COVER SHEET

1 0 1

S.E.C. Registration Number

L E P A N T O   C O N S O L I D A T E D   M I N I N G   C O

(Company's Full Name)

2 1 S T   F L O O R   L E P A N T O   B U I L D I N G

8 7 4 7   P A S E O   D E   R O X A S

M A K A T I   C I T Y

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

ODETTE A. JAVIER

Contact Person

815-9447

Company Telephone Number

1 2	3 1
Month	Day

Fiscal Year

S E C   1 7 A

FORM TYPE

3rd Monday of April

Month	Day	Year

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total no. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = please use **black ink** for scanning purposes

SEC No. 101

LEPANTO CONSOLIDATED MINING COMPANY

21st Floor, Lepanto Building
8747 Paseo de Roxas
Makati City

Tel. No. 815-9447
Fax No. 812-0451

ANNUAL REPORT
For the year ended December 31, 2008

(SEC Form 17-A)

April 14, 2009

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **December 31, 2008**

2. SEC Identification number : **101**

3. BIR Tax Identification number : **000-160-247-000**

4. Exact name of registrant as specified in its charter

LEPANTO CONSOLIDATED MINING COMPANY

5. Province, country or other jurisdiction of incorporation or organization: **Manila, Philippines**

6. Industry Classification Code: ______ (SEC Use Only)

Mining

7. Address of registrant's principal office:

21st Floor, Lepanto Building
8747 Paseo de Roxas, Makati City, Philippines

8. Registrant's telephone number, including area code:

(632) – 815-9447

9. Former name, former address and former fiscal year, if changed since last report: **N/A**

10. Securities registered pursuant to Sections 4 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of each Class:	Number of shares of common stock outstanding:
Class "A"	**19,742,130,056**
Class "B"	**13,161,402,173**

11. Are any or all of the securities listed on a Stock Exchange?

Yes [x] No [ ]

If yes, stare the name of such stock exchange and the classes of securities listed therein.

Philippine Stock Exchange **Classes "A" & "B"**

The Company has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months. The Company has not been subject to such filing requirements for the past 90 days.

The aggregate market value of the voting stock held by non-affiliates of the Company as of December 24, 2008 was P2,105,799,902.25.

Business and General Information

Business

Lepanto was incorporated in 1936 and until 1997 was operating an enargite copper mine located in Mankayan, Benguet. Lepanto shifted to gold bullion production in 1997 through its Victoria Project. Lepanto continues to produce gold from its Victoria and Teresa operations, both located in Mankayan, Benguet.

The only raw material component of Lepanto's products is the ore that it mines. Its ore reserves as of January 1, 2009 were 0.39 million oz. gold and 16.97 million lbs. copper from the Victoria and Teresa Orebodies and 0.57 million oz. of gold and 252.1 million lbs. copper from the Enargite, or a total of 0.96 million oz. gold and 269.07 million lbs. copper lbs. copper as certified by Engr. Augusto C. Villaluna, the Company's Senior Vice President for Operations.

The Company's revenues (100%) for the last 3 years (2006-2008) came from its sales of gold in bullion and copper concentrate. Under the contract with Heraeus Ltd., a Hongkong based refinery, the Company ships gold bars to the said buyer on a weekly basis, more or less. The contract has provisions regarding assay, manner of delivery, weighing and sampling, settlement/ payment, pricing and refining charges. The Company also had contracts with Trafigura Beheer, B.V. Amsterdam, a metals trader based in New Jersey, U.S.A. and Shanghang County Jinshen Trading Co., a metals trader based in Fujian, China, for the sale of copper concentrate. The contracts had provisions regarding assaying, pricing, weighing, sampling, payable metals and refining/smelting charges.

The following schedule indicates the percentage of Sales and Net Income contributed by foreign sales in the last three years:

Percentage of Sales Contributed by Foreign Sales:

	2006	2007	2008
Hongkong	77.13	87.02	45.22
Canada	3.58	1.19	2.15
Peru	16.63	5.23	18.01
China	0.35	0.41	34.62
Others	2.31	6.23	-
	100%	100%	100%

Percentage of Net Income/Loss Contributed by Foreign Sales:

	2006	2007	2008
Hongkong	-305	-195	-42
Canada, Peru, China, etc.	-22	-12	-34
Other Income	226	107	-24
	-------	-------	-------
	100%	100%	-100%

The Company has Environmental Compliance Certificates, for its tailings dam 5A and mining projects.

Subsidiaries

SHIPSIDE, INC., based in San Fernando, La Union, was incorporated in 1958. It is engaged principally in the hauling business and supports the hauling requirements of the parent company. It has a fleet of about 12 trucks, and is a heavy user of diesoline, gasoline and tires. For the past 11years, it has been operating a sawmill in Bauang, La Union (the only one in the province), importing logs from various suppliers in Australia, New Zealand and Malaysia. It also has warehouses and beach-front properties located at Poro Point, San Fernando, La Union, where it operates a resort/restaurant. For its lumber, it has customers in both Northern and Southern Luzon. Generally, Shipside is not dependent on any single supplier for its raw material requirements, i.e., fuel, tires and logs, and these are readily available from a number of suppliers. Sawmilling contributed 8% in 2006, 1% in 2007 and none in 2008 to total sales. Income from hauling, rentals and resort/restaurant businesses were P59,708,831, P3,981,270 and P11,376,713, respectively, of total revenues in 2008.

DIAMOND DRILLING CORPORATION OF THE PHILIPPINES (DDCP), incorporated in 1971, is in the business of providing diamond drilling services. It has drilling contracts all over the country and services mostly mining companies. DDCP has a ready market in its parent company and affiliate.

LEPANTO INVESTMENT AND DEVELOPMENT CORPORATION (LIDC), incorporated in 1969, is in the insurance business. It owns 31% of Philippine Fire and Marine Insurance Corporation (Philfire) and 80% of DBPI, as discussed hereunder. Its income principally is in the form of commissions from Philfire for sales of policies to various clients, none of whom contributes more than 10% of total revenues.

Lepanto, through LIDC, owns 80% of DIAMANT BOART PHILIPPINES, INC. (DBPI), a manufacturer of industrial diamond tools for mining exploration, marble cutting and the construction industry. Most of its raw materials are imported from an affiliate, Diaboart Brussels, and are readily available. DBPI was incorporated in 1972.

Lepanto owns 60% of FAR SOUTHEAST GOLD RESOURCES, INC. (FSGRI), another mining company with resources in Mankayan, Benguet. Incorporated in 1989, FSGRI is not yet in operation.

Cost and Effects of Compliance with Environmental Laws/Governmental Approvals

Lepanto complies with governmental regulations, particularly those of the Department of Environment and Natural Resources with respect to mining methods, disposal of waste and

tailings, rehabilitation of environment, etc. Lepanto has Environmental Compliance Certificates from the DENR for the operation of its tailings dam and Victoria project. Lepanto has reserved substantial sums for environmental projects, foremost of which is its Tailings Dam No. 5A. For the year 2008, the amount spent for said dam was P30.10 million. (P33.76 million. for 2007)

Research and Development Activities

During the last three years, Lepanto spent a total of P17.15 million for Research and Development, to wit: 2006: P5.35 million; 2007: P6.10 million and 2008: P5.79 million.

Mining Claims

The Company's mining properties are summarized as follows:

Mineral Production and Sharing Agreements (MPSAs)

Lepanto has two (2) Mineral Production and Sharing Agreements (MPSAs) docketed as MPSA Nos. 001-90 (948.9696 has.) and 151-2000-CAR (1,829.3565 has.), approved on March 3, 1990 and March 9, 2000, respectively, each having a term of twenty-five (25) years, renewable for another 25 years. Mining claims subject of the said MPSAs are located at Mankayan, Benguet wherein commercial mining operations are presently undertaken. The reportorial requirements, as required under the terms and conditions of the MPSA, are regularly submitted by Lepanto to the Mines and Geosciences Bureau (MGB) of the DENR to preserve the Company's rights and privileges under the agreements.

MPSA Applications

Lepanto has two (2) MPSA Applications docketed as APSA No. 096 comprising of 1,057.1739 has. (in Mankayan, Benguet) and APSA No. 00004-VIII with a total area of 78.5220 has. (in Villaba, Leyte). Said applications are still pending with MGB. Explorations works are undergoing in these areas.

Patented Claims

Lepanto was able to secure forty-six (46) patented mining claims, which was allowed under the Phil. Bill of 1902, with a total area of 335.5179 hectares, all situated in Mankayan, Benguet. Exploration works are ongoing in these areas.

Operating Agreements

a. **APSA Nos. 063, 064 and 065** – On October 12, 1992, LCMC entered into separate Operating Agreements with Jaime Paul B. Panganiban, June Prill Brett and Heirs of James D. Brett, registered MPSA applicants of APSA Nos. 063, 064, and 065, respectively, all situated in Suyoc, Mankayan. The combined total area of the subject MPSA Applications is 343.86 hectares.

b. **APSA No. 023** – an Operating Agreement was entered into between Lepanto and Montañosa Mining Exploration Company ("Montañosa"). On October 7, 1991, Lepanto, as mining operator of Montañosa, filed an MPSA Application (APSA No. 023) with the MGB-CAR, which was opposed by a certain party. The matter is pending before the Mines Adjudication Board (MAB) of DENR.

c. **Exploration Permit No. 2004-000003-VIII** –Lepanto has an Operating Agreement with the Philippine National Oil Company / Energy Development Corporation for the Leyte Geothermal Reservation. The corresponding application for the renewal of the pertinent exploration permit, which expired last March 19, 2006, is still pending approval by the MGB.

Employees

Lepanto has 1,829 mine-based and 64 Makati-based employees. In the Lepanto Mine Division, there are 111 managerial employees; 117 Supervisory, of whom 107 are members of the Supervisors' Union (LLSU); 71 clerical and technical employees, 55 of whom are also LLSU members; 1,525 rank-and-file employees, 1,415 of whom are members of the Lepanto Employees' Union (LEU); and 28 are members of the Lepanto Security Force Union (LSFU). The CBA of LLSU will expire on June 30, 2011 while the CBAs of LEU and LSFU will both expire on November 16, 2010. There are 5 engineering trainees.

Of the 64 employees in Makati, 15 are members of the Lepanto Employees Union-Makati (LEUM) whose CBA was renewed on July 1, 2007 and will expire in 2010; 47 are managerial/supervisory employees (including officers); and 2 are clerical non-union members.

For the first time in the Company's 67-year history, mine employees (LEU and LLSU) went on strike in February 2003 which ended on March 4, 2003. It involved such non-strikeable issues as promotions of certain personnel, reporting time for underground workers and holiday work. Due to a dispute over daily wage increases, the LEU staged another strike in June 2005 which lasted until September 12, 2005.

Lepanto provides health card benefits to its Makati employees. Mine-based employees get free housing and hospitalization.

Shipside has 57 employees, of whom 12 are administrative, 9 clerical and 36 involved in operations. They are not subject to any CBA. There is no plan to hire additional employees nor to reduce their number in the next twelve months.

DDCP has 52 employees, 46 of whom are in operations, 2 in administration and 1 with clerical position and 4 in the Company's warehouses. The employees are not covered by any CBA.

DBPI has 21 permanent employees, comprising of 3 managerial, 14 in Production, 3 in Sales and 3 in Administration. There is a plan to hire additional sales employees in the next 12 months.

LIDC and FSGRI have no employees.

Properties

Parent Company

The Company owns about 2,030.2 has. of land in Mankayan, Benguet, where its plants and mining facilities are located. It has two (2) Mineral Production Agreements with the

Government, namely: MPSA Nos. 001-90 and 151-2000-CAR, each with a term of 25 years and extendible by another 25 years, beginning on March 3, 1990 and March 9, 2000, respectively.

It owns 7,835 sq. meters of land in Cebu City, which was useful when it was still exporting copper calcine processed at the Roaster Plant in Leyte. A portion of this property, consisting of 1,460 sq. m., is being leased out for P21,000 per month. The Company intends to sell the Cebu properties.

The Roaster Plant, which the Company owns, sits on 5.5 hectares of land which the Company leases from Mahler Holdings Corporation ("Mahler") at a rate of P99,220.85 per month and from the National development Corporation ("NDC") at the rate of P99,220.85 per month. The lease with Mahler is good until 2009 and covers only 2.5 hectares, renewable at the option of both parties. This is now the subject of an on-going negotiation.

Lepanto owns two storeys of the Lepanto Building in Paseo de Roxas, Makati City, where its principal offices are located. It also owns a 3,493 sq. meter residential property in Baguio City and 8 has. of commercial land in Poro Point, San Fernando, La Union. Lepanto leases a 3,000 sq. meter property in Parañaque City, used for its warehouse. The lease, at the rate of P30,000 per month, is good until 2012.

Its Machinery and Equipment located in Mankayan, Benguet, consist of the following:

Tubo Shaft Complex
Power House
Machine Shop
Sandfill Tramline
Furniture and Fixtures
Foundry Shop
Assay Laboratory Equipment
Mechanical equipment
Internal Shaft at Nayak

Further, it has various automotive equipment/vehicles in Makati City, Benguet and Leyte.

Lepanto's infrastructures include roads, rails and bridges, twin declines, river diversion and an airport, all located in Mankayan, Benguet. Its plants are located in Mankayan, Benguet (gold and copper mills).

Lepanto's assets directly utilized for the Victoria Project were mortgaged to Rothschild and Dresdner Banks in connection with a Loan and Hedging Facilities Agreement executed in 1998. These include the plants and other facilities used for the Victoria project. The real properties covered by the mortgage constitutes about 1.2% of the Company's landholdings in Mankayan, Benguet. The subject loan has been fully repaid. It is the Company's position that the hedging contracts with the said banks are null and void and therefore the mortgages are likewise not effective. In fact, the contracts with Rothschild are now subject of a case of declaration of nullity pending with the RTC Makati. Also pending with the Supreme Court is a petition filed by Rothschild questioning the RTC's denial of its Motion to Dismiss which denial had been affirmed by the Court of Appeals. Declaration of the hedging contracts as null and void would mean that Lepanto has no obligation to pay any losses to Rothschild.

No acquisition of any real property is intended within the next 12 months.

Subsidiaries

Shipside has substantial properties in La Union. It owns about 11.7 hectares of land in Poro Point, San Fernando, La Union, used for its hauling, warehousing and sawmilling businesses. It also has a beach resort in Poro Point, covering 2.9 hectares. It owns 17 units of dumptrucks and trailers for its trucking/ hauling business.

DDCP leases a 2,620 sq. meter property at P26,201 per month in Parañaque City, adjacent to that leased by Lepanto, for its warehouse. The lease is good until 2011. It also owns about 24 units of drill rigs which are vital to its operations.

LIDC's properties consist of shares of stock in DBPI, Philfire and Manila Mining Corporation.

DBPI leases a 1,180 sq. meter property in Parañaque City where its offices and plant are located. The lease is good until 2011, at the rate of P16,000 per month.

