2009
Annual Report

Lepanto Consolidated Mining Co.

Company Profile

Lepanto Consolidated Mining Company is a Filipino primary gold producer. As a mining company, Lepanto has been a proud resident of Mankayan, Benguet, Philippines for 74 years since 1936. At present, it operates the Victoria and Teresa gold deposits. Its main office is located in Makati City.

Lepanto is a publicly-owned Company providing investors with highly liquid gold product. Its shares are traded in the Philippine Stock Exchange under the symbols of LC and LCB.

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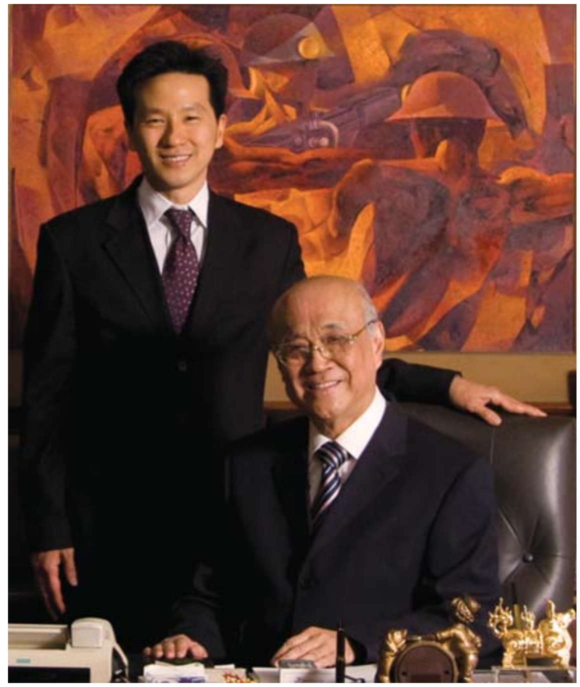
A MESSAGE FROM THE CHAIRMAN AND THE PRESIDENT

At the start of 2009, we had high hopes that it would be a better year for our company, despite the continuing turmoil in the financial markets. We were encouraged by the price of gold which was holding steady above the US$1000 level with several analysts projecting even higher levels. However, we had not foreseen any major disruptions to our operations from natural calamities or production problems.

The results of our operations failed to meet our expectations. Our total gold production of 29,303 ozs fell short of our projection. Gold production in 2008 was 37,716 ozs which included the gold contained in the copper concentrate produced that year. Mill grade improved to 2.81g/t compared with 1.79g/t in the preceding year. Our operations also yielded 45,518 ozs of silver.

Consolidated revenues in 2009 amounted to ₱1.46 billion compared with ₱1.84 billion in 2008. Revenue from the sale of metals totaled ₱1.42 billion compared with the previous year's ₱1.72 billion. Average gold selling price was US$963.63/oz, higher than the US$866/oz. average for the previous year's sales. Loss from mining operations amounted to ₱218 million compared with the operating loss of ₱400 million last year. The reduction in loss was partly due to the cost-cutting measures begun in late 2008 and continuing to the present.

Typhoon Pepeng, which directly hit Northern Luzon in October 2009, severely disrupted our operations. The typhoon toppled two transmission towers, engendered landslides and cut portions of roads, chief of which was the Halsema Highway which serves as our main access route for the transport of supplies and equipment to the mine site.



The President and the Chairman

While we were fortunate that the mine did not suffer any structural damage, the loss of power for eight days and the disruption in our supply of fuel and other vital materials forced us to curtail production and development work. In the immediate aftermath of the typhoon, we assisted several municipalities-Mankayan and Buguias in Benguet, Kayan in Mt. Province and Cervantes, Ilocos Sur in the rescue and retrieval of landslide victims and in-road clearing operations to facilitate the transport of vegetables and other supplies to and from Manila. We also provided equipment and manpower to assist the National Grid Corporation in erecting temporary transmission towers to restore power to the area. We were also affected in the second half of the year by higher than normal mine equipment breakdowns and the failure of several stopes to deliver as expected. We have addressed both of these problems to minimize their recurrence.

During the year in review, the First Pacific Group conducted a due diligence exercise in the light of their interest in investing in your company. While nothing conclusive has materialized, we continue to explore investment possibilities. Other international mining companies have also expressed their preliminary interest in the company which may augur well for the company in the near future.

We look forward with guarded optimism to turning the corner in 2010 bolstered by continuing high gold prices and our efforts to optimize our mining operations. We have embarked on a program of shedding non-core assets to provide additional resources in support of our core mining activity and we will continue to explore and develop the Victoria orebody to enhance our reserves and future mining capability.

In closing, we must extend our thanks to our fellow directors for their valued counsel in running the affairs of our company; our officers, managers, and the rest of the personnel for their devotion to their duties and responsibilities; our banking institutions, suppliers and service providers for their continued support especially during these hard times. To you our shareholders, we convey our special commendation and thanks for your continuing trust and faith in the future of our company.

Felipe U. Yap
Chairman and CEO

Bryan U. Yap
President and COO

FINANCIAL AND OPERATING HIGHLIGHTS

		2009		2008	Percent Increase (Decrease)
AVERAGE SELLING PRICES					
Gold - per ounce	$	**963.62**	$	866.98	11
Silver - per ounce		**14.47**		15.15	(4)
Copper- per pound		**-**		3.02	(100)
OPERATIONS					
Gold production - ounces		**29,303**		37,716	(22)
Silver production - ounces		**45,518**		178,379	(74)
Copper production - pounds		**-**		3,544,175	(100)
FINANCIAL RESULTS (In million pesos)					
Revenue					
Sale of metals	₱	**1,416**	₱	1,714	(17)
Sales by subsidiaries, etc.		**40**		123	(67)
Total revenue		**1,456**		1,837	(21)
Net Income (Loss)		(**372**)		(763)	(51)
Retained Earnings (Deficit)		(**226**)		126	(279)
INVESTMENT IN ASSETS (In million pesos)					
Total assets	₱	**8,741**	₱	8,909	(2)
Property, plant and equipment, net	₱	**6,441**	₱	6,408	1
STOCKHOLDERS' DATA					
Stockholders' equity (in million pesos)	₱	**4,660**	₱	5,016	(7)
Number of stockholders		**30,022**		21,439	40
Citizenship-% of ownership					
Philippines		**80**		79	1
U.S.A. and others		**20**		21	(5)
PER-SHARE DATA (In pesos)					
Par value	₱	**0.10**	₱	0.10	-
Earnings (Loss)[a]		(**0.0113**)		(0.0237)	(52)
Book value[b]		**0.1416**		0.1525	(7)
NUMBER OF EMPLOYEES		**1,875**		2,015	(7)

a. Computed on the basis of the weighted average number of shares subscribed and issued during the year.
b. Computed on the basis of the total shares outstanding as of December 31.

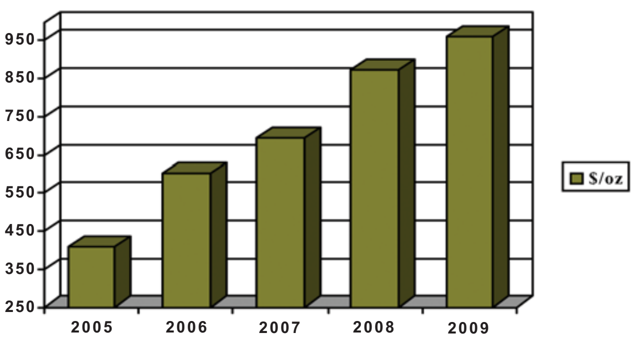
REPORT ON OPERATIONS

LEPANTO MINE DIVISION

SUMMARY

Revenues from sale of metals totaled ₱1.4 billion, compared with the previous year's ₱1.7 billion. Mining operations showed a loss of ₱218 million compared with last year's loss of ₱400 million.

Annual Gold Price (2005-2009)



Gold produced totaled 29,303 ounces compared with 37,716 ounces in 2008. Silver production was lower at 45,518 ounces compared with last year's 178,379 ounces. There was no Copper Concentrate production in 2009, thus the lower gold and silver production. Total tonnes processed reached 357,680 as against last year's 751,930 tonnes. Overall gold grade was 2.81 g/t versus 1.79 g /t in 2008.

MINE OPERATIONS

A total of 373,340 tonnes at 3.96 g/t Au was delivered to the Mill over 347 days, or an average of 1,076 tonnes per day. For mine development, an aggregate of 8,207 m was advanced. Sill drifts constituted 18.67% of the total meterage.

To improve performance in 2010, the Company will undertake the following:

- Explore the down-dip extension of Victoria, below 680 Mining Level ;
- Intensify development and production of reserves from the 850 to 1050 Mining Levels;
- Resume surface exploration work;
- Optimize utilization of labor, power, materials and supplies.

MILLING OPERATIONS

The mill operated for 347 days and treated 357,680 DMT (1,031 DMT/day) of ore. With mill heads of 2.81 g/ton gold and 12.24 g/ton silver, gold and silver recoveries averaged 90.37% and 32.37%, respectively, to produce 29,303 ounces gold and 45,518 ounces silver.

The Acid Rock Drainage (ARD) treatment facility was constructed to enable the efficient recovery of dissolved gold and copper from the mine water and to improve water effluent. This was made operational in June 2009. Through the facility, 88 bags of copper cement were recovered, weighing 31.567 tonnes with grades of 19.8% copper; 15.04 g/t gold and 26.90 g/t silver.

The Assay Laboratory ran a total of 107,064 determinations for Mine, Mill, Exploration, Marketing, Research & Development and Environment units.

EXPLORATION

Diamond drilling meterage for this year totaled 4,373.7 meters from thirty (30) underground drill holes. Twenty four (24) of these were exploration drill holes aimed at probing the lateral and vertical continuity of veins on the upper and lower mining levels of the Teresa and Victoria vein systems while six (6) holes were drilled on the upper mining levels of the Victoria to confirm the grade and vein width in remnant ore reserve blocks preparatory to actual development.

The Ore Reserve estimates as of January 1, 2010, based on a cut-off grade of 2.0 g/t Au for Victoria/Teresa, and 1% for the Enargite Project, are as follows:

Orebody	Tonnes Mt	Grade		Metal Content	
		g/t Au	% Cu	M oz Au	M lb Cu
Victoria/Teresa					
Proved	2.65	4.71	-	0.40	-
Probable	0.59	3.90	-	0.07	-
Sub-Total	3.24	4.57	-	0.47	-
Enargite					
Proved	4.06	2.28	1.55	0.30	138.45
Probable	3.11	2.72	1.64	0.27	112.66
Sub-Total	7.17	2.47	1.59	0.57	251.11
TOTAL	10.41	3.13	1.59	1.05	251.11

The Victoria/Teresa Ore Reserve estimates significantly increased this year by 640,000 tonnes to 3.2 million tonnes. The grade however decreased slightly from 4.65 g/t Au to 4.57 g/t Au. Consequently, the metal content of the Ore reserves rose to 0.47 million ounces gold from 0.39 million ounces gold last year. These Ore Reserve estimates are based on a Mineral Resource inventory in the Victoria/Teresa of 8.8 million tonnes of ore averaging 5.23 g/t Au, or 1.49 million ounces of gold.

The Ore Reserve estimates on the Enargite Project remained unchanged.

The Ore Reserve and Mineral Resource estimates were certified respectively by Messrs. Augusto C. Villaluna, a Competent Person, and Froilan C. Conde, a Qualified Person within the context of the Philippine Mineral Reporting Code. Messrs. Villaluna and Conde are full-time employees of the Company.

HUMAN RESOURCE

Manpower: Total headcount as of end-2009 was 1,706, 6.70% lower than 2008. Manpower acquisition/hiring rate was minimal at 1.75%, 86% lower than last year. New hires were mostly technical cadets/trainees.

The Labor Turn-Over rate was 8.70%, 48% lower than 2008, half of which was attributable to retirement.

The Underground – Surface Workforce Distribution ratio was 69%:31%, an improvement from 65%:35% last year.

Rationalization schemes such as Regulated Hiring Policy, Job Structural Review and Early-Retirement Program were resorted to in order to bring down costs.

Training & Development: To continually upgrade the competency level of the employees, functional and technical training programs were conducted such as the Leadership/Supervisory Development, Safety & First Aid, Handling of Hazardous & Toxic Chemical and LHD Operation. About 200 employees availed themselves of these programs. The Company also conducted various livelihood and skills training programs for the employees' spouses, dependents and community members such as the Wine Making Seminar, Basic Entrepreneurship, Novelty Craft-Making, Basic Driving and Trouble Shooting.

The Competency Profiling that started the previous year will continue in the first quarter of 2010 to address the training needs in each department in terms of functional, technical and leadership competency requirements.

Employee-achievers during the Annual Gawad-Lepanto rites.

Employee Recognition: In celebration of the Company's 73rd Anniversary, a total of 169 underground & surface employees, including community teachers and leaders were given awards during the Gawad-Lepanto (Gabi ng Parangal at Kultura) in September. Citations were also given to the best miner, mucker, shiftboss, foremen and operator.

Community Relations: Conducted individual and family counseling to 300 employees and dependents in line with the Company's Family Welfare Program. Through the assistance of CAR-DTI, the Company facilitated the organization of two livelihood groups, the Thorn & Roses Association for fruit-wine production and D' Lepanto Crafters for novelty crafts.

ENVIRONMENT

This year, ₱119.8 million was spent for environmental protection and enhancement programs. Of this amount, about ₱92.3 million was used for tailings dam operations & wastewater treatment and management; ₱27.5 million for reforestation, water recovery and rehabilitation programs that includes underground sandfilling.

Tailings Dam Management

Tailings Dam 5A continued to satisfactorily comply with the effluent standards and water quality criteria set under RA 9275 and its IRR and DAO 34 and 35. The free board averaged 12.205 meters throughout the year. The computed service life of the dam at 690.40 m dam crest elevation and 1400 tpd operation with average silt of 134,000 m^3/ year was 17.93 years as of December 2009.

To further enhance mine wastewater treatment and also recover dissolved Copper, an Acid Rock Drainage facility (ARD) was commissioned in June 2009. The low pH water coming out of the 900L portal was treated in this facility prior to final treatment at Tailings Dam 5A.

Industrial and Ecological Solid Waste Management

For its solid waste management program, the Company spent ₱600,000 this year for waste handling, segregation, recycling and composting. This program covers households and industrial, commercial and institutional areas within the Company premises.

The Materials Recovery Facility (MRF) constructed in collaboration with the Lepanto Community Residents Association (LECRA) will be operational soon.

Metal chips from the machine/fabrication shops were used in the ARD for Copper Cementation. About 74,072 kg of assorted steel, bronze, aluminum, utility babbitt and copper were recycled at the Foundry.

On Hazardous Waste Management

Used oil from the motorpool, mill, power plant, compressor plant, and other fabrication and mine mechanical shops were collected by Oil-water separator systems installed at strategic locations within these sources/areas in compliance with RA 6969 and RA 9275. Collected/scooped used oils were stored in covered drums for recycling or sale to accredited buyers.

Air Quality Management

Air quality monitoring at Poblacion, Mankayan.

The Air Quality indices within the Mining Camp and its outlying communities complied with the regulatory standards. The MRFC now requires semi-annual, rather than quarterly, ambient air monitoring.

Noise levels within the camp were found to be within the limits set under RA 8749 and its IRR.

Reforestation and Forest Protection Programs

Forest protection is an integral part of the company's operation. The continuous patrolling and maintenance of 249 hectares of forested areas in the camp is a legacy that the Company and the community are proud of. A total of 85,925 m^2 of fire breaks were constructed at identified fire-prone areas in the company's reforestation and industrial sites.

Gmelina seedlings propagated at TP3 nursery.

Some 50 Poncan and 500 coffee seedlings were planted, mostly within the camp, in coordination with the Department of Agriculture-CAR. Thirty Thousand (30,000) Gmelina seedlings have been propagated and are being maintained at the nursery for the re-vegetation program.

SOCIAL DEVELOPMENT & MANAGEMENT PROGRAM

About ₱1.5 million was spent for the Company's Social Development and Management Program (SDMP) covering the municipalities of Mankayan, Benguet and Cervantes and Quirino in Ilocos Sur. A major program under the SDMP is the Lepanto Educational Assistance Program (LEAP), which provides tuition fees, allowances and other forms of financial assistance to indigent college students. The LEAP had 93 beneficiaries in the 2nd semester of School Year (SY) 2008-2009; this increased to 121 for the 1st semester of SY 2009-2010. The program graduated 16 scholars during the SY 2008-2009, mostly from state universities and colleges in Ilocos Sur and Benguet.

LEAP scholars during the program orientation.

The company continues to provide free transportation to 160 students from host and neighboring communities studying at the Lepanto Elementary School and Lepanto National High School.

There were 187 patients from the host and neighboring communities who were treated at the Lepanto Hospital. Over-the-counter medicines were provided to Barangay Guinaoang in connection with the "Botica sa Barangay" program that was established in 2007 and benefited around 60% of the barangay's total population.

Social Infrastructure

Community infrastructure projects were undertaken this year, specifically the fencing of the Bucnit Elementary School at Quirino, Ilocos Sur; construction of a Day Care Comfort Room at Proper Sapid; rip-rapping of the Bethel Church; and relocation of the pathway for the Mankayan Central School at Poblacion. These benefited around 500 students, 25 families and 100 households.

The Company continues to pay the monthly electric bills of the street lights of Sese in Barangay Sapid, benefiting around 900 residents.

The Company regularly participates in the Synchronized Information and Education Campaign (SICE) of the MGB-CAR which seeks to promote the mining industry.

SAFETY AND LOSS CONTROL

All underground and surface working areas are inspected daily by safety personnel. Departmental safety meetings have become more frequent to address various safety concerns.

EMERGENCY RESPONSE AND ASSISTANCE

As a matter of policy, the Company extends assistance to nearby and far-flung communities in times of natural and/or major calamities.

The LCMC Rescue Team.

The LCMC Rescue Team courageously helped in various rescue and retrieval operations this year including: the presidential chopper that crashed on Mt. Mangingihi, Tinoc, Ifugao on April 7, where eight (8) bodies were recovered; typhoon "Pepeng" in October, which caused massive landslides at Barangays Ambabag, Mankayan, Benguet and Kayan, Tadian, Mt. Province where sixty-two (62) victims were retrieved. Company loaders and trucks were used to clear the Mankayan-Abatan Road. Lepanto also assisted in the reopening of the Mankayan-Cervantes-Tagudin road so local farmers from Benguet and Mt. Province could deliver their vegetables to the lowlands, including Manila. Moreover, a team of Lepanto miners and linemen assisted the National Grid Corporation of the Philippines in erecting two temporary power transmission towers along Halsema Road. The Government officials of Mankayan, Benguet, Kayan, Mt. Province and Cervantes, Ilocos Sur have expressed their gratitude to Lepanto Mining for all the assistance it provided

SUBSIDIARIES

SHIPSIDE, INCORPORATED

Total revenues of ₱28.9 million reflected a decrease of 72% from ₱103.7 million the previous year. The drop in revenue was due to the absence of contract mining fees as well as lower hauling fees. Net loss after tax amounted to ₱6.6 million compared with the net income of ₱1.7 million last year.

