PHILEX MINING CORPORATION

PHILEX Building, 27 Brixton St., Pasig City, Philippines 1600
P.O. Box MCPO 2398, Makati City 1200
Tel. Nos. 631-1381 to 88 • Fax Nos. (632) 634-4441 (Exec.), 631-9501 (Purch.)
Email: philex@philexmining.com.ph • Corporate Website: http://www.philexmining.com.ph

RNM-041-09

April 15, 2009

PHILIPPINE STOCK EXCHANGE, INC.
4/F PSE Center
Exchange Road, Ortigas Center
Pasig City

Attention: **MR. NOEL B. DEL CASTILLO**
OIC, Disclosure Group

Gentlemen:

We submit to you herewith a copy of our Company's SEC Form 17-A Annual Report for the year ended December 31, 2008 which we filed with the Securities and Exchange Commission today.

Very truly yours,

RENATO N. MIGRIÑO
VP - Finance

Encls.: a/s

COVER SHEET

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SEC Registration Number

PHILEX MINING CORPORATION
AND SUBSIDIARIES

(Company's Full Name)

Philex Building, 27 Brixton
corner Fairlane Streets, Pasig
City

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

Renato N. Migriño
(Contact Person)

631-1381
(Company Telephone Number)

1	2		3	1
Month			*Day*	

(Calendar Year)

1	7	A		

(Form Type)

Month *Day*
(Annual Meeting)

Not Applicable
(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Not Applicable
Amended Articles Number/Section

Total Amount of Borrowings

46,578
Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the calendar year ended **December 31, 2008**
2. SEC Identification Number **10044**
3. BIR Tax Identification No. **000-283-731-000**
4. Exact name of issuer as specified in its charter: **PHILEX MINING CORPORATION**
5. **Philippines**
   Province, Country or other jurisdiction of incorporation or organization
6. [ ] (SEC Use Only) Industry Classification Code:
7. **Philex Building, 27 Corner Brixton and Fairlane Streets, Pasig City** **1600**
   Address of principal office Postal Code
8. **(632) 631-1381 to 88**
   Issuer's telephone number, including area code
9. **Not applicable**
   Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 & 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common shares, P1 par value (as of April 14, 2009)	**3,885,112,597**
Cash and Cash Equivalents (as of December 31, 2008)	**P10,713,106,095**
Amount of Debt Outstanding (as of December 31, 2008)	**P 4,039,200,000**

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

    Yes [**X**] No [ ]

    If yes, state the name of such stock exchange and the classes of securities listed therein:

    Philippine Stock Exchange **Common Shares**

12. Check whether the issuer:

    (a) 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 and RSA Rule 11(a) – 1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the issuer was required to file such reports).

    Yes [**X**] No [ ]

    (b) has been subject to such filing requirements for the past 90 days.

    Yes **[X]** No [ ]

13. Aggregate market value of the voting stock held by non-affiliates: **P22.5 billion** based on closing prices at the Philippine Stock Exchange on April 14, 2009.

PART 1
BUSINESS AND GENERAL INFORMATION

Item 1. Business

Corporate Profile

Philex Mining Corporation (the Company) was incorporated in the Philippines in 1955 to engage primarily in mining activities. Its shares are listed in the Philippine Stock Exchange. As of December 31, 2008, the Company has 46,578 stockholders of record with 35.64% of its outstanding shares owned by foreign nationals and institutions.

The Company has operated for the past 51 years the Sto. Tomas II deposit at Padcal, Tuba, Benguet Province. The Padcal mine is the first underground block cave operation in the Far East. Total ore extracted and processed from start of operation to 2008 aggregate to 332.2 million tonnes producing 897.4 million kilograms of copper (1,981.7 million pounds), 162.2 million grams of gold (5,218.4 thousand ounces) and 177.9 million grams of silver (5,732.7 thousand ounces).

The Company's exploration strategy in the late 1980's was focused on gold exploration which resulted in the acquisition and staking of a number of primarily gold claimholdings throughout the Philippines. This resulted in the Company's first gold operation, the Bulawan mine in Negros Occidental, Negros island which commenced commercial production in January 1996, and continued until 2002 when the mine was decommissioned due to unfavorable metal prices and placed on a care and maintenance basis up to todate. In July 1996, these gold assets, including the Bulawan mine, were spun-off to Philex Gold Philippines, Inc. (PGPI). Through a swap of shares, ownership in PGPI was subsequently transferred to Philex Gold Inc. (PGI), currently a 81%-owned Canadian subsidiary. The PGI shares were initially listed in the Toronto Stock Exchange in October 1996 following an initial public offering to primarily North American and European investors but are now listed in the TSX Venture Exchange. From 2001, PGPI focused on its North Property where the Boyongan copper-gold porphyry deposit in Surigao del Norte was discovered in August 2000 under a joint venture with Anglo American Exploration (Philippines) B.V.(Anglo) under Silangan Mindanao Mining Company (Silangan). On February 6, 2009, the Company acquired Anglo's 50% interest in Silangan for US$55 million, giving the Company control over the project. In 2005, PGPI also entered into a joint venture agreement with FEC Resources, Inc. (FEC), a 50.7%-owned subsidiary of the Company, to fund exploration of PGPI's Lascogon gold project.

The Company has long been a silent investor in oil properties owning participation in several service contracts. In 2007, Philex incorporated Philex Petroleum Corporation to engage in petroenergy business, of which 49% was subsequently acquired by Anatolian Property BV, a Netherlands company whose shareholders are funds-managed by Ashmore Investment Management Limited. In September 2008, Philex Petroleum Corporation, now a 51%-owned subsidiary of the Company, completed its purchase of 33.04% of Forum Energy plc (FEP), a UK-based company listed at the Alternative Investment of the London Stock Exchange. FEP is an oil exploration company owning participation interests in several service contracts in the Philippines, particularly GSEC 10, covering the Sampaguita natural gas discovery in northwestern Palawan. As FEC also owns 28.42% of FEP, the total holdings of the Company in FEP through Philex Petroleum and FEC would be 61.46%.

Products/Sales

The Company's Padcal mine produces copper concentrates, containing copper, gold and silver. Majority of the mine's production is primarily smelted in the Saganoseki smelter in Kyushu Island, Japan, through Pan Pacific Copper Co., Ltd. (PPC), a joint venture company between Nippon Mining Co. Ltd. and Mitsui Mining and Smelting Co., Ltd.

Under its long-term gold and copper concentrates sales agreement with PPC, the Company commited to sell 75% of the concentrates produced from the Padcal mine in 2004, the higher of 60,000 dry metric ton (DMT) or the total annual production less 10,000 DMT from 2005 to 2008, and at least 60% of the total annual production thereafter. The Company also commited to first offer to sell to PPC the copper concentrates that the Company would produce from other new mines it may be able to develop. These commitments are part of the $15 million financing package that PPC provided the Company for the development of the Padcal mine's 782 Meter Level and other matters relevant to the operations of the mine.

In September 2005, the Company entered into a contract with Mitsui & Co. Metals (U.S.A) (Mitsui) whereby the latter agreed to purchase and the Company agreed to sell up to 10,000 DMT of its production for each of calendar years 2006 and 2007, subject to availability following the Company's completion of its minimum commitment to PPC. Mitsui assigned this contract to L.D. Metals, Ltd. on December 30, 2005, which contract was, in turn, assigned in January 2007 by L.D. Metals, Ltd. to Louis Dreyfus Commodities Metals Suisse S.A. (LDCMS) and extended for another year until March 2008. A supplemental contract was also entered into by the Company with LDCMS in August 2007 covering the uncommitted balance of the Company's copper concentrates from April 2007 to March 2011 covering a total of 55,000 DMT with their actual months of shipment to be determined annually.

All of the Parent Company's sales revenues for the years 2006 to 2008 were from copper concentrate shipments made to Japan. The value of these shipments are initially determined based on prices during the second calendar week prior to week of shipment then adjusted to the average prices during the final quotational period (currently one month after month of arrival in Japan for gold and silver and four months after month of arrival for copper) which method is a common practice worldwide.

The 2008 consolidated revenue of the Company includes the net realizable value of mine products inventory at the end of the financial reporting period. About 0.1% of 2008 consolidated revenue came from petroleum contributed by Forum Energy Plc.

Sources and Availability of Raw Materials and Supplies

The Company's ore production if deemed as raw material extracted, comes from the Company's mineral properties covering the Padcal mine.

Operating supplies, equipment and spare parts, which are generally available, are provided by quite a number of suppliers both local and abroad on competitive basis. Energy is principally sourced from the National Power Corporation under a long-term contract for the supply of electricity, although the Padcal mine has the capacity to self-generate standby electricity in case of supply interruptions.

Employees

The total manpower of the Company as of December 31, 2008 consists of 2,184 full-time regular employees, as follows:

Padcal Operations	2,092
Pasig Corporate Head Office	92
Total	2,184

Of the Company's employees, 2,020 are in operations while 164 perform clerical and administrative work. The Company anticipates no material change in the number and type of employees within the ensuing twelve months.

The Padcal employees belong to two unions: the National Allied Mines and Workers Union (NAMAWU) 101 for rank-and-file and the Philex Mining Supervisory Employees Union (PMSEU) for supervisors. The collective bargaining agreement with the NAMAWU 101 cover a period of five years to expire in January 2010. The agreement with PMSEU is also for five years up to 2010. Pasig rank-and-file employees are members of the Philex Pasig Employees Union whose agreement with the Company likewise covers a period of five years to expire in August 2011. There has been no labor dispute or strike by any of the Company's unions in the past five years. There are no other supplemental benefits or incentive arrangements the Company has under its collective bargaining agreements other than the usual employee benefits such as vacation and sick leave pays, etc.

Mining Properties / Royalty Agreements

The Company has 145,000 hectares of claimholdings covered by applications for or by approved Mineral Production Sharing Lease Agreements (MPSA), Exploration Permits or Mining Lease Contracts (MLC) with the government.

The Company's Padcal mine is under twelve (12) mineral holdings in Benguet Province covered by a royalty agreement with claimowners. Three of the holdings are covered by an existing Mineral Production Sharing Agreement (MPSA) valid up to 2025. Nine are covered by Mining Lease Contracts (MLC), five of which are valid up to 2011, while four expired in January 2007 which were applied by Philex for conversion to an MPSA. In accordance with law, Philex was issued Special Mines Permit No. 07-2007 on January 17, 2007, which permit was renewed for another year on January 18, 2008 pending approval of the MPSA application.

The requirements for the MPSA included the endorsement of two local government units in the locality of the mine, which endorsements Philex obtained. Also required was the free and prior informed consent (FPIC) of the indigenous peoples and indigenous communities (IPs/ICs) within the area covered by the application. With such IPs/ICs giving their FPIC to the Company's application for MPSA and to the continued operation and development, as well as to all related, collateral, incident, and indirect projects/activities of the Company in the area covered by the application, the Company executed on January 14, 2008 a Memorandum of Agreement (MOA) with the IPs/ICs and the National Commission on Indigenous Peoples, agreeing to a royalty payment of 1.25% of gross output as required under the Philippine Mining Act of 1995.

On January 19, 2009, MPSA No. 276-2009-CAR was issued by the government in place of Mines Special Permit No. 07-2007, giving the Company the right over the claimholdings covered for 25 years, extendible for another 25 years.

The other areas of the Padcal Mine are covered by the following mining agreements over a total area of 11,403 hectares, all within the municipalities of Tuba and Itogon in Benguet:

Padcal Mining Agreements	**Area (Has.)**	**Date Filed**	**Date MPSA Granted**
MPSA No. 156-2000-CAR	3,848	06-19-1992	04-10-2000
MPSA No. 157-2000 CAR	2,555	01-27-1993	04-10-2000
EPA No. 075 (formerly APSA No. 29)	437	09-24-1992	
APSA No. 068	4,563	09-02-1997	
Total	11,403		

Government Regulations and Approvals

The effect on the Company's operation of existing governmental regulations are mainly on their corresponding costs of compliance to the Company which are appropriately reflected either as expense or as capital asset under generally accepted accounting principles. The effect on the Company of any probable government regulation could not be determined until its specific provisions are known.

Other than the usual business licenses or permits, there are no government approvals needed on the Company's principal products.

Exploration and Development

Exploration and development (the equivalent of research and development for a mining company) are currently done in-house, intensifying from P49 million starting in 2006 to P116 million in 2007 and P501 million in 2008 as the Company generated available funds for its exploration program. Up to 2008, Anglo provided all the funds for the exploration of the Silangan Project under the terms of its joint venture with the Company. Note 27 of the Notes to Consolidated Financial Statements of the Exhibits in Part IV, Item 13 is also incorporated hereto by reference.

Silangan Project

In 1999, the Company and PGPI entered into separate joint venture arrangements with Anglo American Exploration (Philippines) BV (Anglo), a subsidiary of Anglo American plc, for the purpose of exploring a group of the Company's claims in Benguet province, as well as those of PGPI in the province of Surigao del Norte. The focus of the joint ventures had been mainly in PGPI's North property where the Boyongan copper-gold deposit was discovered in August 2000.

Pursuant to the terms of the joint venture, exploration costs up to feasibility studies, if warranted, are to be fully funded by Anglo. Anglo would earn a 40% equity position in the project by spending $2.2 million, which threshold of expenditure was exceeded in 2001. If Anglo carries the project through to the feasibility study stage, it would earn an additional 30% equity position in the project. Should the project proceed to the development stage, limited recourse financing will be sought to the maximum extent feasible and Anglo is to provide 100% of the completion guarantees that may be required by third party lenders. In March 2002, Anglo purchased an additional 10% equity interest in the Silangan joint venture from PGPI for $20 million plus additional payments of up to $5 million should there be an increase in metal content of the deposit or from any discovery within the surrounding tenements.

Anglo completed a prefeasibility study (PFS) of the Boyongan deposit in December 2007, which study concluded that a mining operation based on the currently defined resources, proposed mining and processing methods, assumed long-term copper and gold prices, and estimated capital and operating costs would not provide an acceptable rate of the return on the project investment. Anglo, however, claimed that other mineralized centers have been discovered in the vicinity and are currently the subject of intensive exploration and delineation drilling program which Anglo wanted to continue throughout 2008. Anglo also reported that there is geologic evidence for two additional porphyry copper-gold targets within two kilometers of Boyongan, the Bayugo Prospect and the exotic copper zone (a zone of enriched copper and gold grades produced by leaded copper that percolated downwards and laterally southeast of Bayugo), which Anglo planned to test over the next six months. These recent discoveries and their impact are not included in the Boyongan PFS. The Company had differing points of view from Anglo on a number of assumptions and conclusions made in the feasibility study and thus asserted its position that given the results of the study, as provided for under the terms of the venture agreement, Anglo should return the Boyongan property to the Company, which Anglo contested.

In June 2008, Philex engaged the services of an independent Qualified Person (QP) Independent Resource Estimation (IRES) of South Africa, for the NI-43 101 requirement under PGI's Canadian listing to complete a new PFS of the Boyongan property using Philex's project development strategy and incorporating its own view of costs within the Philippine context. The PFS was submitted on November 14, 2008, stating the updated measured and indicated resources of Boyongan as follows:

Measured and Indicated Resources

Type	Category	Tonnes	Cu Grade (%)	Au Grade (g/t)	As Grade (ppm)	ASCu Grade (%)
Oxide	Measured	74,000,000	0.83	1.08	14.04	0.57
Oxide	Indicated	250,000	0.75	0.08	3.37	0.38
Sulphide	Measured	30,500,000	0.73	0.77	115.66	0.17
Sulphide	Indicated	620,000	0.82	0.08	87.31	0.17
Measured	Total	104,500,000	0.80	0.99	43.66	0.45
Indicated	Total	870,000	0.80	0.08	62.90	0.23
Total		**105,400,000**	**0.80**	**0.98**	**43.82**	**0.45**

Of the total resources estimated for Boyongan, it has been determined that about 67% can be categorized as reserves, as follows:

Proven and Probable Reserves

Type	Category	Tonnes	Cu Grade (%)	Au Grade (g/t)
Oxide	Proven	54,500,000	0.88	1.43
Sulphide		11,300,000	0.82	1.21
Oxide	Probable	490,000	0.97	0.82
Sulphide		1,480,000	0.81	0.41
Proven	**Total**	**65,800,000**	**0.87**	**1.39**
Probable	**Total**	**1,970,000**	**0.85**	**0.52**
Total		**67,800,000**	**0.87**	**1.37**

The QP report concluded that, based on the assumptions used in their report, the results of the PFS indicate that the Boyongan deposit is economic and technically and financially feasible and should be advanced to the next level, that of a bankable feasible study. The report also said that in addition to the reserves extractable from Boyongan, another opportunity exists for additional resources, albeit not yet reportable, located in the northwest area, the Bayugo Prospect.

In November 2008, Anglo offered to sell its current 50% interest in the Silangan joint venture to the Company. Negotiations on this offer ensued between the parties and in February 2009, the transaction was closed with PMC acquiring all of Anglo's interest in the joint venture for $55 million. This gives PMC control over the property together with the 81%'s indirectly owned subsidiary, PGPI which holds the other 50% interest.

A satellite mineralization located about 2 kms. northwest named as the Bayugo Prospect was encountered during the exploration of the Boyongan deposit. The prospect was intersected by drilling in 2003, which was followed by a target definition drilling started in 2007 but was stopped in late 2008 when Anglo decided to relinquish its rights over its property, undertaking a total of 22,587 meters of drilling during the two years period. The low density drilling has outlined an approximate extent of copper-gold mineralization, however, much open ground still remains to be drilled to obtain a better definition of the size and grade of mineralization, which is relatively deeper than the Boyongan deposit.