FSGRI's is co-contractor of Lepanto in MPSA no. 001-90 issued by the government on March 3, 1990. It also co-owns with Lepanto, on a 50/50 basis, Tailings Pond. No. 5A located in Mankayan, Benguet.

Market for Registrant's Common Equity and Related Matters

Lepanto's shares of stock are listed in the Philippine Stock Exchange. Following are the quarterly prices of Lepanto securities for 2007-2008:

Lepanto "A" (P/share)

	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	3/06/09
Low	0.25	0.26	0.18	0.32	0.34	0.24	0.17	0.06	0.0625
High	0.35	0.33	0.37	0.56	0.37	0.26	0.18	0.0625	0.065

Lepanto "B" (P/share)

	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	3/06/09
Low	0.26	0.30	0.22	0.34	0.35	0.245	0.175	0.07	0.0675
High	0.42	0.37	0.38	0.61	0.39	0.25	0.175	0.07	0.07

Securities and Shareholders

As of December 31, 2008, there were a total of 21,439 shareholders; 12,870 shareholders holding Common "A" shares, or 60.03% of total shareholders; and 8,569 shareholders with Common "B" shares, or 39.97% of total.

Top 20 "A" and "B" Stockholders of the Company (as of December 31, 2008)

	Name of Stockholder	Class "A"	%
1	Metropolitan Bank & Trust Co.	2,827,408,995	14.32
2	F. Yap Securities, Inc.	2,705,263,554	13.70
3	First Metro Investment Corp.	2,550,682,926	12.92

4	F. Yap Securities, Inc. CPHC-2	538,239,214	2.73
5	F. Yap Securities, Inc. CPHC-1	448,477,606	2.27
6	F. Yap Securities, Inc. CPHC-3	432,026,678	2.19
7	Coronet Property Holdings Corp	277,556,566	1.41
8	Emma Yap	242,838,706	1.23
9	Bryan Yap	175,915,517	0.89
10	First Metro Investment Corp.	169,762,500	0.86
11	Paulino Yap	155,062,032	0.79
12	Pacita K. Yap	117,176,650	0.59
13	Christine Yap	116,620,522	0.59
14	Felipe U. Yap	86,063,611	0.44
15	David Go Securities Corp.	35,963,976	0.18
16	F. Yap Securities, Inc. A/C No. PKY-89	30,942,477	0.16
17	Fairmount Real Estate, Inc.	25,080,800	0.13
18	Christine Karen Yap	24,386,376	0.12
19	Coronet Management, Inc.	23,936,541	0.12
20	Felipe Yap	21,122,233	0.11

	Name of Stockholder	Class "B"	%
1	F. Yap Securities, Inc.	1,994,511,297	15.15
2	F. Yap Securities, Inc. A/C 1411	1,129,238,161	8.58
3	F. Yap Securities, Inc. A/C 5219	1,020,000,000	7.75
4	F. Yap Securities, Inc. A/C 5217	1,020,000,000	7.75
5	First Metro Investment Corp.	799,642,268	6.08
6	F. Yap Securities, Inc. A/C 5218	669,905,750	5.32
7	F. Yap Securities, Inc.	550,367,790	4.18
8	Coronet Property Holdings Corp	447,665,860	3.40
9	F. Yap Securities, Inc. A/C 5218	323,773,000	2.46
10	YHS Holdings Corp.	87,758,339	0.67
11	Felipe U. Yap	54,643,386	0.42
12	David Go Securities Corp.	45,438,131	0.35
13	Emma Yap	24,313,091	0.19
14	F. Yap Securities, Inc. A/C no. 87-EU	23,014,545	0.18
15	Kathy Sue Trout	22,619,631	0.17
16	F. Yap Securities, Inc. A/C PKY-89	20,577,792	0.17
17	F. Yap Securities, Inc. A/C#BSUY	20,302,971	0.16
18	Felcris Realty Investment Corp.	19,769,688	0.15
19	Coronet Property Holdings Corp	17,566,841	0.15
20	Fuad Jureidini	17,500,054	0.13

Submission of Matters to a Vote of Security Holders

No matter was submitted during the fourth quarter of 2008 to a vote of security holders.

Recent Sales of Unregistered or Exempt Securities

A total of 4,112,364,385 shares were sold in the second quarter of 2008 in connection with a 1:7 stock rights offer. The sale was exempt from registration.

The SEC on February 1, 2008 approved the Company's 17th Stock Option Award, covering a total of 420 million common shares effective until January 30, 2013.

Limitation on Payment of Dividends

Under certain loan agreements, the Company may not declare and pay dividends to shareholders without the bank's consent.

Independent Public Accountant

In October 2006, Sycip Gorres Velayo & Co. was designated by the Board as the Company's independent public accountant. There has not been any disagreement between the Company and said accounting firm with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure. For the 2006 financial statements, SGV's certifying partner was Mr. J. Carlitos G. Cruz. Since 2007, the certifying partner has been Mr. Jaime F. del Rosario. Such change of partner is in compliance with SRC Rule 68(30) (b) (iv).

Representatives of SyCip Gorres Velayo & Co. will be present at the Annual Meeting on April 20, 2009 to give statements in response to queries on issues they can shed light on.

Audit and Audit Related Fees

For the audit of the financial statements for the year 2007, SGV & Co. billed the Company the sum of P1,575,000, the same amount agreed for the audit of the 2008 financial statements. No other services, for tax or otherwise, were provided by SGV & Co.

Audit Committee's Approval Policies and Procedures

Prior to commencement of audit services, the external auditors submit their Audit Plan to the Audit Committee, indicating the applicable accounting standards, audit objectives, scope, approvals, methodology, needs and expectations and timetable, among others. A presentation on the same Plan is made by the external auditors before all the members of the Committee. All the items in the Plan are considered by the Committee, along with industry standards, in approving the services and fees of the external auditors.

Directors and Executive Officers of the Company

Directors (with term of office of one year)	Age	Citizenship	Period Served
FELIPE U. YAP	71	Filipino	Since 1975
BRYAN U. YAP	36	-do-	Since 1997
JOSE G. CERVANTES	74	-do-	Since 2006
SOLOMON S. CUA	53	-do-	Since April 2008
ETHELWOLDO E. FERNANDEZ	81	-do-	Since 2007
RAY C. ESPINOSA (Independent)	51	-do-	Since 2005
WILFRIDO C. TECSON (independent)	86	-do-	Since 1988
RICARDO V. PUNO, JR.	62	-do-	Since 2005
CRESENCIO C. YAP	63	-do-	2000-2004; 2006 to present

Executive Officers	Citizenship	Position
FELIPE U. YAP	Filipino	Chairman of the Board and Chief Executive Officer since 1988

BRYAN U. YAP	-do-	President/Chief Operating Officer since March 2003
RAMON T. DIOKNO	-do-	Chief Finance Officer since April 2008
AUGUSTO C. VILLALUNA	-do-	Sr. Vice President since 2003
MA. LOURDES B. TUASON	-do-	Vice President/Treasurer since 1995
RENE F. CHANYUNGCO	-do-	Vice President since1997
ABIGAIL K. YAP	-do-	Vice President-Tech. & Planning since 1999
ODETTE A. JAVIER	-do-	Vice President since Feb. 20, 2006/ Asst. Corp. Secretary since 1993
PABLO T. AYSON, JR.	-do-	Vice President-Mining Claims since Dec.18, 2006
MAGELLAN G. BAGAYAO	-do-	Vice President/Res. Manager since Nov. 19, 2007
CHERRY H. TAN	-do-	Asst. Vice President-Purchasing since July 1, 2004
RUBEN D. QUIWA	-do-	Asst. Vice President-Metallurgy since Nov. 19, 2007
ETHELWOLDO E. FERNANDEZ	-do-	Corporate Secretary

Business Experience in the Last Five (5) Years

Mr. Felipe U. Yap became the Chairman of the Company in 1988. He was the Chairman of the Board of Governors of the Philippine Stock Exchange from March 2000 to March 2002. He is likewise the Chairman and Chief Executive Officer of Manila Mining Corporation and Far Southeast Gold Resources, Inc. He is the Chairman of the Board of Prime Orion Philippines, Inc. and Zeus Holdings, Inc. and a Director of, among others, Manila Peninsula Hotel, Inc., Cyber Bay Corporation and Philippine Associated Smelting and Refining Corp. (PASAR).

Mr. Bryan U. Yap is also a Director and Vice President of Manila Mining Corporation, a position which he has been holding since 1994. He took over the Presidency of Lepanto effective March 1, 2003. He has been the President of Lepanto Investment and Development Corporation and Shipside, Inc. since 1997. He assumed the presidency of Diamant Boart Philippines, Inc. in 2002.

Atty. Jose G. Cervantes was the Senior Vice President of the Philippine Stock Exchange from March 2000 to November 30, 2005. He has been a director of Manila Mining Corporation since 2006 and of Zeus Holdings, Inc. since 2008.

Mr. Solomon S. Cua has been the Vice Chairman of First Metro Investment Corporation since 2005. He is also the President and Chief Executive Officer of Philippine Racing Club, Inc. and a Director of Omico Corporation. He served as Undersecretary of the Department of Finance from 1998 to 2000.

Atty. Ray C. Espinosa has been in the Board of Directors of Philippine Long Distance Telephone Company since November 1998. He has been the Managing Director of ePLDT, Inc. since July 2000.

Atty. Ethelwoldo E. Fernandez rejoined the Company as Corporate Secretary in 2001, the same year he was reappointed Corporate Secretary and elected director of Manila Mining Corporation. He was, from 1993 to 2003, Of Counsel to the law firm Sycip Salazar Hernandez & Gatmaitan, which is the principal retained counsel of the Company.

Atty. Ricardo V. Puno, Jr. is a Senior Partner of Puno & Puno Law Offices. He is currently a member of the Advisory Board of Metropolitan Bank and Trust Company, President

of Philslife Foundation, Inc. He was the Press Secretary and Presidential Spokesman from April 15, 2000 to January 20, 2001.

Mr. Wilfrido C. Tecson is also a member of the Boards of J. G. Summit, Inc., Robinsons Land, Inc. and International Exchange Bank, positions he has been holding for over five years already. He serves as a Trustee of the Asian Institute of Management and the Far Eastern University. He is Chairman Emeritus of Far Eastern University-IABF and Chairman of Far Eastern University Alumni Foundation. He was for two terms President of the Bankers' Association of the Philippines.

Mr. Cresencio C. Yap is the Chairman of the Rural Bank of Tagum (Davao del Norte) and General Manager of the Felcris Supermarket and Central Warehouse Club in Davao City, positions he has been holding for over five years already.

Mr. Ramon T. Diokno rejoined the Company as CFO effective April 1, 2008. He held that same position from 1985 to 1996. Until recently, he was CFO of the Alcantara Group of Companies.

Mr. Augusto C. Villaluna, a mining engineer, served the Company as Resident Manager of the Lepanto Mine Division from 1994 to 2000. He rejoined the Company in May 2003. He has been a director of Manila Mining Corporation since 2004.

Ms. Ma. Lourdes B. Tuason is also the Assistant Treasurer of Manila Mining Corporation and Far Southeast Gold Resources, Inc.; Treasurer of Philippine Fire and Marine Insurance Corporation, Shipside, Inc., Diamond Drilling Corporation of the Philippines and Lepanto Investment and Development Corporation; Vice President of Diamant Boart Philippines, Inc.

Mr. Rene F. Chanyungco is also the Senior Vice President-Treasurer of Manila Mining Corporation and Vice President of Lepanto Investment and Development Corporation.

Ms. Abigail K. Yap, Vice President for Technology and Planning, was Vice President of Felcris Supermarket, Inc. before she joined Lepanto in 1999. She is the Chief Executive Officer of Yapster e-Conglomerate, Inc.

Atty. Odette A. Javier has been the Company's Assistant Corporate Secretary since 1993. She was promoted to Vice President-Assistant Corporate Secretary on February 20, 2006. She is also the Assistant Corporate Secretary of Manila Mining Corporation and is a Director of Lepanto Investment and Development Corporation.

Atty. Pablo T. Ayson, Jr. was, until his promotion in December 2006, Manager of Mining Claims Department of Lepanto. He is also a Vice President of Manila Mining Corporation.

Engr. Magellan G. Bagayao had a long stint with Benguet Corporation where his last position was Mine Manager. He has extensive experience in cut-and-fill operations. He joined Lepanto in 1998 as Mine Manager and left a few years ago to work for a foreign company in Papua, New Guinea and subsequently for TVI in Zamboanga. He rejoined Lepanto as a Vice President in November 2007.

Ms. Cherry H. Tan joined the Company as Purchasing Manager in 1998. She was promoted to Assistant Vice President in 2004.

Engr. Ruben D. Quiwa worked with Philex for over 20 years before joining Lepanto as Mill Manager-LMD in 1993. He was promoted to Asst. Resident Manager in 2000 but left in 2002 to join a mining company based in Vietnam. He returned to Lepanto as Assistant Vice President-Metallurgist in November 2007.

None of the Company's directors or officers or businesses they control is involved in any bankruptcy or criminal proceeding, or any case seeking to enjoin them from any business or banking activities neither has any director or officer been found to have violated any securities or commodities law.

Significant Employees

There are no significant employees expected to contribute significantly to the business other than the executive officers.

Family Relationships

Mr. Bryan U. Yap, Director and President, is the son of the Chairman and Chief Executive Officer, Mr. Felipe U. Yap. Miss Abigail K. Yap is the niece of the Chairman. The Chairman and Director Cresencio C. Yap are brothers.

Involvement of the Company or its Directors and Officers in Certain Legal Proceedings

None of the directors and officers were involved during the past five (5) years in any bankruptcy proceeding. Neither has any director or officer been convicted by final judgment in any criminal proceeding, or been subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in action by any court or administrative bodies to have violated a securities or commodities law.

There is a pending material legal proceeding involving the Company, to wit:

Lepanto vs. NM Rothschild & Sons (Australia) Ltd. (Civil Case No. 05-782)

The Company initiated a case for the declaration of nullity of certain hedging contracts with Rothschild on the ground that they are considered as wagering transactions under Philippine law. The case is now pending with the Regional Trial Court ("RTC") of Makati City. Also pending with the Supreme Court is a petition filed by Rothschild (G.R. No. 175799) questioning the RTC's denial of its Motion to Dismiss which denial had been affirmed by the Court of Appeals.

Certain Relationships and Related Transactions

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, LCMC grants and receives advances to and from its associates and stockholders, which are considered related parties under PAS No. 24, "Related Party Disclosures".

The corresponding receivables and payables arising from the said transactions, including operational support, as of December 31, 2008 and 2007 are as follows:

	2008	2007
Due from Manila Mining Corporation	**₱139,311**	₱169,580
Advances from Stockholders	**₱139,503**	₱403,750

Due from MMC and advances from stockholders as mentioned above are presented in the consolidated balance sheets under the "Investments in and advances to associate" and "Trade and other payables" captions, respectively.