DIAMOND DRILLING CORPORATION OF THE PHILIPPINES

Gross revenue for the year amounted to ₱37.0 million compared with ₱126.9 million last year on account of less meterage drilled. The Company had a net loss of ₱12.1 million versus a net income of ₱2.4 million the previous year.

LEPANTO INVESTMENT AND DEVELOPMENT CORPORATION

Net loss for the year amounted to ₱794,000 compared with the loss of ₱466,000 last year. The aggregate investments in shares of stocks in Diamant Boart Philippines, Inc. and the Philippine Fire and Marine Insurance Corporation, which are 80% and 30.85% owned respectively, remains at ₱82.4 million.

DIAMANT BOART PHILIPPINES, INC.

Net sales amounted to ₱11.5 million compared with ₱22.7 million last year. Net loss amounting to ₱5.5 million was higher compared with ₱0.4 million in 2008.

DIVIDEND RECORD AND STOCK PRICES

STOCK DIVIDEND RECORD

Record Date	Rate (%)	Amount
November 28, 1949	50.00	₱ 1,000,000.00
August 22, 1950	66.66	2,000,000.00
April 4, 1954	100.00	5,000,000.00
April 6, 1957	33.33	3,458,333.40
April 30, 1962	4.51	1,630,999.42
April 30, 1964	43.00	6,000,000.00
December 19, 1966	40.00	8,000,000.00
December 27, 1968	50.00	14,000,000.00
September 13, 1969	33.33	14,038,900.00
November 20, 1970	20.00	11,265,439.70
April 28, 1972	25.00	16,928,759.50
April 27, 1973	25.00	21,250,359.40
November 16, 1973	75.00	79,876,497.75
January 10, 1975	25.00	46,688,310.33
September 30, 1975	20.00	46,712,804.70
May 2, 1978	12.50	35,193,442.25
May 16, 1980	20.00	63,674,667.10
May 16, 1983	20.00	77,002,748.00
September 26, 1986	20.00	92,421,009.60
February 23, 1989	50.00	277,263,028.90
October 13, 2000	25.00	423,271,296.10
TOTAL		**₱ 1,246,676,596.15**

QUARTERLY HIGH AND LOW MARKET PRICES OF LEPANTO "A" AND "B" SHARES. 2009-2008

LEPANTO "A" (P/Share)

	1Q08	2Q08	3Q08	4Q08
Low	0.34	0.24	0.17	0.06
High	0.37	0.26	0.18	0.0625
	1Q09	**2Q09**	**3Q09**	**4Q09**
Low	0.06	0.07	0.17	0.22
High	0.0925	0.22	0.32	0.27

LEPANTO "B" (P/Share)

	1Q08	2Q08	3Q08	4Q08
Low	0.35	0.245	0.175	0.07
High	0.39	0.25	0.18	0.07
	1Q09	**2Q09**	**3Q09**	**4Q09**
Low	0.0675	0.0725	0.175	0.22
High	0.10	0.23	0.33	0.27

CASH DIVIDEND RECORD

Dividend Nos.	Year Declared	Per Share	Amount
1	1939	0.005	₱ 52,500.00
2-5	1940	0.035	577,500.00
6-7	1941	0.02	350,000.00
8	1949	0.01	200,000.00
9-11	1950	0.04	1,800,000.00
12-15	1951	0.10	5,000,000.00
16-20	1952	0.10	5,000,000.00
21-23	1953	0.08	4,000,000.00
24-27	1954	0.06	5,000,000.00
28-32	1955	0.06	6,000,000.00
33-37	1956	0.06	6,000,000.00
38-39	1957	0.02	2,418,333.34
40-41	1958	0.03	4,150,000.02
42-43	1959	0.02	2,766,666.68
44-48	1960	0.05	6,928,666.67
49-51	1961	0.04	5,405,333.38
52-56	1962	0.05	6,939,566.71
57-61	1963	0.07	9,800,000.00
62-65	1964	0.05	9,400,000.00
66-69	1965	0.06	12,000,000.00
70-73	1966	0.10	20,000,000.00
74-77	1967	0.12	33,600,000.00
78-81	1968	0.12	33,600,000.00
82-85	1969	0.10	45,597,250.00
86-89	1970	0.10	56,284,298.80
90-93	1971	0.085	57,527,182.40
94-96	1972	0.045	38,149,138.92
97-100	1973	0.055	63,309,214.88
101-103	1974	0.0225	41,982,124.95
104	1978	0.005	15,844,913.85
105-106	1979	0.01	31,763,953.36
107-110	1980	0.02	70,019,939.43
111	1981	0.005	19,140,369.90
112	1986	0.0025	11,552,654.39
113-116	1987	0.02	110,905,279.45
117-118	1988	0.015	83,178,952.05
119-120	1989	0.005	41,158,324.98
121	1998	0.004	66,613,920.76
122	1999	0.004	66,918,503.47
TOTAL			**₱ 1,000,934,588.39**

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Lepanto Consolidated Mining Company** is responsible for all information and representations contained in the consolidated financial statements for the years ended **December 31, 2009, 2008 and 2007**. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weakness in the internal controls; and (iii) any fraud that involves management or other employees who have significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

Sycip, Gorres, Velayo & Co., the independent auditors appointed by the Board, has examined the financial statements of the company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

FELIPE U. YAP	**BRYAN U. YAP**	**RAMON T. DIOKNO**
Chairman of the Board and Chief Executive Officer	President	Chief Finance Officer

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Lepanto Consolidated Mining Company and Subsidiaries

We have audited the accompanying financial statements of Lepanto Consolidated Mining Company (parent company) and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2009 and 2008, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the three years in the period ended December 31, 2009, 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 accounting principles generally accepted in the Philippines. 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 of 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 Group'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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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 Lepanto Consolidated Mining Company and Subsidiaries as at December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009, in accordance with accounting principles generally accepted in the Philippines.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-2
Tax Identification No. 102-096-009
PTR No. 2087529, January 4, 2010, Makati City

March 18, 2010

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash (Note 4)	₱ **15,946**	₱ 8,712
Receivables - net (Note 5)	**152,755**	145,157
Inventories - net (Note 6)	**489,998**	581,762
Other current assets (Note 7)	**309,671**	421,098
Total Current Assets	**968,370**	1,156,729
Noncurrent Assets		
Property, plant and equipment - net (Note 8)	**6,441,333**	6,408,409
Available-for-sale (AFS) investments (Note 9)	**130,396**	85,202
Investments in and advances to associates (Note 10)	**363,411**	378,322
Mine exploration costs - net (Notes 1 and 11)	**740,208**	760,275
Deferred income tax assets - net (Note 18)	**89,912**	102,838
Other noncurrent assets (Note 26)	**7,010**	16,940
Total Noncurrent Assets	**7,772,270**	7,751,986
TOTAL ASSETS	₱ **8,740,640**	₱ 8,908,715
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 12)	₱ **2,354,878**	₱ 2,135,701
Current portion of long-term borrowings (Note 14)	**82,549**	92,314
Loans payable (Note 13)	**80,000**	80,000
Total Current Liabilities	**2,517,427**	2,308,015
Noncurrent Liabilities		
Long-term borrowings - net of current portion (Note 14)	**578,891**	623,737
Retirement benefit obligation (Note 16)	**515,744**	468,690
Deferred income tax liabilities - net (Note 18)	**113,816**	127,308
Stock subscriptions payable	**107,784**	111,309
Total Noncurrent Liabilities	**1,316,235**	1,331,044
Equity		
Capital stock (Note 19)	**3,286,980**	3,286,606
Additional paid-in capital	**1,446,062**	1,446,062
Revaluation increment in land (Note 8)	**511,504**	564,022
Cumulative changes in fair values of AFS investments (Note 9)	**(359,056)**	(406,895)
Retained earnings (deficit)	**(225,688)**	126,470
Equity attributable to the equity holders of the parent company	**4,659,802**	5,016,265
Minority interests (Note 20)	**247,176**	253,391
Total Equity	**4,906,978**	5,269,656
TOTAL LIABILITIES AND EQUITY	₱ **8,740,640**	₱ 8,908,715

See accompanying Notes to Consolidated Financial Statements.

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands, Except Basic and Diluted Loss per Share)

	Years Ended December 31		
	2009	2008	2007
REVENUES			
Sale of metals (Note 25)	**₱ 1,416,391**	₱ 1,713,873	₱ 1,712,653
Service fees and other operating income (Note 26)	**39,559**	123,401	64,002
	1,455,950	1,837,274	1,776,655
COSTS AND EXPENSES (Note 22)	**(1,689,041)**	(2,221,459)	(2,054,282)
FINANCE COSTS (Note 23)	**(173,304)**	(139,636)	(166,623)
FOREIGN EXCHANGE GAINS (LOSSES) - net	**36,718**	(175,234)	224,417
OTHER INCOME - net (Note 23)	**16,704**	268	2,250
SHARE IN NET EARNINGS (LOSSES) OF ASSOCIATES (Note 10)	**5,428**	(36,560)	55,742
LOSS BEFORE INCOME TAX	**(347,545)**	(735,347)	(161,841)
PROVISION FOR INCOME TAX (Note 18)			
Current	**112**	4,703	3,885
Deferred	**24,201**	23,249	40,719
	24,313	27,952	44,604
NET LOSS FOR THE YEAR	**(371,858)**	(763,299)	(206,445)
Attributable to:			
Equity holders of the Parent Company	**(₱ 370,746)**	(₱ 763,189)	(₱ 206,578)
Minority interests (Note 20)	**(1,112)**	(110)	133
	(₱ 371,858)	(₱ 763,299)	(₱ 206,445)
OTHER COMPREHENSIVE INCOME (LOSS)			
Changes in fair values of AFS investments (Note 9)	**45,194**	(66,312)	53,984
Changes in future tax rate	**-**	40,710	-
Changes in revaluation increment in land (Note 8)	**(36,388)**	-	-
	8,806	(25,602)	53,984
TOTAL COMPREHENSIVE LOSS - net of tax	**(₱ 363,052)**	(₱ 788,901)	(₱ 152,461)
Attributable to:			
Equity holders of the Parent Company	**(₱ 356,837)**	(₱ 788,913)	(₱ 153,434)
Minority interests	**(6,215)**	12	973
	(₱ 363,052)	(₱ 788,901)	(₱ 152,461)
BASIC AND DILUTED LOSS PER SHARE (Note 21)	**(₱ 0.01128)**	(₱ 0.02369)	(₱ 0.00718)

See accompanying Notes to Consolidated Financial Statements.

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Thousands)

	Attributable to Equity holders of the Company							
	Capital Stock (Note 19)		Additional Paid-in Capital (Note 19)	Revaluation Increment in Land (Note 8)	Cumulative Changes in fair values of AFS Investments (Note 9)	Retained Earnings	Minority Interests (Note 20)	Total
	Issued	Subscribed						
Balances at December 31, 2006	₱ 2,876,644	₱ 1,053	₱ 830,291	₱ 523,735	(₱394,028)	₱1,096,237	₱ 252,406	₱ 5,186,338
Cancellation of subscription of shares	–	(21)	–	–	–	–	–	(21)
Net income (loss) for the year	–	–	–	–	–	(206,578)	133	(206,445)
Other comprehensive income	–	–	–	–	53,144	–	840	53,984
Total comprehensive income (loss) recognized for the year	–	–	–	–	53,144	(206,578)	973	(152,461)
Balances at December 31, 2007	2,876,644	1,032	830,291	523,735	(340,884)	889,659	253,379	5,033,856
Issuance/subscription of shares during the year	410,599	(1,669)	615,771	–	–	–	–	1,024,701
Net loss for the year	–	–	–	–	–	(763,189)	(110)	(763,299)
Other comprehensive income	–	–	–	40,287	(66,011)		122	(25,602)
Total comprehensive income (loss) recognized for the year	–	–	–	40,287	(66,011)	(763,189)	12	(788,901)
Balances at December 31, 2008	3,287,243	(637)	1,446,062	564,022	(406,895)	126,470	253,391	5,269,656
Issuance/subscription of shares during the year	442	(68)	–	–	–	–	–	374
Net loss for the year	–	–	–	–	–	(370,746)	(1,112)	(371,858)
Other comprehensive income (loss)	–	–	–	(52,518)	47,839	18,588	(5,103)	8,806
Total comprehensive income (loss) recognized for the year	–	–	–	(52,518)	47,839	(352,105)	(6,215)	(363,052)
Balances at December 31, 2009	₱ 3,287,685	(₱ 705)	₱1,446,062	₱ 511,504	(₱359,056)	(₱ 225,688)	₱ 247,176	₱ 4,906,978

See accompanying Notes to Consolidated Financial Statements.

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	**(₱ 347,545)**	(₱ 735,347)	(₱ 161,841)
Adjustments for:			
Depletion, depreciation and amortization (Note 8)	**401,925**	575,539	469,731
Financing costs (Note 23)	**173,304**	139,636	166,623
Retirement benefit obligation	**47,054**	(2,203)	79,075
Unrealized foreign exchange losses (gains) - net	**(17,334)**	86,492	(186,522)
Loss (gain) on disposal of property, plant and equipment and other investments (Note 23)	**(16,003)**	275	(2,067)
Provision for impairment losses on receivables (Note 22)	**716**	724	653
Accounts receivable written-off (Note 5)	**(3,483)**	–	–
Share in net earnings (losses) of associates (Note 10)	**(5,428)**	36,560	(55,742)
Interest income (Note 23)	**(117)**	(271)	(183)
Dividend income	**(27)**	(261)	(112)
Operating income before working capital changes	**233,062**	101,144	309,615
Decrease (increase) in:			
Receivables	**(4,831)**	(64,140)	172,321
Inventories	**91,764**	(136,015)	(6,937)
Other current assets	**111,429**	(102,210)	(129,609)
Increase (decrease) in:			
Trade and other payables	**240,131**	501,626	609,131
Cash generated from operations	**671,555**	300,405	954,521
Interest received	**117**	271	183
Income taxes paid	**(112)**	(3,989)	(7,950)
Net cash provided by operating activities	**671,560**	296,687	946,754
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
Property, plant and equipment (Note 8)	**(589,746)**	(870,716)	(794,148)
AFS investments (Note 9)	**–**	(16)	–
Proceeds from disposal of property, plant and equipment and other investments	**60,796**	66,555	62,863
Increase in other noncurrent assets	**9,930**	(3,700)	(133)
Collection of advances to associate	**9,483**	30,270	148,533
Dividends received	**27**	261	112
Additions to mine exploration costs	**–**	(2,651)	(240)
Net cash used in investing activities	**(509,510)**	(779,997)	(583,013)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance (cancellation) of shares	**374**	1,024,701	(21)
Payments of:			
Borrowings	**(37,275)**	(381,015)	(255,397)
Interest	**(117,915)**	(142,136)	(161,581)
Availment (payment) of loans	**–**	(20,000)	50,000
Net cash provided by (used in) financing activities	**(154,816)**	481,550	(366,999)
NET INCREASE (DECREASE) IN CASH	**7,234**	(1,760)	(3,258)
CASH AT BEGINNING OF YEAR	**8,712**	10,472	13,730
CASH AT END OF YEAR (Note 4)	**₱ 15,946**	₱ 8,712	₱ 10,472

See accompanying Notes to Consolidated Financial Statements.

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands unless otherwise stated)

1. General Information

Lepanto Consolidated Mining Company

Lepanto Consolidated Mining Company (the parent company; the Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on September 8, 1936, primarily to engage in the exploration and mining of gold, silver, copper, lead, zinc and all kinds of ores, metals, minerals, oil, gas and coal and their related by-products. On January 29, 1985, the SEC approved the extension of the parent company's corporate term for another 50 years after the expiration of its original term on September 8, 1986.

The parent company's shares are listed and traded on the Philippine Stock Exchange (PSE). In January 1999, the parent company and the Bank of New York, as depository, formed a depository receipt facility to facilitate secondary market trading in the international capital markets of the parent company's Class "B" common shares. On January 28, 2005, the Company formally closed the depository receipt facility.

On January 14, 1997, the parent company was registered with the Board of Investments (BOI) under Executive Order No. 226 as a new export producer of gold bullion on a preferred non-pioneer status. This registration entitled the parent company to a 4 year income tax holiday (ITH), which can be further extended for another three (3) years subject to compliance with certain conditions, and lower tariff rates on acquisition of capital equipment. It is required to maintain a base equity of at least twenty-five percent (25%) as one of the conditions of the registration.

On April 1, 1997, the parent company started the commercial operations of its gold mine (Victoria Project) located in Mankayan, Benguet, Philippines and suspended its copper mining operations. Consequently, in October 1997, the Company temporarily ceased operating its roasting plant facilities in Isabel, Leyte, Philippines for an indefinite period. The Roasting plant facility was registered with the Philippine Economic Zone Authority (PEZA) on December 17, 1985 pursuant to the provisions of Presidential Decree No. 66, as amended, and Executive Order No. 567 as a zone export enterprise to operate a roasting plant for the manufacture of copper calcine at the Isabel Special Export Processing Zone.

On March 30, 2000, the parent company registered its copper flotation project with the BOI as a new producer of copper concentrates on a preferred non-pioneer status. This registration entitled the parent company to a 4 year ITH, subject to compliance with certain conditions, simplified customs procedures, additional deduction for labor expense and unrestricted use of consigned equipment for a period of 10 years. It is required to maintain a base equity of at least twenty-five percent (25%) as one of the conditions of the registration. The Copper Flotation project was suspended at the end of 2001; the BOI registration was cancelled on July 11, 2006.

On April 10, 2001, the BOI approved the parent company's request for ITH bonus year for a period of one year from April 2001 to March 2002 for its gold bullion project. On June 21 and September 21, 2005, the parent company obtained the necessary approval for the ITH bonus periods of April 2002 to March 2003 and April 2003 to March 2004, respectively.

On January 5, 2004, the parent company was registered with the BOI under Executive Order No. 226 as new export producer of gold bullion on a non-pioneer status for its Victoria II (renamed Teresa) Project located also in Mankayan, Benguet, Philippines. This registration entitles the parent company to ITH with the same incentives that were granted on their registration with BOI on January 14, 1997. The Teresa Project commenced its commercial operations in April 2004.

On November 21, 2006, the parent company was registered with the BOI under Executive Order No. 226 as new export producer of copper-gold concentrate on a non-pioneer status for its copper-gold flotation project located also in Mankayan, Benguet, Philippines. This registration entitles the Company to ITH for four (4) years, which can be further extended for another three (3) years subject to compliance with certain conditions, and duty-free importation of equipment, spare parts and accessories for five (5) years.

On May 20, 2009, the BOI approved the parent Company's request for ITH bonus year for the period April 2008 to March 2009 for its Teresa Project.

The registrations mentioned above enable the parent company to avail of the rights, privileges and incentives granted to all registered enterprises.

The parent company has its principal office at the 21st Floor, 8747 Lepanto Building, Paseo de Roxas, Makati City.