Resource definition and in-fill drilling programs will be conducted at Bayugo in two phases to be able to generate mineral resources of sulfide composition at the soonest possible time to coincide with the Boyongan feasibility study. A target estimate of the resource is about 200 million tonnes but which at best is a target potential that could be utilized in the various strategies to be employed in further exploration.

The estimate of ore grades in the different types of mineralized zones follows. The grades indicated are, however, not representative for use in a projected mineralization model:

	Oxide Zone		Supergene		Hypogene	
	g/t Gold	% Copper	g/t Gold	% Copper	g/t Gold	% Copper
West Bayugo	0.81	1.66	1.62	0.96	0.38	0.51
East Bayugo	0.45	0.66	1.12	0.95	0.44	0.65

In line with its obligations after stepping into the shoes of Anglo in the joint venture, the Company has embarked to continue the PFS done on Boyongan and to conduct closer-spaced drilling of Bayugo, both now referred to as the Silangan Project, allocating P144.7 million for Boyongan and P176.3 million for Bayugo as exploration budget for 2009. The Company's 2009 prefeasibility study timetable for the Silangan Project follows:

	ACTIVITIES	2009 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1	Preparation of plans, section & initial mine design including shaft sinking underground ramps and production schedules	■	■	■	■	■	■						
2	Conceptual detailed engineering design						■	■	■	■			
3	Quotation of service, equipment installation and building contractor	■	■	■	■	■							
4	Metallurgical Testing of Samples												
	Padcal			■	■	■	■						
	US			■	■	■	■						
5	Mill Process & Plant Design				■	■	■	■	■				
	Mine Design & Dev't Program												
6	Design of tailings pond and Environmental Studies			■	■	■	■	■	■				
7	Studies and Design of Power, Electrical and Mechanical Facilities			■	■	■	■	■	■				
8	Over-all layout of mine camp and Surface facilities			■	■	■	■	■	■				
9	Bayugo Infill & Definition Drilling												
	Phase 1		■	■	■	■	■	■	■	■	■		
	Phase 2 (up to 2010)											■	■
10	Financials				■	■	■	■	■	■			
11	Compilation of reports								■	■	■		
12	Management review											■	■

The third and last renewal of the two year exploration period of the Silangan Project was approved by the government on December 15, 2008.

Padcal Vicinity

Exploration activities in the Padcal vicinity went into full swing in 2008 mainly in the Tapaya Prospect within MPSA-157-2000-CAR, and at the underground 773 meter level (ML) of the mine. Nine drillholes were completed totaling 6,446 meters on which basis the delineated resource will be estimated in mid-2009. The drillhole at the 773 ML, which is to check the vertical extent of the Sto. Tomas II orebody, intersected at least a 27-meter mineralized zone. This mineralized zone will be pursued by additional drilling scheduled in 2009.

As of December 31, 2008, the Padcal Mine's ore resources and reserves follow:

GEOLOGIC RESOURCES				Contained	
	Million Tonnes	Copper %	Gold g/t	Copper (Million lbs.)	Gold (000 ozs.)
908 ML	62	0.24	0.53	330	1,060
782 ML	101	0.24	0.49	520	1,600
Total	163	0.24	0.51	850	2,660

PROVED RESERVES				Recoverable	
	Million Tonnes	Copper %	Gold g/t	Copper (Million lbs.)	Gold (000 ozs.)
908 ML	25	0.21	0.47	98	298
782 ML	29	0.25	0.55	134	413
Total	54	0.24	0.52	232	711

Based on the price assumption used, the life of the Padcal mine stands as currently declared as up to 2014.

Other Projects

Lascogon Mining Corporation

In 2005, PGPI entered into a joint venture agreement with FEC Resources ("FEC") to fund exploration of its subsidiary, Lascogon Mining Corporation (“LMC”). Under the agreement, FEC earns up to 40% of the project by paying $250,000 to PGPI, which payment was made in December 2005, and by advancing $1 million to cover exploration costs, which amount was provided to LMC and was fully spent for exploration activities in 2006. This has earned FEC its 40% interest in LMC as of December 31, 2006. The amount recorded by PGPI has been applied to reduce the resource assets amount in the respective years. Three quarters of the exploration advances must be repaid from operations should the project proceed that far. In the third quarter of 2007, Lascogon shares were issued to FEC, PGPI recognizing FEC’s 40% interest in LMC by reflecting the corresponding minority interest of FEC in LMC. Thereafter, PGPI and FEC are to share in the funding of expenses at 60%-40% basis, respectively.

An additional 20% can be earned by FEC by funding development and construction of a mine with advances up to $10 million. Such advances would be treated as a secured loan to LMC to the extent that LMC’s assets are allowable as collateral, bearing interest at 1.5% over LIBOR and repayable based on an agreed schedule from start of commercial operations. Should FEC be unable to deliver all of the $10 million, FEC may earn additional proportionate equity in LMC at 2% for every $1 million advanced, up to 9% for $4.5 million. If FEC wishes to acquire more than a total 40% equity in LMC, FEC will have to pay the full amount of $5.5 million for an additional 11%.

To advance the project to the next level of development and expenditure of funds for a prefeasibility study, additional exploration must be conducted. Additional trenching program will be undertaken in 2009 to allow for a more confident resource estimation.

Diamond and reverse circulation drilling in the other prospects of the Lascogon tenements were completed in 2008 with no encouraging results.

Vista Alegre Project/Nagtalay/Bulawan deposit of PGPI

Exploration at the Vista Alegre Project in 2008 covered four gold prospects along the Vista Alegre Gold belt within PGPI’s MPSA and leased claims. The gold belt covers a distance of 4 kilometers along NE-SW trend and is 1km wide.

Diamond drilling in Nagtalay prospect was suspended in the final quarter of 2008 after completing 13,202.7 meters from a campaign that started in August 2007, testing the lateral and vertical extent of the mineralization defined by an earlier drilling campaign in the 1990s. Preliminary resource estimation of the prospect will be completed by June 2009.

Drilling also started at the old Bulawan deposit, completing one hole in late 2008 with a depth of 549.9 meters. The hole indicated possible extension of mineralization to the east of the known orebody. Drilling will be continued in 2009, along with the other prospects in the area.

Sibutad

Renewed exploration for gold and copper was initiated in January 2008 in the part of MPSA 63-97-IX that contains the Larayan and Lalab gold deposit under PGPI, focused on the following short-term objectives: (1) Evaluate the remnant resources of Lalab and Larayan; (2) test the lateral and vertical extensions of the known vein systems; and (3) define other gold exploration targets within the area. The long-term objective of the project is to explore for a possible porphyry copper-gold system in the property. Diamond drilling started in November 2008, bringing a total of 1,167 meters completed as of January 2009 on two drill sites.

Clearance from the government is currently being worked out to enable PGPI expand its drilling activities outside the current ECC area.

Brixton Energy and Mining Corporation (Brixton)

Brixton, is a wholly owned subsidiary of the Company, engaged in exploration and development of energy related resources. In May 2008, its Core Operating Contract No. 130 was converted into Coal Operating Contract for Development and Production No. 130, for a period of 10 years, followed by another 10-year extension. The contract covers two coal blocks in Sibugay, Zamboanga, the ore reserves on which cannot yet be disclosed pending issuance of a technical report by a competent person as required under the Philippine Mineral Reporting Code.

Expenditures on this project to December 31, 2008 amounted to P46 million, with P22 million spent during the year. In November 2008, Brixton obtained the Environmental Clearance Certificate for the advancement of the coal project to development stage in 2009, with a capital expenditure requirement of P280 million based on the following timetable:

ACTIVITIES		2009											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1	Securing of permits and clearances from various local and national government agencies												
2	Equipment ordering for surface and underground development												
3	Industrial site preparation (site clearing and road construction)												
4	Installation and construction of surface infrastructures												
5	Development and driving of main and ventilation shafts												
6	Installation and construction of underground infrastructures												
7	1st Longwall advancing												
8	2nd Longwall advancing												
9	Incidental production												
10	Regular production												

Compliance with Environmental Laws

The Company is committed to its environmental and policy statement of protecting and enhancing the environment and has spent total environmental expenses for the year of P255.6 million, bringing the Company's expenditures from 1967 to date to P2.73 billion.

The Company and its subsidiaries have been consistent winners in environmental contests. Awards won for the last three years include for Philex-Padcal mine, as the Best Mining Forest champion in 2008 and 2007, and first runner-up in 2006; for PGPI-Bulawan, as the Best Mining Forest first runner-up in 2008 and 2007, and champion in 2006; and for PGPI-Sibutad, as second runner-up from 2006 to 2008.

Related Party Transactions

Part III, Item 12 discusses related party transactions.

Major Business Risks

Nature of Mineral Exploration and Mining

The exploration for, development and exploitation of, mineral properties entail significant operating risks. There is no certainty that the activities of the Company, which by the character of its business involve substantial expenditures and capital investments, in the exploration and development of its resource properties will result in the discovery of mineralized materials in commercial quantities and thereafter in a viable commercial operation. The Company, in its 51 years of productive operations of the Padcal mine, tries to temper its exposure to these risks by prudent management and the use of up-to-date technology.

Price Risks

The Company is highly dependent on world market prices for gold, copper and silver which are subject to volatility and which change for reasons beyond the Company's control. To protect the Company from disadvantageous price fluctuations, it hedges a portion of its annual production, a practice started way back 1996. While this allowed the Company to survive extended periods of low metal prices, on the other hand, in the subsequent periods of rising prices, it has had to give up some of the benefits from the higher prices.

Environmental Risks

As a natural resource operation, the Company is inherently subject to potential environmental disasters. Thus, it puts a great amount of effort and invests a substantial amount of money into environmental protection and rehabilitation. The Company is also subject to Philippine laws and regulations governing the environmental impact of its operations. As a manifestation of its commitment to responsible and sustainable mineral resource development, the Company has adopted an environmental policy statement and is ISO 14001 certified on Environmental Management Systems. While the Company believes it is in substantial compliance with all material environmental regulations, it can give no assurance that changes in these regulations will not occur in the future which may adversely impact its operation and/or impose added costs to the Company.

Item 2. Properties

The Company owns real property where its Corporate Head Office is situated. It likewise owns mining, milling and support facilities in its Padcal mine site and a concentrate loading facility at Poro Point, which properties are currently used in operation. PGPI similarly owns mining, milling and support facilities in its Bulawan mine site and Sibutad Project which are currently on care and maintenance basis.

Real property and certain mining assets of the Company are covered by a Mortgage Trust Indenture to secure certain loans from creditor banks in previous years. Certain mining assets of PGPI are covered by a Collateral Trust Indenture to secure its loans from the Parent Company.

The Company does not lease any significant real property nor has the intention at present to acquire any significant real property in the next 12 months. Machinery and equipment are acquired month to month as needed usually through direct purchase or through letters of credit, if imported, under supplier's or bank's credit terms.

Item 3. Legal Proceedings

The Company is contingently liable for lawsuits and claims arising from the ordinary course of business, which are either pending decision by the courts or are being contested, the outcomes of which are not presently determinable.

In a labor case before the Philippine National Conciliation and Mediation Board, upheld by a decision of the Supreme Court of the Philippines, the Philex Bulawan Supervisor Union of PGPI was granted wages differential, back wages and damages to the amount of about P40 million. The Company filed a case for certiorari before the Regional Trial Court and was able to secure a Preliminary Injunction on the execution of the Supreme Court decision on the basis of a prior claim on PGPI's assets covered by a collateral trust indenture.

There are also other pending labor cases of PGPI before the Regional Adjudication Board of the National Labor Relations Commission for various claims against PGPI aggregating to P40 million. The cases are either pending hearing and/or under appeal before the Court of Appeals.

Item 4. Submission of Matters to a Vote of the Security Holders

There were no matters covered under this item submitted in the fourth quarter of 2008 to the security holders for a vote.

PART II
OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Market Information

The registrant's common equity is traded in the Philippine Stock Exchange.

On September 11, 2006, the Philippines SEC approved the declassification of the Company's shares of stock into a single class following the ratification and approval on June 23, 2006 by the Company's stockholders of the resolution by the Board of Directors on March 27, 2006 to declassify the Class A and Class B common stock of the Company into a single class.

The following were the average stock prices for the Company's common shares within the last two years on a quarterly basis.

Year	Quarter	High	Low
2009	1st Quarter	6.30	4.15
2008	4th Quarter	7.30	3.85
	3rd Quarter	7.80	6.40
	2nd Quarter	7.60	6.20
	1st Quarter *	10.50	5.80
2007	4th Quarter	11.25	7.80
	3rd Quarter	7.80	4.40
	2nd Quarter	6.40	4.45
	1st Quarter	4.85	3.50

*before the 30% stock dividend on Mar. 4, 2008

The Company's stocks were traded at P5.60 per share as of March 31, 2009.

Holders

The Company has 46,578 shareholders as of the end of 2008, with 3,880,851,172 common shares issued and outstanding.

The top 20 stockholders of the Company as of December 31, 2008 are as follows:

Name and Address of Stockholder	Number of Shares	% of Ownership
PCD Nominee Corporation (see Item 11 for additional information)	2,219,160,865	57.18
Social Security System	786,822,600	20.27
Nelson Dy Lim &/or Florecita Ng Lim &/or Richard Ng Lim	66,691,314	1.72
Goldenmedia Corporation	21,805,498	0.56
Walter W. Brown	16,513,250	0.43
Cheng Han Sui &/or Diana Y. Cheng	11,600,044	0.30
Tome Realty Corporation	10,060,050	0.26
The First National Investment Company	9,756,034	0.25
Makati Supermarket	6,682,581	0.17
George K. Young	6,065,828	0.16
Albert Awad	5,769,083	0.15
Estate of Allen Cham	5,376,381	0.14
Cede & Company	4,714,046	0.12
Ching Tiong Keng	4,129,128	0.11
Estate of Eudaldo Boix	4,020,338	0.10
Philippine Remnants Co., Inc.	3,900,000	0.10
Betty Chen	3,765,310	0.10
Frank Pao	2,911,408	0.08
The Roman Catholic Archbishop of Manila	2,576,908	0.07
Ack Construction, Inc.	2,573,026	0.07
Total	3,194,893,692	82.32

Dividends

The Company's Board of Directors has a standing policy to declare cash dividend should the circumstances allow for its declaration at 25% of its annual cash flow before debt service.

In 2007 and 2006, the following cash dividends were declared:

1. Cash dividend of three centavos (₱0.03) per share; for record date of July 6, 2006; payable on August 1, 2006.

2. Cash dividend of five centavos (₱0.05) per share; for record date of September 28, 2006; payable on October 23, 2006.

3. Cash dividend of seven centavos (₱0.07) per share; for record date of November 30, 2006; payable on December 22, 2006.

4. Cash dividend of ten centavos (₱0.10) per share; for record date of April 10, 2007; payable on May 7, 2007.

5. Cash dividend of ten centavos (₱0.10) per share; for record date of June 7, 2007; payable on July 4, 2007.

6. Cash dividend of twenty-five centavos (₱0.25) per share; for record date of November 26, 2007; payable on December 18, 2007.

Up to December 2007, cash dividends were subject to prior approval of Landbank as a condition to the Company's outstanding loan obligation then.

In 2007, the Company likewise declared a 30% stock dividend on the Company's outstanding shares at of the record date of March 7, 2008 that was subsequently approved by the Company's stockholders at its February 24, 2008 meeting. The stock dividends equivalent to 891,014,665 shares, was approved for listing by the Philippine Stock Exchange on April 4, 2008.

Recent Sale of Unregistered or Exempt Securities

No securities were sold by the Company within the past three years which were not registered under the Code.

On November 28, 2008, the sale of 778,620,792 treasury shares of the Company to Asia Link BV, a subsidiary of First Pacific Company Limited of Hong Kong, for P7.92 per share or P6.2 billion was consummated. The Company recorded as additional paid-in-capital the total premium of P560 million over the treasury shares cost of P7.20 per share. There was no sale of reacquired securities in 2007 and 2006.

On June 23, 2006, the Company's stockholders approved and adopted a Stock Option Plan which provides for the granting of options to the Company's directors, officers, managers and key consultants to purchase common shares of the Company at specified exercise price. The aggregate number of shares initially approved for grant was 88,733,707 shares or 3% of then total outstanding shares of the Company. On March 8, 2007, the SEC resolved that the issuance of the 88,733,707 shares under the plan is exempt from the registration requirements under Section 10.2 of the Code.

As an adjustment to the shares reserved for stock option due to the effect of the declaration of the 30% stock dividend in 2007, additional 22,882,037 shares were made available for grant which were similarly granted exemption from registration by the SEC. The exercise prices for the outstanding option shares were correspondingly adjusted to avoid a dilution of their option value.

As of December 31, 2008, the total option shares granted amount to 114,478,825, of which 32,067,350 option shares have been exercised and 11,776,800 option shares were forfeited.

Item 6. Management Discussion and Analysis of Financial Condition and Results of Operations

For the years ended December 31, 2008, 2007 and 2006

Information on the Company's results of operations and financial condition presented in the 2008 Audited Consolidated Financial Statements and accompanying Notes to the Consolidated Financial Statements are incorporated hereto by reference.

The Company's consolidated operating revenue, almost all contributed by the Parent Company, amounted to P9.717 billion in 2008, compared to P12.217 billion in 2007 and P9.960 billion in 2006 the third highest, the highest, and the second highest, respectively, in the Company's 53 years history to date. Despite higher realized gold prices which increased revenue from gold, consolidated revenue in 2008 decreased from 2007 on account of a significant decline in copper revenue from the combined effect of lower metal production and lower realized copper price which saw a steep decline in the fourth quarter of the year as the global economic crisis took its toll on the metal. This significantly affected the Company's results of operation that quarter period which had to reflect reversals in previous quarters' copper revenue previously booked at higher copper prices, consequently resulting in negative copper revenues after price adjustments with a net loss of P488 million during the quarter.