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

   On March 31, 2003, the LCMC entered into a separate Trust Agreement with LIDC whereby the latter ceased to be the second trustee of the LCMC Employee Pension 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. LCMC has decided to terminate the services of the local bank and consolidated into LIDC the administration of the Plans.

Executive Compensation.

Summary Compensation Table

	2007 Total (All Cash)	Basic Salary	Bonus (13th month in the case of executive officers)	Others
Felipe U. Yap, Chairman) Bryan U. Yap, President) Rene F. Chanyungco, CFO) Augusto C. Villaluna, SVP) Ma. Lourdes B. Tuason, Vice Pres./Treasurer)	P22.1 million	P20.4 million	P1.7 million	-0-
All officers and directors	P25.0 million	P23.1 million	P1.9 million	-0-
	2008 (Total)			
Felipe U. Yap, Chairman) Bryan U. Yap, President) Ramon T. Diokno, CFO) Augusto C. Villaluna, SVP) Ma. Lourdes B. Tuason, Vice Pres./Treasurer)	P23.4 million	P21.3 million	P2.1 million	-0-
All officers and directors	P30.8 million	P27.2 million	P3.6 million	-0-
	2009 (Estimate)			
Executive officers listed above	P23.4 million	P21.3 million	P2.1 million	-0-
All officers and directors	P30.8 million	P27.2 million	P2.1 million	-0-

There are no arrangements with any officer or director for payment of any amount or bonus other than the regular salary or per diem for attendance of board meetings. Neither was there any compensatory plan or arrangement concerning or resulting from the termination of employment of any officer.

Compensation of Directors/Committee Members

Directors are paid a per diem of P1,000.00 each for attendance of every regular or special meeting in accordance with the Corporation's By-Laws. For Committee meetings attended, non-executive member-directors are paid a per diem of P5,000.00 to P10,000.00 each.

Voting Trusts and Change in Control

There are no voting trusts involving the Company's shares nor has there been any change in the control of the Company in the last five (5) years.

Pension Plan

The parent Company and DBPI have funded, non-contributory defined benefit retirement plans covering substantially all regular employees while DDCP and Shipside, Inc. have unfunded benefit retirement plan. 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, 2008, 2007 and 2006.

Warrants, Options, Compensation Plans, Issuance or Modification of Securities

The Board of Directors approved the grant of the 17th Stock Option Award, covering 420 million shares (adjusted to 480 million shares in connection with the Company's 1:7 stock rights offering) to officers, employees and directors of the parent company and subsidiaries. The Award was approved by the SEC on February 1, 2008 and by the PSE on February 29, 2008, and will be effective until January 30, 2013.

*Security Ownership

Security Ownership of Certain Record and Beneficial Owners

Owners of more than 5% of the Company's securities as of December 31, 2008 (other than PCD) were as follows:

Title of Class	*Name/Address of Record Owner	Name of Beneficial Owner	Citizenship	A / B Shareholdings	%	Total Shareholdings	%
A & B	*F. Yap Securities, Inc. *U-2301 & 2302, 23/F, PSE Centre, Exchange Rd., Ortigas Center, Pasig City*	same	Filipino	2,705,263,554 1,994,511,297	13.72 15.17	5,640,520,415	14.30
A	** Metropolitan Bank & Trust Co. *Gil Puyat Ave., Makati City*	same	Filipino	2,827,408,995	14.34	2,827,408,995	8.60
A	** First Metro Investment Corp. *Makati City*	same	Filipino	2,550,682,926	12.93	2,550,682,926	7.76

Security Ownership of Management (December 31, 2008)

Title of Class	Beneficial Owner (Directly Owned)	Position	Amount and Nature of Beneficial Ownership (A / B)	Citizenship	Percent of Classes (A / B)
A & B	Felipe U. Yap	Chairman of the Board	124,406,370 / 63,777,869	Filipino	0.631 / 0.485
A & B	Bryan U. Yap	Director / President	204,178,185 / 10,810,134	-do-	1.035 / 0.082
A	Solomon S. Cua	Director	10,000	-do-	nil
A	Jose G. Cervantes	Director	150,000	-do-	nil
B	***Ray C. Espinosa	Director	1,000,000 / 500,000	-do-	nil
A & B	Ethelwoldo E. Fernandez	Director/Corp. Sec.	5,000 / 2,750	-do-	nil
A	Ricardo V. Puno, Jr.	Director	1,382,678 / 914,286	-do-	0.007 / 0.007
A & B	***Wilfrido C. Tecson	Director	6,773,747 / 15,108,311	-do-	0.034 / 0.115
B	Cresencio C. Yap	Director	7,554,883	-do-	0.058
A	Ramon T. Diokno	Chief Finance Officer	200,584	-do-	nil
B	Augusto C. Villaluna	SVP	570,900	-do-	0.004
A & B	Ma. Lourdes B. Tuason	Vice Pres./Treasurer	5,211,393 / 1,755,974	-do-	0.026 / 0.013
	Aggregate as a group		*3,431,669,957/101,1245,107*		

* - Power to dispose of shares is vested in: F. Yap Securities - Pacita K. Yap; Voting rights/proxies for F. Yap Securities have been granted to Mr. Felipe U. Yap.

** - Power to dispose of shares is vested in their respective Board of Directors; Voting rights/proxies have been granted to: Ricardo V. Puno, Jr. and Solomon S. Cua

*** - Independent Directors

Plan of Operation for 2009

In view of the sharp decline in copper prices, copper operations are currently on hold. Operations this year will be focused on the Victoria and Teresa Gold Projects. Gold prices are expected to remain at current levels. Projected mining tonnage this year will be 525,528, averaging 1,480 tonnes per day. To achieve production targets, the Company will have to undertake development work at the Victoria Gold Project, specifically in the 700L areas, costing P256 million. A total of P138 million is being earmarked for the purchase of mining equipment.

To finance the above, the Company will use internally-generated funds and avail of existing credit lines. There is no immediate plan to resume copper operations. In view of the very low copper prices, the Company is studying ways of making copper operations more efficient.

There is no plan for any significant change in the number of employees.

Management's Discussion and Analysis of Financial Conditions for 2008, 2007 & 2006

2008

Consolidated revenues for 2008 amounted to P1.84 billion, compared with P1.78 billion in 2007. Net Loss amounted to P763.3 million with the mining operations accounting for P400 million. The result of mining operations is explained below.

MINING OPERATIONS

Revenues from sale of metals totaled P1.72 billion, compared with the previous year's P1.71 billion. Mining operations showed a loss of P400 million compared with last year's loss of P283 million. The loss was largely due to the lower gold production and the sharp and sudden decline in the copper price. Copper prices peaked at US$3.98/lb in June 2008, only to fall to US$1.32/lb in December which resulted in the negative adjustments on the copper concentrate sales amounting to P108 million as of year-end. Silver price peaked at US$20.92/oz in March but was down to US$8.88/oz by October. The price of gold improved though, averaging US$871.96/oz in 2008 vs the 2007average of US$697.71/ oz.

Total tonnes milled reached 751,930 as against last year's 552,090 tonnes. Average gold grade was 1.79g/t versus 3.01g /t in 2007 while average copper grade was 0.27% in 2008. Gold produced in 2008 totaled 37,716 oz compared with 48,918 oz. in 2007. Copper production amounted to 3,544,175 lbs compared with 246,386 lbs the previous year. A total of 9,963 tons of copper concentrates was produced during the year.
Following is a summary of the financial results of mining operations:

	2008 Jan-Dec (Pesos M)	2007 Jan-Dec (Pesos M)	Difference %
Sale of Metals and Other Income	1719.5	1714.9	1
Cost and Expenses	-2197.7	-1917.1	-15
Increase (Decrease) in Inventory	78.3	-80.7	197
Income (Loss) from Operations	-399.9	-282.9	-141
Finance Costs (net)	-314.5	58.0	-642
Income (Loss) Before Income Tax	-714.4	-224.9	-218
Benefit From Income Tax	-22.6	-41.2	55
Net Income (Loss)	-737.0	-266.1	-277

Major cost accounts increased due to the increase in tonnage. Milling cost rose by P42 million due to price increases of imported materials and the resumption of the copper flotation operations. Smelting, refining and other charges related to copper processing went up by P129 million because copper production in 2007 was minimal compared with 2008. Depletion cost rose by P79 million due to the higher mining tonnage while depreciation went up by P15 million as a result of additional mining equipment purchased during the year. Mining cost decreased by P6 million due to reduction in power consumption and contractual services despite increments in labor cost and major consumables.

The company recorded a copper concentrate inventory of P78.3 million vs. none the previous year.

Interest Cost was lower at P140 million versus P167 million in 2007 on account of the lower loan balance. However due to the weakening of the Peso against the US$ from P41.28/US$ at the start of the year to P47.52/US$ at year-end, the company had to revalue its dollar-denominated loans. This resulted in a reversal from a foreign exchange gain in 2007 of P224 million to a foreign exchange loss of P175 million. Taking all these into account and the share in the net losses (gains) of the subsidiaries and associates of P26.1 million, net loss for the year amounted to P763.3 million.

Following are comparative production statistics for 2008 and 2007:

	2008 Jan-Dec	2007 Jan-Dec	Difference %
Tonnes Milled	751,930	552,090	36
Milled Head, g/t Au	1.79	3.01	-41
Milled Head, (%) Cu	0.27	N/A	100
Recovery, % Au	87.43	91.50	-4
Recovery, % Cu	71.45	54.26	32
Production, oz Au	37,716	48,918	-23
Production, lbs Cu	3,544,175	246,386	1338

BALANCE SHEET MOVEMENTS

Cash and cash equivalents decreased from P10.5 million at year-end to P8.7 million due to settlement of accounts. Receivables went up from P81.7 million to P145.2 million on account of the higher trade receivables. Inventories likewise increased from P445.7 million to P581.8 million on account of the Copper Concentrate inventory of P78.3 million and increments in parts and supplies of P57.7 million. The increase in Other Current Assets was due to the increases in i) Pre-paid expenses on account of the purchase of supplies used for drilling/exploration; ii) Creditable input Vat; and iii) Advances to suppliers and others.

Available-for-Sale Financial Assets went down by P65.2 million due mainly to the decrease in fair value of shares of stock held by the Company. Investments and Advances in Associates decreased by P67.7 million due to payments made by associates. Other Non-current assets increased by P3.7 million due to deferred charges.

On the Liabilities side, Trade Payables and Accrued Expenses rose due to increases in Trust Receipts of P384.0 million and Trade Payables to suppliers of P120.4 million. Loans Payable went down by P20 million due to repayments made. Current portion of long- term borrowings went up by P21.6 million.

Long-term borrowings were reduced from P939.9 million to P623.7 million principally because of loan repayments of P363.7 million out of the stock rights offering proceeds in the second quarter.

The increases in the capital stock and additional paid-in capital were on account of the 1:7 stock rights offering in the second quarter, which raised over P1.02 billion.

Retained earnings dropped to P0.1 billion, from P0.9 billion as of end of 2007.

CAPITAL EXPENDITURES

Total capital expenditures for the year reached P668 million, P440 million of which went to mine development and special projects, exploration cost was P65.0 million while P33.7 million was incurred for the Tailing Dam maintenance. Mine machinery and equipment purchased for the period amounted to P129.2 million.

SUBSIDIARIES

The key performance indicator used for the subsidiaries is Net Income.

Lepanto Investment and Development Corp reported a net loss of P467,000 compared with last year's loss of P64,400. Shipside Incorporated's net income decreased from P2.7million to P1.7 million. Net income of Diamond Drilling Corporation of the Philippines (DDCP) rose to P2.4 million from last year's P2.1 million.

* - *KEY PERFORMANCE INDICATORS-LCMC* (**applicable also to 2007 and 2006**)

Tonnes Milled which indicate the amount of ore taken for processing, Milled Head is the amount of gold per ton milled and Gold production which is the final product of the operations. Metal sales, Cost and Expenses and Net Income round up the review process on how the company is performing vis-à-vis the performance of the same period last year. Average Gold price for the period adds another parameter that needs watching notwithstanding that the company has no direct influence on its movement.

2007

Consolidated earnings for 2007 amounted to P1.78 billion, compared with P1.84 billion in 2006. Net Loss amounted to P206 million, as explained below.

MINING OPERATIONS

Revenues from sale of metals totaled P1.7 billion, compared with the previous year's P1.8 billion. Mining operations showed a loss of P266.1 million compared with last year's loss of P18.2 million. The loss was mainly due to lower gold production brought about by the lower tonnage of 552,090 compared with 583,665 tonnes milled last year and lower grades. The appreciation of the Peso vis-à-vis the US$, from an average of P51.192/US$ in 2006 to P46.19/US$ in 2007, also adversely affected the revenues; the impact was however cushioned by the increase in the average gold price to $697.74/oz from last year's average of P606.24/oz.

Gold produced in 2007 totaled 48,871 oz compared with 55,054 oz. in 2006, which included the gold contents of the copper concentrate amounting to 3,839 oz. and 11,194 oz., respectively. Total tonnes processed reached 552,090 as against the previous year's 583,665 tonnes. Overall grade for the whole year was 3.01g/t versus 3.16g/t last year.

Following is a summary of the financial results of mining operations:

	2007 Jan-Dec (Pesos M)	2006 Jan-Dec (Pesos M)	Difference %
Sale of Metals	1714.9	1807.1	-5
Cost and Expenses	-1917.1	-1892.2	-1
Increase (Decrease) in Inventory	-80.7	80.7	-200
Income (Loss) from Operations	-282.9	-4.4	-6313
Finance Costs (net)	58.0	-59.8	197
Income (Loss) Before Income Tax	-224.9	-64.2	-250
Benefit From Income Tax	-41.2	46.0	-190
Net Income (Loss)	-266.1	-18.2	-1362

Cost and expenses posted increases in major cost accounts. Mining cost increased by P54 million due to increments in: labor cost of P13 million arising principally from the CBA provisions; power cost by P7 million due to rate increase; and major consumables such as explosives, drill steels, tires, tubes, lubricants and LHD parts for underground equipment amounting to P34 million. Milling cost rose by P9 million due to price increases of imported materials. Smelting, refining and other charges related to Copper processing went down by P47 million as a result of the temporary suspension of the copper flotation. Depletion cost rose by P8 million due to the higher mining tonnage. There was no copper inventory in 2007.

Finance cost ended positive due to the 16% appreciation of the Peso vis-à-vis the US$, P49.03/US$ as of end-2006 compared with P41.28/ US$ as of end- 2007, resulting in an incremental forex gain of P82.2 million. The loan balance had been reduced following repayments made to some creditor banks, thus the lower interest cost, P202.2 million in 2006 vs. P166.6 million in 2007.