Diamond Drilling Corporation of the Philippines (DDCP)

DDCP is 100% owned by the Company and was incorporated and registered with the SEC on August 8, 1971, primarily to provide technical, engineering and management services for the purpose of engaging in mining, mineral or oil exploration, construction or other business activity, particularly but not limited to drilling, boring and sinking holes for the purposes of mineral exploration.

In 1994, DDCP's Articles of Incorporation was amended to include in Article II the following secondary purpose: to engage in the business of exploration, development, processing and marketing of minerals that may be found anywhere in the Philippines either by original acquisition, joint venture or operating agreements with other holders of existing mining rights. On April 21, 2008, the stockholders of the Company passed a resolution authorizing the Company to engage directly in the business of mining or otherwise make investments in mining projects.

As of March 15, 2010, it is in full commercial operations of its drilling services, which serves primarily the parent company and Manila Mining Corporation (MMC), an associate.

Its principal office is located at 344 South Superhighway, Parañaque City.

Shipside, Incorporated (SI)

SI, a company existing and incorporated in the Philippines on November 12, 1958, is 100% owned by the parent company and was originally organized to engage in handling all kinds of materials, products and supplies in bulk and maintaining and operating terminal facilities such as pier and warehouses.

On July 18, 2008, the SEC approved the extension of SI's corporate term for another 50 years after the expiration of its original term on November 13, 2008.

With the expiration in 1985 of the Company's 25-year Grant of Development Right to construct and operate pier and wharfage facilities in Poro, San Fernando, La Union, SI included in its activity the leasing of its properties which include apartments/ guesthouses and warehouses. Pier-related activities continued to be limited to handling materials and supplies of the parent company. As of March 15, 2010, it is in full commercial operations.

Its principal office is located at 20th Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City.

Lepanto Investment and Development Corporation (LIDC)

LIDC, a 100%-owned subsidiary of the parent company, was incorporated and registered with the SEC on April 8, 1969, primarily to act as a general agent, broker or factor of any insurance company, whether domestic or foreign, or as a commercial broker, real estate dealer or broker, agent or factor of any person, partnership, corporation or association engaged in any lawful business, industry or enterprise. As of March 15, 2010, it is in full commercial operations.

LIDC's principal office is located at 20th Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City.

Far Southeast Gold Resources, Inc. (FSGRI)

FSGRI, a 60%-owned subsidiary of the parent company and 40%-owned by Pacific Mining Ltd. (a company incorporated in Cayman Islands), was incorporated and registered with the SEC on July 20, 1988, primarily to operate coal mines and prospect, explore, mine and deal with all kinds of ores, metals and minerals.

Deferred exploration costs incurred for the project are expected to be recovered upon the start of commercial operations. Despite technical difficulties in developing the ore body, the current improving trend in metal prices and integration of recent breakthroughs in both mining and milling technologies enhance the economic feasibility of the project. This project is considered one of the priority mining projects of the Philippine Government.

The Company will continue to provide financial and administrative support to FSGRI. As of March 15, 2010, it is still in its pre-operating stage.

FSGRI's principal office is located at 20th Floor Lepanto Building, 8747 Paseo de Roxas, Makati City.

Diamant Boart Philippines, Inc. (DBPI)

DBPI, which was incorporated and registered with the SEC on September 7, 1972, is a 80% owned subsidiary of LIDC. DBPI is primarily engaged in manufacturing, distributing, selling and buying machinery and equipment of all kinds and descriptions, general merchandise and articles of every nature, particularly but not limited to diamond core and non-core bits, reamer shells, casing bits, diamond circular segmental and diamond gang saws, tubular and other products allied to the diamond core drilling industry. As of March 15, 2010, it is in full commercial operations.

Its principal office address is at 345 Km. 14, West Service Road, South Superhighway, Brgy. Sun Valley, Parañaque City.

The consolidated financial statements of the Group as at December 31, 2009 and 2008 and for the three years in the period ended December 31, 2009, were authorized for issue by the Board of Directors (BOD) on March 15, 2010.

2. Basis of preparation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements have been prepared under the historical cost basis, except for AFS investments and land classified under "Property, plant and equipment" in the consolidated statements of financial position that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, the parent company's and its subsidiaries' functional currency, rounded to the nearest thousands (P000) except when otherwise indicated.

The specific accounting policies followed by the Group are disclosed in the following section.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the Philippines. The Company prepared its financial statements in accordance with Philippine Financial Reporting Standards (PFRS), except for the exemption from the fair value requirement of Philippine Accounting Standard (PAS) 39 of long-term commodity hedging contracts entered into by the Company and outstanding as of January 1, 2005, which was permitted by the SEC (see Note 26).

Basis of Consolidation

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

Subsidiaries	Nature of Business	% of Ownership Direct	% of Ownership Indirect
DDCP	Service	100	-
SI	Service	100	-
LIDC	Investment	100	-
FSGRI *	Mining	60	-
DBPI	Manufacturing/Selling	–	80 [a]

* Pre-operating subsidiary
[a] Held by the Company through LIDC

These companies are all based in the Philippines and are duly registered with the SEC.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including intercompany income and losses, are eliminated.

Subsidiaries are included in consolidation from the date on which control, directly or indirectly, is transferred and cease to be consolidated from the date on which control is transferred out from the parent company.

Minority interests represent the portion of profit or loss and net assets in the subsidiary not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the parent company's equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and book value of the share of the net assets acquired is recognized as goodwill.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS, PAS and Philippine Interpretations International Reporting Interpretations Committee (IFRIC) which were adopted as at January 1, 2009.

New Standards and Interpretations

- PAS 1, *Presentation of Financial Statements* effective January 1, 2009
- PAS 23, *Borrowing Costs* (Revised) effective January 1, 2009
- PFRS 8, *Operating Segments* effective January 1, 2009
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* effective July 1, 2008
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* effective October 1, 2008
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers* effective July 1, 2008

Amendments to Standards

- PAS 32 and PAS 1 Amendments - *Puttable Financial Instruments and Obligations Arising on Liquidation* effective January 1, 2009
- PFRS 1 and PAS 27 Amendments - *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* effective January 1, 2009

- PFRS 2, Amendment - *Vesting Conditions and Cancellations* effective January 1, 2009
- PFRS 7, Amendments - *Improving Disclosures about Financial Instruments* effective January 1, 2009
- Philippine Interpretation IFRIC 9 and PAS 39 Amendments - *Embedded Derivatives* effective June 30, 2009
- Improvements to PFRSs (2008)
- Improvements to PFRSs (2009), with respect to the amendment to the Appendix to PAS 18, *Revenue*

Standards or interpretations that have been adopted and that are deemed to have an impact on the financial position or performance of the Group are described below:

- Amendments to PAS 1, *Presentation of Financial Statements*
  The amendments introduce new requirements for the presentation and content of financial statements to aggregate information in the financial statements on the basis of shared characteristics. It requires the following presentation: (a) all changes in equity arising from transactions with owners are to be presented separately from non-owners changes in equity; (b) income and expenses to be presented in one statement (a statement of comprehensive income) or in two statements (a separate income statement and a statement of comprehensive income) separately from owner changes in equity; and (c) components of either comprehensive income are to be displayed in the financial statements. The Group chose to present all items in one statement.

- Revised PAS 23, *Borrowing Costs*
  The standard has been revised to require capitalization of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the standard, the Group adopted this as a prospective change.

- Amendment to PAS 27 - *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
  The amendment requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the statement of comprehensive income in the separate financial statements. The revision to PAS 27 was applied prospectively. The new requirement affects only the parent's separate financial statements and does not have an impact on the consolidated financial statements.

- Amendment to PFRS 2 - *Vesting Conditions and Cancellations*
  The amendment to PFRS 2, *Share-based Payments*, clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. It did not have an impact on the financial position or performance of the Group.

- PFRS 7, *Financial Instruments: Disclosures*
  The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a 3 level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 27 and the liquidity risk disclosures are not significantly impacted by the amendments.

- PFRS 8, *Operating Segments*
  PFRS 8 replaced PAS 14, *Segment Reporting*, upon its effective date. The Group concluded that the operating segments determined in accordance with PFRS 8 are the same as the business segments previously identified under PAS 14.

- Philippine Interpretation IFRIC 9 and PAS 39 Amendments - *Embedded Derivatives*
  This amendment to Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss (FVPL) category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. PAS 39, *Financial Instruments: Recognition and Measurement*, now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at FVPL. This amendment does not significantly impact the consolidated financial statements.

Improvements to PFRSs in 2008
The omnibus amendments to PFRSs issued in 2008 were issued primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes in accounting policies but did not have any impact on the financial position or performance of the Group.

- PAS 16, *Property, Plant and Equipment*
  The amendment replaces the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the consolidated statement of financial position.

- PAS 19, *Employee Benefits*
  The amendment introduces the following: (a) revises the definition of "past service costs" to include reductions in benefits related to past services ("negative past service costs") and to exclude reductions in benefits related to future services that arise from plan amendments; (b) accounts for amendments to plans that result in a reduction in benefits related to future services as a curtailment; (c) revises the definition of "return on plan assets" to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation; (d) revises the definition of "short-term" and "other long-term" employee benefits to focus on the point in time at which the liability is due to be settled; and, (e) deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

- PAS 23, *Borrowing Costs*
  The definition of borrowing costs is revised to consolidate the two types of items that are considered components of "borrowing costs" into one-the interest expense calculated using the effective interest rate method calculated in accordance with PAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

- PAS 28, *Investments in Associates*
  If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. This amendment has no impact on the Group as it does not account for its associates at fair value in accordance with PAS 39.

  An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance. This amendment has no impact on the Group because this policy was already applied.

- PAS 36, *Impairment of Assets*
  When discounted cash flows are used to estimate fair value less costs to sell, additional disclosure is required about the discount rate consistent with disclosures required when the discounted cash flows are used to estimate "value in use."

<u>Future Changes in Accounting Policies</u>

The Group did not early adopt the following standards, amendments, improvements and Philippine interpretations:

Effective in 2010

- Revised PFRS 3, *Business Combinations* and Amended PAS 27, *Consolidated and Separate Financial Statements* The revised standards are effective for annual periods beginning on or after July 1, 2009. Revised PFRS 3 introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. Amended PAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by revised PFRS 3 and amended PAS 27 will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. Revised PFRS 3 will be applied prospectively while Amended PAS 27 will be applied retrospectively with a few exceptions.

- Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners*
  This interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Group does not expect the interpretation to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

- PFRS for Small and Medium-sized entities (*SMEs*)
  This standard has been approved for adoption by the PFRS Council on October 13, 2009 and by the SEC, on December 3, 2009. The PFRS for SMEs is effective for annual periods beginning on or after January 1, 2010, and is required to be used by entities that meet the definition of an SME, which include among others, an entity with total assets of between ₱3.0 million and ₱350.0 million or total liabilities of between ₱3.0 million and ₱250.0 million.

  The PFRS for SMEs is a self-contained standard that is tailored for the needs and capabilities of smaller businesses. Many of the principles in full PFRSs for recognizing and measuring assets, liabilities, income and expenses have been simplified, topics not relevant to SMEs have been omitted, and the number of required disclosures has been significantly reduced.

  The Group currently reports under full PFRS and is not required to adopt the PFRS for SMEs in its 2010 financial statements.

Amendments to Standards

- Amendment to PAS 39, *Eligible Hedged Items*
  The amendment to PAS 39, *Financial Instruments: Recognition and Measurement,* effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

- Amendments to PFRS 2, *Group Cash-settled Share-based Payment Transactions*
  The amendments to PFRS 2, *Share-based Payments*, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions. The management has concluded that the amendment will have no impact on the financial position or performance of the Group as the Group has not entered into any such share-based payment transactions.

Improvements to PFRSs in 2009
The omnibus amendments to PFRSs issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods financial years January 1, 2010 except otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the consolidated financial statements.

- PFRS 2, *Share-based Payment*
  The amendment clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of revised PFRS 3, *Business Combinations*. The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
  The amendment clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such noncurrent assets or discontinued operations.

- PFRS 8, *Operating Segments*
  The amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*
  The amendment clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Cash Flows Statements*
  The standard explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*
  The amendment removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either “finance” or “operating” in accordance with the general principles of PAS 17. The amendment will be applied retrospectively.

- PAS 36, *Impairment of Assets*
  The standard clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets*
  The amendment clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. The amendment also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  The amendments clarify the following:
  - that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
  - that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.

- that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
  This interpretation clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*
  This interpretation states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Effective in 2012

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts,* or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

The Group does not expect any significant impact in the consolidated financial statements when it adopts the above standards, amendments, improvements and interpretations. The revised and additional disclosures provided by the standard, amendments, improvements and interpretations will be included in the consolidated financial statements when these are adopted in 2010 and 2012, when applicable.

Summary of Significant Accounting Policies

Financial Instruments

Initial Recognition of Financial Instruments
Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial assets at FVPL, the initial measurement of financial assets and liabilities includes transaction costs. Financial assets under PAS 39 are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS investments. The Group classifies its financial instruments upon initial recognition. The Group's financial assets are in the nature of loans and receivables and AFS investments. Also under PAS 39, financial liabilities are classified as FVPL or other financial liabilities. The Group's financial liabilities are in the nature of other financial liabilities.

As at December 31, 2009 and 2008, the Group does not have financial instruments at FVPL and HTM investments.

Subsequent Measurement
The subsequent measurement of financial instruments depends on their classification as follows:

Loans and Receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. This accounting policy relates to the consolidated statements of financial position captions “Cash” and “Receivables”, which arise primarily from sale and other types of receivables. Loans and receivables are classified as current when these are expected to be realized within one year after the financial reporting date or within the Group's normal operating cycle, whichever is longer. All others are classified as non-current. Receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization, if any, is included in “Finance costs” caption in the consolidated statement of comprehensive income. The losses arising from impairment of receivables are recognized in “Provision for impairment losses on receivables” account on “Costs and expenses” caption in the consolidated statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability of accounts (see accounting policy on Impairment of Financial Assets).

AFS Investments
AFS financial assets are nonderivative financial assets that are either designated in this category or not classified in any of the other categories. AFS investments are those purchased and held indefinitely and may be sold as the need arises. They are included in noncurrent assets unless management intends to dispose of the investment within 12 months from the financial reporting date. Included in this category are

equity investments in quoted instruments and private companies other than subsidiaries and associates, which is shown as a separate line item in the consolidated statements of financial position.

After initial measurement, AFS investments are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS investments are reported as "Cumulative changes in fair values of AFS" account in the equity section of the consolidated statement of financial position.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of comprehensive income. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Any interest earned on holding AFS investments are reported as interest income using the effective interest rate. Any dividends earned on holding AFS investments are recognized in the consolidated statement of comprehensive income when the right of payment has been established.

Any losses arising from impairment of such investments are recognized in the consolidated statements of comprehensive income.

Other Financial Liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole, the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, loans and borrowings and other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statements of comprehensive income when the liabilities are derecognized as well as through the amortization process. Any effects of restatement of foreign currency-denominated liabilities are also recognized in the consolidated statement of comprehensive income. Other financial liabilities are classified as current when these are expected to be settled within one year after the financial reporting period date or within the Group's normal operating cycle, whichever is longer. All others are classified as noncurrent liabilities.

This accounting policy applies primarily to the Group's trade and other payable, loans payable, long-term borrowings and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits. Financial instruments are offset when there is a legally enforceable right to offset and intention to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Fair Value
The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market close prices at the close of business on the end of the financial reporting period.

For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include comparison to similar investments for which market observable prices exists and discounted cash flow analysis or other valuation models.

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

Embedded Derivatives
Embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

Embedded derivatives are measured at fair value, and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Group has opted not to designate any embedded derivative transactions as accounting hedges. Consequently, changes in fair values are recognized directly through consolidated statement of comprehensive income. The Group assesses whether embedded derivatives are required to be separated to the host contracts when the Company first become a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the cash flows.

Impairment of Financial Assets

The Group assesses at each financial reporting 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 financial assets carried at amortized cost (e.g., receivables) has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of comprehensive income. Receivables together with the associated allowance are written-off when there is no realistic prospect of future recovery. If a future write-off is later recovered, the recovery is recognized in the consolidated statement of comprehensive income.

The Group first assesses whether objective evidence of impairment, such as age analysis and status of counterparty, 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 asset 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. The factors in determining whether objective evidence of impairment exist, include, but are not limited to , the length of the Group's relationship with the debtors, their payment behavior and known market factors. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment losses are estimated by taking into consideration the following information: current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Management is responsible for deciding the length of this period.

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 comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Investments Carried at Fair Values
For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below its cost. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of comprehensive income - is removed from equity and recognized in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through the consolidated statement of comprehensive income. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of comprehensive income, the impairment loss is reversed through the consolidated statement of comprehensive income.

Derecognition of Financial Instruments

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

- the rights to receive cash flows from the asset have expired or have been transferred;
- 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 the risk and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks 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 original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial Liability
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. 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 consolidated statement of comprehensive income.

Fair Value of Financial Instrument
Financial instruments recognized at fair value are analyzed based on:

- Level 1 - Quoted prices in active markets for identical asset or liability;
- Level 2 - Those involving inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 - Those with inputs for asset or liability that are not based on observable market date (unobservable inputs).

When fair values of listed equity and debt securities as well as publicly traded derivatives at the end of the reporting date are based on quoted market prices or binding dealer price quotations without any deduction for transaction costs, the instruments are included within level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation technique. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation model. For these financial instruments, inputs into models are market observable and are therefore included within level 2.

Instruments included in level 3 include those for which there is currently no active market.

Offsetting

Financial assets and liabilities are only offset and the net amount reported in the consolidated statement financial position 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 the liability simultaneously.

Capital Stock

Common shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in consolidated statement of changes in equity as a deduction from proceeds. The excess of proceeds from issuance of shares over the par value of shares are credited to additional paid-in capital.

Where the Group purchases its own shares (treasury shares), the consideration paid including any directly attributable incremental costs is deducted from equity attributable to the Group's stockholders until the shares are cancelled, reissued or disposed of. Where such share are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Group's stockholders.

Inventories

Copper concentrates inventories are valued at the lower of cost or NRV. NRV is the estimated selling prices in the ordinary course of business less the costs of completion and selling expenses. Copper concentrates inventories are determined using the weighted average method.

Parts and supplies are stated at the lower of cost or net realizable value (NRV). Costs of parts and supplies on hand are determined at moving average. Parts and supplies in-transit are valued at invoice cost. NRV is the replacement cost. In determining the NRV, the Group considers any adjustments necessary for obsolescence.

Investments in Associates

Investments in associates are accounted for under the equity method of accounting. These are entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures of the Group.

Under the equity method, the investments in associates are carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any allowance for impairment losses. Goodwill relating to an associate included in the carrying amount of the investment is not amortized.

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associates. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognizes the amount in the consolidated statement of comprehensive income. Fair value is determined with reference to its market prices at the reporting date.

The consolidated statements of comprehensive income reflect the Group's share of the results of operations of the associates. Where there has been a change recognized directly in the equity of the associates, the Group recognizes its share of any changes. Profits and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associates.