The increase in total revenue in 2007 versus 2006, on the other hand, was mainly from more number of shipments made and record metal prices, particularly copper. Realized gold price per ounce averaged $788 in 2008, $708 in 2007 and $610 in 2006. Realized copper price per pound averaged $2.22 in 2008, $3.47 in 2007 and $3.23 in 2006. Consolidated revenue this year reflected revenue from petroleum of P9.3 million contributed by Forum Energy PLC (FEP), a 31.35% effectively owned subsidiary acquired by the Company in 2008.

Starting in January 2008, the Company changed its accounting policy on the measurement of its mine products inventory from lower of cost or net realizable value to at net realizable value, the adjustments from cost to realizable value correspondingly reflected in revenue. This new policy effectively restates the Company's revenue from based on shipment to that based on production. The Company believes that this new policy, which was adopted retrospectively, would provide more reliable and relevant information on the Company's operating performance as it will minimize unusual fluctuations in reported revenue from timing differences that are brought about by when the Company's production are actually shipped.

Consolidated net income amounted to P2.800 billion in 2008, the third highest in the Company's 53 years history to date, compared to P5.006 billion in 2007, which is the highest, and P3.087 billion in 2006, the second highest. The record earnings during these three years essentially followed their revenue levels with 2008 having the third highest, 2007 the highest, and 2006 the second highest. The lower earnings in 2008 was also on account of the increases in Mine Products Taxes and Royalties by 26%, and General and Administrative Expenses by 33%. With the addition of FEP in the consolidated accounts, production cost of P16.0 million on petroleum was reflected in 2008, none in 2007 and 2006, all of which correspondingly resulted in lower 2008 operating income. The Company also recorded a marked-to-market loss of P470.1 million this year from its outstanding foreign currency hedging contract at year end, compared to none in 2007 and 2006. Other charges of P111.6 million in 2008 against P7.9 million in 2007 and P26.3 million in 2006 also contributed to the lower net income for the year.

Conversely, the following contributed positively to 2008 earnings compared to previous years: (a) net foreign exchange gain which amounted to P238.4 million, principally from the translation of the Company's dollar denominated short-term deposits at P47.52:$1 as of December 31, 2008 from P41.28:$1 as of December 31, 2007, compared to the P306.6 million foreign exchange loss in 2007 and P74.8 million gain in 2006; (b) interest income of P153.9 million in 2008 from P127.7 million in 2007 and P41.2 million in 2006 due to progressively increasing amount of free funds invested in short-term deposits; (c) gains from the partial sale of the Company's investment in The Philodrill Corporation (Philodrill) of P87.7 million and P106.8 million in 2007; (d) the P48.6 million reversal of accretion for mine rehabilitation cost; and (e) the P10.1 million additional equity on net earnings of an associate, Petroenergy Resources Corporation, acquired in 2008. The full repayment in March 2008 of the Company's loans from Pan-Pacific Copper Co. Ltd. (PPC), the Company's smelter and offtaker, likewise decreased interest expense to P53.5 million in 2008 compared to P109.6 million in 2007 and P198.0 million in 2006.

In 2008, provisions for losses were made for P226.9 million as impairment of the Company's investment in Indophil Resources NL (Indophil) shares and for P40.0 million for probable claims against the Company related to certain legal, contractual and regulatory matters. Provisions for losses in 2007 and 2006 amounted to P270.0 million and P66.4 million, respectively.

Similarly, following the net income before tax levels of P3.3 billion in 2008 from P5.6 billion in 2007 and P3.6 billion in 2006, the 2008 provision for income tax is lower at P469.8 million from P615.6 million in 2007 and P485.1 million in 2006. The three years income tax holiday granted by the Board of Investments on the Padcal mine's incremental income from its 782 Meter Level, which tax holiday has significantly reduced the Company's effective income tax rate during these years, ended in 2008. Thus, starting 2009, the Company would now be essentially subject to the full statutory income tax rate.

To protect part of its future revenues from unfavorable metal price fluctuations, the Parent Company enters into metal hedging transactions in the form of forward sales, call or put options, subject to the current policy of hedging not more than 50% and 67% of monthly gold and copper production, respectively. From these hedging contracts, the Parent Company recognized hedging loss of P313.5 million in 2008, compared to hedging gains of P145.2 million in 2007 and P27.0 million in 2006. Hedging gains and losses are reflected in the Company's revenue and are considered in computing the Company's average realized prices for its metal production.

The Company's outstanding financial instruments on gold and copper as of December 31, 2008 and March 31, 2009 are presented in the following tables which show also the realized and marked-to-market gains or losses in 2008

GOLD HEDGE POSITIONS AS OF DECEMBER 31, 2008 AND MARCH 31, 2009

Deal Dates		Total Quantity (Ounces)	Monthly Maturity (Ounces)	Strike Price ($ per oz.)	Forward Price ($ per oz.)	Period Covered		2008	
						From	To	Realized Gain (Loss) in Revenue (₱ millions)	MTM Gain (Loss) in Equity (₱ millions)
2008									
Mar 13,2007	calls	48,000	1,000	800	996	Apr 2007	Mar 2011	(45)	(228)
	puts	48,000	1,000	610	589				43
Mar 19,2007	calls	72,000	1,500	800	999	May 2007	Apr 2011	(71)	(359)
	puts	72,000	1,500	610	588				69
Dec 11, 2008	calls	6,000	1,000	1,000	1,015	Jan 2009	Jun 2009		(7)
	puts	6,000	1,000	700	699				4
Dec 17, 2008	calls	6,000	1,000	1,006	1,020	Jan 2009	Jun 2009		(7)
	puts	6,000	1,000	750	748				6
Total 2008								**(116)**	**(479)**
2009									
Jan 07, 2009	calls	12,000	2,000	1,080	1,128	Jul 2009	Dec 2009		
	puts	12,000	2,000	750	725				
Jan 07, 2009	calls	7,700	700	1,060	1,097	Feb 2009	Dec 2009		
	puts	7,700	700	750	733				
Feb 11, 2009	calls	10,000	1,000	1,180	1,203	Mar 2009	Dec 2009		
	puts	10,000	1,000	800	773				

COPPER HEDGE POSITIONS AS OF DECEMBER 31, 2008 AND MARCH 31, 2009

Deal Dates		Total Quantity (DMT)	Strike Price ($ per lb.)	Monthly Maturity (DMT)	Period Covered		2008 Realized Gain (Loss) in Revenue (₱ millions)
					From	To	
2008							
Mar 19, 2007	Forward	1,200	3.27	150	Dec 2007	Aug 2008	(47)
Mar 13, 2007	Forward	900	3.15	100	Dec 2007	Sept 2008	(40)
Jan 01, 2008	Forward	2,250	3.48	250	Feb 2008	Oct 2008	(2)
Nov 07, 2007	Forward	3,000	3.58	250	Nov 2007	Oct 2008	29
Total 2008							**(59)**
2009							
Mar 19, 2009	calls	1,500	2.04	250	Jul 2009	Dec 2009	
	puts	1,500	1.63	250			
Mar 27, 2009	calls	1,500	2.00	250	Jul 2009	Dec 2009	
	puts	1,500	1.68	250			
Mar 20, 2009	Forward	500	1.79	500	Apr 2009		
	Forward	250	1.79	250	May 2009		
	Forward	250	1.79	250	Jun 2009		

As of December 31, 2008, the Company has also one outstanding currency forward contract for US$37 million with weekly maturity of US$1 million at the forward rate of P42 per $1 maturing up to September 2009, with earlier termination provisions when the target profit is achieved and doubling of the notional amount if the fixing rate is higher than the forward rate. While the Company made a net realized gain of P18 million from its currency hedging starting in June 2007 to end of 2008, this outstanding contract was marked to market directly against operations at a loss of P470.1 million based on the forward rate of P48.35 to a dollar as of December 31, 2008.

The marked-to-market gains or losses on both gold options and currency forwards, which are non-cash in nature, will be reversed and credited or charged to operations as the actual gains or losses are realized and effected in revenue through the life of the hedges.

As of December 31, 2007, the Company had outstanding forward contract to sell 250 tonnes of copper monthly at the forward price of $3.58 per pound maturing on January 2008, with the counterparty having the option to extend up to 5,250 tonnes at the same forward price up to October 2009. Previous contracts extendable to 800 tonnes for 100 tonnes monthly at $3.15 per pound up to September 2008 and for 1,050 tonnes at 150 tonnes monthly at $3.27 per pound up to August 2008 were outstanding as at end of 2007. The Company also had purchased gold put options for 99,000 ounces at an average strike price of $610 per ounce, with the corresponding sold call options at the average strike price of $795 per ounce, maturing up to 2011. Furthermore, the Company had currency forward contracts for terms up to 2009 with weekly maturity of $1 million, and forward rates ranging from P42.26 to P42.84 per $1, with earlier termination provisions when target profits are achieved

As of December 31, 2006, the Parent Company had outstanding Asian options to sell gold with an aggregate notional amount of 114,000 ounces at a strike price of $540 per ounce and maturing in equal monthly quantities of 9,500 ounces in 2007, as well as copper swaps at the aggregate notional amount of 3,400 metric tonnes and average forward price of $3.15 per pound, with monthly cash settlement from January 31 to June 29, 2007, extendable for another 1,200 metric tonnes amortized in equal monthly maturities of 400 metric tonnes from May 1, 2007.

PAS 39 requires that outstanding hedge positions of the Company should be reported at fair value and marked to market. Prior to this accounting standard, the Company made all the relevant disclosures on its hedging transactions and outstanding positions in the Notes to the Company's financial statements. Under PAS 39, the marked-to-market gains or losses for the Company's outstanding hedge position should now be reflected in the balance sheet and income statement. The Company, however, believes that this accounting treatment would result to misleading financial statements because in years when metal prices are high and operations are profitable, the financial statements could reflect marked-to-market losses that would significantly lower reported net income than the real net income. On the other hand, when metal prices are low and operations are less profitable, the marked-to-market gains would increase the reported net income significantly higher than the real net income. For this reason, the Company requested for exemption from the mark to market rule of PAS 39 before the Securities and Exchange Commission (SEC), which request, through SEC Order No. 044 dated March 31, 2006, was granted allowing the Company to file its 2005 financial statements with a qualified auditors' opinion on account of the none take-up of the P80.7 million net adjustment required under PAS 39 that would have increased the Company's net income in 2005 to P489.8 million. Subsequently, on November 16, 2006, the SEC issued Resolution No. 493 granting all mining companies with a transition relief from PAS 39 covering hedging contracts that were entered into and effective prior to January 1, 2005. While this confirmed the position taken by the Company in its 2005 financial statements, hedging contracts effective from January 1, 2005 onwards are not covered by the exemption. The Company's marked-to-market gains and losses from its outstanding currency forward contracts at year end are credited to or charged against operation, while those on the gold options treated under hedge accounting are credited to or charged against equity. These marked-to-market gains or losses, which are non-cash items, will over time, be reversed and credited or charged to operations as the actual gains or losses are realized and effected in revenue through the life of the hedges.

As of December 31, Current Assets of the Company amounted to P12.5 billion in 2008 compared to P5.7 billion in 2007 and P3.6 billion in 2006.

Cash and cash equivalents in 2008 were higher at P10.7 billion, compared to P2.6 billion in 2007 and P1.6 billion in 2006, mainly from the premium portion of the P6.1 billion proceeds from the sale of the Company's treasury stock and availment of short-term loans.

Accounts Receivable decreased to P127.7 million from P1.8 billion in 2007 due to the negative balance of trade receivables, which were reclassified to Current Liabilities, brought about by lower forward metal prices used to mark to market the value of provisional shipments awaiting final settlement on their "quotational periods" (one month after month of arrival in Japan for gold and silver, and four month after month of arrival in Japan for copper) as of the end of the year as follows.

	Shipment		Arrival Date at Port Destination	Quotational Period	Provisional Price	Forward Price as of Dec 31, 2008	Final QP Price
	Number	Date					
Gold (1 MAMA)	S-657	Nov 25, 2009	Dec 1, 2008	Jan 2009	734	869.81	858.208
	S-658	Dec 19, 2008	Dec 26, 2008	Jan 2009	773	869.81	858.208
Copper (4 MAMA)	S-654	Sept 19, 2008	Sept 22, 2008	Jan 2009	3.31	1.381	1.46088
	S-655	Oct 9, 2008	Oct 14, 2008	Feb 2009	3.18	1.385	1.50354
	S-656	Oct 30, 2008	Nov 4, 2008	Mar 2009	2.29	1.390	1.70086
	S-657	Nov 25, 2008	Dec 1, 2008	Apr 2009	1.69	1.393	
	S-658	Dec 19, 2008	Dec 26, 2008	Apr 2009	1.54	1.393	

The value of copper concentrate shipments are initially determined based on prices during the second calendar week prior to week of shipment and then adjusted to the average prices during the final quotational period. This pricing method is a standard practice worldwide for copper concentrate shipments.

The higher balance of Accounts Receivable in 2007 and 2006 was due to higher trade receivable balances from shipments at year end that were collected early in the following year. Included in Current Accounts Receivable as of December 31, 2006 was the balance of P21.8 million collected in 2007 from the sale of the Parent Company's shares in ATR-Kim Eng Financial Corporation in 2004.

Inventories were higher at P1.3 billion compared to P897.7 million in 2007 and P875.5 million in 2006. Effective in 2008, Mine Products Inventory is recognized at net realizable value, from at lower of cost or net realizable value in previous years. This change in accounting policy has increased the value of 2008 year end Mine Products Inventory to P381.0 million from at cost of P59.9 million.

The increase in Other Current Assets in 2008 and 2007 comprise mainly of input value-added tax claims on importation of materials and supplies and equipment.

Property, plant and equipment (PPE) as of December 31 increased to P4.01 billion in 2008 from P3.8 billion in 2007 and P3.7 billion in 2006, The increases in 2008 and 2007 were mainly due to additional capital expenditures of P1.2 billion and P1.3 billion, respectively, incurred by the Parent Company, as well as the consolidation of FEP's PPE balance of P178.9 million in 2008.

The total capital expenditures budget for 2009 is currently at P2.0 billion, of which P1.2 billion are allotted for Padcal operation and P939.4 million are for exploration projects.

As of December 31, Available for Sale Investments reflected at fair values amounted to P378.8 million in 2008, P776.4 million in 2007 and P270.7 million in 2006. The lower balance in 2008 is mainly due to the impairment made on the Company's investment in Indophil shares and the partial sale of the Company's holdings in shares of stock of Philodrill. The higher balance in 2007 against 2006 was due to the purchase of shares of stock in Pitkin Petroleum Limited, as well as the increase in fair value of investments in Philodrill and Philippine Realty and Holdings Corporation, partly offset by the sale of some Philodrill shares.

Deferred Income Tax Assets increased to P171.7 million in 2008 compared to P48.7 million in 2007 and P47.0 million in 2006. The increase in 2008 is mainly due to the higher amount of marked-to-market losses on hedging instruments.

Deferred Exploration Costs and Other Non-current Assets substantially increased to P2.7 billion compared to P237.0 million in 2007 and P412.5 million in 2006 due to the consolidation of FEP's deferred exploration costs of P1.9 billion. The ongoing exploration projects of the Company for which P501.0 million was spent in 2008 also contributed to the increase in 2008; while the provisions for write-down of inactive exploration projects under the Company's 81%-owned subsidiary, Philex Gold Philippines, Inc. (PGPI), partially offset by exploration costs of P85.3 million incurred for the Lascogon gold project, contributed to the decrease in 2007 versus the previous year.

Total current and non-current Derivative Assets in 2007 and 2006 amounted to P95.7 million and P143.2 million, respectively, representing the marked-to-market gain on the Company's outstanding derivative contracts as at year end. Total Assets of the Company amounted to P20.3 billion in 2008 compared to P10.9 billion in 2007 and P8.0 billion in 2006.

Current Liabilities as of December 31 amounted to P5.9 billion in 2008, compared to P1.6 billion in 2007 and P 1.7 billion in 2006. Short-term bank loans of P4.0 billion were availed in 2008 compared to none in 2007 and 2006.

The increase in Accounts Payable and Accrued Liabilities to P780.1 million from P688.0 million in 2007 and P738.7 million in 2006 were mainly from increased purchases of goods and services. No significant amount of the Company's trade payables have been unpaid within their acceptable terms.

The increase in Derivative Liabilities to P634.1 million from P174.3 million in 2007 and none in 2006 were due to the marked-to-market losses on the Company's outstanding hedging instruments as at year-end of 2008.

With the payment of P44.5 million in 2008, Dividends Payable decreased to P173.3 million in 2008 from P217.8 million in 2007. On the other hand, Dividends Payable increased in 2007 compared to 2006 due to the unpaid portion of cash dividends amounting to a total of P1.3 billion declared in 2007 compared to P442.1 million in 2006.

Provisions and other payables consisting mainly of provision for probable claims against the Company on certain legal and regulatory matters decreased to P145.9 million in 2008 compared to P175.0 million in 2007 and P217.1 million in 2006.

The Current Portion of Long-Term Debt as of December 31, 2007 represented the reclassification from long term of the current portion of the PPC loan which the Company fully prepaid in 2008.

Income tax payable is lower in 2008 compared to 2007 and 2006 as a consequence of the year's lower income before income tax. The increase in Current Liabilities significantly contributed to the increase in Total Liabilities to P6.9 billion in 2008 from P2.5 billion in 2007 and P2.9 billion in 2006.