Observance of the cut-off grades resulted in a 5% drop in milling tonnage. Milled head of gold was 5% lower than last year's. Following are comparative production statistics for 2006 and 2007:

	2007 Jan-Dec	2006 Jan-Dec	Difference %
Tonnes Milled	552,090	583,665	-5
Milled Head, g/t Au	3.01	3.16	-5
Recovery, %	91.67	92.83	-1
Production, oz Au	48,871	55,054	-11

BALANCE SHEET MOVEMENTS

Cash and cash equivalents decreased from P13.7 million at year-end to P10.5 million due to settlement of accounts and lower revenues for the year. Receivables went down by 56% to P81.7 million on account of the lower trade receivable. Prepayments and other current assets increased by P60.4 million due to the P49.6 million increment in Prepaid expenses, P31.9 million of which were for the purchase of tubings used in the drilling and exploration activities. Advances to suppliers and Creditable input Vat accounted for the remaining P10.7 million increase.

Property, plant and equipment went up by P267.6 million due mainly to mine development cost capitalized during the year. Available-for-sale financial assets rose by P50.0 million due mainly to the increase in fair value of Prime Orion Philippines. Investments and Advances in Associates decreased by P92.8 million, the net effect of a decrease due to repayments made by an associate and the recordal of the Company's share in the net income of the same associate. Deferred income tax assets went down by 28% due to the impact of unrealized forex gains.

On the Liabilities side, Trade Payables and Accrued Expenses rose by 60% due to increases in Advances from Stockholders and related parties of P355.7 million, Trust receipts of P131.3 million, Trade payables to suppliers of P81.0 million and other payables to other creditors of P46.2 million. Loans Payable went up by P50 million due to fresh loan availments. Current portion of long- term borrowings went down by 67% due to i) settlements made during the year of P133.4 million and ii) a restatement of loans to reflect the peso appreciation against the US

dollar from P49. 03 to P41.28 per US$ amounting to P7.6 million. Income tax payable decreased to nil from P3.9 million due to usage of MCIT of the prior years, sufficiency of creditable withholding taxes to cover obligations and zero tax obligation for the parent due to losses.

Long-term borrowings were reduced from P1,241.0 million to P939.8 million brought about by loan repayments (P122.3 million) and the loan restatement discussed above, amounting to P178.9 million.

Retained earnings amounted to P0.9 billion, from P1.01 billion as of end of 2007.

CAPITAL EXPENDITURES

Total capital expenditures for the year reached P668.0 million, P440.1 million of which went to mine development and special projects. Exploration added P65.0 million into the costs while another P33.7 million was incurred for the Tailing Dam maintenance. Mine machinery and equipment purchased for the period amounted to P129.2 million.

SUBSIDIARIES

The key performance indicator used for the subsidiaries is Net Income.

Lepanto Investment and Development Corp reported a net loss of P64.4 thousand compared with last year's loss of P197 thousand. Shipside Incorporated's net income increased 3x from P0.9million to P2.7 million. Net income of Diamond Drilling Corporation of the Philippines (DDCP) fell to P2.1 million from last year's P5.1 million as some rigs became unavailable pending rehabilitation. DDCP is currently drilling for Manila Mining Corporation in Surigao del Norte and for the parent company's project in Benguet.

2006

Tonnes milled increased by 24% from 471,710 t in 2005 to 583,655 t this year. However, due to the decrease in mill head grade, gold production was almost the same at 55,055 oz. this year from 55,749 oz. in 2005

The price of gold continued to climb, reaching a high of $725/oz. in the 2nd quarter of 2006 and a low of $524/oz in the first quarter. The average price for the year, however, was $603/oz.

The average mill head grade delivered to the mill was 3.16 g/t Au against 3.93 g/t Au of the previous year. The delay in the development of the higher-grade level in various levels of the mining areas contributed to the reduction.

As a result of the 35% increase in gold price, gross revenue increased from P1399 million to P1805 million, including revenues from copper of P92 million. Total cost and expenses of P1811 million represents a 12% increase from last year's P1624 million. With the increase in tonnes milled from 471,000 to 583,000 tonnes, mining cost rose by P69 million. Smelting and refining and treatment charges increased to P86 million from P14 million due to the operation of the copper flotation plant. The copper flotation was not operational in the previous year. Milling cost, Depletion and Overhead contributed cost increments of P81 million, P82 million and P18 million respectively due mainly to the effects of increased tonnage and price increases in consumables. For the year, the Parent company's operations resulted in a loss of P21 million

compared with last year's loss of P331 million. Overall, the Company and the subsidiaries incurred a net loss of P36 million from last year's loss of P355 million.

Inventories increased by P30 million, from P409 million in 2005 to P439 million this year with the copper concentrates accounting for P81 million, which was offset by the decrease in parts and supplies of P51 million. Creditable input VAT (on importations) rose by P22 million, while Prepaid Expense and other assets dropped by P14 million, resulting in a net increase of P8 million in Prepayments and other current assets. Investments and advances to associates decreased by 5% which decrease reflects the 1) payments made by an associate to Lepanto; subscription to the rights offer of that associate; and share in the losses of associates. Mine exploration costs increased from P663 million to P757 million due to the reclassification of mining properties and land of P102 million originally reported under Property, Plant and Equipment reduced by the write off of P8 million relating to the Tampakan project. Deferred Income Tax Assets went up by 53% due to excess of depletion per books over allowable depletion which increased from P100 million to P149 million

Trade Payables and accrued expenses increased from P745 million to P939 million as a result of the increase of trade payable by P338 million, settlement of Trust Receipts amounting to P95 million and reduction of accruals, including Utilities and Production Taxes, by P50 million. Loans Payable decreased by P159 million as a result of the settlement of the Ivanhoe loan by the same amount. Current Portion of Long-term Borrowings increased by P152 due to the reclassification of loans maturing within the year. Income Tax Payable grew by P3 million due to the MCIT liability of the parent company.

Long-term borrowings net of current portion decreased by 32% as a result of payments made. Retirement benefit obligations increased by P59 million due to the recognition of additional past service obligations for the year.

Capital expenditure commitments for 2007 amount to P549 million, intended for development meterage of 9.7 kms and diamond drilling of 12.3 kms., which will be funded by current operations. Raiseboring, underground construction together tailings dam free board construction and purchase of mine equipment are all intended to increase productivity and meet production target set for the rest of the year.

Two subsidiaries, Diamond Drilling Corporation of the Philippines (DDCP) and Shipside Incorporated (SI) showed an income of P5 million and P1 million on revenues of P84 million and P57 million, respectively. The other three subsidiaries namely Lepanto Investments and Development Corp, Far Southeast Gold Resources, Inc and Diamant Boart Philippines Inc. recorded losses of less than P1 million.

The court case against Rothschild is still pending with the Regional Trial Court of Makati. The denial of the Motion to Dismiss filed by Rothschild was elevated to the Court of Appeals, which dismissed Rothschild's petition. Rothschild had gone up to the Supreme Court, where its petition is now pending.

A 1:8 stock rights offering of a total of 3.2 billion shares at P0.20 per share was made in the third quarter of the year which was oversubscribed. The proceeds were utilized principally to settle accounts with banks and suppliers.

Compliance with Leading Practices on Corporate Governance

To monitor and evaluate compliance with the adopted leading practices in good governance, the Compliance Officer, who is also the Company Treasurer, attends board, staff and occasionally, committee meetings and confers with the responsible persons of the various departments within the Company. Furthermore, the Audit Committee meets regularly, conferring with internal auditors and management to discuss or otherwise resolve risk issues. The HR Department is involved in the monitoring of Compliance with the Code of Conduct. With the Code of Conduct and various guidelines in place, which are available to all concerned directors, officers and employees, parameters have been set for purposes of monitoring compliance and imposition of appropriate sanctions upon erring officers or employees. There were no deviations from the Company's Manual on Corporate Governance.

Financial Statements

Attached as Exhibit "A" hereof, are the Company's Audited Financial Statements for 2008 covered by the Statement of Management's Responsibility and the Auditor's Report signed by Mr. Jaime F. Del Rosario, with the following exhibits:

Exhibits "B"	-	Schedule C - Long-Term Investment in Stocks and Available-For-Sale Investment
"C"	-	Schedule E - Mine Exploration Costs & Other Noncurrent Assets
"D"	-	Schedule F - Borrowings
"E"	-	Schedule I - Capital Stock

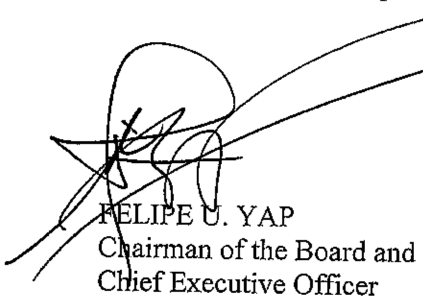
Reports on Form 17-C

Date of Report	Subject
February 18, 2008	Setting of Annual Stockholders' Meeting, Deadline for submission of nominations of independent directors, SRO 1:7
March 6, 2008	Confirmation of Approval of Listing of the Stock Rights Offer
March 12, 2008	List of stockholders as of record date
March 13, 2008	Update on MOU with Zijin
March 17, 2008	Appointment of Mr. Ramon T. Diokno as Chief Finance Officer
March 23, 2008	Reply to News Article
April 21, 2008	Election of Directors
April 23, 2008	Reply to News Article
May 19, 2008	(Re-) Appointment of Officers/Committee Members, etc.
Nat 26, 2008	Update of MOU with Zijin
August 1, 2008	Reply to News Article.

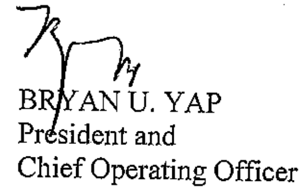
SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in Makati City on April 14, 2009.

Lepanto Consolidated Mining Company
Issuer



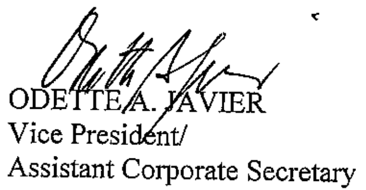
FELIPE U. YAP
Chairman of the Board and
Chief Executive Officer



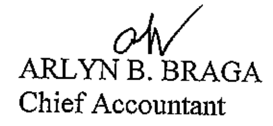
BRYAN U. YAP
President and
Chief Operating Officer

RAMON T. DIOKNO
Chief Finance Officer

MARIO L. LAVENTE
Financial Controller



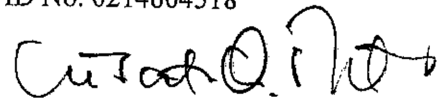
ODETTE A. JAVIER
Vice President/
Assistant Corporate Secretary



ARLYN B. BRAGA
Chief Accountant

SUBSCRIBED AND SWORN TO before me this APR 14 2009 day of April 2009 at Makati City, affiants exhibiting their respective Community Tax Certificates:

	Com. Tax Cert. No.	Place/Date Issued
Felipe U. Yap	17800234	Davao City/1-6-09
Bryan U. Yap	19319475	Makati - 2/14/08
Ramon T. Diokno	19462182	Makati - 1/8/08
Mario L. Lavente	LTO N04-88-072822	2/21/08
Odette A. Javier	19211725	Manila/3-18-09
Arlyn B. Braga	SSS ID No. 0214604518	



CRISANTO O. MARTINEZ
Notary Public Until Dec. 31, 2010
PTR No. 1567955/Jan. 5, 2009/Makati
IBP No. 761922/Nov. 12, 2008/Manila
Roll of Attorney No. 36153
MCLE Compliance No. II-0003961

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Page No. 7 :
Book No. X :
Series of 2009.

LEPANTO CONSOLIDATED MINING CO.

BA-Lepanto Building, 8747 Paseo de Roxas, 1226 City of Makati, Philippines

16 March 2009

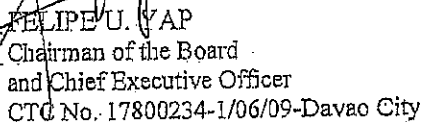
To the Securities and Exchange Commission
Securities and Exchange Commission Building
EDSA, Mandaluyong City

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, 2008, 2007 and 2006.** 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.

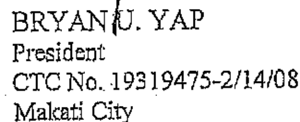
In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management 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.

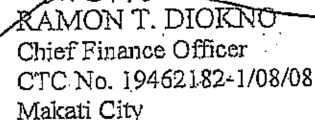
Sycip, Gorres, Velayo & Co., the independent auditors appointed by the Board, has examined the financial statements of the company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination,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



FELIPE U. YAP
Chairman of the Board
and Chief Executive Officer
CTC No. 17800234-1/06/09-Davao City

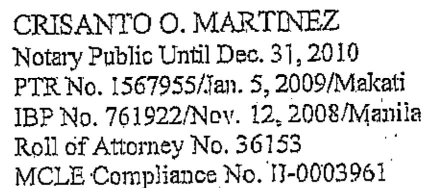


BRYAN U. YAP
President
CTC No. 19319475-2/14/08
Makati City



RAMON T. DIOKNO
Chief Finance Officer
CTC No. 19462182-1/08/08
Makati City

SUBSCRIBED AND SWORN to before me this 16th day of March 2009 at Makati City.



Doc. No. 480
Page No. 96
Book No. IX
Series of 2009.

CRISANTO O. MARTINEZ
Notary Public Until Dec. 31, 2010
PTR No. 1567955/Jan. 5, 2009/Makati
IBP No. 761922/Nov. 12, 2008/Manila
Roll of Attorney No. 36153
MCLE Compliance No. II-0003961

Surface Mail: P.O. Box 1460, Makati Central Post Office 1254, City of Makati, Philippines
Air Mail: P.O. Box 7507, Domestic Airport Post Office, 1300 Domestic Road, Pasay City, Philippines
Telephone No. 815-9447; Fax Nos. 63 (2) 810-5583 / 63 (2) 812-0451; E-Mail - lepanto@i-next.net

EXHIBIT "A"

Lepanto Consolidated Mining Company and Subsidiaries

Consolidated Financial Statements
December 31, 2008 and 2007
and Years Ended December 31, 2008, 2007 and 2006

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV & Co
Ernst & Young

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

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

To the Stockholders and the Board of Directors
Lepanto Consolidated Mining Company

We have audited the accompanying financial statements of Lepanto Consolidated Mining Company (parent company) and its subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2008 and 2007, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2008, 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 about 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 referred to above present fairly, in all material respects, the financial position of Lepanto Consolidated Mining Company and its subsidiaries as of December 31, 2008 and 2007, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2008 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-1
Tax Identification No. 102-096-009
PTR No. 1566422, January 5, 2009, Makati City

March 16, 2009

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2008	2007
ASSETS		
Current Assets		
Cash (Note 4)	₱8,712	₱10,472
Receivables - net (Note 5)	145,157	81,741
Inventories - net (Note 6)	581,762	445,746
Other current assets (Note 7)	421,098	319,593
Total Current Assets	1,156,729	857,552
Noncurrent Assets		
Property, plant and equipment - net (Note 8)	6,408,409	6,180,064
Available-for-sale (AFS) investments (Note 9)	85,202	151,498
Investments in and advances to associates (Note 10)	378,322	445,151
Mine exploration costs - net (Notes 1 and 11)	760,275	757,624
Deferred income tax assets - net (Note 18)	102,838	107,236
Other noncurrent assets (Note 26)	16,940	13,240
Total Noncurrent Assets	7,751,986	7,654,813
TOTAL ASSETS	₱8,908,715	₱8,512,365
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 12)	₱2,135,701	₱1,636,566
Current portion of long-term borrowings (Note 14)	92,314	70,704
Loans payable (Note 13)	80,000	100,000
Total Current Liabilities	2,308,015	1,807,270
Noncurrent Liabilities		
Long-term borrowings - net of current portion (Note 14)	623,737	939,870
Retirement benefit obligation (Note 16)	468,690	470,892
Deferred income tax liabilities - net (Note 18)	127,308	149,168
Stock subscriptions payable	111,309	111,309
Total Noncurrent Liabilities	1,331,044	1,671,239
Equity		
Capital stock (Note 19)	3,286,606	2,877,676
Additional paid-in capital	1,446,062	830,291
Revaluation increment in land (Note 8)	564,022	523,735
Cumulative changes in fair values of AFS investments (Note 9)	(406,895)	(340,884)
Retained earnings	126,470	889,659
Equity attributable to the equity holders of the parent company	5,016,265	4,780,477
Minority interest (Note 20)	253,391	253,379
Total Equity	5,269,656	5,033,856
TOTAL LIABILITIES AND EQUITY	₱8,908,715	₱8,512,365

See accompanying Notes to Consolidated Financial Statements.