The following are the Group's associates with the corresponding percentage of ownership:

	Percentage of Ownership
MMC	20.08%
Philippine Fire and Marine Insurance Corporation (PhilFire)	30.85%

The financial statements of the associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made, bringing the accounting policies in line with those of the Group.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depletion, depreciation and amortization and impairment in value, if any.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and nonrefundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the recognition criteria are met. Expenditures incurred after the property, plant and equipment have been put into operations, such as repairs and maintenance, are normally charged to income in the period when 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 costs of property, plant and equipment. Major maintenance and major overhaul costs that are capitalized as part of property, plant and equipment are depreciated on a straight-line basis over the shorter of their estimated useful lives, typically the period until the next major maintenance or inspection.

Land is carried at revalued amount less any impairment in value. Valuations are performed frequently enough to ensure that the fair value of a revalued property and equipment does not differ materially from its carrying amount.

Any revaluation surplus is credited to the "Asset Revaluation Reserves" account included in the consolidated statement of changes in equity, except to the extent that it reverses a revaluation decrease of the land previously recognized in profit or loss, in which case the increase is recognized in statement of changes in equity. A revaluation deficit is recognized in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation increment in land. Upon disposal, revaluation increment relating to the land being sold is transferred to retained earnings.

Construction in-progress is recorded at cost and the related depreciation starts upon transfer to the appropriate account of the completed project.

Depreciation and amortization on assets are calculated using the straight-line method to allocate the cost of each asset less its residual value, if any, over its estimated useful life, as follows:

Type of asset	Estimated useful life in years
Buildings and improvements	2-15
Plant machinery and equipment	2-20
Office furniture and fixtures	7

Depletion of mine and mining properties is computed based on ore extraction over the estimated volume of proved and probable ore reserves as estimated by the parent company's geologist and certified by an independent geologist.

The assets' residual values, if any, and useful lives are reviewed and adjusted, if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated statement of comprehensive income. Borrowing costs incurred for the construction of any qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are charged to expense.

Mine exploration and development costs of mineral properties are capitalized as mine and mining property and are included in "Property, plant and equipment" account.

Mine Exploration Costs

Expenditures for mine exploration work prior to drilling are charged to operations. Expenditures for the acquisition of property rights and expenditures subsequent to drilling and development costs are deferred. When exploration work and project development results are positive, these costs and subsequent mine development costs are capitalized and carried under "Mine exploration costs" account until the start of commercial operations when such costs are transferred to property, plant and equipment. When the results are determined to be negative or not commercially viable, the accumulated costs are written off.

Impairment of Nonfinancial Assets

Property, Plant and Equipment and Other Noncurrent Assets
Property, plant and equipment and other noncurrent assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less cost to sell and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statement of comprehensive income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the consolidated statement of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depletion, depreciation and amortization) had no impairment loss been recognized for that asset in prior years.

Investments in Associates
After application of the equity method for investment in associates, the Group determines whether it is necessary to recognize an additional impairment loss of the Group's investments in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognizes the amount in the consolidated statement of comprehensive income. Fair value is determined with reference to its market prices at the reporting date.

Mine exploration costs
An impairment review is performed, either individually or at the cash-generating unit level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against, in the financial period in which this is determined. Exploration assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the following conditions is met:

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

Provisions

General
Provisions are recognized when (a) the Group has a present obligation (legal and constructive) as a result of a past event; (b) it is probable 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 made 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.

Provision for Mine Rehabilitation and Decommissioning
Provision is made for close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the financial period when the related environmental disturbance occurs, based on the estimated future costs using information available at the reporting date.

The provision is discounted using a current market-based pre-tax discount rate and the unwinding of the discount is classified as interest accretion in the consolidated statement of comprehensive income. At the time of establishing the provision, a corresponding asset is capitalized, where it gives rise to a future benefit, and depreciated over future production from the operations to which it relates.

The provision is reviewed on an annual basis for changes to obligations or legislation or discount rates that affect change in cost estimates or life of operations. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate, and the adjusted cost of the asset is depreciated prospectively.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each reporting date and the cost is charged to the consolidated statement of comprehensive income.

Rehabilitation trust funds committed for use in satisfying environmental obligations are included within “Other noncurrent assets” in the consolidated statement of financial position.

Revenue Recognition

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

Sale of metals (i.e gold, silver and copper)
Income from the sale of metals (i.e gold, silver and copper) concentrate is recognized upon delivery. Revenue is measured based on shipment value price based on quoted metal prices in the London Bullion Market for gold and silver and in the London Metal Exchange for copper and weight and assay content. Contract terms for the Group’s sale of metals (i.e gold, silver and copper) in bullion and concentrate allow for a price adjustment based on final assay results of the metal in concentrate by the customer to determine the content.

The terms of metal in concentrate sales contracts with third parties contain provisional pricing arrangements whereby the selling price for metal in concentrate is based on prevailing spot prices on a specified future date after shipment to the customer (the “quotation period”). Mark-to-market adjustments to the sales price occur based on movements in quoted market prices up to the date of final settlement, and such adjustments are recorded as part of revenue. The period between provisional invoicing and final settlement can be between one and six months. Provisional shipment of ninety eight (98%) for gold and silver and ninety percent (90%) for copper based on provisional prices is collected upon shipment, while the remaining two percent (2%) for gold and silver and ten percent (10%) for copper is collected upon the determination of the final shipment value on final weight and assay for metal content and prices during the applicable quotational period less deduction for smelting charges.

Service fees
Service fees are recognized upon performance of the services.

Interest income
Interest income is recognized as it accrues using effective interest rate method.

Leases

Determination of Whether an Arrangement Contains a Lease
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.

A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Operating Lease - Company as a Lessor
Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased assets and are recognized over the lease term on the same basis as rental income.

Operating Lease - Company as a Lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating lease. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Employee Benefits

Retirement Benefit Obligations
The parent company and certain subsidiaries maintain separate defined benefit retirement plans. Defined benefit plans are retirement plans that define an amount of retirement benefit that an employee will receive on retirement, usually dependent on certain factors such as age, years of credited service and salary.

The liability recognized in the consolidated statement of financial position in respect of defined benefit retirement plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with any adjustments for unrecognized gains or losses and past service costs. The present value of the defined benefit retirement obligation is determined by discounting the estimated future cash outflows using the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity which approximates the terms of the related pension liability. The defined benefit retirement obligation is calculated on a regular periodic basis by an independent actuary using the projected unit credit cost method.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the fair value of plan assets or 10% of the defined benefit retirement obligation are spread to income over the employees' expected average remaining working lives.

Past service costs are recognized immediately in income, unless the changes to the retirement plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

Termination Benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of qualifying asset.

Foreign Currency Transaction

Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing rate of exchange at the reporting date. Foreign exchange differences between rate at transaction date and rate at settlement date or reporting date are credited to or charged against current operations.

Income Taxes

Current Income 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 tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the reporting date.

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

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

- where the deferred income 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 income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, 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 tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference 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 income 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 income tax assets is reviewed at each reporting 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 income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

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

Earnings (Loss) Per Share

Basic earnings (loss) per share amounts are calculated by dividing the net income (loss) attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year.

Diluted earnings (loss) per share amounts are calculated by dividing the net income (loss) attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares. The Parent Company has no dilutive potential common shares as at December 31, 2009 and 2008.

Dividend Distribution

Dividend distribution to the Group's stockholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved or declared by the Group's BOD.

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 in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Events After the Financial Reporting Date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. For management purposes, the Group is organized into business units based on their products and services, and has three reportable operating segments. Financial information on business segments is presented in Note 29. The Group operates in one geographical segment, being the location of its current mining activities; therefore, geographical segment information is no longer presented.

3. Summary of Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's financial statements in accordance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcome can differ from these estimates.

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. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Determining Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the parent company and each of its subsidiaries has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Group operates.

The functional currency of the individual companies within the Group has been determined by the management based on the currency that most faithfully represents the primary economic environment in which the individual company operates and it is the currency that mainly influences the underlying transactions, events and conditions relevant to the individual companies within the Group.

Operating Lease Commitments - Group as Lessee
The Group has entered into leases on its various locations. The Group has determined that it does not retain all the significant risks and rewards of ownership of these properties which are leased on operating lease.

Determining the Appraised Value of Land
The appraised value of the land is based on a valuation of an independent appraiser firm, which management believes, holds a recognized and relevant professional qualification and has recent experience in the location and category of the land being valued. The appraiser firm used the market data approach in determining the appraised value of land. Total cost of the land amounted to ₱793,885 and ₱857,592 as at December 31, 2009 and 2008 (see Note 8).

Revenue Recognition
The parent company recognizes revenue from sale of metals (i.e. gold and silver bullions and copper concentrates) at the time these are delivered to buyer smelters. Revenue is measured based on shipment value based on quoted metal prices in the London Bullion Market or Shanghai Gold Exchange, for gold and silver, and in the London Metal Exchange or Shanghai Nonferrous Metals, for copper concentrates, and weight and assay for metal content. Provisional shipment values of ninety eight percent bullion and ninety percent copper concentrate is collected upon shipment, while the remaining balance is collected upon determination of the final shipment value based on final weights and assays for metal content and prices during the applicable quotational period less deduction for smelting and treatment charges. Total recognized revenue relating to sale of metals amounted to ₱1,416,391, ₱1,713,873 and ₱1,712,653, in 2009, 2008 and 2007, respectively (see Note 25).

Estimates and Assumptions

The Group's consolidated financial statements prepared in accordance with PFRS require management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes. The estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Group's consolidated financial statements. Actual results could differ from such estimates.

Estimating Allowances for Impairment Losses on Receivables and Advances to Associates
The provision for impairment losses on receivables and advances to associates is based on the Group's assessment of the collectability of payments from customers, employees, other third parties and associates. This assessment requires judgment regarding the outcome of disputes and the ability of each of the debtors to pay the amounts owed to the Group. The Group assesses individually the receivable based on factors that affect the collectability of the receivables, such as the length of the relationship of the Group with the debtor, the historical payment behavior, a review of the age and status of its receivable, the probability of insolvency of the counterparty, as well as its significant financial difficulties.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the Group's assessment of the accounts since their inception. The Group assessments take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Receivables and advances to associates, net of provision for impairment of receivables, amounted to ₱129,828 and ₱139,311 as at December 31, 2009 and 2008, respectively (see Notes 5 and 10).

Estimating Allowance for Inventory Obsolescence
Inventories of parts and supplies, which are used in the Group's operations, are stated at the lower of cost or net realizable value. Allowance due to obsolescence is established when there is evidence that the equipment where the parts and supplies were originally purchased for were no longer in service. Materials which are non-moving or have become unusable are priced at their recoverable amount.

Inventories carried at cost, at lower of cost or NRV, amounted to ₱489,998 and ₱581,762 as at December 31, 2009 and 2008, respectively (see Note 6).

Estimating Useful Lives of Property, Plant and Equipment
Estimated useful lives of the property, plant and equipment are determined based on the assessment by the end user and the parameters of usage indicated in the Group's manual. The Group estimates the useful lives of property, plant and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property, plant and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

As at December 31, 2009 and 2008, the net book value of the property, plant and equipment, excluding land, amounted to ₱5,647,448 and ₱5,550,817, respectively (see Note 8).

Estimating Impairment on Property, Plant and Equipment
The Group assesses impairment on property, plant and equipment 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.

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. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss is recognized and charged to the consolidated statement of comprehensive income if the recoverable amount is less than the carrying amount. The recoverable amount of the asset is incurred as the higher of its fair value less costs to sell and value in use. Fair value less costs to sell is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties, net of direct costs of selling the asset. When value in use has been undertaken, fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the market rate for a term consistent with the period of expected cash flows.

The aggregate net book values of property, plant and equipment amounted to ₱6,441,333, and ₱6,408,409 as at December 31, 2009 and 2008 respectively (see Note 8).

Estimating Impairment of Investments in Associates
The Group assesses whether there are any indicators of impairment for investments in associates at each reporting date. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the investment is written down to its recoverable amount.

Estimating Impairment on AFS Equity Investments
The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Fair value of AFS investments amounted to ₱130,396 and ₱85,202, as at December 31, 2009 and 2008, respectively (see Note 9).

Estimating Recoverability of Mine Exploration Costs
Mineral property acquisition costs are capitalized until the viability of the mineral interest is determined. Exploration, evaluation and pre-feasibility costs are charged to operations until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized. The Group reviews the carrying values of its mineral property interests whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts. Mine exploration costs amounted to ₱740,208 and ₱760,275 as at December 31, 2009 and 2008, respectively (see Note 11).

Estimating Mineral Reserves and Resources
Mineral reserves and resources estimates for development projects are, to a large extent, based on the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies which derive estimates of costs based upon anticipated tonnage and grades of ores to be mined and processed, the configuration of the ore body, expected recovery rates from the ore, estimated operating costs, estimated climatic conditions and other factors. Proven reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and extraction and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. All proven reserve estimates are subject to revision, either upward or downward, based on new information, such as from block grading and production activities or from changes in economic factors including product prices, contract terms or development plans.

Estimates of reserves for undeveloped or partially developed areas are subject to greater uncertainty over their future life than estimates of reserves for areas that are substantially developed and depleted. As an area goes into production, the amount of proven reserves will be subject to future revision once additional information becomes available. As those areas are further developed, new information may lead to revisions. The estimated recoverable reserves are used in the calculation of depletion, depreciation, amortization and testing for impairment, the assessment of life of mine, and forecasting the timing of the payment of provision for mine rehabilitation and decommissioning. As at December 31, 2009 and 2008, mine and mining properties presented under property, plant and equipment amounted to ₱5,158,377 and ₱4,958,147, respectively (see Note 8).

Assessing Recoverability of Deferred Income Tax Assets
The Group reviews the carrying amounts of deferred income tax assets at each reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit and taxable temporary timing differences will be available to allow all or part of the deferred income tax assets to be utilized. Deferred income tax assets that will reverse during the ITH period are not recognized.

The Group has deferred income tax assets amounting to ₱176,697 and ₱214,739 as at December 31, 2009 and 2008, respectively (see Note 18). No deferred income tax assets was recognized for temporary differences resulting from the Group's net operating loss carryover (NOLCO), excess minimum corporate income tax (MCIT) and provision for impairment losses on mine exploration costs amounted to ₱731,535 and ₱386,498 as at December 31, 2009 and 2008, respectively, since there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized (see Note 18).

Retirement Benefit Expense
The determination of the Group's obligation and cost for retirement and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. These assumptions are described in Note 16 to consolidated financial statements.

Retirement benefit obligation amounted to ₱515,744 and ₱468,690 as at December 31, 2009 and 2008, respectively (see Note 16).

Estimating Provision for Mine Rehabilitation and Decommissioning
The ultimate cost of mine rehabilitation and decommissioning is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience. The expected timing of expenditure can also change, for example in response to changes in ore reserves or production rates. As a result, there could be significant adjustments to the provision for mine rehabilitation and decommissioning, which would affect future financial results.

The provision for mine rehabilitation and decommissioning costs is based on estimated future costs using information available at the reporting date. To the extent the actual costs differ from these estimates, adjustments will be recorded and the income statement may be impacted. As at December 31, 2009 and 2008, no provision for mine rehabilitation and decommissioning was recorded since the parent company has yet to complete and submit its final mine rehabilitation and decommissioning (see Note 15).

Estimating Fair Values of Financial Assets and Liabilities
PFRS requires that certain financial assets and liabilities be carried at fair value, which requires the use of accounting judgment and estimates. While significant components of fair value measurement are determined using verifiable objective evidence (e.g. foreign exchange rates, interest rates, volatility rates), the timing and amount of changes in fair value would differ with the valuation methodology used. Any change in the fair value of these financial assets and liabilities would directly affect the income or loss and equity. Fair value of financial assets as at December 31, 2009 and 2008 amounted to ₱303,785 and ₱244,177, respectively. Fair value of financial liabilities as at December 31, 2009 and 2008 amounted to ₱3,034,533 and ₱2,844,903, respectively (see Note 27).

Estimating Contingencies
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

4. Cash

	2009	2008
Cash on hand	**₱ 1,052**	₱ 1,235
Cash in banks	**14,894**	7,477
	₱ 15,946	₱ 8,712

Cash in banks earn interest at respective bank deposit rates. Total interest income amounted to ₱117, ₱271 and ₱183 in 2009, 2008 and 2007, respectively (see Note 23).

5. Receivables - net

	2009	2008
Trade	**₱ 150,702**	₱ 147,422
Nontrade and other receivables	**5,666**	6,862
Officers and employees	**5,888**	3,141
	162,256	157,425
Less allowance for impairment losses	**9,501**	12,268
	₱ 152,755	₱ 145,157

The parent company's trade receivables arise from its shipments of gold, silver and copper to refinery and smelter customers under the consignment and Refining Agreements (see Note 25).

Trade receivables and nontrade and other receivables are non-interest bearing and are generally payable on demand. Receivables to officers and employees are non-interest bearing and are generally subject to liquidation.

Most of the receivables of the Group consist of individually significant accounts and were therefore subject to the specific impairment approach. Based on assessment done, the Group recognized an allowance amounting to ₱9,501 and ₱12,268 as at December 31, 2009 and 2008, respectively, covering those receivables specifically identified as impaired. Receivables which were not individually significant and individually significant loans for which no specific impairment were assessed were subjected to collective assessment. Based on the assessment done, the Group has not recognized any provision for receivables which were assessed collectively.

Movements of allowance for impairment losses are as follows:

2009	**Trade Receivables**	**Nontrade and Other Receivables**	**Total**
Balances at beginning of year	**₱ 11,524**	**₱ 744**	**₱ 12,268**
Provision during the year (see Note 22)	**716**	**-**	**716**
Write-off during the year	**(2,977)**	**(506)**	**(3,483)**
Balances at end of year	**₱ 9,263**	**₱ 238**	**₱ 9,501**

2008	Trade Receivables	Nontrade and Other Receivables	Total
Balances at beginning of year	₱ 10,800	₱ 744	₱ 11,544
Provision during the year	724	-	724
Balances at end of year	₱ 11,524	₱ 744	₱ 12,268

The following table shows the aging of receivables that are neither past due nor impaired as at December 31, 2009 and 2008:

			Past due but not impaired			
2009	**Total**	**Neither past due nor impaired**	**Less than 30 days**	**30 to 60 days**	**61 to 90 days**	**over 90 days**
Trade	**₱ 141,439**	**₱ 128,935**	**₱ 543**	**₱ 421**	**₱ 461**	**₱ 11,079**
Nontrade	**5,428**	**1,270**	**1,802**	**855**	**1,056**	**445**
Officers and Employees	**5,888**	**988**	**3,835**	**249**	**419**	**397**
Total	**₱ 152,755**	**₱ 131,193**	**₱ 6,180**	**₱ 1,525**	**₱ 1,936**	**₱ 11,921**

			Past due but not impaired			
2008	Total	Neither past due nor impaired	Less than 30 days	30 to 60 days	61 to 90 days	over 90 days
Trade	₱ 135,898	₱ 116,485	₱ 489	₱ 379	₱ 415	₱ 18,130
Nontrade	6,118	774	2,978	860	1,061	445
Officers and Employees	3,141	526	2,046	133	224	212
Total	₱ 145,157	₱ 117,785	₱ 5,513	₱ 1,372	₱ 1,700	₱ 18,787

6. **Inventories** - net

	2009	2008
Copper concentrates (at NRV)	**₱ 17,416**	₱ 78,276
Parts and supplies:		
On hand (at NRV)	**456,832**	491,920
In-transit (at cost)	**15,750**	11,566
	472,582	503,486
	₱ 489,998	₱ 581,762

Cost of copper concentrates amounted to ₱22,631 and ₱114,483 as at December 31, 2009 and 2008, respectively. Inventory writedown on decline of market price of copper concentrates amounted to ₱5,215 and ₱36,207 as at December 31, 2009 and 2008, respectively. Parts and supplies on hand include materials and supplies stored at Makati, Mankayan and Leyte. These include spare parts for the machineries and equipment used in the mine site and in the Roaster plant. The allowance for inventory obsolescence on parts and supplies on hand amounted to ₱33,805 and ₱32,833 as at December 31, 2009 and 2008, respectively. Cost of parts and supplies on hand amounted to ₱490,637 and ₱524,753 as at December 31, 2009 and 2008, respectively.

