipment	(100,791,915)	(121,219,904)
Excess of book over tax income pertaining to construction contracts and real estate sales	(122,406,082)	(103,238,407)
Retirement benefit	-	(11,553,954)
Capitalized interest on real estate for sale and development deducted in advance	(9,583,535)	(9,583,535)
Others - net unrealized gain	(30,986,500)	(26,224,133)
	(263,768,032)	(271,819,933)
	(₱43,900,065)	(₱138,716,337)

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

	2006	2005
Allowance for doubtful accounts	₱3,712,722	₱69,207,588
Allowance for losses on assets	48,042,493	52,620,071
NOLCO	1,872,974	27,045,558
Retirement costs	8,017,202	15,136,846
MCIT	2,363,798	12,425,777
Accrued expenses	1,954,534	3,117
	₱65,963,723	₱176,435,840

The deferred income tax effects of the above deductible temporary differences for which no deferred tax assets are recognized amounted to ₱24.61 million and ₱69.83 million as of December 1, 2006 and December 31, 2005, respectively. Deferred tax assets are recognized only to extent that taxable income will be available against which the deferred tax assets can be used. The Group assesses the unrecognized deferred tax assets and will recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered. Accordingly, in 2006, the Group recognized portion of deferred income tax effects of the deductible temporary differences not recognized in prior years and this amounted to ₱31.78 million.

As of December 31, 2006, the Group's available NOLCO amounting to ₱12.92 million was applied against the current provision for income tax and income tax payables.



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

	2006	2005	2004
Final	₱9,396,980	₱10,470,800	₱-
Current	514,368,812	497,908,228	90,458,793
Deferred	(61,137,989)	58,496,703	(27,565,672)
	₱462,627,803	₱566,875,731	₱62,893,121

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

	2006	2005	2004
Statutory income tax rate	35.00%	32.50%	32.00%
Adjustments for:			
Nondeductible depreciation expense on adjusted cost	-	-	1.32
Changes in unrecognized deferred tax assets	(1.24)	0.50	(29.67)
Nondeductible interest expense	1.17	0.22	0.01
Nondeductible expenses	0.02	0.02	0.11
Nontaxable equity in net earnings of associates and jointly controlled entities	(0.53)	(0.17)	(0.15)
Interest income subjected to final tax at a lower rate - net	(2.58)	(0.78)	(0.03)
Gain on sale of investments in shares of stock subjected to final tax	(6.75)	(12.98)	(0.02)
Non taxable dividend income	-	(0.04)	-
Gain on sale of dilution	-	(5.47)	-
Change in tax rate	-	(1.83)	-
Others - net	(0.02)	(0.03)	0.35
Effective income tax rate	25.07%	11.94%	3.92%

Republic Act (RA) No. 9337

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

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

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



30. Basic / Diluted Earnings Per Share

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

	2006	2005	2004
Net income	₱1,135,299	₱3,591,511	₱1,466,980
Less dividends on preferred shares	-	542	24,641
	1,135,299	3,590,969	1,442,339
Divided by weighted average number of common shares	2,255,494	2,255,494	2,255,494
Basic earnings per share	₱0.50	₱1.59	₱0.64

The assumed conversion of the Group's preferred shares has no dilutive effect. The preferred shareholders' right of conversion expired in March 2002. Accordingly, no diluted earnings per share is presented in the accompanying consolidated statement of income in 2006, 2005 and 2004.

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

NPC

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

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

- a) NPC to be entitled to an additional 3% discount in the event that its aggregate lifting in any given year exceeds 1,100,000 MT up to 2,400,000 MT of coal. Discount computation shall start on the month its aggregate lifting exceeds 1,100,000 MT of coal;
- b) maintenance by the Company, at its own expense, of a minimum coal running inventory of at least 100,000 MT that meets the applicable coal specifications set forth in the second amendment of the CSA and ready in all aspects for loading and delivery to Calaca I and Calaca II;
- c) limitation in the coal's sulfur content to 1.0% in compliance with the Clean Air Act and reduction in its ash specification to 20% to minimize coal handling problems;
- d) inclusion of certain bases of NPC's exercise of its rights to reject and/or stop coal deliveries by the Company to NPC, consequences of coal rejection in terms of title and risk of loss to coal delivered, relief from payment by NPC, and removal of delivered coal from NPC premises; and remedies for the Company in the event NPC exercises such rights;



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

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

The services to be undertaken by the Company in order to extend its delivery service from discharge port to silos includes coal unloading and handling; repairs and maintenance of coal handling facilities; stevedoring services; support activities and coal yard management; and tree planting, marine life protection program and environmental programs to enhance image of NPC power plants. The Company recognized a net income (loss) of ₱25.98 million, (₱26.87) million and ₱17.71 million from this handling operation for the years ended December 31, 2006, 2005 and 2004, respectively.