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2008	2007	2006
REVENUES			
Sale of metals (Note 25)	**₱1,713,873**	₱1,712,653	₱1,804,593
Service fees and other operating income (Note 26)	**123,401**	64,002	40,843
	1,837,274	1,776,655	1,845,436
COSTS AND EXPENSES (Note 22)	**(2,221,459)**	(2,054,282)	(1,841,900)
FINANCE COSTS (Note 23)	**(139,636)**	(166,623)	(202,247)
FOREIGN EXCHANGE GAINS (LOSSES) - net	**(175,234)**	224,417	115,566
OTHER INCOME - net (Note 23)	**268**	2,250	26,923
SHARE IN NET EARNINGS (LOSSES) OF ASSOCIATES (Note 10)	**(36,560)**	55,742	(22,743)
LOSS BEFORE INCOME TAX	**(735,347)**	(161,841)	(78,965)
PROVISION FOR (BENEFIT FROM) INCOME TAX - net (Note 18)			
Current	**4,703**	3,885	7,850
Deferred	**23,249**	40,719	(51,013)
	27,952	44,604	(43,163)
NET LOSS	**(₱763,299)**	(₱206,445)	(₱35,802)
Attributable to:			
Equity holders of the Parent Company	**(₱763,189)**	(₱206,578)	(₱35,629)
Minority interest (Note 20)	**(110)**	133	(173)
	(₱763,289)	(₱206,445)	(₱35,802)
BASIC AND DILUTED LOSS PER SHARE (Note 21)	**(₱0.02369)**	(₱0.00718)	(₱0.00135)

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		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	**(₱735,348)**	(₱161,841)	(₱78,965)
Adjustments for:			
Depletion, depreciation and amortization (Note 8)	**575,539**	469,731	554,376
Financing costs (Note 23)	**139,636**	166,623	202,247
Share in net earnings (losses) of associates (Note 10)	**36,560**	(55,742)	22,743
Unrealized foreign exchange losses (gains) - net	**86,492**	(186,522)	(55,341)
Gain on disposal of property, plant and equipment and other investments	**275**	(2,067)	(473)
Interest income (Note 23)	**(271)**	(183)	(308)
Dividend income	**(261)**	(112)	(76)
Operating income before working capital changes	**102,622**	229,887	644,203
Decrease (increase) in:			
Receivables	**(63,416)**	172,974	129,068
Inventories	**(136,015)**	(6,937)	(29,942)
Other current assets	**(102,209)**	(129,609)	(134,024)
Increase (decrease) in:			
Trade and other payables	**501,626**	609,131	189,491
Retirement benefit obligation	**(2,203)**	79,075	41,952
Cash generated from operations	**300,405**	954,521	840,748
Interest received	**271**	183	308
Income taxes paid	**(3,989)**	(7,950)	(579)
Net cash provided by operating activities	**296,687**	946,754	840,477
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
Property, plant and equipment (Note 8)	**(870,716)**	(794,148)	(670,384)
AFS investments (Note 9)	**(16)**	–	–
Collection of (additional) advances to associate	**30,270**	148,533	(22,743)
Proceeds from disposal of property, plant and equipment and other investments	**66,555**	62,863	7,277
Dividends received	**261**	112	76
Additions to mine exploration costs	**(2,651)**	(240)	(94,733)
Increase in other noncurrent assets	**(3,700)**	(133)	(182)
Net cash used in investing activities	**(779,997)**	(583,013)	(780,689)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance (cancellation) of shares	**1,024,701**	(21)	636,399
Payments of:			
Borrowings	**(381,015)**	(255,397)	(502,036)
Interest	**(142,136)**	(161,581)	(197,635)
Availment (payment) of loans	**(20,000)**	50,000	–
Net cash provided by (used in) financing activities	**481,550**	(366,999)	(63,272)
NET DECREASE IN CASH	**(1,760)**	(3,258)	(3,484)
CASH AT THE BEGINNING OF THE YEAR	**10,472**	13,730	17,214
CASH AT THE END OF THE YEAR (Note 4)	**₱8,712**	₱10,472	₱13,730

See accompanying Notes to Consolidated Financial Statements.

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	Attributable to Equity holders of the Company							
	Capital Stock (Note 19)							
	Issued	Subscribed	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 Interest (Note 20)	Total
Balances at December 31, 2005	₱2,555,596	₱2,217	₱512,786	₱523,735	(₱392,215)	₱1,131,866	₱252,579	₱4,586,564
Issuance/subscription of shares during the year	321,048	(1,196)	317,505	–	–	–	–	637,357
Additional subscription of shares	–	32	–	–	–	–	–	32
Net loss for the year	–	–	–	–	–	(35,629)	(173)	(35,802)
Changes in fair values during the year recognized directly in equity	–	–	–	–	(1,813)	–	–	(1,813)
Total loss recognized for the year	–	–	–	–	(1,813)	(35,629)	(173)	(37,615)
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 loss for the year	–	–	–	–	–	(206,578)	133	(206,445)
Loss transferred from equity to profit or loss (Note 9)	–	–	–	–	707	–	–	707
Changes in fair values during the year recognized directly in equity (Note 9)	–	–	–	–	52,437	–	840	53,277
Total income and 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

(Forward)

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands)

	Attributable to Equity holders of the Company							
	Capital Stock							
	Issued (Note 19)	Subscribed (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 Interest (Note 20)	Total
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)
Effect of change in future tax rate (Note 18)	–	–	–	40,287	–	–	423	40,710
Changes in fair values during the year recognized directly in equity	–	–	–	–	(66,011)	–	(301)	(66,312)
Total income and 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

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 fifty (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 entitles the parent company to a four (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 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 entitles the parent company to a four (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 ten (10) years. It is required to maintain a base equity of at least 25% as one of the conditions of the registration. The Copper Flotation project has been 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 income tax holiday 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 years 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.

The registrations mentioned above enable the parent company and its subsidiaries 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 16, 2009, 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 the SI's corporate term for another fifty (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 16, 2009, it is in full-scale operation of its mining and hauling activities which primarily services the parent company.

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 16, 2009, it is in commercial operation.

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 summarized financial information of FSGRI are as follows:

	2008	2007
Current assets	**₱25,275**	₱1,598
Noncurrent assets	**757,572**	779,572
Current liabilities	**154,196**	151,691
Noncurrent liabilities	**6,344**	7,400
Net income (loss)	**(79)**	(514)

The Company will continue to provide financial and administrative support. As of March 16, 2009, 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 16, 2009, it is in full commercial operations.

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

The consolidated financial statements as of December 31, 2008 and 2007 and for each of the three years ended December 31, 2008 were authorized for issue by the BOD on March 16, 2009.

2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements have been prepared under the historical cost basis, except for available-for-sale (AFS) investments and land classified under "property, plant and equipment" in the consolidated balance sheets that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, the parent company's functional currency, rounded to the nearest thousands (₱000) 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 Group prepared its consolidated financial statements in accordance with Philippine Financial Reporting Standards (PFRS), except for the exemption from the fair value requirement of Philippine Accounting Standards (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 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 statements of income and within equity in the consolidated balance sheets, 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 and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following Philippine Interpretations which became effective on January 1, 2008, and an amendment to an existing standard that became effective on July 1, 2008. Adoption of these changes in PFRS did not have any significant effect to the Group:

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 11, *PFRS 2 – Group and Treasury Share Transactions*
- Philippine Interpretation IFRIC 14, *PAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction*
- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures* – Reclassification of Financial Assets

New Accounting Standards, Interpretations, and Amendments to Existing Standards Effective Subsequent to December 31, 2008
The Group will adopt the following new standards, amendments to existing standards, and Philippine Interpretations enumerated below when these become effective:

Effective in 2009

Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (effective for reporting periods beginning on or after January 1, 2009)
The amendments to PFRS 1 allow an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with Philippine Accounting Standards (PAS) 27; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

Amendment to PFRS 2, *Share-based Payment – Vesting Condition and Cancellations* (effective for reporting periods beginning on or after January 1, 2009)
The standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation.

PFRS 8, *Operating Segments* (effective for reporting periods beginning on or after January 1, 2009)
PFRS 8 will replace PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party.

Amendments to PAS 1, *Presentation of Financial Statements* (effective for reporting periods beginning on or after January 1, 2009)
The amendments include the introduction of a new statement of comprehensive income that combines all items of income and expenses recognized in the statement of income together with 'other comprehensive income'. Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. The amendments also include additional requirements in the presentation of the statement of financial condition and statement of changes in equity as well as additional disclosures to be included in the financial statements.

Revised PAS 23, *Borrowing Costs* (effective for reporting periods beginning on or after January 1, 2009)
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.

Amendments to PAS 27, *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (effective for reporting periods beginning on or after January 1, 2009)
Amendments to PAS 27 have changes in respect of the holding companies separate financial statements including (a) the deletion of 'cost method', making the distinction between pre- and post-acquisition profits no longer required. All dividends will be recognized in the statement of income. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value.

Amendments to PAS 32, *Financial Instruments: Presentation* and PAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* (effective for reporting periods beginning on or after January 1, 2009)
These amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets, (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation, (c) all instruments in the subordinate class have identical features (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets, and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (effective for reporting periods beginning on or after July 1, 2008)
This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expire.

Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* (effective for reporting periods beginning on or after October 1, 2008)
This interpretation provides guidance in respect of hedges of foreign currency gains and losses on a net investment in a foreign operation. The interpretation, among others, clarifies that: (a) an entity can hedge the foreign exchange gains and losses on a net investment arising from differences between the functional currency of the foreign operation and the functional currencies of either its direct parent or of any intermediate parent or its ultimate parent; (b) the hedged item can be an amount of net assets equal to or less than the carrying amount of the net assets of the foreign corporation in the consolidated financial statements and (c) the hedging instrument is not required to be held by the entity exposed to the risk. To assess the effectiveness of the hedging instrument for the purpose of the consolidated financial statements, the change in value of the hedging instrument is calculated in terms of the functional currency of the parent entity that is hedging its risk.

Improvements to PFRS
In May 2008, the International Accounting Standards Board issued its first omnibus edition of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wording. These are the separate transitional provisions for each standard:

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* – Plan to sell the controlling interest in a subsidiary
When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

PAS 1, *Presentation of Financial Statements* – Current and non-current classification of derivatives
Assets and liabilities classified as held for trading are not automatically classified as current in the statement of financial condition.

PAS 16, *Property, Plant and Equipment*
- Recoverable amount
The amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* and PAS 36, *Impairment of Assets*.

- Sale of Assets held for rental
Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

PAS 19, *Employee Benefits*
- Curtailments and negative past service costs
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. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.
- Plan administration costs
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.
- Replacement of term "fall due"
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.
- Guidance on contingent liabilities
Deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance* – Government loans with no interest in a below-market interest rate
Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.

PAS 23, *Borrowing Costs* – Components of borrowing costs
Revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e., components of the interest expense calculated using the effective interest rate method.

PAS 27, *Consolidated and Separate Financial Statements*
Measurement of a subsidiary held for sale in a separate financial statement. When a parent entity accounts for a subsidiary as fair value in its financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

PAS 28, *Investment in Associates*
- Required disclosures when investment in associates are accounted for at FVPL
  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.
- Impairment of investment in associates
  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.

PAS 29, *Financial Reporting in Hyperinflationary Economies* – Description of measurement basis in financial statements
Revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

PAS 31, *Interest in Joint Ventures* – Required disclosure when investment in jointly controlled entities are accounted for at FVPL
If a joint venture is accounted for at fair value through profit and loss, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

PAS 36, *Impairment of Assets* – Disclosure of estimates used to determine recoverable amount
When discounted cash flows are used to estimate 'fair value less cost to sell' the same disclosures are required when the discounted cash flows are used to estimate 'value in use'.

PAS 38, *Intangible Assets*
- Advertising and promotional activities
  Expenditure on advertising and promotional activities is recognized as an expense when the company either has the right to access the goods or has received the services.
- Units of production method of amortization
  Deletes references to, there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that result in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.

PAS 39, *Financial Instruments: Recognition and Measurement*
- Reclassification of derivatives into or out of the classification of at FVPL
  Changes in circumstances relating to derivatives – specifically derivatives designated or de-designated as hedging instruments after initial recognition – are not reclassifications.
  When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts*, this is a change in circumstance, not a reclassification.

- Designation and documentation of hedges at the segment level
  Removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.
- Applicable effective interest rate on cessation of fair value hedge accounting
  Requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

PAS 40, *Investment Property* – Property under construction or development for future use as an investment property
Revises the scope (and the scope of PAS 16, *Property, Plant and Equipment*) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

PAS 41, *Agriculture*
- Discount rate on fair value calculations
  Removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.
- Additional biological transformation
  Removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

Effective in 2010

Revised PFRS 3, *Business Combinations* and PAS 27, *Consolidated and Separate Financial Statements* (effective for reporting periods beginning on or after July 1, 2009)
The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized in a business combination, the reported results in the period that an acquisition occurs, and in future period results reported. The revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as 'minority interests'); even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 and PAS 27 must be applied prospectively and will affect future acquisitions and transactions with non-controlling interests.

Amendment to PAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective for reporting periods beginning on or after July 1, 2009)
This amendment addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment 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.

Effective in 2012

Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate* (effective for reporting periods beginning on or after January 1, 2012)

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 will assess the impact when these became new and amended PFRS and Philippine Interpretations becomes effective.