7. **Other Current Assets**

	2009	2008
Creditable input value added tax (VAT)	**₱ 139,088**	₱ 137,991
Advances to suppliers	**89,584**	204,800
Prepaid expenses	**77,607**	64,998
Others	**3,392**	13,309
	₱ 309,671	₱ 421,098

By virtue of Revenue Memorandum Order 9-2000 dated March 29, 2000, all sales of goods, property and services made by a Value Added Tax (VAT)-registered person to the parent company being a 100% exporter, are automatically zero-rated for VAT purposes effective August 8, 2001.

Claims for refund and creditable input VAT in 2009 and 2008 amounting to ₱98,943 and ₱81,659, respectively, represent VAT on importations.

8. Property, Plant and Equipment - net

	2009					
	Mine and mining properties	**Buildings and improve-ments**	**Plant, machinery, equipment, and office furniture and fixtures**	**Land**	**Construction in progress**	**Total**
Cost:						
Balances at beginning of year	**₱6,733,432**	**₱441,490**	**₱2,494,519**	**₱ 857,592**	**₱78,614**	**₱10,605,647**
Additions	**390,633**	**23,975**	**136,061**	**-**	**39,077**	**589,746**
Retirements/disposals/transfers	**-**	**(4,786)**	**(134,558)**	**(63,707)**	**(67,767)**	**(270,818)**
Balances at end of year	**7,124,065**	**460,679**	**2,496,022**	**793,885**	**49,924**	**10,924,575**
Accumulated depletion, depreciation and amortization:						
Balances at beginning of year	**1,775,285**	**377,947**	**2,020,074**	**-**	**-**	**4,173,306**
Depletion, depreciation and amortization during the year	**190,403**	**17,867**	**193,655**	**-**	**-**	**401,925**
Retirements and disposals	**-**	**(4,786)**	**(111,135)**	**-**	**-**	**(115,921)**
Balances at end of year	**1,965,688**	**391,028**	**2,102,594**	**-**	**-**	**4,459,310**
Allowance for impairment:						
Balances at beginning and end of the year	**-**	**19,241**	**4,691**	**-**	**-**	**23,932**
Net book values	**₱5,158,377**	**₱ 50,410**	**₱ 388,737**	**₱ 793,885**	**₱49,924**	**₱ 6,441,333**

	2008					
	Mine and mining properties	Buildings and impro-vements	Plant, machinery, equipment, and office furniture and fixtures	Land	**Construction** in progress	Total
Cost:						
Balances at beginning of year	₱6,185,949	₱354,872	₱2,413,432	₱ 857,592	₱73,522	₱ 9,885,367
Additions	547,483	86,624	180,281	-	56,328	870,716
Retirements/disposals/transfers	-	(6)	(99,194)	-	(51,236)	(150,436)
Balances at end of year	6,733,432	441,490	2,494,519	857,592	78,614	10,605,647
Accumulated depletion, depreciation and amortization:						
Balances at beginning of year	1,404,461	309,245	1,967,665	-	-	3,681,371
Depletion, depreciation and amortization during the year	370,824	68,708	136,007	-	-	575,539
Retirements and disposals	-	(6)	(83,598)	-	-	(83,604)
Balances at end of year	1,775,285	377,947	2,020,074	-	-	4,173,306
Allowance for impairment:						
Balances at beginning and end of the year	-	19,241	4,691	-	-	23,932
Net book values	₱4,958,147	₱ 44,302	₱ 469,754	₱ 857,592	₱78,614	₱ 6,408,409

In 2005, the Group adopted the revaluation model and engaged an independent firm of appraisers to determine the fair value of all its real properties classified under "property, plant and equipment" in the consolidated statement of financial position, which is equal to the amount in terms of money at which the property would exchange in the current real estate market, between willing parties both having knowledge of all relevant facts. The assigned value was estimated using the market data approach, which is based on sales and listings of comparable property registered within the vicinity that considered factors such as location, size and shape of the properties.

In adopting the revaluation model, the Group applied the fair value as deemed cost exemption under PFRS 1 to measure the Group's land at fair value at January 1, 2004. Based on the appraiser's report dated January 6, 2006, on the revaluation of the Group's real properties as of January 1, 2004, the Group recognized a revaluation increment of ₱814,204 to land with carrying amount of ₱61,868 on January 1, 2004, of which ₱523,735 was credited to "Revaluation increment in land" account shown as part of equity in the consolidated statement of financial position, net of related deferred income tax. On December 31, 2008, the revalued amount, net of tax, was increased to ₱564,022 due to the decrease in tax rate from 35% to 30% effective January 1, 2009 (see also Note 18). As at December 31, 2009, carrying amount of land amounted to ₱58,536. In 2009, the revalued amount, net of tax, was decreased to ₱511,504 due to disposals of parcels of land. The amounts are not available for distribution to stockholders until fully realized.

Property, plant and equipment with a carrying value of ₱8,654 and ₱12,001 as at December 31, 2009 and 2008, respectively are used as collateral to the parent company's long-term borrowings (see Note 14).

9. Available-for-Sale (AFS) Investments

	2009	2008
Quoted instruments	**₱ 82,000**	₱ 36,788
Unquoted instruments	**48,396**	48,414
	₱ 130,396	₱ 85,202

Movements of AFS investments are as follows:

	2009	2008
Balance at beginning of year	**₱ 85,202**	₱ 151,498
Change in fair vlaue of AFS investment	**47,839**	(66,011)
Purchases during the year	**-**	16
Minority interest in change in fair value of AFS investments	**(2,645)**	(301)
Balance at end of year	**₱ 130,396**	₱ 85,202

The unrealized loss on the temporary decline in fair value of these investments amounting to ₱359,056 and ₱406,895, as at December 31, 2009 and 2008, respectively, are shown as a separate component in the consolidated statements of changes in equity.

Quoted AFS investments pertain to investment in common shares of various local public companies and golf club shares. The fair value of the quoted instruments is based on the bid market price as at December 31, 2009 and 2008, respectively.

Unquoted AFS investments pertain to investments in private local companies and therefore have no fixed maturity date or coupon rate. Unquoted investments have been carried at cost since fair value of AFS investments cannot be reliably determined as they have no available bid price.

As at December 31, 2009, the Group has no intention to dispose its unquoted equity shares. The aggregate cost of these investments amounted to ₱490,801 as at December 31, 2009 and 2008.

In 2007, the Group has sold some of its other quoted ordinary shares with a fair value of ₱3,250. Cost of the sold AFS investment amounted to ₱3,957 (see Note 23).

10. Investments in and Advances to Associates

	MMC		**PhilFire**		**Total**	
	2009	2008	**2009**	2008	**2009**	2008
Acquisition cost						
Balances at beginning and end of year	**₱ 314,279**	₱ 314,279	**₱ 9,519**	₱ 9,519	**₱ 323,798**	₱ 323,798
Accumulated equity:						
Share in net earnings (loss)						
Balances at beginning of year	**(115,842)**	(86,248)	**31,055**	38,021	**(84,787)**	(48,227)
Net income (loss) for the year	**(204)**	(29,594)	**(5,224)**	(6,966)	**(5,428)**	(36,560)
Balances at end of year	**(116,046)**	(115,842)	**25,831**	31,055	**(90,215)**	(84,787)
Advances to associate (see Note 17)	**129,828**	139,311	**-**	-	**129,828**	139,311
	₱ 328,061	₱ 337,748	**₱ 35,350**	₱ 40,574	**₱ 363,411**	₱ 378,322

PhilFire is engaged in insurance activities and is not listed in any public exchange while MMC shares are publicly traded on the PSE. PhilFire and MMC prepare financial statements for the same reporting period as the parent company.

As at December 31, 2009 and 2008, the fair value of MMC shares amounted to ₱0.026 and ₱0.0065, respectively. Fair market value of the investment in MMC amounted to ₱1,128,582 and ₱234,151 as at December 31, 2009 and 2008, respectively.

The following table illustrates summarized financial information of the Group's investments in associates:

	MMC		PhilFire	
	2009	2008	**2009**	2008
Assets				
Current Assets	₱ **57,945**	₱ 63,434	₱ **-**	₱ -
Noncurrent Assets	**1,629,623**	1,624,210	**467,201**	376,547
Total Assets	**1,687,568**	1,687,644	**467,201**	376,547
Liabilities				
Current Liabilities	**422,178**	422,738	**-**	-
Noncurrent Liabilities	**76,437**	76,967	**307,259**	233,539
Total Liabilities	**498,615**	499,705	**307,259**	233,539
Net Assets	₱ **1,188,953**	₱ 1,187,939	₱ **159,942**	₱ 143,008
Net Income (loss)	**(₱ 16,889)**	(₱ 132,038)	₱ **19**	₱ 191

11. Mine Exploration Costs

	2009	2008
Mine exploration costs	₱ **747,987**	₱ 768,054
Less allowance for impairment losses	**7,779**	7,779
	₱ **740,208**	₱ 760,275

In 2006, the parent company has recognized provision for an impairment loss of ₱7,779 relating to its Tampakan Project. There were no provision for impairment loss for the three years ended December 31, 2009.

12. Trade and Other Payables

	2009	2008
Trust receipts	₱ **642,374**	₱ 642,914
Trade	**522,570**	569,074
Accrued utilities	**466,875**	350,889
Due to related parties (see Note 17)	**339,266**	193,480
Employee related expenses	**141,755**	101,282
Payable to regulatory authorities	**61,783**	86,849
Unclaimed dividends	**27,106**	27,106
Advances from customers	**15,835**	29,671
Accrued production tax	**13,960**	18,354
Accrued expenses and other liabilities	**123,354**	116,082
	₱ **2,354,878**	₱ 2,135,701

Terms and conditions of the above financial liabilities:

- Trust receipts are interest bearing and have an average term of 90 - 120 days.
- Trade payables are non-interest bearing and are normally settled on 60 days' terms.
- Other payables are non-interest bearing and have an average term of 1 - 3 months.

Advances from stockholders, included as part of due to related parties, consisting of short-term borrowings, amounted to ₱281,111 and ₱139,503 as at December 31, 2009 and 2008 (see Note 17).

13. Loans Payable

Loans payable consists of unsecured short-term loans from local financial institutions to finance working capital requirements. The loans have various maturities ranging from one to three months and carry annual interests at prevailing market rates ranging from 7.50% to 14.50% in 2009, 2008 and 2007. Total interest on the above mentioned loans for the years 2009, 2008 and 2007 amounted to ₱9,959, ₱15,392 and ₱9,816, respectively.

14. Long-term Borrowings

	2009	2008
Gold Delivery Agreements (US$9.8 million in 2009 and US$11.0 million in 2008)	**₱ 454,828**	₱ 445,560
Obtained from Local Banks:		
US Dollar-denominated loans	**157,912**	218,337
Peso-denominated loans	**40,045**	40,153
	197,957	258,490
Supplier's trade credits	**8,655**	12,001
	661,440	716,051
Less current portion	**82,549**	92,314
	₱ 578,891	₱ 623,737

Gold Delivery Agreement:

In December 1998, the parent company entered into a Loan and Hedging Facilities Agreement (the Agreement) with NM Rothschild & Sons (Australia) Ltd. (Rothschild) and Dresdner Bank AG (Dresdner) which provides for borrowings up to US$30 million and hedging facility up to 300,000 ounces of gold as may be agreed upon by the parties up to December 2002. A minimum hedging amount of 250,000 ounces was imposed to secure the payment of the loan. The loan was intended to finance the working capital requirements of the Victoria project (see Note 1).

The loan was secured by real and chattel mortgages of all the parent company's present and future properties and its rights, title and interests under the Mineral Production Sharing Agreement (MPSA) with the Philippine Government in connection with the Victoria project. The Agreement contains certain covenants which include, among others, payment of interest, the maintenance of certain financial and project ratios such as debt service, loan life, project life, total liabilities to net worth and current ratios; prohibition from incurring additional long-term indebtedness; limitation on certain advances or loans; and restrictions as to substantial asset sales, capital expenditures and cash dividends.

The Agreement was first amended in 2000, and further amended in 2002 principally with respect to the repayment of terms of the loan. The 2002 deed of amendment provides for the extension of the loan agreement up to September 2007. As at December 31, 2004, the loans obtained from Rothschild and Dresdner have been fully paid.

In accordance with the hedging facility, the parent company entered into various forward gold contracts with Rothschild and Dresdner (Lenders) which provide for the buying or selling of gold in fixed quantities at certain fixed prices for delivery in various maturity dates in the future. Any gains or losses on the forward sales contracts are recognized upon closing of the pertinent contracts.

At December 31, 2004, the parent company's forward gold contracts to sell 169,043 ounces of gold at an average price of US$295 per ounce will mature on various dates in the future and are being rolled forward relative to the ongoing discussion with Lenders. These contracts had a negative mark-to-market valuation of US$24 million based on the spot rate of US$437 per ounce as at December 31, 2004.

The parent company does not recognize any derivative financial liability under the hedging contracts with Dresdner. After months of discussion and negotiations, the Company and Dresdner agreed in December 2005 on a commercial resolution to their controversy which was formalized through a Gold Delivery Agreement (GDA) that was signed on January 25, 2006. Under the GDA, a gold loan of about US$14 million shall be repaid by way of minimum monthly installments starting from February 1, 2006 up to September 30, 2009 of the cash equivalent in US dollars of 200 ounces of gold computed at the spot price in the market and any remaining balance to be fully repaid by the final delivery on September 30, 2009. This amount equivalent to ₱745 million was charged against retained earnings. The Company also has an option to settle by delivery of quantity of gold.

The GDA contains certain covenants, which include, among others, payment of interest, strict compliance with regulatory provisions regarding internal revenue taxes and environmental requirements, restrictions in the incurrence of indebtedness and certain derivative transactions, limitation in the disposal and transfer of assets and prohibitions in the purchase of issued shares, reduction in capital and issuance of shares other than for cash or make a distribution of assets or other capital to its stockholders.

The parent company has filed a civil case against Rothschild for the declaration of the nullity of the forward gold contracts to sell 97,476 ounces of gold. Rothschild filed a motion to dismiss and this was denied by the Regional Trial Court (RTC) and subsequently by the Court of Appeals in December 2006. Rothschild elevated the matter to the Supreme Court in February 2007. As of March 15, 2010, the case is still pending before the Supreme Court. The parent company does not and did not recognize any liability to Rothschild.

An amendment to the GDA was entered into by the parent company and Dresdner in 2008, providing for i.) a 12-month moratorium on gold deliveries effective November 21, 2008; ii.) an increase in gold deliveries from 200 ounces to 250 ounces of gold effective October 21, 2010; and iii.) an extension of the final delivery to September 30, 2011.

The Company entered into another amendment with Dresdner in 2009, wherein gold deliveries of 200 ounces will be made starting October 10, 2010. Final delivery of gold for the payment of total amount owed shall be on October 31, 2011.

Bank Loans

Borrowings from local banks are all clean loans with interest rates ranging from 7.79% to 13.11% in 2009 and 2008, most of which are renewable for a year under the Group's existing credit line agreement with certain local banks.

Suppliers' Trade Credits

Supplier's trade credits include various US Dollar-denominated loans from foreign suppliers for the importation of various mining equipment. Importations were made through existing letters of credit lines maintained with certain local banks. These loans are payable upon maturity on various dates from 2006 to 2009 and carry certain interest rates above London Interbank Offered Rate (LIBOR) ranging from 2.5% to 3.0% in 2009, 2008 and 2007. These payables are secured by chattel mortgage over certain mine machineries with a carrying amount of ₱8,654 and ₱12,001 as at December 31, 2009 and 2008, respectively.

Total interest on the above mentioned loans for the years 2009, 2008 and 2007 amounted to ₱163,345, ₱124,244 and ₱156,807, respectively (see Note 23).

15. Provision for Mine Rehabilitation and Decommissioning

Department of Environment and Natural Resources (DENR) Administrative Order (DAO) No. 2007-26, which was published in the Philippine Star on August 9, 2007 and took effect 15 days thereafter amending section 2 of DAO 2005-7 and requires Contractors with approved Environmental Protection and Enhancement Programs to submit the Final Mine Rehabilitation and Decommissioning Plan (FMR/DP) for review by the Mine Rehabilitation Fund (MRF) Committee and approval by the Contingent Liability and Rehabilitation Fund Steering Committee before December 31, 2007. In 2007, the parent company has filed for an extension for the submission of its FMR/DP. The parent company is in the process of evaluating the timing and amount of estimated cash flows relating to mine rehabilitation and decommissioning. Once the parent company has completed and submitted to Mines and Geosciences Bureau its FMR/DP, it will provide the necessary provision for mine rehabilitation and decommissioning in its financial statements.

16. Retirement Plan

The parent company and DBPI have funded, noncontributory defined benefit retirement plans covering substantially all regular employees (see Note 17) while DDCP and SI have unfunded defined benefit retirement plans. Benefits are dependent on the years of service and the respective employee's compensation. The defined retirement benefit obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement for the years ended December 31, 2009, 2008 and 2007.