As of December 31, 2008, Non-current Liabilities amounted to P992.4 million, compared to P854.3 million in 2007 and P1.2 billion in 2006.

Provision for Mine Rehabilitation Costs decreased to P26.6 million in 2008 from P204.9 million 2007 and P189.2 million in 2006 due to the reduction in estimated nominal cash flows for the rehabilitation of the Padcal Mine, while the increase in 2007 is due to the additional accrual of P15.7 million as required under Philippine Accounting Standard (PAS) no. 16, accounting for PPE.

Under PAS no. 19, accounting for Employees Benefits, the Company also provided for the year Accrued Retirement Cost amounting to P80.2 million compared to P126.0 million in 2007 and P159.0 million in 2006.

The Provision for Losses in 2008 is mainly for the contingent liability of a subsidiary acquired in 2008 now consolidated into the Company's accounts. With the maturity of the year's portion of the Company's gold hedging contracts, the long-term portion of the Derivative Liability decreased to P314.9 million from P458.8 million in 2007.

Stockholders' Equity at year-end amounted to P13.5 billion in 2008 compared to P8.4 billion in 2007 and P5.1 billion in 2006 reflecting more than six-fold growth in the Company's net assets since the end of 2005. Aside from net income for the year, several factors contributed to the increase in equity in 2008. Capital Stock increased to P3.9 billion in 2008 from P3.0 billion in 2007 due to the declaration of 30% stock dividend paid in April 2008. Additional Paid-in Capital also increased to P681.7 million in 2008 from P102.3 million in 2007 principally from the premium on the sale of treasury shares acquired in 2008. The decrease in Cumulative translation adjustment on hedging instruments to P300.1 million in 2008 from P510.4 million in 2007, the Revaluation Surplus of P94.2 million in 2008 compared to none in 2007, and the increase in minority interest to P1.5 billion from P155.1 million in 2007, further increased total Stockholders Equity in 2008. The increase in Stockholders Equity in 2007 versus previous year was mainly due to the net income of P5.0 billion, the increase in Additional Paid-in Capital from stock options exercised, and the increase in fair value of AFS investments, partially offset by the decrease in marked-to-market value of outstanding hedging instruments.

Net cash provided by operating activities amounted P5.5 billion in 2008, P4.7 billion in 2007 and P3.3 billion in 2006. Cash used in investing activities, principally the addition to PPE, the increase in Deferred Exploration Costs, and the consolidation of the non-cash asset of FEP, amounted to P1.8 billion compared to P1.5 billion and P622.6 million in 2007 and 2006, respectively. Net cash provided by financing activities amounted to P4.3 billion in 2008 due to the availment of short-term bank loans of P4.0 billion and the net proceeds from the sale of treasury shares. In 2007, net cash used in financing activities increased to P2.2 billion in 2007 from P1.7 billion in 2006 due to higher amounts of dividends paid and the full repayment of medium-term bank loans.

Please refer to Note 2 of the Notes to the Consolidated Financial Statements for discussions on new and revised accounting standards that the Company adopted in 2008.

Top Five (5) Key Performance Indicators

Average Metal Price

The average realized prices for the Company's products are key indicators in determining the Company's revenue level. While the world spot market prices quoted in the London Metal Exchange for gold, copper, and silver are applied on the Company's shipments as well as on mine products inventory, and provisional prices are adjusted to forward prices at the end of each reporting period, a portion of the Company's production is also hedged from time to time to protect revenue from any wild fluctuations in prices and where reasonable floor levels could be provided. The spot price, forward price and the hedge price comprise the Company's average realized prices, which in 2008 amounted to $788 per ounce gold and $2.22 per pound copper.

The current global financial crisis has negatively affected copper price which has become quite volatile and uncertain for the near term outlook. The Company believes, however, that this is a transitory reaction to the situation and in time, the price level will recover but could remain, for much while, lower than previous year's record level. Fortunately for the Company, the gold price recovered much sooner than copper.

Although the copper price per pound currently at $1.60 is lower than the $2.22 average realized price in 2008, the gold price per ounce currently at $900 per ounce is above the $788 average realized in 2008 which somehow offsets the decline in copper price. As of this writing, gold revenue already accounts for more than 70%, while copper accounts for about 25%, of consolidated revenue.

At the budgeted price levels of $1.50 per pound for copper and $700 per ounce for gold, operating revenue for 2009 has been budgeted at P7.8 billion, 20% lower than 2008 but the fourth highest revenue level to end of the year. Gold is expected to contribute 62% of revenue versus copper's contribution at 38%, resulting in the budgeted operating income of P1.7 billion and net income of P1.5 billion for the year, the sensitivity of which to different price assumptions is shown in the following table:

		Average Copper Price ($/lb.)			
P Millions		**1.00**	**1.50**	**2.00**	**2.50**
Average Gold Price ($/oz.)	**700**	825	1,503	2,180	2,858
	750	1,061	1,739	2,417	3,094
	800	1,297	1,975	2,653	3,331
	850	1,481	2,158	2,836	3,514
	900	1,664	2,342	3,020	3,698
	950	1,848	2,526	3,204	3,882
	1000	2,032	2,709	3,387	4,065

Tonnes Milled and Ore Grade

Tonnes milled and ore grade determine concentrates production and sales volume. The higher the tonnage and the grade of ore, the more metals are produced and sold.

Tonnes milled in 2008 were 8.9 million at the average grade of 0.643 grams per tonne gold and 0.257% copper. Metal production was 145 thousand ounces gold and 41 million pounds copper.

Concentrates shipped for the year 2008 were 75,397 tonnes containing 140 thousand ounces gold and 40 million pounds copper.

In 2007, tonnes milled were 9.2 million at the average grade of 0.627 grams per tonne gold and 0.266% copper. Metal production was 150 thousand ounces gold and 45 million pounds copper. Concentrates shipped last year was 80,047 tonnes containing 152 thousand ounces gold and 46 million pounds copper.

The budgeted milling tonnage for 2009 of 9.1 million tonnes at 0.620 grams per tonne gold and 0.25% copper is not materially different from that in 2008, although in terms of metal production, gold and copper is budgeted to 149 thousand ounces and 42 million pounds in 2009.

Foreign Exchange Rate

As the Company's sales proceeds and bank loans are in U.S. dollars, a higher Philippine peso to U.S. dollar exchange rate means higher peso sales revenue but would also reflect a foreign exchange loss on the restatement of the Company's dollar obligations. Conversely, a lower exchange rate reduces the Company's revenue in pesos but brings about foreign exchange income on the loans. As a significant portion of the Company's cash and cash equivalents are also in U.S. dollar, higher exchange rates would reflect foreign exchange gain, and at lower exchange rate a loss. The Company's average realized exchange rate in 2008 and 2007 were P43.96 and P45.55, respectively. As of December 31, 2008, the peso to dollar exchange rate was at P47.52 compared to P41.28 as of December 31, 2007.

Total Production Cost Per Tonne and Operating Cost Per Ounce Gold

The Company's average operating cost per tonne is a key measure of the operating performance of the Company. At the same cost level, the higher the production volume the lower the cost per tonne, as would also be the result at the same production volume but lower operating cost. Thus, a lower cost per tonne would generally reflect an improvement in operating efficiency. The same essentially applies to cost per ounce gold as well, but with the gold grade, as it affects metal production, and the exchange rate, as it affects the conversion from peso to dollars, getting into consideration.

In 2008, the total production cost (minesite cost and expenses excluding marketing charges, excise tax and royalties) per tonne of ore milled was P470 from the total production cost of P4.2 billion over ore milled of 8.9 million tonnes, slightly higher compared to the cost per tonne of P454 from the production cost of P4.2 billion over ore milled of 9.2 million tonnes in 2007.

Expressed in operating cost (all cost and expenses excluding corporate overhead) per ounce gold produced, operating cost before copper revenue credits was $852 per ounce in 2008 compared to $823 per ounce in 2007. After copper revenue credit, the corresponding cost per ounce was $210 in 2008, representing 25% of operating cost before copper revenue credits. Operating cost was minus $232 in 2007, meaning that in that year, the copper revenue paid for all the operating cost with extra remaining and gold production was free.

In 2009, the projected total production cost per tonne is P511 from the total production cost of P4.7 billion.The Company has not budgeted any significant change in the components of its operating cost in 2009, although with the lower copper price prevailing, the budgeted operating cost per ounce of gold produced net of copper revenue credits is at $370 per ounce higher than in 2008 which was at $210 per ounce. The operating cost per ounce before copper credit is budgeted at $795 per ounce in 2009, compared to $852 per ounce in 2008.

Earnings Per Share

The earnings per share reflect the Company's bottom line operating results expressed in amount per share of the Company's average outstanding capital stock. Assuming a constant outstanding number of shares, as the Company's earnings increase, the earnings per share correspondingly increase. The lower earnings per share of P0.833 in 2008 from P1.690 per share in 2007 is also due to the increase in average number of shares on account of the 30% stock dividend paid in 2008.

Earnings per share budgeted in 2009 at the earnings levels shown above based on different price assumptions follow:

		Average Copper Price ($/lb.)			
P Millions		**1.00**	**1.50**	**2.00**	**2.50**
Average Gold Price ($/oz.)	**700**	P 0.21	P 0.39	P 0.56	P 0.74
	750	0.27	0.45	0.62	0.80
	800	0.33	0.51	0.68	0.86
	850	0.38	0.56	0.73	0.91
	900	0.43	0.60	0.78	0.95
	950	0.48	0.65	0.83	1.00
	1000	0.52	0.70	0.87	1.05

On February 10, 2009, the Board declared 25% stock dividend subject to stockholders approval on April 21, 2009. Should the stock dividend pass final approval, the number of outstanding shares would increase and the earnings per share in 2009 correspondingly decrease.

Known Trends, Events or Uncertainties

On February 6, 2009, the Company acquired the 50% interest of Anglo American Exploration (Philippines) B.V. in the joint venture companies holding the Silangan Project for a total consideration of $55 million, giving the Company, together with PGPI, which currently owns the other 50% interest, control over the project. With this acquisition, a significant portion of the Company's attention and resources from hereon would be focused towards advancing the project from its present prefeasibility study status. In 2009, the amount of P321 million has been budgeted by the Company for this project.

There is no known event that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation that have not been booked although, the Company could be contingently liable for lawsuits and claims arising from the ordinary course of business which are not presently determinable.

Other than what have been discussed in their respective sections above, there are no known significant trends, demands, commitments or uncertainties that will result in or that are reasonably likely to result in the Company's liquidity increasing or decreasing in a material way. There are no material commitments for capital expenditures not reflected in the Company's financial statements. There are likewise no significant seasonality or cyclicality in its business operation that would have a material effect on the Company's financial condition or results of operations. There were no other significant elements of income or loss that did not arise from the Company's continuing operations. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period. There are no line items in the Company's financial statements not already explained for causes either above or in the Notes to the Consolidated Financial Statements other than due to the usual period-to-period fluctuations in amounts natural in every business operations.

Item 7. Financial Statements

The audited financial statements are presented in Part IV, Exhibits and Schedules.

Item 8. Information on Independent Accountants and other Related Matters

External Audit Fees and Services

Audit and Audit-Related Fees

For 2008 and 2007, the audit was basically engaged to express an opinion on the financial statements of the Company and its subsidiaries. In addition, the audit included providing assistance to the Company in the preparation of its income tax return in as far as agreement of the reported income and costs and expenses with the recorded amounts in the books. The procedures conducted include those that are necessary under auditing standards generally accepted in the Philippines. This, however, did not include detailed verification of the accuracy and completeness of the reported income and costs and expenses. The audit fees for these services for the entire Philex group were P4.845 million for 2008 and 3.755 million for 2007.

Tax Fees

In 2008, the Company engaged the external auditors' tax group to perform a tax compliance review to study the Company's position, practices and procedures in relation to specific tax laws, regulations and rulings. The tax fee for this review is P300 thousand. The external auditors did not perform any tax service for the Company for year 2007, thus there was no tax fee paid.

All Other Fees

There are no other services rendered by the external auditors other than the usual audit services as mentioned above.

Audit Committee's Approval Policies and Procedures

Prior to the commencement of audit work, the external auditors present their program and schedule to the Company's Board Audit Committee which include discussion of issues and concerns regarding the audit work to be done. The external auditors also prepare their report on their review of the Company's quarterly financial reports based on agreed upon audit procedures as agreed with the Audit Committee, and assist in the review of the Company's quarterly reports before they are filed with the SEC.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no changes in and/or disagreements with independent accountants on accounting and financial disclosure and no change in the Company's independent accountants during the two most recent fiscal years or any subsequent interim period, except for the substitution of the previous audit engagement partner, Mr. Aldrin M. Cerrado, by Mr. Martin C. Guantes as the new audit engagement partner of SGV starting the 2008 audit, in compliance with the 5-year rotation rule of the SEC.

PART III

CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

Directors

The following are the present directors of the Company whose terms of office are for one (1) year or until their successors are elected and qualified:

WALTER W. BROWN - 69, Filipino citizen. Chairman & Chief Executive Officer effective January 1, 2004 to present. He has been a Director for five years since August 1, 2003 and was re-elected on June 25, 2008. He is also a Director and Chairman of PGI and PGPI. He is the Chairman of A Brown Company, Inc. since 1966, Chairman and President of Monte Oro Resources Energy Inc., Monte Oro Grid Resources Corporation, President and Chief Executive Officer of National Grid Corporation of the Philippines, Chief Executive Officer of Forum Energy Plc., a company listed with the Alternative Investment Market of the London Stock Exchange. He is also a Director of Petroenergy Resoruces Corporation and ISM communications Corporation. He was the President and a Director of Phil. Realty & Holding Corp. from 1986 to 2001. He was a Director of International Exchange Bank from 1995 to May 2006.

THELMO Y. CUNANAN – 71, Filipino citizen. He has been a Director of the Company and PGPI for four years since November 3, 2004 and re-elected on June 25, 2008. He is the Chairman of the Social Security Commission. He was President and Chief Executive Officer of the Philippine National Oil Company from 2001 to 2004.

ROMULO L. NERI - 59, Filipino citizen. He was elected as Director of the Company and PGPI on August 19, 2008. He is currently the President and Chief Executive Officer of the Social Security Commission. He is also the Secretary of National Social Welfare Cluster of the Office of the President of the Philippines. He was the Chairman of the Commission on Higher Education from August 2007 to July 2008, and also the Secretary of Socio-Economic Planning and the Director-General of National Economic and Development Authority from December 2002 to July 2005 and from February 2006 to August 2007.

ROBERT C. NICHOLSON - 53, English citizen. He was elected as Director of the Company and PGPI on November 28, 2008. He is an Executive Director of First Pacific Company Limited since November 2003 from Director in June 2003. He is also a Commissioner of PT Indofood Sukses Makmur Tnk, a Director of Level Up International Holdings Pte. Ltd., an Independent Non-Executive of QPL International Holdings Limited and Pacific Basin Shipping Limited, and a Non-Executive Director of India Capital Growth Fund Limited. He was a senior adviser to the Board of Directors of PCCW Limited from August 2001 to September 2003.

ROBERTO V. ONGPIN. – 72, Filipino citizen. He has been a Director of the Company and PGPI for almost a year since June 26, 2007 and was re-elected on June 25, 2008. He is currently the Chairman of PhilWeb Corporation, ISM Communications Philippines, Inc., Eastern Telecommunications Philippines, Inc., Connectivity Unlimited Resource Enterprise, Inc., Developing Countries Investment Corporation, la Flor de Isabela, Inc., and Alphaland Corporation, and the Deputy Chairman of the South China Morning Post (Hong Kong). He is a Non-Executive Director of Shangri-la Asia (Hong Kong) and a Director of E-2 Capital (Holdings) Ltd. Hong Kong. He was the Chairman of SyCip Gorres Velayo & Co. from 1964 to 1979.

MANUEL V. PANGILINAN - 62, Filipino citizen. He was elected as Director of the Company and PGPI on November 28, 2008. He is the Chairman of the Philippine Long Distance Company since February 2004 from President and Chief Executive Officer in November 1998. He is also the Chairman of Metro Pacific Investments Corporation, Smart Communications, Inc. Pilipino Telephone Corporation, First Philippine Infrastructure, Inc., Manila North Tollways Corporation, First Philippine Infrastructure Development Corporation, Tollways Management Corporation, Landco Pacific Corporation and Medical Doctors Inc., as well as President Commissioner of PT Indofood Sukses Makmur Tbk.

ERIC O. RECTO – 45, Filipino citizen. He was elected as Director of the Company and PGPI on August 19, 2008. He is the President and Chief Executive Officer of Eastern Telecommunications Philippines, Inc. since November 2005. He is also the President of ISM Communications Corporation and Vice Chairman of the Boards of Philweb Corporation and Alphaland Corporation. He is also the President/Executive Director of Petron Corporation since October 7, 2008. He is an Independent Director of the Philippine National Bank, PNOC Energy Development Corporation and Metro Pacific Investment Corporation. He is also a Director of Philex Petroleum Corporation and an independent director of the Company and PGPI since his initial election, having possessed the required qualifications;

AMADO D. VALDEZ – 62, Filipino citizen. He has been a Director of the Company and PGPI for two years and was re-elected on June 25, 2008. He is the Dean of the University of the East College of Law since 2000 to 2001, then from 2005 to present. He is a professor in Private International Law, a law practitioner and a bar reviewer. He was formerly the Government Corporate Counsel. He is an independent director of the Company and PGPI since his initial election, having possessed the required qualifications;

JOSE ERNESTO C. VILLALUNA, JR. – 69, Filipino citizen. Executive Vice President & Chief Operating Officer effective August 1, 2004 to present. He has been a Director for three years and re-elected on June 25, 2008. He is also a Director of PGPI and Philex Petroleum Corporation. He was the Vice Chairman and a Director of Itogon Suyoc Mines, Inc. in 1993 to 2001. He has been a Director of ISM Communications Corporation since July 2001.