The Company's receivables from NPC amounted to ₱380.93 million and ₱809.33 million as of December 31, 2006 and 2005, respectively.

Solid and APO

The Company has existing MOAs with Solid and APO. These MOAs cover coal deliveries aggregating 108,000 MT in 2006 and 20,000 MT in 2005 with an estimated base price of ₱1,800.00 per MT.

As provided for in the MOA, the Company received advance payments that are subsequently applied against coal delivery sales. The unapplied portion of these advance payments are presented as "Customers' deposits" account in the balance sheet (Note 12).

32. Coal Operating Contract with DOE

Semirara has a Coal Operating Contract with DOE dated July 11, 1977, as amended on January 16, 1981, for the exploration, development, mining and utilization of coal over Semirara Island, Antique under the terms and conditions provided therein and pursuant to the provisions of Presidential Decree No. 972, otherwise known as the Coal Development Act of 1976. The contract also provides for the manner and basis of sharing the gross proceeds from coal production between Semirara and DOE. Semirara's liability to DOE (including accrued interest computed at 14% per annum on outstanding balance) under this contract and to the different local government units in the province of Antique, under the provisions of the Local Government Code of 1991, amounted to ₱46.14 million and ₱326.94 million as of December 31, 2005 and 2004, respectively. These liabilities are included under the "*Accounts and other payables*" account in the consolidated balance sheet (Note 17). The contract is for a maximum period of 35 years (inclusive of the developmental stage and renewals) up to July 2012.



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

33. Segment Reporting

Business Segment Information

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

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

Business Segments

The following tables present revenue, net income (loss) and depreciation, depletion and amortization information regarding business segments for the years ended December 31, 2006, 2005 and 2004 and property, plant and equipment additions, total assets and total liabilities for the business segments as of December 31, 2006, 2005 and 2004 (amounts in millions):

2006

	General Construction	Coal Mining	Real Estate Development	Parent Company and Others	Total
Revenue	₱1,747	₱4,688	₱1,905	₱362	₱8,702
Net income before minority interest but after tax	137	601	287	358	1,383
Depreciation, Depletion and Amortization	60	1,336	12	11	1,419
Net finance income (expense)	(6)	(159)	112	59	6
Income taxes	86	309	59	9	463
Property, plant and equipment additions	139	1,504	35	13	1,691
Segment Assets	5,405	6,265	5,541	3,361	20,572
Segment Liabilities	1,092	2,254	3,947	1,619	8,192

2005

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



2004

	General Construction	Coal Mining	Real Estate Development	Parent Company and Others	Total
Revenue	₱1,953	₱5,066	₱718	₱24	₱7,761
Net income before minority interest but after tax	118	1,439	35	(51)	1,541
Depreciation, Depletion and Amortization	75	685	2	2	764
Net finance income (expense)	14	(439)	(45)	105	(357)
Income taxes	(5)	42	11	15	63
Property, plant and equipment additions	22	1,299	14	-	1,335
Segment Assets	2,437	3,862	6,196	255	12,750
Segment Liabilities	1,632	2,502	1,886	1,509	7,529

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

34. Financial Instruments

Financial Risk Management Objectives and Policies

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

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

Foreign exchange risk

The Group's foreign exchange risk results primarily from movements of the Philippine Peso against the United States Dollar. All revenue are generated in Pesos and some of the capital expenditures are in US\$. Approximately 46% and 69% of debts as of December 31, 2006 and 2005, respectively, were denominated in US\$.

Credit risk

The Group's exposure to credit risk arises from default of the counterparties which include certain financial institutions, real estate buyers, subcontractors and suppliers. Credit risk management involves dealing only with institutions or individuals for which credit limits have been established, and with subcontractors and suppliers whose paying and performance capabilities are rigorously screened. The Treasury policy sets a credit limit for each counterparty.



Liquidity risk

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

Interest rate risk

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

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

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total - Gross (in PHP)	Total - Gross (In USD)
Liabilities:								
Floating Rate (exposed to fair value risk)								
\$15.14 million loan (USD)								
6 month USD LIBOR plus 1.5% per annum	₱148,446,773	₱148,446,773	₱148,446,771	₱64,795,403	₱-	₱-	₱510,135,720	\$10,404,563
\$6.64 million loan (USD)								
3 month SIBOR plus 1.95% per annum	76,620,174	76,630,301	76,625,237	76,625,237	-	-	306,500,949	6,251,294
₱1,696.58 million promissory note								
13.00% per annum	406,504,933	235,692,334	191,973,993	99,231,826	550,631,419	-	1,484,034,505	-
Various letters of credits and suppliers debt with various interest rates								
	692,622,250	-	-	-	-	-	692,622,250	181,387
	₱1,324,194,130	₱460,769,408	₱417,046,001	₱240,652,466	₱550,631,419	₱-	₱2,993,293,424	\$16,837,244

Financial Assets and Liabilities

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



The table below presents a comparison by category of carrying amounts and estimated fair values of all the Group's financial instruments as of December 31, 2006 and 2005.