Summary of Significant Accounting Policies

Financial Instruments

Financial instruments are recognized in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Regular way 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 fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. Financial assets under PAS 39 are classified as either financial assets at FVPL, loans and receivables, held to maturity investments and AFS investments. The Group's financial assets are of 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 of the nature of other financial liabilities.

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. This accounting policy relates to the balance sheet captions 'Cash' ,'Receivables', which arise primarily from sale and other types of receivables, and 'Advances to associate' (see Notes 4, 5, and 10). Loans and receivables are classified as current when these are expected to be realized within one year after the balance sheet date or the Group's normal operating cycle. 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 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 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 non-derivatives 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 balance sheet 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 balance sheets (see Note 9).

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 investments" account in the equity section of the consolidated balance sheet.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of 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 income when the right of payment has been established. Any losses arising from impairment of such investments are recognized in the consolidated statement of income.

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 consolidated balance sheet date.

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.

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

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; see notes 12, 13 and 14).

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.

Embedded Derivatives
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 fair value through profit or loss.

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 its derivative transactions as accounting hedges. Consequently, changes in fair values are recognized directly through consolidated statement of income. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the cash flows.

<u>Impairment of Financial Assets</u>
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortized Cost
If there is objective evidence that an impairment loss on 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 either directly or through use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of 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 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.

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

With respect to receivables, the Group maintains a provision for impairment of receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this provision is evaluated by management on the basis of factors that affect the collectability of the accounts. A review of the age and status of receivables, designed to identify accounts to be provided with allowance, is performed regularly. The carrying amount of the receivable is reduced through the use of an allowance account.

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 which can extend for as long as one year.

AFS Investments Carried at Fair Values
For AFS investments, the Group assesses at each balance sheet 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. 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 income – is removed from equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in equity.

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 income, the impairment loss is reversed through the consolidated statement of 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.

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 income.

Offsetting

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

Copper concentrates inventories are valued at NRV on or about year-end and/or at estimated NRV based on production costs. 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.

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 balance sheet 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 income. Fair value is determined with reference to its market prices at the balance sheet date.

The consolidated statement of income reflects 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 "Revaluation increment in land" 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 profit or loss. 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 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 and useful lives are reviewed and adjusted, if appropriate, at each balance sheet 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 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 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 net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction 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 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 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 balance sheet 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 income. Fair value is determined with reference to its market prices at the balance sheet 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 balance sheet 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 statement of 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 balance sheet date and the cost is charged to the consolidated statement of income.

Rehabilitation trust funds committed for use in satisfying environmental obligations are included within "other noncurrent assets" in the consolidated balance sheet.

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 gold, silver and copper

Income from the sale of 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 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"). Adjustments to the sales price occur based on movements in quoted market prices up to the date of final settlement. 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

Operating Leases

Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remain with the lessors. Lease payments under an operating lease are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Employee Benefits

Retirement 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 balance sheet in respect of defined benefit retirement plan is the present value of the defined benefit obligation at the balance sheet 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 balance sheet date are discounted to present value.

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 balance sheet date.

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

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

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.

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.

Foreign Currency Transactions

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 balance sheet date. Foreign exchange differences between rate at transaction date and rate at settlement date or balance sheet date are credited to or charged against current operations.

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.

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 Balance Sheet Date
Post year-end events that provide additional information about the Group's position at the balance sheet 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.

3. 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 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.

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 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 Group 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 ₱857,592 as of December 31, 2008 and 2007 (see Note 8).

Revenue Recognition
The parent company recognizes revenue from sales of 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 ₱1,713,873, ₱1,712,653, and ₱1,804,593 in 2008, 2007 and 2006, respectively (see Note 25).

<u>Estimates and Assumptions</u>
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 Provision for Impairment Losses on Receivables and Advances from Associates
The provision for impairment losses on receivables and advances from associates is based on the Group's assessment of the collectibility 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 collectibilty 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 from associate, net of provision for impairment of receivables, amounted to ₱284,468 and ₱251,321 as of December 31, 2008 and 2007, respectively (see Notes 5 and 10).

Estimating Allowances 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 were no longer in service. Materials which are non-moving or have become unusable are priced at their recoverable amount.

Inventories, at lower of cost or NRV, amounted to ₱581,762 and ₱445,746 as of December 31, 2008 and 2007, 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 of December 31, 2008 and 2007, the net book value of the property, plant and equipment, excluding land, amounted to ₱5,550,817 and ₱5,322,472, 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. The aggregate net book values of property, plant and equipment amounted to ₱6,408,409 and ₱6,180,064 as of December 31, 2008 and 2007 respectively (see Note 8).

An impairment loss is recognized and charged to earnings if the discounted expected future cash flows are less than the carrying amount. 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.

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 ₱85,202 and ₱151,498, as of December 31, 2008 and 2007, respectively (see Note 9).

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 ₱760,275 and ₱757,624 as of December 31, 2008 and 2007, 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. As of December 31, 2008 and 2007, mine and mining properties presented under property, plant and equipment amounted to ₱4,958,147 and ₱4,781,488, respectively (see Note 8).

Assessing Recoverability of Deferred Income Tax Assets
The Group reviews the carrying amounts of deferred income tax assets at each balance sheet 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. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of its deferred income tax assets to be utilized. Deferred income tax assets that will reverse during the ITH period are not recognized.

The Group has net deferred income tax assets amounting to ₱102,838 and ₱107,236 as of December 31, 2008 and 2007, respectively (see Note 18). 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 ₱386,498 and ₱621,653 as of December 31, 2008 and 2007, respectively (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 ₱468,690 and ₱470,892 as of December 31, 2008 and 2007, 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 balance sheet date. To the extent the actual costs differ from these estimates, adjustments will be recorded and the income statement may be impacted. As of December 31, 2008 and 2007, no provision for mine rehabilitation and decommissioning was recorded (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 of December 31, 2008 and 2007 amounted to ₱390,649 and ₱413,291, respectively. Fair value of financial liabilities as of December 31, 2008 and 2007 amounted to ₱2,931,744 and ₱2,747,140, respectively (see Note 27).

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**

	2008	2007
Cash on hand	**₱1,235**	₱1,029
Cash in banks	**7,477**	9,443
	₱8,712	₱10,472

Cash in banks earn interest at respective bank deposit rates. Total interest income amounted to ₱271, ₱183 and ₱308 in 2008, 2007 and 2006, respectively (see Note 23).

5. **Receivables** - net

	2008	2007
Trade	**₱147,422**	₱78,869
Nontrade and other receivables	**6,862**	9,339
Officers and employees	**3,141**	5,077
	157,425	93,285
Less allowance for impairment losses	**12,268**	11,544
	₱145,157	₱81,741

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 ₱12,268 and ₱11,544 as of December 31, 2008 and 2007, 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 probable losses are as follows:

December 31, 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**

December 31, 2007			
	Trade Receivables	Nontrade and other receivables	Total
Balances at beginning of year	₱10,147	₱744	₱10,891
Provision during the year	653	–	653
Balances at end of year	₱10,800	₱744	₱11,544

The following table shows the aging of receivables that are neither past due nor impaired as of December 31, 2008 and 2007:

2008			Past due but not impaired			
	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

December 31, 2007			Past due but not impaired			
	Total	Neither past due nor impaired	Less than 30 days	30 to 60 days	61 to 90 days	over 90 days
Trade	₱68,070	₱58,199	₱619	₱568	₱382	₱8,302
Nontrade	8,595	411	6,118	353	709	1,004
Officers and employees	5,076	–	5,076	–	–	–
	₱81,741	₱58,610	₱11,813	₱921	₱1,091	₱9,306

6. **Inventories** - net

	2008	2007
Copper concentrates (at NRV)	**₱78,276**	₱–
Parts and supplies:		
On hand (at NRV)	**491,920**	435,026
In-transit (at cost)	**11,566**	10,720
	503,486	445,746
	₱581,762	₱445,746

Cost of copper concentrates amounted to ₱114,483 and nil as of December 31, 2008 and 2007, respectively. Inventory writedown on decline of market price of copper concentrates amounted to ₱36,207 and nil as of December 31, 2008 and 2007, 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 ₱32,833 and ₱29,682 as of December 31, 2008 and 2007, respectively. Cost of parts and supplies on hand amounted to ₱524,753 and ₱464,708 as of December 31, 2008 and 2007, respectively.

7. **Other Current Assets**

	2008	2007
Advances to suppliers	**₱204,800**	₱138,431
Creditable input value added tax (VAT)	**137,991**	120,850
Prepaid expenses	**64,998**	48,161
Others	**13,309**	12,151
	₱421,098	₱319,593

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 2008 and 2007 amounting to ₱81,659 and ₱72,801, respectively, represent VAT on importations.

8. Property, Plant and Equipment

2008	Mine and mining properties	Buildings and improvements	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 and disposals	–	(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	₱469,837	₱857,592	₱78,614	₱6,408,409

2007	Mine and mining properties	Buildings and improvements	Plant, machinery, equipment, and office furniture and fixtures	Land	Construction in progress	Total
Cost:						
Balances at beginning of year	₱ 5,638,560	₱354,422	₱2,350,999	₱854,646	₱75,818	₱9,274,445
Additions	547,389	1,098	188,072	2,946	54,561	794,066
Retirements and disposals	–	(648)	(125,639)	–	(56,857)	(183,144)
Balances at end of year	6,185,949	354,872	2,413,432	857,592	73,522	9,885,367
Accumulated depletion, depreciation and amortization:						
Balances at beginning of year	1,112,891	298,029	1,927,024	–	–	3,337,944
Depletion, depreciation and amortization during the year	291,570	11,864	166,297	–	–	469,731
Retirements and disposals	–	(648)	(125,656)	–	–	(126,304)
Balances at end of year	1,404,461	309,245	1,967,665	–	–	3,681,371
Allowance for impairment:						
Balances at beginning and end of the year	–	19,241	4,691	–	–	23,932
Net book values	₱4,781,488	₱26,386	₱441,076	₱857,592	₱73,522	₱6,180,064

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 balance sheets, 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 balance sheets, 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). The amounts are not available for distribution to stockholders until fully realized.

Property, plant and equipment with a carrying value of ₱12,001 and ₱36,523 as of December 31, 2008 and 2007, respectively are used as collateral to the parent company's long-term borrowings (see Note 14).

9. Available-for-Sale (AFS) Investments

	2008	2007
Quoted instruments	**₱36,788**	₱99,471
Unquoted instruments	**48,414**	52,027
	₱85,202	₱151,498

Movements of AFS investments are as follows:

	2008	2007
Balance at beginning of year	**₱151,498**	₱101,471
Change in fair value of AFS investment	**(66,011)**	52,437
Purchases during the year	**16**	–
Sales during the year:		
Cost of AFS investment sold	–	(3,957)
Cumulative change in fair value of AFS investment	–	707
Subtotal	–	(3,250)
Minority interest in change in fair value of AFS investments	**(301)**	840
Balance at end of year	**₱85,202**	₱151,498

The unrealized loss on the temporary decline in fair value of these investments amounting to ₱406,895, ₱340,884, and ₱394,028 as of December 31, 2007, 2006 and 2005, 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 of December 31, 2008 and 2007, 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 it has no available bid price.

As of December 31, 2008, the Group has no intention to dispose its unquoted equity shares. The aggregate cost of these investments amounted to ₱490,801 and ₱490,783 as of December 31, 2008 and 2007, respectively.

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	
	2008	2007	**2008**	2007	**2008**	2007
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	**(86,248)**	(142,058)	**38,021**	38,089	**(48,227)**	(103,969)
Net income (loss) for the year	**(29,594)**	55,810	**(6,966)**	(68)	**(36,560)**	55,742
Balances at end of year	**(115,842)**	(86,248)	**31,055**	38,021	**(84,787)**	(48,227)
Advances to associate (see Note 17)	**139,311**	169,580	**–**	–	**139,311**	169,580
	₱337,748	₱397,611	**₱40,574**	₱47,540	**₱378,322**	₱445,151

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 prepares financial statement for the same reporting period as the parent company.

Fair market value of the investment in MMC amounted to ₱234,151 and ₱1,076,631 as of December 31, 2008 and 2007, respectively.

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

	MMC		PhilFire	
	2008	2007	**2008**	2007
Assets				
Current Assets	**₱63,434**	₱210,571	**₱–**	₱–
Noncurrent Assets	**1,624,210**	1,609,999	**376,547**	358,098
Total Assets	**1,687,644**	1,820,570	**376,547**	358,098
Liabilities				
Current Liabilities	**422,738**	376,145	**–**	–
Noncurrent Liabilities	**76,967**	90,411	**233,539**	194,085
Total Liabilities	**499,705**	466,556	**233,539**	194,085
Net Assets	**₱1,187,939**	₱1,354,014	**₱143,008**	₱164,013
Net Income (Loss)	**(₱132,038)**	₱276,980	**₱191**	(₱14,225)

11. Mine Exploration Costs

	2008	2007
Mine exploration costs	**₱768,054**	₱765,403
Less allowance for impairment losses	**7,779**	7,779
	₱760,275	₱757,624

In 2006, the parent company has recognized provision for an impairment loss of ₱7,779 relating to its Tampakan Project (see Note 22).

12. Trade and Other Payables

	2008	2007
Trust receipts	**₱642,914**	₱258,903
Trade	**569,074**	448,709
Accrued utilities	**350,889**	244,905
Due to related parties (see Note 17)	**193,480**	422,260
Employee related expenses	**101,282**	49,850
Payable to regulatory authorities	**86,849**	89,894
Advances from customers	**29,671**	–
Unclaimed dividends	**27,106**	27,108
Accrued production tax	**18,354**	10,505
Income tax payable	**8**	–
Accrued expenses and other liabilities	**116,074**	84,432
	₱2,135,701	₱1,636,566

Advances from stockholders, included as part of due to related parties, consisting of short-term borrowings, amounted to ₱139,503 as of December 31, 2008 and ₱403,750 as of December 31, 2007 (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 2008 and 2007 and 7.50% to 16.50% in 2006. Total interest on the above mentioned loans for the years 2008, 2007 and 2006 amounted to ₱15,392, ₱9,816, and ₱7,394, respectively.

14. Long-term Borrowings

	2008	2007
Gold Delivery Agreement (US$9.7 million in 2008 and US$11.0 million in 2007)	**₱445,560**	₱455,379
Loans from Local Banks:		
US Dollar-denominated loans	**218,337**	460,629
Peso-denominated loans	**40,153**	58,043
	258,490	518,672
Suppliers' trade credits	**12,001**	36,523
	716,051	1,010,574
Less current portion	**92,314**	70,704
	₱623,737	₱939,870

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 of 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 have a negative mark-to-market valuation of US$24 million based on the spot rate of US$437 per ounce as of December 31, 2004.

The parent company does not recognize any 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 16, 2009, 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.