Executive Officers

The following persons are the present executive officers of the Company:

WALTER W. BROWN - 69, Filipino citizen. Chairman & Chief Executive Officer effective January 1, 2004 to present. He was President and Chief Operating Officer from August 1, 2003 up to December 31, 2003. He is also the Chairman of PGI and PGPI. He is the Chairman of A Brown Company, Inc. since 1966, Chairman and President of Monte Oro Resources Energy Inc., Monte Oro Grid Resources Corporation, President and Chief Executive Officer of National Grid Corporation of the Philippines, Chief Executive Officer of Forum Energy Plc., a company listed with the Alternative Investment Market of the London Stock Exchange. He is also a Director of Petroenergy Resoruces Corporation and ISM communications Corporation.. He was the President and a Director of Phil. Realty & Holding Corp. from 1986 to 2001. He was a Director of International Exchange Bank from 1995 to May 2006.

ALBERT AWAD – 100, American citizen. Vice Chairman Emeritus effective July 28, 2006. He was Director from 1955 to 2006. He was also a Director of PGPI from 1996 to 2006. He is President of American Wire and Cable Co., Inc.

JOSE ERNESTO C. VILLALUNA, JR. – 69, Filipino citizen. President & Chief Operating Officer effective July 26, 2005 to present. He was Executive Vice President & Chief Operating Officer from August 1, 2004 up to July 25, 2005. He is also the President and Chief Operating Officer of PGPI. He was the Vice Chairman and a Director of Itogon Suyoc Mines, Inc. in 1993 to 2001. He has been a Director of ISM Communications Corporation since July 2001.

BARBARA ANNE C. MIGALLOS – 54, Filipino citizen. Corporate Secretary since July 1998 to present. She was Director of the Company and PGPI from March 12, 2001 to July 31, 2003. She is the Managing Partner of the Migallos & Luna Law Offices. She is a director of Mabuhay Vinyl Corporation since 2000, a director of Philippine Resins Industries, Inc. since 2001, and Corporate Secretary of Eastern Telecommunications Philippines, Inc. since 2005.

EULALIO B. AUSTIN, JR. – 47, Filipino citizen. Vice President & Resident Manager for Padcal Operations from January 1, 2004 to present, previously Mine Division Manager (Padcal) in January 1999, Engineering Group Manager in October 1998 and Mine Engineering & Draw Control Department Manager in January 1996.

REDEMPTA P. BALUDA – 53, Filipino citizen. Vice President – Exploration since January 2, 2009, previously Assistant Vice President – Exploration in March 2007, Division Manager – Environment and Community Relations and Geology for Padcal Operations in 1998 and Department Manager - Geology in July 1996.

EDGARDO C. CRISOSTOMO – 60, Filipino citizen. Vice President – Admin. & Materials Management since March 1, 2007 to present, previously Vice President – Purchasing & Materials Management from 2000 to February 28, 2007, Assistant Vice President – Purchasing from 1996 to 1999 and Purchasing Manager in 1995.

VICTOR A. FRANCISCO – 44, Filipino citizen. Vice President – Environment and Community Relations since January 2, 2009 previously Group Manager – Corporate Environment and Community Relations in July 2007, Department Manager – Corporate Environment and Community Relations in 1999 and Assistant Manager – Corporate Environmental Affairs in 1997.

RENATO N. MIGRIÑO – 59, Filipino citizen. Vice President – Finance, Treasurer and Chief Financial Officer since November 2003, previously the Vice President – Finance in March 1998. He is also a Director and the Chief Financial Officer of Philex Gold Inc. since 2006. He was formerly Senior Vice- President & Controller of Benguet Corporation. He is a director of Mabuhay Vinyl Corporation since September 2005.

ENRIQUE C. RODRIGUEZ, JR. – 49, Filipino citizen. Vice President – Legal since January 2, 2009, previously Assistant Vice President – Legal in March 2007. He was formerly Corporate Legal Counsel and Senior Manager of SunRise Holiday Concepts, Specified Holdings and Management Inc. and Specified Construction and Development Inc. from 2000 to 2006.

GUADAFLOR C. MALONZO – 77, Filipino citizen. Assistant Corporate Secretary since 1972 to present. He is a director and Corporate Secretary of Philex Gold Holding, Inc. He is a director of Fidelity Stock Transfer, Inc. and also the Assistant Corporate Secretary of PGPI.

While all employees are expected to make a significant contribution to the Company, there is no one particular employee, not an executive officer, expected to make a significant contribution to the business of the Company on his own.

The Company is not aware of any adverse events or legal proceedings during the past five (5) years that are material to the evaluation of the ability or integrity of its directors or executive officers. Note 29.b of the Notes to the Consolidated Financial Statements of the Exhibits in Part IV, Item 13 is also hereto incorporated by reference.

No director, executive officer or stockholder and immediate member of their family owns ten (10%) percent or more of the Company's outstanding shares.

No director has resigned or declined to stand for re-election because of disagreement with the Company on any matter relating to the Company's operations, policies or practices.

Item 10. Executive Compensation

Directors are paid per diem of ₱8,000 per board meeting or committee participation attended.

There are no arrangements for additional compensation of directors other than that provided in the Company's by-laws which provides compensation to the directors, at the Board's discretion to determine and apportion as it may deem proper, an amount up to one and a half (1 ½ %) percent of the Company's net income before tax of the preceding year. Payments made in 2008, 2007 and 2006 amounted to P79.6 million, P52.6 million and P7.4 million, respectively.

Other than the Chairman and Chief Executive Officer who is entitled to incentive bonus based on net income, there is no executive officer with contracts or with compensatory plan or arrangement having terms or compensation other than similar terms in the regular compensation package, or separation benefits under the Company's group retirement plan, for the managerial employees of the Company.

On June 23, 2006, the Company's stockholders approved the stock option plan of the Company which was duly approved by the Securities and Exchange Commission on March 8, 2007. Note 25 of the Notes to Consolidated Financial Statements of the Exhibits in Part IV, Item 13 on the Company's Stock Option Plan, and also on PGI's Stock Option Plan, is incorporated hereto by reference.

The following table shows the compensation of the directors and officers for the past three years and estimated to be paid in the ensuing year**:**

SUMMARY OF COMPENSATION TABLE
(In Thousands)

DIRECTORS

Year	Directors' Fee
2009 (Estimated)	P 56,400
2008	P 120,408
2007	P 53,502
2006	P 10,376

OFFICERS

NAME	POSITION
Walter W. Brown	*Chairman & CEO*
Albert Awad	*Chairman Emeritus*
Jose Ernesto C. Villaluna, Jr.	*President & COO*
Eulalio B. Austin, Jr.	*VP & Resident Manager - Padcal Operations*
Redempta P. Baluda	*VP - Exploration*
Edgardo C. Crisostomo	*VP - Administration & Materials Mgmt.*
Victor A. Francisco	*VP- Environment & Community Relations*
Renato N. Migriño	*VP - Finance, Treasurer & CFO*
Enrique C. Rodriguez, Jr.	*VP - Legal*
Guadaflor C. Malonzo	*Assistant Corporate Secretary*

	Total Officers'	
Year	Salary	Bonus
2009 (Estimated)	P 28,000	P 18,000
2008	P 23,239	P 35,630
2007	P 19,968	P 23,180
2006	P 18,920	P 9,860

ALL DIRECTORS & OFFICERS AS A GROUP

Year	Total Amount
2009 (Estimated)	P 102,400
2008	P 179,277
2007	P 96,650
2006	P 39,156

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

The list of registered stockholders owning five (5%) percent or more of the Company's stock as of December 31, 2008 follows:

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Amount of Ownership	%
Common	PCD Nominee Corp. *G/F MSE Building, 6767 Ayala Ave., Makati City. See Note 3 below.*	See Note 1 below.	Filipino	2,219,160,865	57.18
Common	Social Security System *East Avenue, Quezon City* *See Note 3 below.*	Social Security System, which is also the record owner. See Note 2 below.	Filipino	786,822,600	20.27

[1] PCD Nominee Corporation, a wholly-owned subsidiary of Philippine Central Depository, Inc. ("PCD"), is the registered owner of the shares in the books of the Company's transfer agent in the Philippines. The beneficial owners of such shares are PCD's participants who hold the shares on their behalf or in behalf of their clients. As of December 31, 2008, the participants under the PCD account who own more than 5% of the voting securities are the following: (1) Asia Link B.V. which has 778,620,792 shares or about 20.063%, (2) The Hongkong & Shanghai Banking Corp. Ltd. Clients' Account, which has 338,249,955 shares or about 8.716%, and (3) Social Security System, as indicated above. PCD is a private company organized by the major institutions actively participating in the Philippine capital markets to implement an automated book-entry system of handling securities transaction in the Philippines.

[2] Messrs. Thelmo Y. Cunanan and Romulo L. Neri, currently represent the Social Security System in the Company as members of the Board of Directors.

[3] The foregoing record owners have no relationship with the Company other than being stockholders.

Security Ownership of Management

The beneficial ownership of the Company's directors and executive officers as of December 31, 2008 follows:

Name of Beneficial Owner	Nature of Ownership	Number of Shares	Citizenship	%
Walter W. Brown	Direct	16,513,250	Filipino	0.425%
Jose Ernesto C. Villaluna, Jr.	Direct	1,102,000	Filipino	0.028%
Thelmo Y. Cunanan	Direct	117,001	Filipino	0.003%
Romulo L. Neri	Direct	1	Filipino	0.000%
Robert C. Nicholson	Direct	1,000	English	0.000%
Roberto V. Ongpin	Direct	130	Filipino	3.731%
	Indirect	144,805,498		
Manuel V. Pangilinan	Direct	20,000	Filipino	0.000%
Eric O. Recto	Direct	1	Filipino	0.000%
Amado D. Valdez	Direct	1	Filipino	0.000%
Albert Awad	Direct	5,769,083	American	0.149%
Barbara Anne C. Migallos	Direct	2	Filipino	0.000%
Eulalio B. Austin, Jr.	Direct	268,125	Filipino	0.007%
Redempta P. Baluda	Direct	15,476	Filipino	0.000%
Edgardo C. Crisostomo		0	Filipino	0.000%
Guadaflor C. Malonzo	Direct	2,052	Filipino	0.000%
Renato N. Migriño		0	Filipino	0.000%
Enrique C. Rodriguez, Jr.		0	Filipino	0.000%
Directors and Officers as a Group		168,613,620		4.343%

Voting Trust/Changes in Control

There is no voting trust holder of 5% or more of the Company's stock. There are no arrangements which may result in a change in control of the Company.

Item 12. Certain Relationships and Related Transactions

The Company's significant related party transactions, which are under terms that are no less favorable than those arranged with third parties, and account balances are as follows:

a. Assignment to PGHI in 2001 of the Company's net advances to PGPI amounting to P2.2 billion as of December 31, 2000, to be offset by the amount of cash advances in 1996 of P795.6 million received by the Company from PGMC-BV in behalf of PGHI representing the net proceeds from PGI's secondary public offering. With the intention of the Company to convert these net advances to equity in PGI should it be warranted in the future, these net advances were reclassified from current advances in 2000 to the "Investments in shares of stock" account.

b. Noninterest-bearing cash advances amounting to P500.2 million and P143.8 million as of December 31, 2008 and 2007, respectively, to PGPI for its working capital and capital expenditure requirements. Part of these advances are secured by mortgage participation certificates on certain mining assets of PGPI.

c. Up to 2008, the Company and PGPI are reimbursed by Anglo for the advances made to the Philex-Anglo joint venture companies, namely Northern Luzon Exploration & Mining Co. Inc. and Silangan Mindanao Mining Co., Inc. (SMMCI). Total reimbursements amounted to P1.4 million in 2008, P3.6 million in 2007 and P4.7 million in 2006. As of December 31, 2008 and 2007, the Company's receivables from these transactions amounted to P747 thousand and P104 thousand, respectively, while PGPI's receivables amounted to P4.1 million and P2.4 million, respectively. PGPI also has an outstanding liability to SMMCI as of December 31, 2008 and 2007 amounting to P500 thousand.

Note 22 of the Notes to Consolidated Financial Statements of the Exhibits in Part IV, Item 13 on Related Party Transactions, is incorporated hereto by reference.

PART IV

CORPORATE GOVERNANCE

Item 13. Corporate Governance

Compliance by the Company with its Manual of Corporate Governance for the years 2008 and 2007 was monitored, with all of the Company's directors, officers and employees substantially complying with the leading practices and principles on good corporate governance as embodied in the manual. The Company has also complied with the appropriate performance self-rating assessment and performance evaluation system to determine and measure compliance. In February 2004, the Company adopted as second addendum to the Manual of Corporate Governance the revised disclosure rules of the Philippine Stock Exchange prohibiting the communication of material non-public information without simultaneously disclosing the same information to the stock exchange.

In 2005, the Company engaged the services of a risk management consultant as part of the Company's risk management system under corporate governance. Further to this endeavor, the Company formalized in 2007 a risk management structure for its Padcal operations and the Corporate office and organized committees to oversee its risk management activities, a comprehensive review of which was done in 2008.

There was no significant deviation from the Company's Manual of Corporate Governance noted during the period. The Company plans to adopt whatever new principles and practices applicable that may evolve to improve its corporate governance.

In May 2008, the Company was adjudged one of the top 20 of the 2007 ICD Corporate Governance Scorecard for publicly-listed companies in the Philippines given by the Institute of Corporate Directors together with the Securities and Exchange Commission, Philippine Stock Exchange and Ateneo de Manila.

PART V

EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits and Schedules

Statement of Management's Responsibility for Financial Statements
Report of Independent Auditors
Audited Consolidated Financial Statements and Notes for the year ended December 31, 2008
Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)
Schedule E. Other Assets
Schedule F. Long Term Debt
Schedule I. Capital Stock

(b) Reports on SEC Form 17-C

There were thirty five (35) reports filed by the Company on SEC Form 17-C during the last six months in 2008 period covered by this report, part of which follows:

Date	Item Reported
Dec. 3, 2008	Sale of treasury shares to Asia Link B.V., a corporation wholly-owned by First Pacific Company Limited, election of Messrs. Manuel V. Pangilinan and Robert C. Nicholson as members of the Company's Board of Directors following the resignation of Mr. Guido Alfredo A. Delgado, and the reorganization of various board committees.
Nov. 20, 2008	Results of the Company's offer to sell treasury shares.
Nov. 18, 2008	Philex Gold Inc.'s announcement on the completion of a Prefeasibility Study conducted on the Boyongan Project by Independent Resource Estimations of South Africa.
Nov. 17, 2008	Changes to the Company's Board Committees.
Nov. 6, 2008	Offer price of US$0.164 for the Company's non-resident stockholders which is the dollar equivalent of P7.92 per share converted at P48.81 to US$1, the closing peso-to-dollar rate at the Philippine Dealing System on the same day.
Oct. 24, 2008	Amended Notice of Offer to Sell Treasury Shares to the Company's stockholders.
Oct. 23, 2008	Notice of Offer to Sell 778,465,681 Treasury Shares dated October 17, 2008, Application to Purchase, and Corporate Profile.

Oct. 20, 2008	Copy of the Brief for the Press Conference for the Company's press conference on October 17, 2008.
	Announcement on a press conference to be held on October 17, 2008 for the purpose of explaining the Company's offer to sell shares to its stockholders.
	Further disclosure regarding the Company's offer to sell 778,645,691 treasury shares to all stockholders of record as of October 30, 2008, prorata to their shareholdings.
Oct. 16, 2008	Clarification with regard to the news article published in the Manila Bulletin issue of October 15, 2008 about the Boyongan Project.
	Additional information with regard to the Company's disclosure on October 10, 2008 on the offer to sell treasury shares.
	Reply to the Philippine Stock Exchange dated October 14, 2008 to show cause why the Exchange should not impose penalties for alleged violation of Sections 4.1 and 4.4 of the Revised Disclosure Rules, in the Company not making any disclosure as to when its Board of Directors authorized its management to proceed with the transaction with First Pacific Company Limited.
	Letter to the Philippine Stock Exchange date October 13, 2008 clarifying a statement quoted in the Manila Bulletin's October 12, 2008 edition on the Company's Boyongan Project.
	Reply to the Philippine Stock Exchange dated October 9, 2008 as to when the Company's Board of Directors granted management authority to proceed with the transaction with First Pacific which was subsequently ratified, confirmed and approved by the Board on October 8, 2008.
Oct. 14, 2008	Revised proposal for the investment by First Pacific Company Limited in the Company, taken up during the special meeting of the Board of Directors held on October 10, 2008.
	Response to the Philippine Stock Exchange's request for additional information on the sale of treasury shares of the Company to First Pacific Company Limited.
	Further information with regard to the Company's non-Filipino ownership report as of October 3, 2008.
Oct. 9, 2008	Confirmation, ratification and approval by the Company's Board of Directors, at the special meeting held on October 8, 2008, of the sale of 778,444,065 treasury shares to First Pacific Company Limited, and Production summary for September 2008.
Oct. 7,2008	Disclosure on the sale of the Company's treasury shares to First Pacific Company Limited.
Oct. 6, 2008	Philex Gold Inc.'s press release on September 30, 2008 clarifying previous releases regarding the Boyongan property mineral reserves and resources.