	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash and cash equivalents	₱1,251,911,185	₱1,251,911,185	₱1,949,710,991	₱1,949,710,991
AFS investments	259,591,510	259,591,510	817,994,916	817,994,916
Receivables - net	3,714,848,789	3,874,374,910	3,449,861,208	3,551,797,436
Noncurrent receivables	687,640,695	687,640,695	1,023,328,313	1,023,328,313
Refundable deposits	80,218,125	80,218,125	49,424,051	49,424,051
	₱5,994,210,304	₱6,153,736,425	₱7,290,319,479	₱7,392,255,707
Financial Liabilities				
Accounts payable and other payables	₱3,015,060,317	₱3,015,060,317	₱2,472,167,891	₱2,472,167,891
Payable to related parties	473,162,605	473,162,605	177,608,696	177,608,696
Loans payable and long-term debt - including current portion	4,653,416,335	4,653,416,335	2,973,057,980	2,973,057,980
Other noncurrent liabilities	395,142,363	395,142,363	289,992,592	289,992,592
	₱8,536,781,620	₱8,536,781,620	₱5,912,827,159	₱5,912,827,159
Net Financial Assets (Liabilities)	(₱2,542,571,316)	(₱2,383,045,195)	₱1,377,492,320	₱1,479,428,548

Fair Value of Financial Instruments

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

Financial Assets

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, AFS investments receivables and refundable deposits approximate the amount of consideration at the time of initial recognition.

The fair values of real estate receivable and long-term debt are based on the discounted value of future cash flows using the applicable rates for similar types of loans and receivables. The discount rates used range from 10% to 13% in 2006 and 2005.

Financial Liabilities

Debt Type

Floating rate loans

USD

Php

Fixed rate loan

Php

Fair Value Assumptions

The carrying values approximated the fair value because of recent and regular repricing (quarterly) based on market conditions.

Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar type of loans.

35. Capital Restructuring of Semirara

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



The Capital Restructuring of Semirara includes the following:

- (a) Reduction of the authorized capital stock from ₱1,812,200,000, divided into 1,662,200,000 common shares at ₱1 par value per share and 15,000 preferred shares at ₱10,000 par value per share to ₱21,370,448 divided into 21,370,448 common shares at ₱1 par value per share;
- (b) Retirement and cancellation of the ₱150,000,000 authorized preferred shares;
- (c) Issued and outstanding common shares will be used to eliminate deficit as of December 31, 2003 of ₱1,625,852,920, thus reducing issued and outstanding common shares to ₱5,342,612; and
- (d) Increase in authorized capital stock from ₱21,370,448 divided into 21,370,448 common shares to ₱100,000,000 divided into 100,000,000 shares with a par value of ₱1 per share.

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

On September 14, 2004, Semirara's BOD approved the increase in Semirara's authorized capital stock from ₱100 million divided into 100 million common shares with ₱1 par value per share to 1,000 million divided into 1 billion common shares with ₱1 par value per share. Semirara's BOD also approved the declaration of stock dividends in the amount of ₱225.0 million consisting of 225 million common shares at a par value of ₱1 per share in favor of all Semirara's stockholders as of the record date to be determined by the SEC in proportion to their respective shareholdings as of said record date. On October 8, 2004, Semirara's stockholders approved the said increase in the authorized capital stock and the declaration of stock dividends. Semirara's stockholders also approved the offer for subscription to qualified institutional buyers of common shares out of the authorized capital stock provided it does not exceed 20% of the issued and outstanding capital stock after the offered shares have been subscribed.

36. Contingencies and Commitments

Contingencies

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

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



Lease Commitments

As Lessee

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

As of December 31, 2006, future minimum lease payments under the aforementioned finance lease and the present value of the net minimum lease payments (in millions) are as follows:

Within one year	₱16
After one year but not more than five years	40
Total minimum lease payments	₱56

As Lessor

The Group entered into commercial property leases on its investment portfolio. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

Future minimum rentals receivable under operating leases follow (in millions):

	2006	2005
Within one year	₱3.5	₱3.0
After one year but not more than five years	8.0	11.0
	₱11.5	₱14.0

37. Note to Consolidated Statements of Cash Flows

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

	2006	2005
	(In Thousands)	
Acquisition of conventional and continuous mining equipment through availments of long-term debt	₱973,276	₱642,071
Retirement of redeemed treasury shares	189,830	242,240
Redemption of preferred shares by related parties charged against advances	1,100	-
Gain on sale of investments	-	292,272

38. Approval of Financial Statements

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) and Audit Committee on April 3, 2007.