The amounts of defined retirement benefit expense recognized in the consolidated statements of comprehensive income under costs and expenses follow:

	2009			2008			2007		
	Funded	**Unfunded**	**Total**	Funded	Unfunded	Total	Funded	Unfunded	Total
Current service cost	**₱ 1,957**	**₱1,905**	**₱ 3,862**	₱ 50,342	₱1,867	₱ 52,209	₱ 61,747	₱1,993	₱ 63,740
Interest cost	**72,559**	**2,333**	**74,892**	77,562	2,178	79,740	72,666	2,045	74,711
Expected return on plan assets	**(12,616)**	**-**	**(12,616)**	(90,559)	-	(90,559)	(72,637)	-	(72,637)
Actuarial losses (gains)	**-**	**-**	**-**	19,828	517	20,345	40,845	604	41,449
	₱61,900	**₱4,238**	**₱66,138**	₱ 57,173	₱4,562	₱ 61,735	₱102,621	₱4,642	₱107,263
Actual return (loss) on plan assets	**₱37,470**	**₱ -**	**₱37,470**	(₱412,625)	₱ -	(₱412,625)	₱234,124	₱ -	₱234,124

The amounts of defined retirement benefit obligation recognized in the consolidated statements of financial position follow:

	2009			2008		
	Funded	**Unfunded**	**Total**	Funded	Unfunded	Total
Present value of defined retirement benefit obligation	**₱1,144,840**	**₱35,325**	**₱1,180,165**	₱1,136,454	₱32,595	₱1,169,049
Fair value of plan assets	**(27,551)**	**-**	**(27,551)**	(60,934)	-	(60,934)
	1,117,289	**35,325**	**1,152,614**	1,075,520	32,595	1,108,115
Unrecognized actuarial losses	**(634,274)**	**(2,596)**	**(636,870)**	(636,829)	(2,596)	(639,425)
	₱ 483,015	**₱32,729**	**₱ 515,744**	₱ 438,691	₱29,999	₱ 468,690

Changes in present value of defined retirement benefit obligation follow:

	2009			2008		
	Funded	**Unfunded**	**Total**	Funded	Unfunded	Total
Balances at beginning of year	**₱1,136,454**	**₱32,595**	**₱1,169,049**	₱1,216,790	₱35,049	₱1,251,839
Interest cost	**72,559**	**2,333**	**74,892**	77,562	2,178	79,740
Current service cost	**1,957**	**1,905**	**3,862**	50,342	1,867	52,209
Benefits paid	**(66,130)**	**(1,508)**	**(67,638)**	(42,057)	(1,656)	(43,713)
Actuarial gains on obligation	**-**	**-**	**-**	(166,183)	(4,843)	(171,026)
Balances at end of year	**₱1,144,840**	**₱35,325**	**₱1,180,165**	₱1,136,454	₱32,595	₱1,169,049

Movements in defined retirement benefit obligation recognized in the consolidated statements of financial position follow:

	2009			2008		
	Funded	**Unfunded**	**Total**	Funded	Unfunded	Total
Balances at beginning of year	**₱ 438,691**	**₱29,999**	**₱ 468,690**	₱ 443,799	₱27,093	₱ 470,892
Expense recognized for the year	**61,900**	**4,238**	**66,138**	57,173	4,562	61,735
Contributions/benefits paid	**(17,576)**	**(1,508)**	**(19,084)**	(62,281)	(1,656)	(63,937)
Balances at end of year	**₱ 483,015**	**₱32,729**	**₱ 515,744**	₱ 438,691	₱29,999	₱ 468,690

Changes in the fair value of the Group's plan assets follow:

	2009	2008
Balances at beginning of year	**₱60,934**	₱ 453,336
Expected return on plan assets	**12,616**	90,559
Actual contributions	**17,576**	62,281
Benefits paid	**(66,130)**	(42,057)
Actuarial gains (losses) on plan assets	**2,555**	(503,185)
Balances at end of year	**₱27,551**	**₱ 60,934**

The overall expected return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

The Group expects to contribute ₱60,000 to its defined retirement benefit plans in 2010.

The major categories of the Group's plan assets as a percentage of the fair value of total plan assets follow:

	2009	2008	2007
Cash and cash equivalents	**2.70%**	1.61%	0.05%
Equity investments:			
Quoted	**97.22%**	98.14%	99.92%
Unquoted	**0.08%**	0.25%	0.03%
	100.00%	100.00%	100.00%

The principal assumptions used in determining pension and post-retirement benefits for the Group's plan assets in 2009, 2008 and 2007 follow:

	2009	2008	2007
Discount rate	**6.58%**	6.58%	6.38%
Expected rate of return on plan assets	**20.00%**	20.00%	12.00%
Salary increase rate	**5.00%**	5.00%	6.00%

Amounts for the current and previous two years follow:

	2009		2008		2007	
	Funded	**Unfunded**	Funded	Unfunded	Funded	Unfunded
Defined benefit obligation	**₱1,144,840**	**₱35,325**	₱1,136,454	₱32,595	₱1,216,790	₱ 35,049
Fair value of plan assets	**27,551**	**-**	60,934	-	453,336	-
Experience adjustments on plan liabilities	**-**	**-**	(166,183)	-	-	-
Experience adjustments on plan assets	**-**	**-**	(503,185)	-	161,487	-

17. Related Party Disclosures

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and their key management personnel, directors, or its stockholders.

a. In the normal course of business, the Group grants and receives advances to and from its associates and stockholders, which are considered related parties.

The corresponding receivables and payables arising from the said transactions, including operational support, as at December 31, 2009 and 2008 are as follows:

	2009	2008
Due from MMC	**₱129,828**	₱139,311
Advances from Stockholders	**₱281,111**	₱139,503

Due from MMC and advances from stockholders are presented in the consolidated statement of financial position under the "Investments in and advances to associates" and "Trade and other payables" captions, respectively. No interest is charged on the amounts due from MMC as these advances are considered and will be treated as part of the parent company's investment in MMC.

b. On April 17, 2000, the parent company entered into a Trust Agreement with LIDC for the latter to serve as a second trustee for the parent company's retirement fund.

On March 31, 2003, the parent company entered into a separate Trust Agreement with LIDC whereby the latter ceased to be the second trustee of the LCMC Employee Pension Plans (the Plans) and instead to become the principal trustee. Prior to the Trust Agreement, the actual disbursements of the fund for the Plans, or payments to the retiree or beneficiaries had been the responsibility of a local bank as the principal trustee. The parent company has decided to terminate the services of the local bank and consolidated to LIDC the administration of the Plans.

c. Compensations of the Group's key management personnel for the years ended December 31 follow:

	2009	2008	2007
Salaries and other short-term employee benefits	**₱30,800**	₱30,800	₱29,701
Retirement benefits	**-**	-	-
	₱30,800	₱30,800	₱29,701

18. Income Taxes

In 2009, the current provision for income tax pertains to the parent company's, LIDC's, DBPI's and SI's MCIT. In 2008, the current provision for income tax pertains to the parent company's and LIDC's MCIT and DBPI's, SI's and DDCP's RCIT.

The components of the Group's deferred income tax assets and liabilities at December 31, 2009 and 2008 follow:

	Deferred Income Tax Assets - net		**Deferred Income Tax Liabilities** - net	
	2009	2008	**2009**	2008
Accrual of:				
Pension costs	**₱149,562**	₱135,825	**₱ 5,161**	₱ 4,782
Retrenchment costs	**5,103**	5,103	**-**	-
Provisions for:				
Inventory obsolescence	**9,947**	9,655	**195**	195
Impairment losses on properties	**7,180**	7,180	**-**	-
Impairment losses on receivables	**2,771**	4,049	**79**	81
Allowance for decline on market price of inventory	**1,564**	10,862	**-**	-
Past service cost	**483**	1,690		-
NOLCO and MCIT	**87**	175	**-**	-
Unrealized foreign exchange losses-net	**-**	40,200	**-**	-
	176,697	214,739	**5,435**	5,058
Revaluation increment on land	**(100,029)**	(111,901)	**(119,186)**	(132,360)
Unrealized foreign exchange gains - net	**13,463**	-	**(5)**	(6)
Change in fair value of AFS investments	**(219)**	-	**(60)**	-
	(86,785)	(111,901)	**(119,251)**	(132,366)
Net deferred income tax assets (liabilities)	**₱ 89,912**	₱102,838	**(₱113,816)**	(₱127,308)

The Group did not recognize deferred income tax assets on NOLCO and MCIT and provision for impairment losses on mine exploration costs because management believes that it is more likely than not that the carryforward benefits will not be realized in the near future:

	2009	2008
NOLCO	₱ 723,756	₱ 374,796
MCIT	-	3,923
Provision for impairment losses on mine exploration cost	7,779	7,779
	731,535	₱ 386,498

As at December 31, 2009 and 2008, the Group has NOLCO that can be claimed as deduction from future taxable income and income tax payable and MCIT that can be claimed as tax credit, respectively, as follows:

Year Incurred	Year of Expiration	NOLCO	MCIT
2007	2010	₱ 220,139	₱ 1
2008	2011	154,843	2
2009	2012	348,774	127
		₱ 723,756	₱ 130

Movements of NOLCO and excess MCIT for the years ended December 31 follows:

NOLCO

	2009	2008
Balances at beginning of year	₱ 375,353	₱ 610,416
Additions	348,774	154,843
Expiration	(371)	(389,906)
Balances at end of year	₱ 723,756	₱ 375,353

MCIT

	2009	2008
Balances at beginning of year	₱ 3,929	₱ 4,083
Additions	127	2
Applications	-	(86)
Expiration	(3,926)	(70)
Balances at end of year	₱ 130	₱ 3,929

The reconciliation of the Group's provision for deferred income tax for the three years ended December 31 computed at the statutory tax rates to actual provision (benefit) shown in the consolidated statements of comprehensive income follows;

	2009	2008	2007
Tax at statutory income tax rates	(₱ 117,727)	(₱ 257,371)	(₱ 56,644)
Additions to (reductions in) income taxes			
resulting from tax effects of:			
Change in unrecognized deferred income taxes	103,110	(82,345)	(32,228)
Accelerated deduction	(26,684)	(3,570)	(2,783)
Operations under income tax holiday	10,497	119,595	53,488
Expired NOLCO and MCIT	7,346	136,537	109,251
Share in operating results of the associates	(1,628)	12,796	(19,852)
Nondeductible expense	(1,654)	341	25
Interest income subjected to final tax	(35)	(95)	(64)
Tax-exempt dividend income	(8)	(9)	(39)
Effect of future change in tax rate	-	35,807	-
Others	51,096	66,266	(6,550)
Tax at effective income tax rates	₱ 24,313	₱ 27,952	₱ 44,604

19. Capital Stock

The parent company's authorized share capital is ₱3.35 billion divided into ₱33.5 billion shares at ₱0.10 par value each consisting of 20.1 billion Class "A" and 13.4 billion Class "B" common shares.

Only Philippine nationals are qualified to acquire, own, or hold Class "A" shares. The total number of Class "B" shares of stock subscribed, issued or outstanding at any time shall in no case exceed two/thirds (2/3) of the number of Class "A" shares or 40% of the aggregate number of Class "A" and Class "B" shares then subscribed, issued or outstanding.

	2009		2008	
	No. of shares	**Amount**	No. of shares	Amount
Issued				
Class "A"	**19,726,251,050**	**₱1,972,625**	19,725,399,387	₱1,972,540
Class "B"	**13,150,603,300**	**1,315,060**	13,147,038,750	1,314,703
	32,876,854,350	**3,287,685**	32,872,438,137	3,287,243
Subscribed				
Class "A"	**15,879,000**	**1,588**	16,730,669	1,673
Class "B"	**10,798,880**	**1,080**	14,363,423	1,436
	26,677,880	**2,668**	31,094,092	3,109
Total shares issued and subscribed	**32,903,532,230**	**3,290,353**	32,903,532,229	3,290,352
Less subscription receivable		**3,373**		3,746
		₱3,286,980		₱3,286,606

On February 18, 2008, the BOD of the parent company offered to its shareholders the right to subscribe to one (1) share for every seven (7) shares held as of record date of March 25, 2008 covering 4,112,364,385 common shares consisting of 2,467,219,971 and 1,644,944,414 Class "A" and "B" shares, respectively, at ₱0.25 per share. The offer period was from April 15 to 22, 2008. As of April 22, 2008, all shares of stock offered were fully subscribed and/or issued.

During the annual meeting of the stockholders on April 20, 2009, the shareholders approved the increase in the authorized capital stock from ₱3.35 billion to ₱6.64 billion. The stockholders also approved the one-time waiver of their pre-emptive right to subscribe to issues or dispositions of shares of the Company in proportion to their respective shareholdings but only with respect to the issues or dispositions of shares in support of the increase in the authorized capital stock to ₱6.64 billion, provided that the shares to be issued to support such increase in the Authorized Capital Stock shall not exceed twenty percent (20%) of the stock subscribed, issued and outstanding after such issuance. As at the auditor's report date, SEC has not approved yet the increased in the authorized capital stock.

As at December 31, 2009, 2008 and 2007, the parent company had thirty thousand twenty-two (30,022), twenty-one thousand four hundred thirty-nine (21,439) and twenty-one thousand five hundred thirty-eight (21,538) shareholders, respectively

20. Minority Interests

Minority interests represent third parties' interests in FSFRI and DBPI. The details of which are as follows:

	FSGRI			DBPI			Total		
	2009	2008	2007	**2009**	2008	2007	**2009**	2008	2007
Acquisition cost	**₱242,970**	₱242,970	₱242,970	**₱6,218**	₱6,218	₱6,218	**₱249,188**	₱249,188	₱249,188
Share in operating results:									
Balances at beginning of year	**(889)**	(857)	(651)	**(1,887)**	(1,809)	(2,148)	**(2,776)**	(2,666)	(2,799)
During the year	**(14)**	(32)	(206)	**(1,098)**	(78)	339	**(1,112)**	(110)	133
Balances at end of year	**(903)**	(889)	(857)	**(2,985)**	(1,887)	(1,809)	**(3,888)**	(2,776)	(2,666)
Other changes in equity:									
Revaluation of land, net of related deferred tax liability	**-**	5,920	5,497	**-**	-	-	**-**	5,920	5,497
Changes in fair values of AFS investments	**1,876**	1,059	1,360	**-**	-	-	**1,876**	1,059	1,360
Net book values	**₱243,943**	₱249,060	₱248,970	**₱3,233**	₱4,331	₱4,409	**₱247,176**	₱253,391	₱253,379

21. Loss Per Share

Basic loss per share is calculated by dividing the profit attributable to equity holders of the parent company by the weighted average number of common shares in issue during the period, excluding any ordinary shares purchased by the parent company and held as treasury shares.

	2009	2008	2007
Loss attributable to equity holders of the parent company	**(₱ 370,746)**	(₱ 763,189)	(₱ 206,578)
Weighted average common shares for basic loss per share	**32,880,211,660**	32,216,980,070	28,786,550,700
Basic and diluted loss per share	**(₱ 0.01128)**	(₱ 0.02369)	(₱ 0.00718)

The basic and diluted loss per share are the same for 2009 and 2008 as dilution of potential common shares from stock options results to a decrease in loss per share and are classified as anti-dilutive (see Note 24). There are no dilutive potential common shares outstanding for 2007.

22. Costs and Expenses

	2009	2008	2007
Mining, milling, smelting, refining and other related charges	**₱ 684,083**	₱ 953,680	₱ 983,599
Depletion, depreciation and amortization (see Note 8)	**401,925**	575,539	469,731
Administration, overhead and other charges			
Mine division	**383,854**	461,866	436,080
Others	**216,768**	190,292	160,400
Provisions for:			
Impairment losses on receivables (see Note 5)	**716**	724	653
Inventory obsolescence (see Note 6)	**1,695**	3,151	3,819
Decline on market price of inventory (see Note 6)	**-**	36,207	-
	₱ 1,689,041	₱ 2,221,459	₱ 2,054,282

The significant components of administration, overhead and other charges include salaries and wages and employee benefits, representation and entertainment, travel and transportation, office expenses and professional fees.

Details of personnel costs recognized under costs and expenses follow:

	2009	2008	2007
Salaries and wages	**₱ 334,785**	₱ 414,786	₱ 404,518
Retirement benefits (see Note 16)	**66,138**	61,735	107,263
Others	**36,703**	51,368	249,607
	₱ 437,626	₱ 527,889	₱ 761,388

23. Finance Costs and Other Income

	2009	2008	2007
Finance Costs:			
Borrowing costs (see Nots 13 and 14)	**₱ 173,304**	₱ 139,636	₱ 166,623
Other Income:			
Gain on sale of land	**₱ 16,003**	₱ -	₱ -
Interest income	**117**	271	183
Other income (loss) (see note below)	**584**	(3)	2,067
	₱ 16,704	₱ 268	₱ 2,250

Details as to source of borrowing costs follow:

		2009		2008		2007
Long-term	₱	**90,045**	₱	64,321	₱	125,955
Short-term		**43,458**		34,591		40,668
Others		**39,801**		40,724		-
	₱	**173,304**	₱	139,636	₱	166,623

In 2007, included in the other income is the gain of ₱89 from sale of SI's AFS investment. The cumulative changes in the fair value of AFS related to the said AFS investment amounted to ₱707 under equity.

24. Share-based Plan

Under the share-based plan, the parent company's officers and employees and those of its subsidiaries may be granted options to purchase shares of stock of the parent company. The aggregate number of shares to be granted under the plan should not exceed 5% of the total number of shares of the parent company's outstanding capital stock.

An individual may be granted an option to purchase not more than 5% of the total number of shares set aside at the date of grant and may exercise the option up to a maximum of 20% of total number of option shares granted per year. Options are valid for five (5) years and are exercisable from the date of approval of the grant by the SEC.

On November 19, 2007, the BOD approved the grant of the 17th Stock Option Awards (Awards) to selected employees, directors and officers of the Group in accordance with the board-approved Revised Stock Option Plan. The Awards cover a total of 420,000,000 common shares, consisting 252,000,000 class "A" and 168,000,000 class "B" shares from the parent company's unissued capital stock, exercisable at the price of ₱0.32 per share, within 5 years from the date of SEC approval of the same. The SEC approved the Awards and the Revised Stock Option Plan on February 1, 2008; the pertinent listing application was approved by the PSE on February 29, 2008. The option price of ₱0.32 per share was computed based on a new formula in the Revised Stock Option Plan, that is, "the amount equivalent to 80% of the average closing price of the stock for the ten (10) trading days immediately preceding the date of approval of the Grant by the Board of Directors". By virtue of the 1:7 Stock Right Offering (SRO) approved by the Board on February 18, 2008 and by the PSE on February 29, 2008, the shares covered by the Awards have increased by 60,000,000 common shares.

The following table illustrates the number of and movement in stock options:

	2009		2008	
	Class A	**Class B**	Class A	Class B
Outstanding at beginning of year	**279,743,462**	**186,496,000**	252,000,000	168,000,000
Granted during the year	**-**	**-**	-	-
Effect of stock rights offering	**-**	**-**	36,000,000	24,000,000
Forfeitures during the year	**(2,262,843)**	**(1,508,562)**	(5,485,714)	(3,657,142)
Exercised during the year	**(13,714)**	**(9,143)**	(2,770,824)	(1,846,858)
Outstanding at end of year	**277,466,905**	**184,978,295**	279,743,462	186,496,000

25. Refining Agreements

The parent company entered into consignment and refining agreement (RA) of gold and silver bullion. Bullion exports were made to Heraeus Limited (Heraeus) in 2009 and 2008 in accordance with a contract entered into on January 5, 2005. Each shipment of materials under the agreement will consist of no less than 20 kilograms of materials. As settlement, the prices for all sales are as follows:

Gold - the London Bullion Market Association PM fixing without any deduction in US Dollars

Silver - the London Bullion Market Association fixing in US Dollars

Heraeus shall settle the metal payables at 99.9% and 98.0% of the final agreed assayed gold and silver contents of refined materials from each shipment.

On January 1, 2008, an extension of the RA was executed with the same terms and shall take effect for one year.