Sept. 26, 2008	Approval by the Company's Board of Directors at its regular meeting on September 25, 2008 of the acquisition of 50% interest over the Boyongan property from Anglo American Exploration (Philippines) BV for us$55 million; and formation of a Finance Committee and appointment of its members. Completed purchase by Philex Petroleum Corporation, a 51%-owned subsidiary of the Company, of additional 5,935,311 shares of Forum Energy plc, a UK-based company listed at the Alternative Investment Market of the London Stock Exchange, by way of a tender offer of its shares.
Sept. 24, 2008	Resignation of Mr. John Gokongwei, Jr. as director of the Company effective September 22, 2008.
Aug. 21, 2008	Election of Messrs. Romulo L. Neri and Eric O. Recto as members of the Company's Board of Directors following the resignation of Ms. Corazon de la Paz-Bernardo and Mr. Manuel B. Zamora, Jr.
Aug. 19, 2008	Resignation of Ms. Corazon de la Paz-Bernardo and Mr. Manuel B. Zamora, Jr. from the Company's Board of Directors.
Aug. 8, 2008	Creation of an Executive Committee of the Company's Board of Directors and appointment of its members.
July 17, 2008	Election of the Company's officers and members of the Board's committees for the corporate year 2008-2009.
July 11, 2008	Philex Gold Inc.'s press release on July 10, 2008 clarifying disclosure pertaining to its Boyongan Project under joint venture agreement with Anglo American Exploration (Philippines) Inc.
July 9, 2008	Additional information relative to the acquisition by Philex Petroleum Corporation, a 51%-owned subsidiary of the Company, of 13.94% equity in Forum Energy Plc.
July 8, 2008	Acquisition by Philex Petroleum Corporation, a 51%-owned subsidiary of the Company, of 13.94% equity in Forum Energy Plc., a UK company which holds GSEC 101 over the Sampaguita gas discovery in North West coast of Palawan.

There were 12 routinary reports on the Company's monthly production and shipments which were also filed on various dates with the SEC.

Signatures page follows…….

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 the City of Pasig on April 15, 2009.

WALTER W. BROWN
Chairman of the Board &
Chief Executive Officer

JOSE ERNESTO C. VILLALUNA, JR.
President & Chief Operating Officer

BARBARA ANNE C. MIGALLOS
Corporate Secretary

RENATO N. MIGRIÑO
Vice President - Finance & Treasurer
Chief Financial Officer

PARALUMAN M. NAVARRO
Division Manager – Corporate Finance

Subscribed and sworn to before me this 15th day of April 2009 at Pasig City. Affiants exhibiting to me their respective Community Tax Certificates with the number, place and date of issue indicated opposite their names:

Name	Residence Certificate No.	Date Issued	Place Issued
Walter W. Brown	16858231	02/19/09	Quezon City
Jose Ernesto C. Villaluna, Jr.	11252009	03/06/09	Quezon City
Barbara Anne C. Migallos	12365635	01/16/09	Makati City
Renato N. Migriño	00893130	03/03/09	Parañaque City
Paraluman M. Navarro	26616895	03/25/09	Cainta, Rizal

Republic of the Philippines)
City of PASIG CITY) s.s.

SUBSCRIBED and SWORN ... affiant exhibiting to me his/her CTC No. ______ issued ... APR 15 2009 day of ______ at PASIG CITY

DOC. NO.: 248
PAGE NO.: 51
BOOK NO.: XXXVI
SERIES OF: 2009

ATTY. BENIGNO M. PUNO
NOTARY PUBLIC
PTR # 5102600-010709-Pasig City
IBP # 764806-010709-Pasig City
VALID UNTIL DEC. 31, 2010
TIN # 113-425-074-000
MCLE Comp. No. 1-0016511
ROLL No. 15636

PHILEX MINING CORPORATION

PHILEX Building, 27 Brixton St., Pasig City, Philippines 1600
P.O. Box MCPO 2398, Makati City 1200
Tel. Nos. 631-1381 to 88 • Fax Nos. (632) 634-4441 (Exec.), 631-9501 (Purch.)
Email: philex@philexmining.com.ph • Corporate Website: http://www.philexmining.com.ph

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills

The management of Philex Mining Corporation is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2008 and 2007. These 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 auditors: (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 weaknesses in the internal controls; (iii) and any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated 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 stockholders, have audited the consolidated financial statements of the Company in accordance with generally accepted auditing standards in the Philippines and have expressed their opinion on the fairness of presentation upon completion of such examination, in their report to the Board of Directors and stockholders.

WALTER W. BROWN
Chairman of the Board &
Chief Executive Officer

RENATO N. MIGRIÑO
Vice President – Finance & Treasurer
Chief Financial Officer

Subscribed and sworn to……….

..........before me this 19th day of March 2009 at Pasig City, affiants exhibiting to me their respective Community Tax Certificates (CTC) with the number, place and date of issue indicated opposite their names:

Name	**CTC No.**	**Date Issued**	**Place Issued**
Walter W. Brown	16858231	02/19/2009	Quezon City
Renato N. Migriño	00893130	03/02/2009	Parañaque City

DOC. NO. 163
PAGE NO. 34
BOOK NO. 629
SERIES OF 2009

ATTY. LUCILA M. LAWAS-YUTOK
Notary Public
Until December 31, 2010
PTR NO. 5076957, Issued on 1/5/09 at Pasig City
IBP No. 744176 issued on 11/25/08 at Pasig
MCLE Compliance No. 1-000629
Roll No. 28494
TIN No. 162-942-995

COVER SHEET

1	0	0	4	4					

SEC Registration Number

PHILEX MINING CORPORATION
AND SUBSIDIARIES

(Company's Full Name)

Philex Building, 27 Brixton
corner Fairlane Streets, Pasig
City

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

Renato N. Migriño
(Contact Person)

631-1381
(Company Telephone Number)

1 2 *Month* **3 1** *Day*
(Calendar Year)

A A C F S
(Form Type)

Month *Day*
(Annual Meeting)

Not Applicable
(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Not Applicable
Amended Articles Number/Section

Total Amount of Borrowings

46,578
Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

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

The Stockholders and the Board of Directors
Philex Mining Corporation
Philex Building
27 Brixton corner Fairlane Streets
Pasig City

We have audited the accompanying financial statements of Philex Mining Corporation and Subsidiaries, which comprise the consolidated balance sheets as at 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. We did not audit the December 31, 2008 financial statements of Forum Energy plc (FEP, a 61.5%-owned subsidiary through Philex Petroleum Corporation, a 51.0%-owned subsidiary, and FEC Resources, Inc., a 50.7%-owned subsidiary) and its subsidiaries. The financial statements of FEP and its subsidiaries reflect total assets comprising 10.0% of the related consolidated totals as of December 31, 2008 and reduced the consolidated net income by 2.7% for the year ended December 31, 2008. Those statements were audited by other auditors whose report thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for FEP is based solely on the report of the other auditors.

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 applied on the basis described in Note 2 to the consolidated financial statements. 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 and the report of the other auditors. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

SGV & Co
Ernst & Young

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

We believe that the audit evidence we have obtained and the report of the other auditors are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of Philex Mining Corporation and 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 applied on the basis described in Note 2 to the consolidated financial statements.

SYCIP GORRES VELAYO & CO.

Martin C. Guantes

Martin C. Guantes
Partner
CPA Certificate No. 88494
SEC Accreditation No. 0325-A
Tax Identification No. 152-884-272
PTR No. 1566434, January 5, 2009, Makati City

March 10, 2009

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands, Except Par Value Per Share and Number of Shares)

	December 31	
	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱10,713,106**	₱2,630,308
Accounts receivable - net (Note 7)	**127,702**	1,825,906
Inventories (Note 8)	**1,262,530**	897,685
Derivative assets (Notes 18 and 19)	**–**	53,412
Other current assets - net (Note 9)	**440,710**	243,689
Total Current Assets	**12,544,048**	5,651,000
Noncurrent Assets		
Property, plant and equipment - net (Note 10)	**4,066,257**	3,843,909
Available-for-sale (AFS) financial assets (Note 11)	**378,804**	776,421
Investments in shares of stock (Notes 11 and 27)	**260,288**	167,024
Goodwill (Note 4)	**236,568**	138,192
Deferred income tax assets - net (Note 23)	**171,674**	48,723
Derivative asset (Notes 18 and 19)	**–**	42,309
Deferred exploration costs and other noncurrent assets - net (Note 12)	**2,667,629**	237,027
Total Noncurrent Assets	**7,781,220**	5,253,605
TOTAL ASSETS	**₱20,325,268**	₱10,904,605
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term bank loans (Notes 13 and 21)	**₱4,039,200**	₱–
Accounts payable and accrued liabilities (Note 15)	**780,071**	688,029
Derivative liabilities (Notes 18 and 19)	**634,080**	174,265
Income tax payable (Note 23)	**52,044**	64,755
Dividends payable (Note 24)	**173,301**	217,797
Provisions and other payables (Notes 11 and 29)	**199,392**	257,052
Current portion of long-term debt (Notes 14 and 21)	**–**	206,406
Total Current Liabilities	**5,878,088**	1,608,304
Noncurrent Liabilities		
Provision for mine rehabilitation costs (Note 10)	**26,639**	204,931
Accrued retirement benefits cost (Note 17)	**80,151**	125,976
Provision for losses (Note 29)	**569,894**	–
Deferred tax liabilities (Note 23)	**842**	3,003
Derivative liabilities (Notes 18 and 19)	**314,857**	458,789
Long-term debt - net of current portion (Notes 14 and 21)	**–**	61,622
Total Noncurrent Liabilities	**992,383**	854,321
Total Liabilities	**6,870,471**	2,462,625

(Forward)

	December 31	
	2008	2007
Equity		
Capital stock - ₱1 par value (held by 46,578 and 46,822 equity holders in 2008 and 2007, respectively) (Notes 20 and 24)	**₱3,880,851**	₱2,968,571
Additional paid-in capital (Note 20)	**681,749**	102,306
Retained earnings (Notes 20 and 24)	**7,584,186**	5,582,293
Net unrealized gain on increase in value of AFS financial assets (Note 11)	**1,727**	144,402
Cumulative translation adjustment (net of related deferred income tax of ₱143,651 and ₱55,655 in 2008 and 2007, respectively) (Notes 19 and 23)	**(300,113)**	(510,383)
Revaluation surplus (Note 4)	**94,247**	–
Treasury stock - 201,626 shares, at cost in 2007	**–**	(339)
Total equity attributable to equity holders of the Parent Company	**11,942,647**	8,286,850
Minority interests (Note 24)	**1,512,150**	155,130
Total Equity	**13,454,797**	8,441,980
TOTAL LIABILITIES AND EQUITY	**₱20,325,268**	₱10,904,605

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share)

	Years Ended December 31		
	2008	2007	2006
REVENUE (Notes 3, 7, 19 and 28)			
Gold	**₱5,363,774**	₱4,935,735	₱3,544,723
Copper	**4,259,135**	7,191,720	6,347,798
Silver	**85,128**	89,317	67,478
Petroleum	**9,330**	–	–
	9,717,367	12,216,772	9,959,999
Less marketing charges	**669,212**	986,137	1,467,667
	9,048,155	11,230,635	8,492,332
COSTS AND EXPENSES			
Mining and milling costs (including depletion and depreciation) (Note 16)	**4,173,806**	4,177,170	4,119,504
Mine products taxes and royalties (Note 16)	**578,062**	457,910	355,544
General and administrative expenses (Note 16)	**527,574**	396,073	216,891
Handling, hauling and storage	**65,915**	68,253	64,076
Petroleum production costs	**15,973**	–	–
	5,361,330	5,099,406	4,756,015
OTHER INCOME (CHARGES) - Net			
Mark-to-market losses on derivative instruments (Note 19)	**(470,102)**	–	–
Provisions and allowances for losses, net of reversals (Notes 11, 12 and 29)	**(322,608)**	(269,981)	(66,381)
Foreign exchange gains (losses) - net (Note 19)	**238,430**	(306,606)	74,849
Interest income (Note 6)	**153,850**	127,705	41,191
Gain on disposal of investments, property, plant and equipment, and others - net (Notes 10 and 11)	**90,221**	56,427	10,154
Interest expense (Notes 13 and 14)	**(53,543)**	(109,621)	(197,992)
Reversal of accretion for mine rehabilitation costs (Note 10)	**48,598**	–	–
Equity in net earnings of associate (Note 11)	**10,113**	–	–
Others - net	**(111,564)**	(7,903)	(26,330)
	(416,605)	(509,979)	(164,509)
INCOME BEFORE INCOME TAX	**3,270,220**	5,621,250	3,571,808
PROVISION FOR INCOME TAX (Note 23)			
Current	**491,376**	559,638	416,435
Deferred	**(21,549)**	55,963	68,706
	469,827	615,601	485,141
NET INCOME	**₱2,800,393**	₱5,005,649	₱3,086,667
Net income attributable to:			
Equity holders of the Parent Company	**₱2,892,887**	₱5,004,991	₱3,086,667
Minority interests (Note 24)	**(92,494)**	658	–
	₱2,800,393	₱5,005,649	₱3,086,667
BASIC EARNINGS PER SHARE (Note 26)	**₱0.833**	₱1.690	₱1.044
DILUTED EARNINGS PER SHARE (Note 26)	**₱0.828**	₱1.688	₱1.044

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱3,270,220**	₱5,621,250	₱3,571,808
Adjustments for:			
Depletion and depreciation (Note 10)	**705,627**	785,705	701,365
Mark-to-market losses on derivative instruments	**470,102**	–	–
Measurement of mine product inventories to NRV	**(380,960)**	–	–
Impairment loss on AFS financial assets (Note 11)	**226,979**	–	–
Interest income	**(153,850)**	(127,705)	(41,191)
Unrealized foreign exchange losses (gains) - net	**126,408**	(18,644)	(45,673)
Provisions and allowances for losses - net (Notes 12 and 29)	**95,629**	269,981	66,381
Net gain on sales of AFS financial assets, property, plant and equipment and others – net	**(90,221)**	(56,427)	(10,154)
Provision for retirement benefits cost (Note 17)	**86,179**	87,000	84,893
Interest expense (Notes 13 and 14)	**53,543**	109,621	197,992
Reversal of accretion for mine rehabilitation cost	**(48,598)**	–	–
Loss on retirement of property, plant and equipment	**44,472**	–	–
Stock-based compensation expense	**43,190**	71,733	–
Equity in net earnings of associate	**10,113**	–	–
Operating income before working capital changes	**4,458,833**	6,742,514	4,525,421
Decrease (increase) in:			
Accounts receivable	**1,761,860**	(1,034,297)	(456,642)
Inventories	**22,493**	(8,937)	(3,004)
Derivative assets	**–**	34,539	(50,990)
Other current assets	**(90,829)**	(91,673)	(48,364)
Increase (decrease) in:			
Accounts payable and accrued liabilities	**81,188**	(50,646)	(32,871)
Derivative liabilities	**16,450**	–	–
Advances from affiliated companies	**–**	(52,203)	52,203
Cash generated from operations	**6,249,995**	5,539,297	3,985,753
Payments for provision for losses (Note 29)	**(148,638)**	(93,849)	(147,890)
Retirement benefits contributions (Note 17)	**(132,000)**	(120,000)	(87,000)
Interest paid	**(52,273)**	(93,915)	(183,602)
Interest received	**103,812**	127,705	41,191
Income taxes paid	**(507,401)**	(635,837)	(315,078)
Net cash from operating activities	**5,513,495**	4,723,401	3,293,374
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property, plant and equipment (Note 10)	**(968,259)**	(1,269,842)	(584,010)
Investments in shares of stock	**(267,972)**	–	–
AFS financial assets	**(100,327)**	(542,399)	–

(Forward)

	Years Ended December 31		
	2008	2007	2006
Net proceeds from sales of:			
Investments in shares of stock	**₱248,138**	₱–	₱–
AFS financial assets	**103,116**	172,195	–
Property, plant and equipment	**50,487**	378,686	10,154
Increase in deferred exploration costs and other noncurrent assets	**(426,059)**	(115,539)	(48,698)
Payment of other payables	**(28,524)**	–	–
Acquisition of non-cash net assets of Forum Energy plc (FEP)	**(393,480)**	–	–
Acquisition of non-cash net assets of FEC Resources, Inc. (FECR)	**–**	(123,300)	–
Net cash used in investing activities	**(1,782,880)**	(1,500,199)	(622,554)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Reissuance of treasury shares (Note 24)	**6,126,111**	–	–
Availment of short-term bank loans (Note 13)	**4,042,596**	–	–
Exercise of stock options	**53,384**	38,961	–
Payments for buyback of treasury shares (Note 24)	**(5,621,617)**	–	–
Payments of short-term loans and long-term debt (Note 14)	**(268,028)**	(982,848)	(1,335,401)
Payment of dividends (Note 24)	**(44,496)**	(1,212,828)	(382,631)
Net cash from (used in) financing activities	**4,287,950**	(2,156,715)	(1,718,032)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**64,233**	(31,675)	(60,972)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**8,082,798**	1,034,812	891,816
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,630,308**	1,595,496	703,680
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱10,713,106**	₱2,630,308	₱1,595,496

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information, Business Operations and Authorization for Issue of Financial Statements

Corporate Information

Philex Mining Corporation (the Parent Company) was incorporated in the Philippines. The Parent Company, Philex Gold Philippines, Inc. (PGPI, an 81%-owned subsidiary through holding companies and incorporated in the Philippines) and its subsidiaries, and Brixton Energy & Mining Corporation (BEMC, a wholly owned subsidiary and incorporated in the Philippines), collectively referred to as the "Group" (see Note 2), are primarily engaged in large-scale exploration, development and utilization of mineral resources. The Parent Company operates the Padcal Mine in Benguet. PGPI operated the Bulawan Mine in Negros Occidental until the second quarter of 2002. PGPI also owns the Boyongan deposit through a joint venture with Anglo American Exploration Philippines B.V. (Anglo) (see Note 27). BEMC has a coal property under pre-development in Zamboanga del Norte. Meanwhile, Philex Petroleum Corporation (Philex Petroleum, a 51%-owned subsidiary and incorporated in the Philippines) and FECR (a 50.67%-owned subsidiary and incorporated in Canada) are engaged in oil and gas operation and exploration activities, both of which hold participation in oil and gas production and exploration activities through their investee companies (see Note 2). Income for the Group is derived mainly from the Padcal Mine, with income from petroleum operations and other sources being insignificant to the Group.