Bank Loans
Borrowings from local banks are all clean loans with interest rates ranging from 7.79% to 13.11% in 2008 and 2007, 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 2008 and 2007. These payables are secured by chattel mortgage over certain mine machineries with a carrying amount of ₱12,001 and ₱36,523 as of December 31, 2008 and 2007, respectively.

Total interest on the above mentioned loans for the years 2008, 2007 and 2006 amounted to ₱124,244, ₱156,807 and ₱194,853, 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 Environmetal 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, 2008, 2007 and 2006.

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

	2008			2007			2006		
	Funded	Unfunded	Total	Funded	Unfunded	Total	Funded	Unfunded	Total
Current service cost	₱50,342	₱1,867	₱52,209	₱61,747	₱1,993	₱63,740	₱30,819	₱1,233	₱32,052
Interest cost	77,562	2,178	79,740	72,666	2,045	74,711	68,409	2,170	70,579
Expected return on plan assets	(90,559)	–	(90,559)	(72,637)	–	(72,637)	(26,799)	–	(26,799)
Actuarial losses (gains)	19,828	517	20,345	40,845	604	41,449	7,818	(29)	7,789
	₱57,173	₱4,562	₱61,735	₱102,621	₱4,642	₱107,263	₱80,247	₱3,374	₱83,621
Actual return (loss) on plan assets	(₱412,625)	₱–	₱–	₱234,124	₱–	₱121,849	₱41,384	₱–	₱41,384

The amounts of defined retirement benefit liability recognized in the consolidated balance sheets follow:

	2008			2007		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Present value of defined retirement benefit obligation	₱1,136,454	₱32,595	₱1,169,049	₱1,216,790	₱35,049	₱1,251,839
Fair value of plan assets	(60,934)	–	(60,934)	(453,336)	–	(453,336)
	1,075,520	32,595	1,108,115	763,454	35,049	798,503
Unrecognized actuarial losses	(636,829)	(2,596)	(639,425)	(319,655)	(7,956)	(327,611)
	₱438,691	₱29,999	₱468,690	₱443,799	₱27,093	₱470,892

Changes in present value of defined retirement benefit obligation follow:

	2008			2007		
	Funded	**Unfunded**	**Total**	Funded	Unfunded	Total
Balances at beginning of year	**₱1,216,790**	**₱35,049**	**₱1,251,839**	₱1,138,199	₱32,203	₱1,170,402
Interest cost	**77,562**	**2,178**	**79,740**	72,666	2,045	74,711
Current service cost	**50,342**	**1,867**	**52,209**	61,747	1,993	63,740
Benefits paid	**(42,057**	**(1,656)**	**(43,713)**	(55,822)	(1,192)	(57,014)
Actuarial gains on obligation	**(166,183**	**(4,843)**	**(171,026)**	–	–	–
Balances at end of year	**₱1,136,454**	**₱32,595**	**₱1,169,049**	₱1,216,790	₱35,049	₱1,251,839

Movements in defined retirement benefit obligation recognized in the consolidated balance sheets follow:

	2008		2007	
	Funded	**Unfunded**	Funded	Unfunded
Balances at beginning of year	**₱443,799**	**₱27,093**	₱368,174	₱23,643
Expense recognized for the year	**57,173**	**4,562**	102,621	4,642
Contributions/benefits paid	**(62,281)**	**(1,656)**	(26,996)	(1,192)
Balances at end of year	**₱438,691**	**₱29,999**	₱443,799	₱27,093

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

	2008	2007
Balances at beginning of year	**₱453,336**	₱248,038
Expected return on plan assets	**90,559**	72,637
Actual contributions	**62,281**	26,996
Benefits paid	**(42,057)**	(55,822)
Actuarial gains (losses) on plan assets	**(503,185)**	161,487
Balances at end of year	**₱60,934**	₱453,336

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 benefit retirement plans in 2009.

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

	2008	2007	2006
Cash and cash equivalents	**1.61%**	0.05%	0.28%
Equity investments			
Quoted	**98.14%**	99.92%	99.66%
Unquoted	**0.25%**	0.03%	0.06%
	100.00%	100.00%	100.00%

The principal assumptions used in determining pension and post-retirement benefits for the Group's plan assets in 2008, 2007 and 2006 follow:

	2008	2007	2006
Discount rate	**6.58%**	6.38%	6.38%
Expected rate of return on plan assets	**20.00%**	12.00%	18.50%
Salary increase rate	**5.00%**	6.00%	6.00%

Amounts for the current and previous two years follow:

	2008		2007		2006	
	Funded	**Unfunded**	Funded	Unfunded	Funded	Unfunded
Defined benefit obligation	**₱1,136,454**	**₱32,595**	₱1,216,790	₱35,049	₱1,138,199	₱32,203
Fair value of plan assets	**60,934**	**–**	453,336	–	248,038	–
Experience adjustments on plan liabilities	**(166,183)**	**–**	–	–	20,312	361
Experience adjustments on plan assets	**(503,185)**	**–**	161,487	–	15,032	–

17. Related Party Transactions

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 of December 31, 2008 and 2007 are as follows:

	2008	2007
Due from MMC	**₱139,311**	₱169,580
Advances from Stockholders	**₱139,503**	₱403,750

   Due from MMC and advances from stockholders are presented in the consolidated balance sheets under the "Investments in and advances to associates" and "Trade and other payables" captions, respectively.

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 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 the LIDC the administration of the Plans.

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

	2008	2007	2006
Salaries and other short-term employee benefits	₱30,800	₱29,701	₱26,300
Retirement benefits	–	–	2,663
	₱30,800	₱29,701	₱28,963

18. Income Taxes

In 2008, the current provision for income tax pertains to the parent company's, LIDC's and FSGRI's MCIT and DBPI's, SI's and DDCP's RCIT. In 2007, the current provision for income tax pertains to the parent company's, LIDC's and DBPI's MCIT and SI's and DDCP's RCIT.

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

	Deferred Income Tax Assets - net		Deferred Income Tax Liabilities – net	
	2008	2007	2008	2007
Accrual of:				
Pension costs	₱135,825	₱159,880	₱4,782	₱4,932
Retrenchment costs	5,103	7,615	–	–
Unrealized foreign exchange losses - net	40,200	98	–	–
Allowance for decline on market price of inventory	10,862	–	–	–
Provisions for:				
Inventory obsolescence	9,655	10,162	195	228
Impairment losses on properties	7,180	8,375	–	–
Impairment losses on receivables	4,049	3,947	81	93
Past service cost	1,690	3,099	–	–
NOLCO and MCIT	175	167	–	–
Excess of depletion per books over allowable depletion	–	149,745	–	–
	214,739	343,088	5,058	5,253
Revaluation increment on land	(111,901)	(130,551)	(132,360)	(154,421)
Unrealized foreign exchange gains - net	–	(105,301)	(6)	–
	(111,901)	(235,852)	(132,366)	(154,421)
Net deferred income tax assets (liabilities)	₱102,838	₱107,236	(₱127,308)	(₱149,168)

Recognized NOLCO and MCIT pertain to LIDC's NOLCO and MCIT from 2006 to 2008. The Group did not recognize deferred income tax assets relating to the following temporary differences because management believes that it is more likely than not that the carryforward benefits will not be realized in the near future:

	2008	2007
NOLCO	**₱374,796**	₱609,888
MCIT	**3,923**	3,986
Provision for impairment losses on mine exploration costs	**7,779**	7,779
	₱386,498	₱621,653

As of December 31, 2008 and 2007, 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
2006	2009	₱371	₱3,926
2007	2010	220,139	1
2008	2011	154,843	2
		₱375,353	₱3,929

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

NOLCO

	2008	2007
Balances at beginning of year	**₱610,416**	₱695,784
Additions	**154,843**	220,139
Application	**–**	(2,789)
Expiration	**(389,906)**	(302,718)
Balances at end of year	**₱375,353**	₱610,416

MCIT

	2008	2007
Balances at beginning of year	**₱4,083**	₱7,660
Additions	**2**	1
Applications	**(86)**	(175)
Expirations	**(70)**	(3,403)
Balances at end of year	**₱3,929**	₱4,083

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 income follows:

	2008	2007	2006
At statutory income tax rates	**(₱257,371)**	(₱56,644)	(₱27,638)
Addition (reduction) in income taxes resulting from tax effects of:			
Expired NOLCO and MCIT	**136,537**	109,251	6,836
Operations under income tax holiday	**119,595**	53,488	26,539
Change in unrecognized DTA	**(82,345)**	(32,228)	(103,056)
Effect of future change in tax rate	**35,807**	–	–
Share in operating result of the associates	**12,796**	(19,852)	7,960
Accelerated deduction	**(3,570)**	(2,783)	3,255
Nondeductible expense	**341**	25	42
Interest income subjected to final tax	**(95)**	(64)	(108)
Tax-exempt dividend income	**(9)**	(39)	(36)
Others	**66,266**	(6,550)	43,043
	₱27,952	₱44,604	(₱43,163)

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.

	2008		2007	
	No. of shares	**Amount**	No. of shares	Amount
Issued				
Class "A"	**19,725,399,387**	**₱1,972,540**	17,257,039,282	₱1,725,704
Class "B"	**13,147,038,750**	**1,314,703**	11,509,407,089	1,150,940
	32,872,438,137	**3,287,243**	28,766,446,371	2,876,644
Subscribed				
Class "A"	**16,730,669**	**1,673**	14,900,519	1,490
Class "B"	**14,363,423**	**1,436**	5,203,872	520
	31,094,092	**3,109**	20,104,391	2,010
Total shares issued and subscribed	**32,903,532,229**	**3,290,352**	28,786,550,762	2,878,654
Less subscription receivable		**3,746**		978
		₱3,286,606		₱2,877,676

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.

As of December 31, 2008, 2007 and 2006, the parent company had twenty-one thousand four hundred thirty-nine (21,439), twenty-one thousand five hundred thirty-eight (21,538) and twenty-one thousand seven hundred eighty-eight (21,788) shareholders, respectively.

20. Minority Interest

Minority interest represents third parties' interests in FSGRI and DBPI. The details of which are as follows:

	FSGRI			DBPI			Total		
	2008	2007	2006	**2008**	2007	2006	**2008**	2007	2006
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	**(857)**	(651)	(610)	**(1,809)**	(2,148)	(2,016)	**(2,666)**	(2,799)	(2,626)
During the year	**(32)**	(206)	(41)	**(78)**	339	(132)	**(110)**	133	(173)
Balances at end of year	**(889)**	(857)	(651)	**(1,887)**	(1,809)	(2,148)	**(2,776)**	(2,666)	(2,799)
Other changes in equity:									
Revaluation of land, net of related deferred tax liability	**5,920**	5,497	5,497	**–**	–	–	**5,920**	5,497	5,497
Changes in fair values of AFS investments	**1,059**	1,360	520	**–**	–	–	**1,059**	1,360	520
Net book values	**₱249,060**	₱248,970	₱248,336	**₱4,331**	₱4,409	₱4,070	**₱253,391**	₱253,379	₱252,406

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.

	2008	2007	2006
Loss attributable to equity holders of the parent company	**(₱763,189)**	(₱206,578)	(₱35,629)
Weighted average common shares for basic loss per share	**32,216,980,070**	28,786,550,700	26,481,864,431
Basic and diluted loss per share	**(₱0.02369)**	(₱0.00718)	(₱0.00135)

The basic and diluted loss per share are the same for 2008 and 2007 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 2006.

22. Costs and Expenses

	2008	2007	2006
Mining, milling, smelting, refining and other related charges	**₱953,680**	₱983,599	₱853,803
Depletion, depreciation and amortization (see Note 8)	**575,539**	469,731	554,376
Administration, overhead and other charges			
Mine division	**461,866**	436,080	260,755
Others	**190,292**	160,400	165,035
Provisions for:			
Decline on market price of inventory (see Note 6)	**36,207**	–	–
Inventory obsolescence (see Note 6)	**3,151**	3,819	–
Impairment losses on receivables (see Note 5)	**724**	653	152
Impairment loss on mine exploration costs (see Note 11)	**–**	–	7,779
	₱2,221,459	₱2,054,282	₱1,841,900

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:

	2008	2007	2006
Salaries and wages	**₱414,786**	₱404,518	₱398,364
Retirement benefits (see Note 16)	**61,735**	107,263	83,621
Others	**51,368**	249,607	141,476
	₱527,889	₱761,388	₱623,461

23. Finance Costs and Other Income

	2008	2007	2006
Finance Costs:			
Borrowing costs (see Notes 13 and 14)	**₱139,636**	₱166,623	₱202,247
Other Income:			
Other income (loss)	**(₱3)**	₱2,067	₱26,615
Interest income	**271**	183	308
	₱268	₱2,250	₱26,923

Details as to source of borrowing costs follow:

	2008	2007	2006
Long-term	**₱64,321**	₱125,955	₱121,724
Short-term	**34,591**	40,668	80,523
Others	**40,724**	–	–
	₱139,636	₱166,623	₱202,247

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:

	2008		2007	
	Class A	Class B	Class A	Class B
Outstanding at beginning of year	**252,000,000**	**168,000,000**	–	–
Granted during the year	–	–	252,000,000	168,000,000
Effect of stock rights offering	**36,000,000**	**24,000,000**	–	–
Forfeitures during the year	**(5,485,714)**	**(3,657,142)**	–	–
Exercised during the year	**(2,770,824)**	**(1,846,858)**	–	–
Outstanding at end of year	**279,743,462**	**186,496,000**	252,000,000	168,000,000

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 2008 and 2007 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 of December 31, 2008, the Company'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 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.

(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 of December 31, 2008 and 2007, 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 balance sheets.

(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 of December 31, 2008 and 2007, 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 and ₱9,391 in 2008 and 2007, respectively.

The minimum annual lease payments subsequent to balance sheet dates follow:

	2008	2007
Within one year	**₱1,191**	₱1,253
In the second to fifth years inclusive	**2,381**	3,009
	₱3,572	₱4,262

(f) As of December 31, 2008 and 2007, 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) On November 8, 2007, the parent company and Zijin Mining Group Company Ltd. (Zijin) executed a Memorandum of Understanding in relation to Zijin's proposed acquisition of a 20% interest in FSGRI at an indicative price of US$70 million. Such proposed acquisition is subject to execution of relevant definitive agreements satisfactory to both parties, approval of the BOD of both parties, and to any regulatory or other approvals that may be further required. The Company owns 60% of the share capital of FSGRI.

Zijin is one of the biggest gold producers in China and is listed on The Stock Exchange of Hong Kong Limited.

(h) 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 Mineral Production Sharing Agreement (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$307,726.6. 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

(i) 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.

(j) 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 to six 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.