The parent company also entered into refining and smelting agreement of its copper concentrates. Copper concentrates were sold to Trafigura Beheer BV and Shanghang County Jinshan Trading Co., Ltd. in 2008. As settlement, the prices for all sales are as follows:

Copper - the London Metals Exchange cash settlement or average of Shanghai Nonferrous Metals on the variety of #1 Copper Cathode

Gold - the London Bullion Market Association fixing in US Dollars or weighted average price of AU9995 of Shanghai Gold Exchange

Silver - the London Bullion Market Association fixing in US Dollars or weighted average price of #3 silver bullion of ex-silver.com

The settlement shall be at 78% for the copper and 82% to 95% for the gold and 68% to 95% for the silver of the final agreed assayed copper, gold and silver contents from each shipment.

As at December 31, 2009 and 2008, the Group's embedded derivatives on provisionally priced sales are immaterial relative to the financial statements.

26. Commitments, Agreements, Contingent Liabilities and Other Matters

(a) In an agreement entered into with Philippine Associated Smelting & Refining Corporation (PASAR) on April 21, 1983, the parent company committed to deliver to PASAR and PASAR committed to take in a minimum quantity of its calcine production from its roaster plant in accordance with the pricing and payment terms defined in the agreement. The agreement is for an indefinite period unless otherwise terminated or cancelled pursuant to agreed terms or by the parties' mutual consent. In 1998, the agreement was suspended for an indefinite period in view of the temporary cessation of the parent company's roaster plant operations.

(b) On March 3, 1990, FSGRI entered into a Mineral Production Sharing Agreement (MPSA) with the Philippine Government through the DENR and the parent company pursuant to Executive Order No. 279. Under the terms of the agreement, FSGRI shall pay the Philippine Government a production share of 2% on gross mining revenues and 10% on net mining revenues payable within 30 days at the end of each calendar year and such will commence upon the start of FSGRI's commercial operations.

The initial term of this agreement shall be twenty-five (25) contract years from the effective date, subject to termination as provided in the agreement, renewable for another period of twenty-five (25) years upon such terms and conditions as may be mutually agreed upon by the parties or as may be provided for by law. As at March 15, 2010, FSGRI is still in pre-operating stage.

(c) Under a memorandum of agreement entered into on October 18, 1991 by FSGRI and the parent company among residents of various barangays of Mankayan, Benguet, the municipal government of Mankayan, the Benguet provincial government, the DENR, FSGRI and the parent company (collectively as "Group"), among other things, are mandated to abide by certain commitments to the barangays as contained in the said agreement in return for the continued implementation of the Far Southeast Project. The agreement likewise provides that: (1) the implementation of the project is subject to the conditions imposed or may be imposed by the DENR specifically on certain environmental concerns; and (2) the residents shall not hinder the implementation of the project and shall assist the Group and the DENR in the peaceful solution of conflicts relative to the Group's operations.

In April 1998, the parent company entered into a separate memorandum of agreement with the Office of Municipal Mayor and Sangguniang Bayan of Mankayan, DENR and Mines and Geosciences Bureau. Under the agreement, the Company is mandated to establish and maintain a Monitoring Trust Fund and a MRF amounting to ₱50 and ₱5,000, respectively. The funds are to be used for physical and social rehabilitation, reforestation and restoration of areas and communities affected by mining activities and for pollution control, slope stabilization and integrated community development. The rehabilitation fund to be maintained by the parent company in a mutually acceptable bank, subject to annual review of MRF committee, is payable in four (4) equal quarterly payments of ₱1,250 up to March 1999. As at December 31, 2009 and 2008, the rehabilitation fund of ₱5,000, which does not meet the features provided under Philippine Interpretation IFRIC 5, is presented under "Other noncurrent assets" account in the consolidated statements of financial position.

(d) The parent company is either a defendant or co-defendant in certain civil and administrative cases which are now pending before the courts and other governmental bodies. In the opinion of management and the parent company's legal counsel, any adverse decision on these cases would not materially affect the parent company's financial position as at December 31, 2009 and 2008, and results of operations for the years ended December 31, 2008, 2007 and 2006.

(e) The parent company leases the land where its roasting plant is constructed, certain equipment, office spaces and warehouses at various periods up to January 1, 2009. Lease agreement for the roasting plant, which expired in March 2007, was extended to another term of 2 years while the other lease agreements will extend until 2012. Rent expense recognized relating to the said agreements aggregated to ₱1,191 in 2009 and ₱3,572 in 2008, respectively.

The minimum annual lease payments subsequent to reporting dates follow:

		2009		2008
Within one year	₱	**1,191**	₱	1,191
In the second to fifth years inclusive		**-**		2,381
	₱	**1,191**	₱	3,572

(f) As at December 31, 2009 and 2008, the parent company has no unused credit lines with various banks. These facilities can be availed of through short-term loans, opening of import letters of credit and outright purchase of negotiable bills.

(g) In an execution sale held on December 12, 2001, DDCP acquired a 40% interest in the Guinaong Project of Crescent Mining and Development Corporation (Crescent) which is covered by MPSA No. 057-096-CAR. The execution sale was done in connection with the case filed by DDCP against Pacific Falcon Resources Corporation (Pacific Falcon) for the payment of drilling services rendered at the Guinaong Project amounting to US$307,727. Per the records of the Mines & Geosciences Bureau (MGB) and the Joint Venture Agreement between Crescent and Pacific Falcon (formerly known as Trans Asian Resources Ltd.), Pacific Falcon has a 40% interest in the subject MPSA. The pertinent certificate of sale has been registered with the MGB. Pending with MGB is the application for the approval of the transfer to the Company of the rights to 40% of MPSA No. 057-096-CAR.

(h) On April 21, 2008, the BOD of DDCP approved the increase of its authorized capital stock and declaration of a stock dividend of five (5) for three (3) shares to be issued within twenty days from SEC approval of the application for the increase in authorized capital stock.

(i) SEC Transitional Relief in PAS 39

The SEC, in its Notice (the Notice) dated November 30, 2006 pursuant to Resolution No. 493, provided transitional relief allowing certain commodity derivative contracts of mining companies be “grandfathered” and exempted from the fair value requirements of PAS 39. The said exemption will apply only if the following requirements are met:

1. Commodity derivative contracts entered into and effective prior to January 1, 2005;
2. Commodity derivative contracts with original maturity of more than 1 year; and
3. Commodity derivative contracts that would have qualified under PAS 39 hedge accounting rules had these been applied at inception of such contracts.

The parent company notified SEC that it is availing of the exemption from compliance with PAS 39 pursuant to the Notice on its letter to SEC dated December 19, 2006.

Had the parent company qualified and was not exempted from PAS 39, retained earnings will be reduced and liabilities will be increased as of January 1, 2005 by ₱1,280,000.

27. Financial Risk Management Objectives and Policies

The Group’s principal financial instruments comprise cash and interest-bearing borrowings. The main purpose of the Group’s financial instruments is to fund the Group’s operations. The Group has other financial instruments such as receivables, advances to associate, trade and other payables and loans payable which arise directly from operations. The main risks arising from the use of financial instruments are credit risk, foreign exchange risk, liquidity risk, interest rate risk and commodity price risk. The Group’s BOD reviews and approves the policies for managing each of these risks and they are summarized below.

Credit Risk

Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligations, as and when they fall due. It is inherent to the business as potential losses may arise due to the failure of its customers and counterparties to fulfill their obligations on maturity dates or due to adverse market conditions.

All gold exports when priced are practically settled on cash basis. Parent company’s existing contracts with gold refineries allow for advances of 98% of payable metals paid in two (2) working days from pricing. Full settlement is normally acquired within three (3) working days. For copper concentrates, parent company’s existing contracts with smelters allow for advances of 90% of payable metals paid in two (2) to five (5) working days from pricing. Full settlement, however, takes three (3) to six (6) months.

The parent company enters into marketing contracts only with refineries and smelters of established international repute. Since the parent company became a primary gold and copper concentrates producer, it has entered into exclusive marketing contracts with Johnson Matthey Public Limited Company and Heraeus Limited for gold and Trafigura Beheer BV and Shanghang County Jinshan Trading Co., Ltd. for copper concentrates.

The Group has a significant concentration of credit risk in relation to its trade receivables to Hereaus Limited. Such risk is managed by securing the specific approval of the BOD before entering into contracts with refineries.

The credit risk arising from these financial assets arises from default of the counterparty, with maximum exposure equal to the carrying amount of these instruments. The Group's gross maximum exposure to credit risk is equivalent to the carrying values since there are no collateral agreements for these financial assets.

The table below shows the maximum exposure to credit risk without consideration to collaterals or other credit enhancements for the components of the consolidated statement of financial position as at December 31, 2009 and 2008.

	Notes	2009	2008
Cash in banks	4	₱ **14,894**	₱ 7,477
Receivables	5		
Trade		**141,439**	135,898
Nontrade and others		**5,428**	6,118
Officers and employees		**5,888**	3,141
AFS investments	9		
Quoted instruments		**82,000**	36,788
Unquoted instruments		**48,396**	48,414
Advances to associate	10	**129,828**	139,311
Mine rehabilitation fund		**5,138**	5,106
Total credit risk exposure		₱ **433,011**	₱ 382,253

Accordingly, the Group has assessed the credit quality of the following financial assets that are neither past due nor impaired:

1. Cash in banks and MRF are assessed as high grade since the related amounts are deposited with the country's reputable banks duly approved by BOD.
2. Trade receivables, which pertain mainly to receivables from sale of ore, are assessed as high-grade. These are assessed based on past collection experience of full settlement within three days after invoice date with no history of default.
3. Non-trade receivables, which pertain to advances that are due and demandable, are assessed as high-grade since these have high probability of collection through application of outstanding amount against last billing.
4. Receivables to officers and employees, which are operational advances in nature, are assessed as high-grade since these have high probability of collection through liquidation.
5. Quoted equity instrument is assessed as substandard grade since POPI is currently implementing its business plan to address its recovery issues.
6. Unquoted equity instrument is assessed as high grade as this pertain to the lone copper smelter in the country that operates in an industry which has a potential growth.
7. Advances to associate is assessed as high grade since the parent company practices offsetting against the associate and historical collection is good.

The above high grade credit quality financial assets pertain to financial assets with insignificant risk of default based on historical experience. Substandard grade credit quality financial assets pertain to financial assets with more than insignificant risk of default based on historical experience and/or counterparty credit standing.

Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in foreign currency exchange rates, interest rates, equity prices and other market changes.

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its consolidated financial statements and consolidated statement of cash flows. The Group sells its product to the international market. All gold sales are denominated in United States dollar (US$). Dollar conversion of metal sales to Philippine peso is based on the prevailing exchange rate at the time of sale.

The Group's policy is to maintain foreign currency exposure within acceptable limits. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for an institution engaged in the type of business in which the Group is involved.

The Group's foreign currency-denominated monetary assets and liabilities as at December 31, 2009 and 2008 follow:

	2009				2008			
		United States Dollar		**Peso Equivalent**		United States Dollar		Peso Equivalent
Asset								
Cash	**$**	**33**	**₱**	**1,524**		$83	₱	3,932
Trade receivables		**1,171**		**54,100**		1,056		50,267
	$	**1,204**	**₱**	**55,624**	$	1,139	₱	54,199
Liabilities								
Trade payables and accrued expense	**$**	**7,992**	**₱**	**369,230**	$	5,875	₱	279,208
Borrowings		**13,450**		**621,390**		14,202		674,873
	$	**21,442**	**₱**	**990,620**	$	20,077	₱	954,081
Net Liabilities	**$**	**20,238**	**₱**	**934,996**	$	18,938	₱	899,882

As at December 31, 2009 and 2008, the exchange rates of the Philippine peso to the US$ are ₱46.20 and ₱47.52 to US$ 1.00, respectively.

Based on the historical movement of the US Dollar and the Philippine peso, management believes that the estimated reasonably possible change in the next twelve (12) months would be an increase (decrease) of ₱0.72 for 2009 and increase of ₱0.91 and decrease of ₱0.70 for 2008 against the US dollar. Sensitivity of the Company's 2009 and 2008 pre-tax income to foreign currency risks are as follows:

- A decrease (increase) of ₱14,571 in the pre-tax loss if the peso strengthens (weakens) by ₱0.72 against the US dollar.
- An increase of ₱17,234 in the pre-tax loss if peso weakens by ₱0.91. A decrease of ₱13,257 if the Peso strengthens by ₱0.70 against the US dollar.

There is no other impact on the Group's equity other than those already affecting the consolidated statements of comprehensive income.

Interest Rate Risk
The Group's exposure to the risk for changes in market interest rate relates primarily to its long-term borrowings with floating interest rates. As at December 31, 2009 and 2008, majority of the Group's long-term borrowings is based on floating rates. The Group regularly monitors its exposure to interest rates movements. Management believes that cash generated from operations is sufficient to pay for its obligations under the loan agreements as they fall due.

The maturity profile of the interest-bearing assets and liabilities, together with the corresponding nominal amounts and carrying values are shown in the following table. Nominal interest rates vary from floating rate of LIBOR plus fixed margin of 2.75% to 91-day treasury bill (T-bill) plus margin of 4% and fixed interest rates of 9% to 14%.

2009		**Total**		**6 months or less**		**6 to 12 months**		**1 to 2 years**		**2 to 3 years**
Cash in banks	**₱**	**14,894**	**₱**	**14,894**	**₱**	**-**	**₱**	**-**	**₱**	**-**
Loans payable		**80,000**		**80,000**		**-**		**-**		**-**
Long-term borrowings		**661,542**		**69,186**		**16,100**		**278,541**		**297,715**

2008		Total		6 months or less		6 to 12 months		1 to 2 years		2 to 3 years
Cash in banks	₱	7,477	₱	7,477	₱	-	₱	-	₱	-
Loans payable		80,000		80,000		-		-		-
Long-term borrowings		716,051		74,887		17,427		301,491		322,246

The following table sets forth, for the periods indicated, the impact of changes in interest rate on the Group's consolidated statements of comprehensive income:

	Change in interest rates (in basis points)	Sensitivity to pretax loss
2009		
PHP (T-bill rate)	**+100**	**(₱ 398)**
USD-(LIBOR)	**+100**	**(6,127)**
PHP (T-bill rate)	**-100**	**398**
USD (LIBOR)	**-100**	**6,127**
2008		
PHP (T-bill rate)	+100	(₱ 398)
USD (LIBOR)	+100	(6,639)
PHP (T-bill rate)	-100	398
USD (LIBOR)	-100	6,639

Based on the historical movement of the interest rates, management believes that the reasonable possible change for the next twelve months would result to an increase (decrease) of 100 basis points for 2009 and an increase (decrease) of 50 (100) basis points for USD LIBOR and 50 basis points for T-bill for 2008. There is no other impact on the Group's equity other than those already affecting the consolidated statements of comprehensive income.

Equity Price Risk

Equity price risk is the risk to earnings or capital arising from changes in stock exchange indices relating to its quoted equity securities. The Group's exposure to equity price risk relates primarily to its AFS investment in POPI.

The Group's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on its consolidated statement of financial position.

Based on the historical movement of the stock exchange index, management's assessment of reasonable possible change was determined to be an increase (decrease) of 7.52% in 2009 and 9.79% in 2008, resulting to a possible effect in the equity of increase (decrease) of ₱1,843 in 2009 and an increase (decrease) of ₱1,471 in 2008.

Commodity Price Risk

The Group is exposed to the risk of fluctuations in prevailing market commodity prices on the mix of mineral products it produces.

The Group's policy is to maintain the risk to an acceptable level. Movement in metal price is monitored regularly to determine the impact on its consolidated statement of financial position.

Since the amount of financial assets and liabilities subject to commodity price risk is immaterial relative to the consolidated financial statements, management opted not to disclose commodity price risk sensitivity analysis for 2009 and 2008.

Liquidity Risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstances.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and hire purchase contracts.

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, in case any requirements arise. Fund raising activities may include bank loans and capital market issues. Accordingly, its loan maturity profile is regularly reviewed to ensure availability of funding through an adequate amount of credit facilities with financial institutions.

The table below summarizes the maturity profile of the Group's financial liabilities as at December 31, 2009 and 2008 based on contractual undiscounted payments. Long-term debt consists of principal and future interest payments.

2009	**On Demand**	**Less than 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 2 years**	**More than 2 years**	**Total**
Trade and other payables	**₱ 820,055**	**₱ 1,435,872**	**₱ 37,168**	**₱ -**	**₱ -**	**₱ -**	**₱ 2,293,095**
Loans payable	**-**	**89,600**	**-**	**-**	**-**	**-**	**89,600**
Long terms borrowings	**-**	**77,697**	**8,498**	**19,111**	**325,812**	**338,118**	**769,236**
TOTAL	**₱ 820,055**	**₱ 1,603,169**	**₱ 45,666**	**₱ 19,111**	**₱ 325,812**	**₱ 338,118**	**₱ 3,151,931**

2008	On Demand	Less than 3 months	3 to 6 months	6 to 12 months	1 to 2 years	More than 2 years	Total
Trade and other payables	₱ 850,142	₱ 1,165,003	₱ 33,707	₱ -	₱ -	₱ -	₱ 2,048,852
Loans payable	-	89,600	-	-	-	-	89,600
Long terms borrowings	-	146,080	18,214	36,428	621,035	664,492	1,466,249
TOTAL	₱ 850,142	₱ 1,400,683	₱ 51,921	₱ 36,428	₱ 621,035	₱ 664,492	₱ 3,604,701

Fair Values

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

Cash, Receivables, Advances to Associates, Mine rehabilitation fund and Trade and Other Payables
The carrying amounts of cash, receivables, trade and other payables, which are all subject to normal trade credit terms and are short-term in nature, approximate their fair values.

AFS Investments
Fair values of investments are estimated by reference to their quoted market price at the reporting date. Unquoted equity securities are carried at cost, net of impairment in value, since fair value of these AFS securities cannot be reliably determined as these securities are not listed and have no available bid price.

Loans Payable and Borrowings
The outstanding loans payable and borrowings as at December 31, 2009 are either due within the next reporting date or bear floating rates that are repriced monthly.

The fair value of the interest bearing long-term debt in 2007 is based on the discounted value of future cash flows using the applicable rates for the similar types of loans. For floating rate long term borrowings which are repriced monthly, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For floating rate long term borrowings, which are repriced semi-annually, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate for the period up to the next repricing date. For fixed rate long-term borrowings, the fair value is derived through the discounted cash flows. The discount rates used as of December 31, 2007 range from 7.096% to 8.133%.

The fair value of loans payable and borrowings as at December 31, 2009 and 2008 approximate their carrying amount.

Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Company's quoted and unquoted AFS investments are classified as level 1 and level 3, respectively.