The Parent Company's registered business address is Philex Building, 27 Brixton corner Fairlane Streets, Pasig City.

Business Operations

Padcal mine operations

The Padcal Mine is on its 51st year of operation producing copper, gold, and silver as its principal products.

PGPI

PGPI has a number of mineral properties throughout the Philippines at various stages of exploration. The focus since 2001 has been on its North property where the Boyongan deposit, a major copper-gold porphyry in Surigao del Norte, was discovered in August 2000 under a joint venture with Anglo (see Notes 2 and 27).

FEP

FEP has a portfolio of oil and gas exploration projects in the Philippines. The portfolio includes contracts with existing infrastructure, production and proven hydrocarbon potential. FEP also holds coal operating contracts in Central and Southern Cebu.

The Group's ability to realize its net deferred oil and mine exploration costs amounting to ₱2,593,488 and ₱172,615 and as of December 31, 2008 and 2007, respectively (see Note 12), depends on the success of its exploration and future development work in proving the viability of its oil and mining properties to produce oil and minerals in commercial quantities, which cannot be determined at this time. The consolidated financial statements do not include any adjustment that might result from these uncertainties.

Authorization for Issue of Financial Statements

The consolidated financial statements were authorized for issue by the Board of Directors (BOD or the Board) on March 10, 2009.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The consolidated financial statements have been prepared using the historical cost basis, except for mine products inventory that have been measured at net realizable value (NRV) (see Note 8) and AFS financial assets (see Note 11) and derivative financial instruments (see Notes 18 and 19) that have been measured at fair value. The consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional currency, rounded to the nearest thousand (₱000) except when otherwise indicated.

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 Parent Company's mine products inventory that have been measured at NRV and the exemption from the fair value requirement of Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*, of long-term commodity hedging contracts entered into by the Parent Company and outstanding as of January 1, 2005, which were permitted by the Philippine Securities and Exchange Commission (SEC). The significant accounting policies followed by the Group are disclosed below.

Changes in Accounting Policies

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

Starting in 2008, the Parent Company's mine products inventory are measured at NRV, with the adjustments from cost correspondingly reflected in revenue. Prior to 2008, mine products inventory were measured at the lower of cost and NRV. Management believes that the new accounting policy will result to the consolidated financial statements providing reliable and more relevant information on the Parent Company's financial position and financial performance since it will minimize unusual fluctuations in reported revenue resulting from occasional delays in the actual shipment of mine products.

The 2007 and 2006 consolidated financial statements, however, have not been restated since management believes that these adjustments are insignificant.

The Group has adopted the following new Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations and amendments to previously issued standard during the year. Adoption of these interpretations did not have a material effect on the Group's financial statements except for the additional disclosures, where required.

- Philippine Interpretation IFRIC 11, *Group and Treasury Share Transaction*, requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholder(s) of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when the subsidiary's employees receive rights to the equity instruments of the parent. As the Group currently has no such transactions, the Interpretation did not have any effect on its consolidated financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, covers contractual arrangements arising from entities providing public services. The Group is not a party to any concession arrangement and, thus, this Interpretation did not have any impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 14, *The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction*, provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. The Interpretation did not have any impact on the consolidated financial statements.

- Amendments to PAS 39 and PFRS 7, *Financial Instruments: Disclosures - Reclassification of Financial Assets,* allows reclassification of certain financial instruments held-for-trading to either held-to-maturity (HTM), loans and receivables or AFS financial assets categories as well as certain instruments from investments to loans and receivables. The Group has no financial instruments held-for-trading, thus, the amendments did not have any impact on the consolidated financial statements.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Group using consistent accounting policies.

Subsidiaries

Subsidiaries are entities over which the Parent Company has the power to govern the financial and operating policies of the entities, or generally has an interest of more than one half of the voting rights of the entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group or Parent Company directly or through the holding companies. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. They are deconsolidated from the date on which control ceases.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions that are recognized in assets are eliminated in full. However, intra-group losses that indicate impairment are recognized in the consolidated financial statements.

The Parent Company's subsidiaries and their respective nature of business are as follows:

Subsidiary	Nature of Business
Philex Gold Holdings, Inc. (PGHI)	Incorporated in the Philippines to serve as an intermediary holding company through which it and its subsidiaries, the Company also conducts large-scale exploration, development and utilization of mineral resources.
BEMC	Incorporated in the Philippines on July 19, 2005 to engage in exploration development and utilization of energy-related resources.
Philex Petroleum	Incorporated in the Philippines on December 27, 2007 to carry on businesses related to any and all kinds of petroleum and petroleum products, mineral oils, and other sources of energy.
Philex Land, Inc. (PLI)	Incorporated in the Philippines to own, use, develop, subdivide, sell, exchange, lease, and hold for investment or otherwise, real estate of all kinds including buildings, houses, apartments and other structures.
Fidelity Stock Transfers, Inc. (FSTI)	Incorporated in the Philippines to act as a stock transfer agent and/or registrar of client corporations.
Philex Insurance Agency, Inc. (PIAI)	Incorporated in the Philippines on May 20, 1987 to act as a general agent for and in behalf of any domestic and/or foreign non-life insurance company or companies authorized to do business in the Philippines. PIAI is currently under dormant status.
FECR	Incorporated under the laws of Alberta, Canada and is engaged primarily in the business of exploration and development of oil and gas and other mineral related opportunities, either directly or indirectly through companies in which the Company invests.
FEP	A United Kingdom (UK)-based oil and gas exploration and production company registered in England and Wales, with a focus on the Philippines and whose shares are listed with the Alternative Investment Market of the London Stock Exchange.
Philex Gold, Inc. (PGI)	Incorporated under the laws of Canada whose shares are listed with the TSX Ventures Exchange in Toronto, Canada. PGI owns 100% of the outstanding shares of PGPI, which took over the Parent Company's gold properties through a deed of assignment in 1996.
PGPI	Incorporated in the Philippines as a wholly owned subsidiary of PGI and is primarily engaged in large-scale exploration, development and utilization of mineral resources.

(Forward)

Subsidiary	Nature of Business
Lascogon Mining Corporation (LMC)	Incorporated in the Philippines on October 20, 2005 to engage in exploration, development and utilization of mineral resources.
Philippines Gold Mining Company B.V. (PGMC-BV)	Incorporated in the Netherlands, as previously the intermediary holding company of PGI.

The ownership of the Group over the foregoing companies in 2008 and 2007 is summarized as follows:

As of December 31, 2008:

	Percentages of Ownership	
	Direct	**Indirect**
PGHI	**100.0**	**–**
PGI	**–**	**81.0**
PGPI	**–**	**100.0**
LMC	**–**	**60.0**
PGMC-BV	**–**	**100.0**
Philex Petroleum	**51.0**	**–**
FEP	**–**	**33.0**
PLI	**100.0**	**–**
FECR	**50.6**	**–**
LMC	**–**	**40.0**
FEP	**–**	**28.4**
BEMC	**100.0**	**–**
FSTI	**100.0**	**–**
PIAI	**100.0**	**–**

As of December 31, 2007:

	Percentages of Ownership	
	Direct	Indirect
PGHI	100.0	–
PGI	–	81.0
PGPI	–	100.0
LMC	–	60.0
PGMC-BV	–	100.0
Philex Petroleum	100.0	–
PLI	100.0	–
FECR	50.6	–
LMC	–	40.0
BEMC	100.0	–
FSTI	100.0	–
PIAI	100.0	–

Sale of Philex Petroleum

On April 23, 2008, the Parent Company and Anatolian Property, B.V. (Anatolian) executed a Share Purchase Agreement under the terms of which the Parent Company agreed to sell and Anatolian agreed to buy 245,000,000 shares of stock of Philex Petroleum, which represents 49.0% of the outstanding shares of stock of Philex Petroleum, for US$5,918 (or ₱248,142). The sale brings down to 51.0% the total number of shares owned and controlled by the Parent Company. The consideration received from Anatolian was equal to the minority interest disposed.

Incorporation of Philex Petroleum and PLI

In 2007, the Parent Company incorporated Philex Petroleum to provide the Parent Company a vehicle through which it plans to increase its investment in oil projects. The Parent Company also incorporated PLI whose primary purpose is to own, use, develop, subdivide, sell, exchange, lease, and hold for investment or otherwise, real estate of all kinds including buildings, houses, apartments and other structures.

Transfer of shares of PGI

On April 24, 2007, PGHI and PGMC-BV entered into a share purchase agreement transferring ownership of the PGI shares held by PGMC-BV to PGHI. As a result, PGHI now has an 81.0% direct ownership over PGI.

Minority Interest

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

Minority interest represents the portion of profit or loss and the net assets not held by the Group. Transactions with minority interest are accounted for using the entity concept method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as an equity transaction.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% to 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated statements of income, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Joint Venture Entities
Joint venture entities are all entities subject to a common control under a contractual arrangement with other parties. Investments in joint venture entities are accounted for under the equity method. Under the equity method, the investments are carried at cost plus post-acquisition changes in the Group's share in the net assets of the joint venture entity, less any impairment in value. Dividends are considered return on capital and deducted from the investment account. Unrealized gains arising from transactions with the joint ventures are eliminated to the extent of the Group's interests in the joint ventures, against the investments in those joint ventures. Unrealized losses are similarly eliminated but only to the extent that there is no evidence of the asset transferred.

The Group has investments in the shares of stock of two joint venture entities, namely Minphil Exploration Co., Inc. (MECI) and Silangan Mindanao Exploration Co., Inc. (SMECI). MECI's wholly owned subsidiary, Northern Luzon Exploration & Mining Co., Inc. (NLEMCI), and SMECI's subsidiary, Silangan Mindanao Mining Co., Inc. (SMMCI) have not started productive operations as of December 31, 2008 (see Notes 11 and 27).

Business Combination and Goodwill
Business combinations are accounted for using the purchase method. This involves recognizing identifiable assets and liabilities of the acquired business initially at fair value. If the acquirer's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the acquirer shall (a) reassess the identification and measurement of the acquiree's identifiable assets and liabilities and the measurement of the cost of the combination; and (b) recognize immediately in profit or loss any excess remaining after that reassessment.

When a business combination involves more than one exchange transaction, each exchange transaction shall be treated separately using the cost of the transaction and fair value information at the date of each exchange transaction to determine the amount of any goodwill associated with that transaction. This results in a step-by-step comparison of the cost of the individual investments with the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at each exchange transaction. The fair values of the acquiree's identifiable assets, liabilities and contingent liabilities may be different at the date of each exchange transaction. Any adjustments to those fair values relating to previously held interests of the Group is a revaluation to be accounted for as such and presented separately as part of equity.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share in the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is recognized separately as a noncurrent asset. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (CGU) or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its impairment test of goodwill on an annual basis.

Foreign Currency Translation of Foreign Operations

Each entity (subsidiaries and branches) in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at balance sheet date. All exchange differences are recognized in the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Financial statements of consolidated foreign subsidiaries that are integral to the operations of the Group are translated as if the transactions of the foreign subsidiaries had been those of the Parent Company. At each balance sheet date, foreign currency monetary items are translated using the prevailing rate, non-monetary items which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined. Income and expenses are translated at the average prevailing rates for year.

Financial statements of consolidated foreign branches and subsidiaries that are not integral to the operations of the Group are translated into the presentation currency of the Group (the Philippine Peso) at the rate of exchange at the balance sheet date and, their statement of income are translated at the exchange rates at the dates of transactions. The exchange differences arising from the translation are taken directly to a separate component of equity (under cumulative translation adjustment). On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated statement of income.

For purposes of consolidation, the consolidated financial statements of FEP, FECR and PGI, which are expressed in United States (US) Dollar amounts, have been translated to Philippine Peso amounts as follows:

a. Assets and liabilities for each consolidated balance sheet presented (i.e., including comparatives) are translated at the closing rate at the date of consolidated balance sheet;

b. Income and expenses for each consolidated statement of income (i.e., including comparatives) are translated at exchange rates at the dates of transactions; and

c. All resulting exchange differences are recognized as a separate component of equity.

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

Financial Instruments
Date of recognition
The Group recognizes financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition and classification of financial instruments
Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those financial assets and liabilities at FVPL, includes transaction cost.

On initial recognition, the Group classifies its financial assets in the following categories: HTM investments, AFS financial assets, FVPL financial assets, and loans and receivables. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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.

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

Day1 Profit
Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 profit) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is

not observable, the difference between the transaction price and model value is only recognized in the parent company statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

Financial Assets or Financial Liabilities at FVPL
Financial assets and financial liabilities at FVPL include derivatives and financial assets or financial liabilities held for trading and those designated upon initial recognition as at FVPL.

Trading instruments
Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets or financial liabilities held for trading are recorded in the consolidated balance sheets at fair value. Changes in fair value, interest and dividend income or expense are recognized in the consolidated statements of income, according to the terms of the contract, or when the right to the payment has been established.

Instruments designated on initial recognition as at FVPL
Financial instruments may be designated at initial recognition as at FVPL if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing the gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or (iii) the financial instrument contains an embedded derivative that would need to be separately recorded.

The Group has no financial assets and liabilities designated as at FVPL.

Derivatives and Hedging
The Parent Company uses currency and commodity derivatives such as forwards, swaps and option contracts to economically hedge its exposure to fluctuations in gold and copper prices. For accounting purposes, such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives are accounted for as at FVPL, where any gains or losses arising from changes in fair value on derivatives are taken directly to net profit or loss for the year, unless hedge accounting is applied.

For the purpose of hedge accounting, hedges are classified as:

a. fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability; or

b. cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction; or

c. hedges of a net investment in a foreign operation.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Parent Company formally designates and documents the hedge relationship to which the Parent Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges
Fair value hedges are hedges of the Parent Company's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both recognized in the consolidated statement of income.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The changes in the fair value of the hedging instrument are also recognized in profit or loss.

The Parent Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Parent Company revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss.

Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash flow hedges
Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in the consolidated statement of income.

Amounts taken to equity are transferred to the consolidated statement of income when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to consolidated statement of income.

Hedges of a net investment in a foreign operations
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in equity while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in equity is transferred to the consolidated statement of income.

The Group has no fair value hedges. It accounts for its gold options as cash flow hedges and its copper swaps and structured currency derivatives as at FVPL.

Prior to January 1, 2005, free-standing derivatives are not mark-to-market in accordance with Philippine SEC Resolution No. 493 issued on November 16, 2006. Derivatives arising from agreements entered into starting January 1, 2005 are accounted for under PAS 39.

Embedded derivatives
An embedded derivative is separated from the host financial or non-financial contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

- the hybrid or combined instrument is not recognized as at FVPL.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL. Changes in fair values are included in the consolidated statement of income.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these HTM investments are subsequently measured at amortized cost using the effective interest rate method, less any impairment in value.

Amortized cost is calculated by taking into account any discount or premium on acquisition and includes transaction costs 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 investments are derecognized or impaired, as well as through the amortization process. Assets under this category are classified as current assets if maturity is within twelve months and non-current assets if maturity is more than a year.

As of December 31, 2008 and 2007, the Group has no HTM investments.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. These financial assets are included in current assets if maturity is within twelve months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2008 and 2007, included under loans and receivables are the Group's cash and cash equivalents and accounts receivable.

AFS financial assets
AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified in any of the three other categories. The Group designates financial instruments as AFS if they are purchased and held indefinitely and may be sold in response toliquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity as "Net Unrealized Gain on Increase in Value of AFS financial assets".

When the investment is disposed of, the cumulative gains or losses previously recorded in equity are recognized in the consolidated statement of income. Interest earned on the investments is reported as interest income using the effective interest rate method. Dividends earned on investments are recognized in the consolidated statement of income as 'Dividends income' when the right of payment has been established. The Group considers several factors in making a decision on the eventual disposal of the investment. The major factor of this decision is whether or not the Group will experience inevitable further losses on the investment. These financial assets are classified as noncurrent assets unless the intention is to dispose of such assets within twelve months from the balance sheet date.

Note 11 discusses the details of Group's AFS financial assets as of December 31, 2008 and 2007.

Other financial liabilities
Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

As of December 31, 2008 and 2007, included in other financial liabilities are the Group's short-term bank loans, accounts payable and accrued liabilities, dividends payable, long-term debt - including current portion and provisions and other payables.

Offsetting Financial Instruments
Financial assets and financial liabilities are set off and the net amount is reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheet.

Derecognition of Financial Assets and Financial Liabilities
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to third party under a 'pass-through' arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

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

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

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has 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 the consolidated statement of income.

<u>Impairment of Financial Assets</u>
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or a group of contracted parties 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.

Financial assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return of a similar financial asset.

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and 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 the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

AFS financial assets
For AFS financial assets, 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 case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 30% or more and 'prolonged' as greater than 12 months for quoted equity securities. 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 financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'interest income' in the consolidated statement of income. If subsequently, 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.