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 interest rates, foreign currency exchange 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 financial statements and 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 of December 31 follow:

	2008		2007	
	United States Dollar	**Peso Equivalent**	United States Dollar	Peso Equivalent
Asset				
Cash	**$83**	**₱3,932**	$24	₱986
Trade receivables	**1,056**	**50,267**	1,166	48,132
	$1,139	**₱54,199**	$1,190	₱49,118
Liabilities				
Trade payables and accrued expense	**$5,875**	**₱279,208**	$4,353	₱179,698
Borrowings	**14,202**	**674,873**	23,075	952,531
	$20,077	**₱954,081**	$27,428	₱1,132,229
Net Liabilities	**$18,938**	**₱899,882**	$26,238	₱1,083,111

As of December 31, 2008 and 2007, the exchange rates of the Philippine peso to the US$ are ₱47.52 and ₱41.28 to US$ 1.00, respectively.

Based on the historical movement of the US$ and the Philippine peso, management believes that the estimated reasonably possible change in the next twelve months would be an increase of ₱0.91 and decrease of ₱0.70 for 2008 and an increase (decrease) of ₱1 against the US$ for 2007. Sensitivity of the Group's 2008 and 2007 consolidated pre-tax income to foreign currency risks are as follows:

- An decrease of ₱13,256 in loss before income tax if peso strengthens by ₱0.70 and increase of ₱17,233 if peso weakens by ₱0.91 in 2008
- An decrease (increase) of ₱26,238 in loss before income tax if peso strengthens (weakens) by ₱1

There is no other impact on the Group's equity other than those already affecting the statement of 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 of December 31, 2008 and 2007, 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%.

	Total	6 months or less	6 to 12 months	1 to 2 years	2 to 3 years
2008					
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**

	Total	6 months or less	6 to 12 months	1 to 2 years	2 to 3 years
2007					
Cash in banks	₱9,443	₱9,443	₱–	₱–	₱–
Loans payable	100,000	100,000	–	–	–
Long-term borrowings	1,010,574	60,717	9,987	420,012	519,858

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

	Change in interest rates (in basis points)	Sensitivity of pretax income
2008		
PHP (T-bill rate)	**+100**	**(₱398)**
USD (LIBOR)	**+100**	**(6,639)**
PHP (T-bill rate)	**-100**	**398**
USD (LIBOR)	**-100**	**6,639**
2007		
PHP (T-bill rate)	+50	(₱67)
USD (LIBOR)	+50	(1,147)
PHP (T-bill rate)	-50	67
USD (LIBOR)	-100	2,275

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 2008 and an increase (decrease) of 50 (100) basis points for USD LIBOR and 50 basis

points for T-bill for 2007. There is no other impact on the Group's equity other than those already affecting the statement of 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 financial position.

Based on the historical movement of the stock exchange index, management's assessment of reasonable possible change is an increase (decrease) of 9.79% in 2008 and 6.25% in 2007, resulting to a possible effect in the equity of increase (decrease) of ₱1,471 in 2008 and an increase (decrease) of ₱6,888 in 2007.

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 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 2008 and 2007.

<u>Liquidity Risk</u>
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 of December 31, 2008 and 2007 based on contractual undiscounted payments. Long-term debt consists of principal and future interest payments.

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	**₱850,134**	**₱1,251,852**	**₱33,707**	**₱–**	**₱–**	**₱–**	**₱2,135,693**
Loans payable	**–**	**89,600**	**–**	**–**	**–**	**–**	**89,600**
Long term borrowings	**–**	**146,080**	**18,214**	**36,428**	**621,035**	**644,492**	**1,466,249**
TOTAL	**₱850,134**	**₱1,487,532**	**₱51,921**	**₱36,428**	**₱621,035**	**₱644,492**	**₱3,691,542**

2007

	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	₱984,893	₱605,512	₱33,719	₱12,169	₱273	₱–	₱1,636,566
Loans payable	–	101,208	–	–	–	–	101,208
Long term borrowings	–	16,576	17,454	85,163	483,935	478,635	1,081,763
TOTAL	₱984,893	₱723,296	₱51,173	₱97,332	₱484,208	₱478,635	₱2,819,537

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 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 balance sheet 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 of December 31, 2008 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 of December 31, 2008 and 2007 approximate their carrying amount.

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

	December 31, 2008	December 31, 2007
Financial Assets:		
Loans and receivables:		
Cash	**₱8,712**	₱10,472
Receivables		
Trade	**147,421**	68,070
Nontrade and others	**6,862**	8,595
Officers and employees	**3,141**	5,076
Advances to associate	**139,311**	169,580
	305,447	261,793
AFS investments		
Quoted	**36,788**	99,471
Unquoted	**48,414**	52,027
	85,202	151,498
	₱390,649	₱413,291
Financial Liabilities:		
Other financial liabilities:		
Trade and other payables	**₱2,135,693**	₱1,636,566
Loans payable	**80,000**	100,000
Long term borrowings	**716,051**	1,010,574
	₱2,931,744	₱2,747,140

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, 2008 and 2007. The Group monitors capital using the financial statements.

As of December 31, 2008 and 2007, the Group's capital, which is composed of common shares and additional paid-in capital, amounted to ₱4,732,668 and ₱3,707,967, 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:

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)	(346)	154	314,603
Provision for (benefit from) income tax	22,563	3,171	2,218	–	27,952
Net income (loss)	(₱737,153)	₱2,005	₱1,209	(₱29,361)	(₱763,300)

(Forward)

	Mining	**Service**	**Others**	**Elimination**	**Total**
Segment assets	**₱8,883,357**	**₱334,917**	**₱590,891**	**(₱900,450)**	**₱8,908,715**
Investment in equity method associate	**–**	**–**	**–**	**378,322**	**378,322**
Segment liabilities	**(3,555,958)**	**(280,025)**	**(198,488)**	**395,412**	**(3,639,059)**
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	₱–	₱–	₱–	₱1,712,653
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	(59,999)	(45)	–	–	(60,044)
Provision for (benefit from) income tax	41,215	3,411	(22)	–	44,604
Net income (loss)	(₱266,627)	₱6,435	(₱65)	₱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)

2006

	Mining	Service	Others	Elimination	Total
Revenue from external customers:					
Sale of metals	₱1,804,593	₱–	₱–	₱–	₱1,804,593
Others	2,524	38,146	173	–	40,843
Inter-segment revenue	–	117,968	–	(117,968)	–
Segment revenue	1,807,117	156,114	173	(117,968)	1,845,436
Operating expenses	(1,811,630)	(148,070)	(451)	118,251	(1,841,900)
Share in operating results of associates	–	–	–	(22,743)	(22,743)
Income (loss) before income tax	(4,513)	8,044	(278)	(22,460)	(19,207)
Finance costs, net of other income	59,758	–	–	–	59,758
Provision for (benefit from) income tax	(45,960)	2,913	(81)	(35)	(43,163)
Net income (loss)	(₱18,311)	₱5,131	(₱197)	(₱22,425)	(₱35,802)
Segment assets	7,786,049	637,197	106,961	(700,054)	7,830,153
Investment in equity method associate	–	–	–	537,943	537,943
Segment liabilities	3,034,820	275,764	40,880	(169,706)	3,181,758
Depreciation	543,599	10,777	–	–	554,376
Capital expenditures:					
Tangible fixed assets	545,145	2,506	–	–	547,651
Intangible assets	217,466	–	–	–	217,466
Cash flows arising from:					
Operating activities	660,928	4,444	(250)	175,355	840,477
Investing activities	(812,008)	(2,178)	(32,607)	66,104	(780,689)
Financing activities	145,716	–	32,782	(241,770)	(63,272)

SCHEDULE C
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LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
LONG-TERM INVESTMENT IN STOCKS
DECEMBER 31, 2008

	Beginning of the period		Additions		Deductions		End of the period	
Name of issuing entity	Number of shares or principal amount of bond and notes	Amount in Pesos	Equity in net earnings (losses) by investees	Others	Distribution of earnings by investees	Others	Number of shares or principal amount of bond and notes	Amount in Pesos
Philippine Fire and Marine Insurance Corporation	231,375	₱47,539,222	(₱6,966,357)	–	–	–	231,375	₱40,572,865
Manila Mining Corporation (MMC)	36,023,290,520	₱228,032,672	(₱29,593,864)	–	–	–	36,023,290,520	₱198,438,808
Advances to MMC		₱169,580,697	–	–	–	₱30,269,554		₱139,311,143
Total		₱445,152,591	(₱36,560,221)	₱–	₱–	₱30,269,554		₱378,322,816

EXHIBIT "B"
Exh B

SCHEDULE C
Page 2 of 2

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
AVAILABLE-FOR-SALE INVESTMENTS
DECEMBER 31, 2008

	Beginning of the period		Additions		Deductions		End of the period	
Name of issuing entity	Number of shares or principal amount of bond and notes	Amount in Pesos (net of related allowance)	Equity in net earnings (losses) by investees	Others (Market Value Recovery)	Distribution of earnings by investees	Others (Disposal)	Number of shares or principal amount of bond and notes	Amount in Pesos
Prime Orion Philippines, Inc.	182,060,000	₱92,850,600	₱–	₱–	₱–	₱61,900,400	182,060,000	₱30,950,200
Filsyn Corporation	4,545,034	–	–	–	–	–	4,545,034	–
AGP Industrial Corporation	1,500,097	3,533,932	–	–	–	3,533,932	1,500,097	–
Philippine Long Distance Telephone Co.	30,575	190,263	–	–	–	79,588	30,575	110,675
Philippine Associated Smelting and Refining Corporation	37,407,798	37,407,798	–	–	–	–	37,407,798	37,407,798
Crown Fruits and Cannery Corporation	20,000	–	–	–	–	–	20,000	–
Philippine Oil & Geothermal Energy, Inc.	600,000,000	–	–	–	–	–	600,000,000	–
Manila Peninsula Hotel, Inc.	2,359,263	10,395,340	–	–	–	–	2,359,263	10,395,340
Others	479,942	249,752	–	17,141	–	228,705	548,505	38,188
Total equity investments		144,507,335	–	17,141	–	65,742,625		78,902,201
Alabang Golf and Country Club	1	1,000,000	–	–	–	–	1	1,000,000
Canlubang Golf and Country Club	1	430,000	–	20,000	–	–	1	450,000
Makati Sports Club, Inc.	1	150,000	–	80,000	–	–	1	230,000
Club Filipino	1	90,000	–	30,000	–	–	1	120,000
Philam Properties	1	500,000	–	–	–	–	1	500,000
Manila Polo Club, Inc.	1	4,700,000	–		–	700,000	1	4,000,000
Total golf club shares		6,870,000	–	130,000	–	700,000		6,300,000
Total		₱151,377,335	₱–	₱147,141	₱–	₱66,442,625		₱85,202,201

SCHEDULE E

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
MINE EXPLORATION COSTS AND OTHER NONCURRENT ASSETS
DECEMBER 31, 2008

			Deductions			
Description	Beginning balance	Additions	Charges to costs and expense	Charged to other account	Other changes	Ending Balance
Mine exploration costs	₱757,624,129	₱2,650,576	₱–	₱–	₱–	₱760,274,705
Other noncurrent assets:						
Mine rehabilitation and environmental trust fund	₱5,301,417	₱143,380	₱–	₱–	₱–	₱5,444,797
Long-term and miscellaneous deposits	7,900,733	3,555,667	–	–	–	11,427,800
Other Assets	66,400	–	–	–	–	66,400
Total other noncurrent assets	₱13,239,950	₱3,699,047	₱–	₱–	(₱)	₱16,938,997

EXHIBIT "C"

Exh C

SCHEDULE F

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
Borrowings
DECEMBER 31, 2008

Title of issue and type of obligation	Amount authorized by indenture	Current portion	Non-current portion	Terms
Australian New Zealand Banking Corporation	₱45,459,217	₱45,459,217	₱–	Lump sum payment on June 15, 2009. Interest rate is repriced monthly to be determined by the bank.
International Exchange Bank	20,908,800	11,404,800	9,504,000	Payable monthly. Last payment due on June 30, 2009. Ineterest rate is 9% per annum.
	75,841,920		75,841,920	Payable annually, subject to negotiation for extension of terms. Interest rate is repriced monthly subject to the terms of the bank.
Land Bank of the Philippines - Peso	39,780,000	480,000	39,300,000	Monthly payable, last payment due to on November 2009. Interest rate repriced monthly based on 91-day T-bill plus 4% spread. Negotiation for extension of terms on-going.
Land Bank of the Philippines - FCDU	76,127,040	22,809,600	53,317,440	Monthly payable, last payment due to on November 2009. Interest rate repriced monthly based on Dollar Prime plus 3% spread. Negotiation for extension of terms on-going.
Northstar Trade Finance	3,099,473	3,099,473	–	Lump sum payment already due. Interest rate is 15% per annum compounded monthly.
Northstar Trade Finance	2,746,789	2,746,789	–	Lump sum payment already due. Interest rate is 15% per annum compounded monthly..
Northstar Trade Finance	6,154,315	6,154,315	–	Semi-annual installment every March and September, with the last installment due on September 2, 2009. Interest repriced semi-annually based on 6-month US LIBOR plus 2.50% spread.
Dresdner Bank AG	445,560,497	–	445,560,497	Due on September 2011. Principal and interest payable monthly, subject to one year moratorium and capitalization of interest. Monthly interest based on US LIBOR plus 2.50% spread.
Philam Savings Bank	373,363	160,012	213,351	Payable in forty eight equal monthly installments. Interest rate is 10.40% per annum.
TOTAL	**₱716,051,414**	**₱92,314,206**	**₱623,737,208**	

EXHIBIT "D"

Exh D

SCHEDULE I
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LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
CAPITAL STOCK
DECEMBER 31, 2008

Title of issue	Number of shares authorized	Total number of shares subscribed, issued and outstanding as shown under related balance sheet caption	Amount	Number of shares reserved for option warrants, conversions and other rights	Number of shares held by affiliates	Directors, officers and employees	Others
Common Stock							
Class "A"	20,100,000	19,742,130,056	₱1,974,213,006	279,743,462	None	3,431,669,957	None
Class "B"	13,400,000	13,161,402,173	1,316,140,217	186,496,000	None	101,245,107	None
Total shares subscribed, issued and outstanding		28,786,550,762	3,290,353,223				
Less subscription receivable			3,747,598				
TOTAL			₱3,286,605,625				

EXHIBIT "I"

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SCHEDULE I
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LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
CAPITAL STOCK
DECEMBER 31, 2008

The parent company's authorized share capital is ₱3,350,000,000 divided into 33,500,000,000 shares at ₱0.10 par value each consisting of 20,100,000,000 Class "A" common shares and 13,400,000,000 Class "B" common shares. As of December 31, 2008, total shares and outstanding is 32,872,438,137 held by 21,439 shareholders.

The details of the most recent increases in authorized share capital as approved by the Securities and Exchange Commission are shown below:

	Authorized Capital Stock			
Year	Common "A" shares	Common "B" shares	Total	Issue Price
As of 1987	4,200,000,000	2,800,000,000	₱700,000,000	₱0.10
1989	6,000,000,000	4,000,000,000	1,000,000,000	0.10
2000	9,900,000,000	6,600,000,000	1,650,000,000	0.10
			₱3,350,000,000	