As at December 31, 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Categories and classes of financial instruments:

The carrying values of the Group's financial assets and liabilities per category and class are as follows:

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets:				
Loans and receivables				
Cash	**₱ 15,496**	**₱ 15,496**	₱ 8,712	₱ 8,712
Receivables				
Trade	**141,439**	**141,439**	135,898	135,898
Nontrade and others	**5,428**	**5,428**	6,118	6,118
Officers and employees	**5,888**	**5,888**	3,141	3,141
Mine rehabilitation fund	**5,138**	**5,138**	5,106	5,106
	173,389	**173,389**	158,975	158,975
AFS investments				
Quoted	**82,000**	**82,000**	36,788	36,788
Unquoted	**48,396**	**48,396**	48,414	48,414
	130,396	**130,396**	85,202	85,202
	₱ 303,785	**₱ 303,785**	₱ 244,177	₱ 244,177

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Liabilities:				
Other financial liabilities				
Trade and other payables	**₱ 2,293,093**	**₱ 2,293,093**	₱ 2,048,852	₱ 2,048,852
Loans payable	**80,000**	**80,000**	80,000	80,000
Long-term borrowings	**661,440**	**661,440**	716,051	716,061
	₱ 3,034,533	**₱ 3,034,533**	₱ 2,844,903	₱ 2,844,903

28. Capital Management

The primary objective of the Group's capital management is to ensure that the Group maintains positive cash balance in order to support their businesses, pay existing obligations and maximize shareholder value. The Group manages their capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may obtain additional advances from stockholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended December 31, 2009 and 2008. The Group monitors capital using the consolidated financial statements.

As at December 31, 2009 and 2008, the Group's capital, which is composed of common shares and additional paid-in capital, amounted to ₱4,733,042 and ₱4,732,668, respectively.

29. Segment Information

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. The operating businesses are organised 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 and serves different markets. The Group derives revenue from the following main operating business segments:

Mining Activities

This segment engages in exploration and mining of gold, silver, copper, lead, zinc and all kinds of ores, metals, minerals, oil, gas and coal and their related by-products.

Service

This segment derives its income from drilling, hauling and sawmilling services to its related and outside parties.

Others

This segment is engaged in the investing and insurance broker activities of the Group.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

The Group operates and generates revenue principally in the Philippines. Thus, geographical segmentation is not required.

The following tables present certain information regarding the Group's operating business segments:

2009	**Mining**	**Service**	**Others**	**Elimination**	**Total**
Revenue from external customers:					
Sale of metals	**₱ 1,416,391**	**₱ -**	**₱ -**	**₱ -**	**₱ 1,416,391**
Others	**2,285**	**21,814**	**15,460**	**-**	**39,559**
Inter-segment revenue	**199**	**26,641**	**13,515**	**(40,355)**	**-**
Segment revenue	**1,418,875**	**48,455**	**28,975**	**(40,355)**	**1,455,950**
Operating expenses	**(1,637,140)**	**(66,375)**	**(36,123)**	**50,597**	**(1,689,041)**
Share in operating results of associates	**-**	**-**	**-**	**5,428**	**5,428**
Income (loss) before income tax	**(218,265)**	**(17,920)**	**(7,148)**	**15,670**	**(227,663)**
Finance cost, net of other income	**120,359**	**(460)**	**17**	**-**	**119,882**
Provision for (benefit from) income tax	**23,810**	**242**	**261**	**-**	**24,313**
Net income (loss)	**(₱ 362,434)**	**(₱ 17,702)**	**(₱ 7,392)**	**₱ (15,670)**	**₱ 371,858**

	Mining	**Service**	**Others**	**Elimination**	**Total**
Segment assets	**₱ 8,768,148**	**₱ 591,016**	**₱ 310,205**	**(₱ 928,729)**	**₱ 8,740,640**
Investment in equity method associate	**-**	**-**	**-**	**363,411**	**363,411**
Segment liabilities	**(3,785,853)**	**(183,607)**	**(272,862)**	**408,659**	**3,833,663**
Depreciation	**(383,676)**	**(16,932)**	**(1,317)**	**-**	**(401,925)**
Capital expenditures:					
Tangible fixed assets	**198,860**	**214**	**39**	**-**	**199,113**
Intangible assets	**370,567**	**-**	**-**	**7,219**	**377,786**
Cash flows arising from:					
Operating activities	**693,138**	**(35)**	**(21,543)**	**17,334**	**688,894**
Investing activities	**(540,050)**	**(39)**	**22,281**	**8,270**	**(509,538)**
Financing activities	**(154,968)**	**(227)**	**379**	**(17,334)**	**(172,150)**

2008	Mining	Service	Others	Elimination	Total
Revenue from external customers:					
Sale of metals	₱ 1,713,873	₱ -	₱ -	₱ -	₱ 1,713,873
Others	5,419	83,833	34,149	-	123,401
Inter-segment revenue	199	65,814	69,657	(135,670)	-
Segment revenue	1,719,491	149,647	103,806	(135,670)	1,837,274
Operating expenses	(2,119,160)	(144,597)	(100,725)	143,023	(2,221,459)
Share in operating results of associates	-	-	-	(36,560)	(36,560)
Income (loss) before income tax	(399,669)	5,050	3,081	(29,207)	(420,745)
Finance cost, net of other income	314,921	(126)	(347)	154	314,602
Provision for (benefit from) income tax	22,563	3,171	2,218	-	27,952
Net income (loss)	(₱ 737,153)	₱ 2,005	₱ 1,210	(₱ 29,361)	(₱ 763,299)

2008	Mining	Service	Others	Elimination	Total
Segment assets	₱ 8,790,620	₱ 328,123	₱ 587,577	(₱ 900,443)	₱ 8,805,877
Investment in equity method associate	-	-	-	378,322	378,322
Segment liabilities	(3,549,614)	(280,025)	(77,530)	395,418	(3,511,751)
Depreciation	(547,695)	(19,730)	(8,114)	-	(575,539)
Capital expenditures:					
Tangible fixed assets	301,359	10,911	10,962	-	323,232
Intangible assets	544,868	-	-	5,266	550,134
Cash flows arising from:					
Operating activities	324,889	10,808	5,820	(131,322)	210,195
Investing activities	(846,904)	(10,980)	(6,757)	84,644	(779,997)
Financing activities	521,282	(227)	307	46,680	568,042

2007	Mining	Service	Others	Elimination	Total
Revenue from external customers:					
Sale of metals	₱ 1,712,653	₱ -	₱ -	₱ -	₱ 1,712,623
Others	2,100	61,828	74	-	64,002
Inter-segment revenue	177	137,028	21	(137,226)	-
Segment revenue	1,714,930	198,856	95	(137,226)	1,776,655
Operating expenses	(2,000,341)	(189,055)	(180)	135,294	(2,054,282)
Share in operating results of associates	-	-	-	55,742	55,742
Income (loss) before income tax	(285,411)	9,801	(85)	53,810	(221,885)
Finance cost, net of other income	(60,000)	(45)	-	-	(60,044)
Provision for (benefit from) income tax	41,215	3,411	22	-	44,604
Net income (loss)	(₱ 266,626)	₱ 6,435	(₱ 63)	₱ 53,810	(₱ 206,445)
Segment assets	₱ 7,535,190	₱ 733,187	₱ 22,547	(₱ 223,710)	₱ 8,067,214
Investment in equity method associate	-	-	-	445,151	445,151
Segment liabilities	(3,347,596)	(368,699)	(41,013)	278,799	(3,478,509)
Depreciation	(453,400)	(16,331)	-	-	(469,731)
Capital expenditures:					
Tangible fixed assets	187,560	59,117	-	-	246,677
Intangible assets	549,643	-	-	(1,932)	547,711
Cash flows arising from:					
Operating activities	1,048,094	85,432	(182)	(68)	1,133,276
Investing activities	(680,275)	(86,128)	1,775	181,615	(583,013)
Financing activities	(371,959)	(151)	136	(181,547)	(553,521)

CORPORATE OFFICERS AND OPERATING STAFF

CORPORATE OFFICERS

FELIPE U. YAP
Chairman of the Board
and Chief Executive Officer

BRYAN U. YAP
President and
Chief Operating Officer

RAMON T. DIOKNO
Chief Finance Officer

AUGUSTO C. VILLALUNA
Senior Vice President

RENE F. CHANYUNGCO
Vice President, Logistics
and Marketing

MA. LOURDES B. TUASON
Vice President and Treasurer

ABIGAIL K. YAP
Vice President,
Planning and Technology

ODETTE A. JAVIER
Vice President,
Assistant Corporate Secretary
and Chief Information Officer

MAGELLAN G. BAGAYAO
Vice President and
Resident Manager

PABLO T. AYSON, JR.
Vice President, Mining Claims

CHERRY H. TAN
Assistant Vice President,
Purchasing

RUBEN D. QUIWA
Assistant Vice President,
Metallurgy

ETHELWOLDO E. FERNANDEZ
Corporate Secretary

MARIO L. LAVENTE
Financial Controller

OPERATING STAFF

MAKATI HEAD OFFICE

CRISANTO O. MARTINEZ
Manager, Human Resource,
Training and Administration

TEOFILO C. SACPA*
Chief Accountant

RONALD REX S. RECIDORO
Manager, Legal Services
and Government Affairs

FELIPE N. SAYAMAN
Aviation Department Head
and Chief Pilot

WILFREDO V. ISULAT
Manager, Audit

LEPANTO MINE DIVISION

MAGELLAN G. BAGAYAO
Vice President and
Resident Manager

RUBEN D. QUIWA
Assistant Vice President,
Metallurgy

RUSTICO F. RASALAN
Consultant, Mine Operations

FROILAN C. CONDE
Group Manager, Exploration
& Geology

JOSE A. LEE, JR.
Group Manager, Technical and
Maintenance Services

KNESTOR JOSE Y. GODINO
Group Manager, Administrative
Services

NELSON B. VARILLA
Group Manager, Finance Services

VICTORINO Z. NANA, JR.
Group Manager, Special Projects

MERVIN L. BALAGOT
Group Manager, Mine Projects

JESUS A. CASTILLO
Acting Group Manager,
Mill Operations

ROGELIO P. GANABAN
Dept. Manager, Inventory
Management

ROLANDO C. REYES
Dept. Manager, Environment
and Social Development

JOSEPH S. PADCAYAN
Dept. Manager, Safety
and Loss Control

DANIEL R. JAVIER
Dept. Manager, Civil
Engineering Services

MICHAEL ANGELO B. MARTIN
Dept. Manager, Security and
Communications

FERDINAND M. BENBENEN, MD.
Dept. Manager, Medical Services

GREGORIA C. DOUGLAS
Dept. Manager, Human Resource

ARTEMIO S. ANONGOS
General Superintendent, Mine
Operations

EDGARDO R. MALACA
Chief Mine Geologist

BEDE C. BAWAYAN
Chief Mining Engineer

FLORA D. BARTOLOME
Chief Metallurgist

NAPOLEON B. ROSITO
Superintendent, Mine
Mechanical & Electrical Services

DOMINADOR R. SISON, JR.
Superintendent, Mine
Technical Services

HENIE L. TOLEDO
Superintendent, Mill &
Mine Support Maintenance

ALEJANDRO T. LOMIBAO, JR.
Superintendent, Mine
Production

GEORGE A. MABIAS
Superintendent, Mine
Production

JULIO E. NGOLAB
Superintendent, Mine Production

BRIAN G. BESITAN
Superintendent, Mine Production

ROLAND F. BASTIAN
Superintendent, General
Mine Services

JERRY G. ESCOBAR
Asst. Superintendent,
Mine Production

BEN-HUR M. ODOÑO
Acting Superintendent,
Mill Operations

ROLANDO E. VENTURA
Acting Superintendent, Surface
Power and Electrical Services

LEPANTO ROASTER DIVISION

RANDOLPH RIVERA
Officer-In-Charge

SUBSIDIARIES/ AFFILIATES

DIAMOND DRILLING CORPORATION OF THE PHILIPPINES

MARIO L. LAVENTE
Financial Controller

LEPANTO INVESTMENT AND DEVELOPMENT CORPORATION

BRYAN U. YAP
President

SHIPSIDE, INCORPORATED

BRYAN U. YAP
President

LORENZO D. BALBIN, JR.
Vice President and
General Manager

DIAMANT BOART PHILIPPINES, INC.

BRYAN U. YAP
President

OFELIA L. SANTIAGO
General Manager

FAR SOUTHEAST GOLD RESOURCES, INC.

FELIPE U. YAP
Chairman of the Board

* Effective August 1, 2009

2009 Board of Directors

FELIPE U. YAP
Chairman and Chief Executive Officer
Chairman and Chief Executive Officer, Manila Mining Corporation and Far Southeast Gold Resources, Inc.; Chairman of the Board of Prime Orion Philippines, Inc. and Zeus Holdings, Inc.; Director, Cyber Bay Corporation, Philippine Associated Smelting Refining Corp. (PASAR)

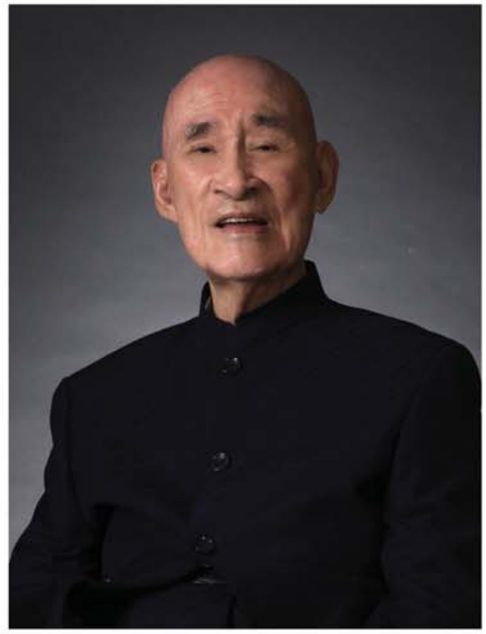
BRYAN U. YAP
President and Chief Operating Officer
Director and Vice President of Manila Mining Corporation; Director and President, Lepanto Investment and Development Corporation, Shipside, Inc. and Diamant Boart Philippines, Inc.

JOSE G. CERVANTES
Director
Director, Manila Mining Corp. and Zeus Holdings, Inc.

SOLOMON S. CUA
Director
Vice Chairman, First Metro Investment Corporation; President and Chief Executive Officer, Philippine Racing Club, Inc.; Director, Omico Corporation

RAY C. ESPINOSA
Director
Director, Philippine Long Distance Telephone Company, Manila Electric Company and Metro Pacific Investments Corporation; Vice Chairman, Philweb Corporation; Director and Corporate Secretary, Cyber Bay Corp.; President and Chief Executive Officer, ePLDT, Inc.

RICARDO V. PUNO, JR.
Director
Member, Advisory Board of Metropolitan Bank and Trust Company



WILFRIDO C. TECSON
Director
Director, J.G. Summit Inc., Robinsons Land Inc. and International Exchange Bank

CRESENCIO C. YAP
Director

ETHELWOLDO E. FERNANDEZ
Director and Corporate Secretary
Director and Corporate Secretary, Manila Mining Corporation; Corporate Secretary, Oriental Petroleum and Minerals Corporation

2009 Directory

EXECUTIVE OFFICES

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Tel. No. 815-9447

ADDRESSES

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Makati Central Post Office
1254 City of Makati

Domestic and Foreign Air Mail
P.O. Box 7507
Domestic Airport Post Office
1300 Domestic Road, Pasay City
Philippines

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63 (2) 812-0451
63 (2) 810-5583

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TRANSFER AGENT

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Stock Transfer Agency
16th Floor, BPI Main Building
Ayala Avenue cor. Paseo de Roxas, City of Makati

AUDITORS

Sycip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City

GENERAL COUNSELS

SyCip Salazar Hernandez & Gatmaitan Law Offices
4th Floor, SyCip Law All-Asia Center
Paseo de Roxas, Makati City

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ACCRA Building, 122 Gamboa St.
Legaspi Village, Makati City

Villareal Rosacia Diño & Patag Law Offices
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Real corner Arzobispo Streets
Intramuros, Manila

Romulo Mabanta Buenaventura Sayoc & Delos Angeles
30th Floor, Citibank Tower
8741 Paseo de Roxas, Makati City

Andres Marcelo Padernal Guerrero & Paras Law Offices
2/F Financial Center
Diosdado Macapagal Boulevard, Pasay City

BANKERS

Australia and New Zealand Banking Group Limited
Manila Branch, City of Makati

Bank of the Philippine Islands
Ayala Avenue Branch
City of Makati
Ormoc City Branch, Leyte
NRA – Reclamation Area Branch, Cebu City

Banco de Oro
Valero Branch & Paseo Tower
City of Makati

Bank of Commerce
Legaspi –Makati Branch, City of Makati

China Banking Corporation
Makati Head Office Branch, City of Makati

East-West Banking Corporation
Gil Puyat Avenue Branch, City of Makati

Union Bank of the Philippines
Amorsolo Branch, City of Makati

Land Bank of the Philippines
Buendia Branch, City of Makati

Maybank Philippines, Inc.
Legaspi Towers Center, Malate, Manila

Philippine Bank of Communications
Head Office, City of Makati

United Coconut Planters Bank
Head Office, City of Makati

Dresdner Kleinwort
Frankfurt, Germany

GOLD REFINERY

Heraeus Limited
Hongkong

STOCK EXCHANGE LISTING

Philippine Stock Exchange

ANNUAL MEETING

The Annual Meeting of Stockholders of Lepanto Consolidated Mining Company will be held on April 19, 2010 at 4:00 p.m. at the Rigodon Ballroom, The Peninsula Manila corner Ayala and Makati Avenues, Makati City, Philippines.

A copy of the Company's Annual Report on SEC 17-A shall be provided without charge to any stockholder who makes a written request for such copy.

VISION STATEMENT

To be a global Filipino mining company by attaining world-class capabilities and becoming a corporate model in the fulfillment of social responsibilities.

We shall turn this vision into reality through the efforts of highly motivated, committed, and competent employees who:

- continually explore and develop ore reserves;
- optimize metal production through cost-efficient operations;
- maintain outstanding safety records and ensure responsible environmental stewardship;
- foster mutually beneficial partnership with host communities;
- exhibit initiatives and decisiveness.

We in Lepanto are determined to enhance shareholders' investment through the pursuit of excellence.

INTEGRATED MANAGEMENT SYSTEM (IMS) POLICY STATEMENT

We commit to excellence in quality, environmental protection, safety, health and security in our mining operations and in the community of which we are a part.

We commit to become a model of a socially responsible mining organization through effective implementation of the integrated management system - its standards, objectives, programs and procedures.

We commit to a high compliance rating in all applicable government laws, regulations, policies and industry standards in order to uphold a trusting and enduring relationship with all stakeholders.

We commit to continually improve our IMS performance by:

- Conducting safe and responsible operations utilizing the best available technologies to maximize their impact on quality, human health, community and the environment;
- Developing and enhancing the organizational capabilities and employee competencies toward an efficient and globally competitive operation;
- Motivating employees to be focused and disciplined in the performance of their jobs toward attaining a deep sense of ownership and loyalty;
- Keeping all facilities safe, well-maintained, orderly and clean to prevent incidents;
- Promoting IMS awareness among our employees, suppliers, contractors and business partners to encourage a sense of commitment and accountability;
- Supporting community development to assist host and neighboring communities improve their quality of life.

We further commit to consistently implement, measure, monitor, review and openly communicate our IMS performance to improve stakeholder confidence.