Inventories
Mine products inventory, which consist of copper concentrates containing copper, gold and silver, are stated at NRV. Materials and supplies are valued at the lower of cost and NRV. Cost incurred in bringing materials and supplies to their present location and condition is accounted for as purchase cost determined on a weighted average basis.

NRV for mine products is the selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. In the case of materials and supplies, NRV is the value of the inventories when sold at their condition at the balance sheet date.

Input Tax Recoverable
Input tax recoverable is stated at 10% in prior years up to January 2006 and 12% starting February 2006 of applicable purchase cost of goods and services less allowance for probable losses.

Property, Plant and Equipment
Property, plant and equipment are stated at cost less accumulated depletion and depreciation and accumulated impairment in value, if any.

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

When assets are sold or retired, the cost and related accumulated depletion and depreciation and accumulated impairment in value are removed from the accounts and any resulting gain or loss is reflected in the consolidated statement of income.

Depletion or amortization of mine and mining properties is calculated using the units-of-production method based on estimated recoverable reserves. Depreciation of other items of property, plant and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

	No. of Years
Buildings and improvements	5 to 10
Machinery and equipment	2 to 20
Surface structures	10

Depreciation or amortization of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated recoverable reserves, useful lives, and depreciation and amortization methods are reviewed periodically to ensure that the estimated recoverable reserves, residual values, periods and methods of depletion and depreciation are consistent with the expected pattern of economic benefits from the items of property, plant and equipment. The assets' residual values is reviewed and adjusted, if appropriate, at each balance sheet date.

Property, plant and equipment also include the estimated costs of rehabilitating the Padcal Mine, for which the Group is constructively liable. These costs, included under land, buildings and improvements, are amortized using the units-of-production method based on the estimated recoverable mine reserves until the Group actually incurs these costs in the future.

Level and block development (included as part of mine and mining properties) and construction in progress are stated at cost, which includes the cost of construction, plant and equipment, borrowing costs and other direct costs. Level development costs are included as part of mine and mining properties. Block development and construction in progress are not depleted or amortized until such time as these are completed and become available for use.

Impairment of Noncurrent Non-financial Assets

The Group assesses at each reporting date whether there is indication that a noncurrent non-financial asset or CGU may be impaired. The Group's long-lived non-financial assets include property, plant and equipment and deferred mine and oil exploration costs. If any such indication exists, or when an annual impairment testing for such items is required, the Group makes an estimate of their recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use, and is determined for an individual item, unless such item does not generate cash inflows that are largely independent of those from other assets or group of assets or CGUs. When the carrying amount exceeds its recoverable amount, such item is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows to be generated by such items are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset or CGU. Impairment losses of continuing operations are recognized in the consolidated statement of income in the expense categories consistent with the function of the impaired asset.

An assessment is made at least on each balance sheet date as to whether there is indication that previously recognized impairment losses may no longer exist or may have decreased. If any indication exists, the recoverable amount is estimated and a previously recognized impairment loss is reversed only if there has been a change in the estimate in the assets or CGU's recoverable amount since the last impairment loss was recognized. If so, the carrying amount of the item is increased to its new recoverable amount which cannot exceed the impairment loss recognized in prior years. Such reversal is recognized in profit or loss unless the asset or CGU is carried at its revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount less any residual value on a systematic basis over its remaining estimated useful life.

Deferred Exploration Costs
Expenditures for exploration works on oil and mining properties (i.e., acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling, trenching, sampling, and activities in relation to evaluating the technical feasibility and commercial viability of extracting an oil and mineral resource) are deferred as incurred and included under "Deferred exploration cost and other noncurrent assets" account in the consolidated balance sheet. If and when recoverable reserves are determined to be present in commercially producible quantities, the deferred exploration expenditures and subsequent oil and mine development costs are capitalized as part of the mine and mining properties account classified under property, plant and equipment.

A valuation allowance is provided for unrecoverable deferred oil and mine exploration costs based on the Group's assessment of the future prospects of the exploration project. Full provision is made for the impairment unless it is probable that such costs are expected to be recouped through successful exploration and development of the area of interest, or alternatively, by its sale. If the project does not prove to be viable, all revocable cost associated with the project and the related impairment provisions are written off. When a project is abandoned, the related deferred oil and mine exploration costs are written off.

Revenue
Revenue is recognized upon delivery 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.

Revenue from mine products
Revenue from sale of mine products is measured based on shipment value price, which is based on quoted metal prices, as adjusted to reflect the net realizable value of mine products inventory at the end of the financial reporting period.

Revenue from sale of oil products
Revenue is derived from sale of oil to third party customers. Sale of oil is recognized at the time of delivery of the product to the purchaser. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales tax or duty.

Interest Income
Interest income is recognized as it accrues.

Retirement Benefits Cost
Retirement benefits cost is actuarially determined using the projected unit credit method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the Group's retirement plan at the end of the previous reporting year exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service cost is recognized as an expense on a straight-line basis over the average period that the benefits become vested. If the benefits are vested immediately following the introduction of, or changes to, the retirement plan, past service cost is recognized immediately.

The defined benefit liability is either the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized, and the fair value of plan assets from which the obligations are to be settled, or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and the past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of these economic benefits. If there is no change or there is an increase in the present value of economic benefits, the entire net actuarial losses of the current period and the past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of these economic benefits. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the asset is measured with the aggregate of cumulative unrecognized net actuarial losses and past service cost at the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or there is a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

Share-based Payments

Certain officers and employees of the Group receive additional remuneration in the form of share-based payments of either the Parent Company, FEP or PGI, whereby equity instruments (or "equity-settled transactions") are awarded in recognition of their services.

The cost of equity-settled transactions with employees is measured by reference to their fair value at the date they are granted, determined using the acceptable valuation techniques. Further details are given in Note 25.

The cost of equity-settled transactions, together with a corresponding increase in equity, is recognized over the period in which the performance and/or service conditions are fulfilled ending on the date on which the employees become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date up to and until the vesting date reflects the extent to which the vesting period has expired, as well as the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of income charge or credit for the period represents the movement in cumulative expense recognized as the beginning and end of that period. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which awards are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. An additional expense is likewise recognized for any modification which increases the total fair value of the share-based payment arrangement or which is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. If a new award, however, is substituted for the cancelled awards and designated as a replacement award, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Borrowing Costs

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

Foreign Currency-Denominated Transactions and Translations

Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange at the balance sheet date. Foreign exchange gains or losses are recognized in the consolidated statement of income.

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 taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred income tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, and carryforward benefits of the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, excess MCIT and NOLCO can be utilized.

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) in effect at the balance sheet date.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments 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 interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statements of income, net of any reimbursement.

Contingent liabilities are not recognized in the consolidated financial statements. They 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. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

Diluted Earnings Per Share

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after deducting interest on convertible preferred shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares. The Group does not have dilutive potential common shares.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective shareholders of the Parent Company. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

Treasury Shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments.

Events After the Balance Sheet Date
Any post-year end event that provides additional information about the Group's position at the balance sheet date (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

Future Changes in Accounting Policies

Future Changes in Accounting Policies
The following are the new and revised accounting standards and interpretations that will become effective subsequent to 2008. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine interpretations to have any significant impact on its financial statements.

Effective in 2009

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, allows 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 PAS 27; (b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; (c) or previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

- PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*, clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires nonvesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a nonvesting condition that is within the control of either the entity or the counterparty is accounted for as a cancellation. However, failure to satisfy a nonvesting condition that is beyond the control of either party does not give rise to a cancellation.

- PFRS 8, *Operating Segments*, replaces 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. Such information may be different from that reported in the balance sheet and statement of income and the Group will provide explanations and reconciliations of the differences. 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*, introduce a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with 'other comprehensive income' (OCI). 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. This amendment also requires additional requirements in the presentation of the balance sheet and owner's equity as well as additional disclosures to be included in the financial statements.

- Revised PAS 23, *Borrowing Costs*, requires capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

- Amendments to PAS 27 - *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, prescribe changes in respect of the holding companies, separate financial statements including (a) the deletion of 'cost method', making the distinction between pre-acquisition and post-acquisition profits no longer required; 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. All dividends will be recognized in profit or loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.

- Amendment to PAS 32, *Financial Instruments: Presentation* and PAS 1 - *Puttable Financial Instruments and Obligations Arising on Liquidation*, specifies, 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*, 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 expired.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*, provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of a net investment; where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

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

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, specifies 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, clarifies assets and liabilities classified as held for trading are not automatically classified as current in the balance sheet.

- Amendment to PAS 16, *Property, Plant and Equipment*, replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5 and PAS 36, *Impairment of Assets*. It also clarifies that 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, 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. It also 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. It also 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. It also 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*, clarifies that 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, 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. This revised standard disallows the alternative treatment of borrowing costs, which permits the recognition of borrowing costs as expense.

- PAS 28, *Investment in Associates*, clarifies that 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. It also defines an investment in an associate as 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*, 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*, clarifies that if a joint venture is accounted for at fair value, 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, provides that, when discounted cash flows are used to estimate 'fair value less cost to sell', additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate value-in-use'.

- PAS 38, *Intangible Assets*, provides that, expenditure on advertising and promotional activities is to be recognized as an expense when the Group either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues. It also deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results 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, provides changes in circumstances relating to derivatives - specifically derivatives designated or de-designated as hedging instruments after initial recognition - are not reclassifications. It also clarifies 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*, such is a change in circumstance, not a reclassification. It further removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge. It requires use of the revised effective interest rate (rather than the original effective interest rate) when remeasuring a debt instrument on the cessation of fair value hedge accounting.

- PAS 40, *Investment Properties*, revises the scope (and the scope of PAS 16) 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*, removes the reference to the use of a pretax discount rate to determine fair value, thereby allowing use of either a pretax or post-tax discount rate depending on the valuation methodology used and 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, introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. 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 noncontrolling interests.

- Amendment to PAS 39 - *Eligible hedged items*, 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, *Agreement for Construction of Real Estate*, 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 continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2008 on the Group's consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

3. **Significant Judgments, Accounting Estimates and Assumptions**

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the Philippines requires the Group to exercise judgment, make accounting estimates and use assumptions 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 assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Accounting estimates and judgments 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 effects on amounts recognized in the consolidated financial statements:

Determination of functional currency

The Parent Company, based on the relevant economic substance of the underlying circumstances, has determined its functional currency to be the Philippine Peso. It is the currency of the primary economic environment in which the Parent Company primarily operates.

Recognition of deferred income tax assets

The Group reviews the carrying amounts at each balance sheet date and adjusts the balance of deferred income tax assets 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 assets to be utilized. The sufficiency of future taxable profits requires the use of assumptions, judgments and estimates, including future prices of metals, volume of inventories produced and sold and amount of costs and expenses that are subjectively determined like depreciation. As of December 31, 2008 and 2007, net deferred income tax assets recognized in the consolidated balance sheets amounted to ₱637,709 and ₱335,267, respectively.

Classification of financial instruments

The Group exercises judgment in classifying financial instruments in accordance with PAS 39. The Group classifies a financial instrument, or its components, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated balance sheets.

Financial assets are classified into the following categories:

a. Financial assets at FVPL
b. Loans and receivables
c. HTM investments
d. AFS financial assets

Financial liabilities, on the other hand, are classified into the following categories:

a. Financial liabilities at FVPL
b. Other financial liabilities

The Group determines the classification at initial recognition and re-evaluates this classification, where allowed and appropriate, at every reporting date.

Accounting Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainties at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Measurement of mine products sales

Mine products sales are provisionally priced such that these are not settled until predetermined future dates based on market prices at that time. Revenue on these sales are initially recognized based on shipment values calculated using the provisional metals prices, shipment weights and assays for metal content less deduction for insurance and smelting charges as marketing. The final shipment values are subsequently determined based on final weights and assays for metal content and prices during the applicable quotational period. Total mine product sales, gross of marketing charges, amounted to ₱9,327,077, ₱12,216,772 and ₱9,959,999 in 2008, 2007 and 2006, respectively.

Impairment of loans and receivables

The Group assesses on a regular basis if there is objective evidence of impairment of loans and receivables. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The determination of impairment requires the Group to estimate the future cash flows based on certain assumptions as well as to use judgment in selecting an appropriate rate in discounting. The Group uses specific impairment on its loans and receivables. The Group did not assess its loans and receivables for collective impairment due to the few counterparties which can be specifically identified. The amount of loss is recognized in the consolidated statement of income with a corresponding reduction in the carrying value of the loans and receivables through an allowance account. Total carrying value of loans and receivables amounted to ₱10,840,808 and ₱4,456,214 as of December 31, 2008 and 2007, respectively (see Note 18). Allowance for impairment on these financial assets as of December 31, 2008 and 2007 amounted to ₱628 and ₱1,361, respectively (see Note 7).

Impairment of AFS financial assets

The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 30% or more and 'prolonged' as greater than 12 months for quoted equity securities. 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 securities. As of December 31, 2008, impairment losses of AFS financial assets amounted to ₱226,979 (see Note 11).

Measurement of NRV of mine products inventory

The NRV of mine products inventory is the estimated selling price in the ordinary course of business less cost to sell. The selling price estimation of mine products inventory is based on the London Metal Exchange (LME), which also represents an active market for the product. The Parent Company concurrently uses the prices published daily by the LME together with the weight and assay for metal content in estimating the selling price of mine products inventory. Any changes in the assay for metal content of the mine products inventory is accounted for and accordingly adjusted. The NRV of mine products inventory as of December 31, 2008 and 2007 amounted to ₱380,960 and ₱59,862, respectively, which were also reflected as part of mine products revenue for the years then ended (see Note 8).

Write-down of carrying values of materials and supplies inventories
Provisions are made for materials and supplies inventories whose NRV are lower than their carrying cost. NRV is determined by referring to the estimated selling price of the assets at their conditions at the balance sheet date. No inventory write-down was made during 2008 and 2007. The carrying value of materials and supplies inventories amounted to ₱875,909 and ₱837,823 as of December 31, 2008 and 2007, respectively (see Note 8).

Estimation of useful lives of property, plant and equipment
The Group estimates the useful lives of property, plant and equipment based on internal technical evaluation and experience. Estimated useful lives of property, plant and equipment are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. The carrying value of property, plant and equipment as of December 31, 2008 and 2007 amounted to ₱4,066,257 and ₱3,843,909, respectively (see Note 10). The estimated useful lives of the Group's property, plant and equipment are disclosed in Note 2.

Estimation of provision for mine rehabilitation costs
The Group recognized a liability relating to the estimated costs of mine rehabilitation. The Group assesses its mine rehabilitation provision annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at balance date represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the consolidated balance sheet by adjusting the rehabilitation asset and liability. If, for mature mines, the revised mine assets net of rehabilitation provisions exceeds the carrying value, that portion of the increase is charged directly to the consolidated statement of income. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of income. Provision for mine rehabilitation costs amounted to ₱26,639 and ₱204,931 as of December 31, 2008 and 2007, respectively (see Note 10).

Impairment of noncurrent non-financial assets
The Group assesses whether there are indications of impairment on its noncurrent non-financial assets, at least on an annual basis. If there are, impairment testing is performed except for goodwill which is tested on an annual basis. This requires an estimation of the value-in-use of the CGUs to which the assets belong. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. No further impairment losses were recognized in 2008 and 2007 in view of the significantly improved profitability of the Group. As of December 31, 2008 and 2007, the carrying value of noncurrent non-financial assets, which include PPE, investments in shares of stock, goodwill, deferred income tax assets and deferred exploration costs and other noncurrent assets, amounted to ₱7,402,416 and ₱4,434,875, respectively.

Estimation of allowance for unrecoverable deferred mine and oil exploration costs
A valuation allowance is provided for estimated unrecoverable deferred mine and oil exploration costs based on the Group's assessment of the future prospects of the mining properties, which are primarily dependent on the presence of mineral and oil reserves in those properties, and metal prices in the market which is the primary driver of returns on those production. Deferred mine and oil exploration costs amounted to ₱3,567,923 and ₱1,147,050, on which allowance for unrecoverable portion of ₱974,435 has been provided for both years (see Note 12).

Estimation of recoverable reserves
Recoverable reserves were determined using various factors or parameters such as market price of metals and global economy. These are economically mineable reserves based on the current market condition. The estimated recoverable reserves are used in the calculation of depreciation, amortization and testing for impairment, the assessment of life of the mine, stripping ratios and for forecasting the timing of the payment of mine rehabilitation costs. There has been no significant change in estimated recoverable reserves from December 31, 2004 to December 31, 2008.

Valuation of financial assets and financial liabilities
The Group carries certain financial assets and financial liabilities (i.e., derivatives and AFS financial assets) at fair value, which requires the use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, quoted security prices), the amount of changes in fair value would differ if the Group utilized a different valuation methodology. Any change in fair value of these financial assets and financial liabilities would affect the profit or loss and equity.

The carrying values and corresponding fair values of financial assets and financial liabilities as well as the manner in which fair values were determined are discussed in more detail in Note 18.

Provisions for losses
The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations. An estimate of the provision is based on known information at balance sheet date, net of any estimated amount that may be reimbursed to the Group. The amount of provision is being re-assessed at least on an annual basis to consider new relevant information. Total provision for losses amounted to ₱715,758 and ₱175,000 as of December 31, 2008 and 2007, respectively.

Estimation of retirement benefits cost
The Group's retirement benefits cost is actuarially computed. This entails using certain assumptions with respect to salary increases and discount rates, among others. As of December 31, 2008 and 2007, the Group's net retirement benefits cost amounted to ₱80,151 and ₱125,976, respectively (see Note 17).

4. **Business Combinations**

Acquisition of FEP
On July 3, 2008, Philex Petroleum acquired 4,004,000 shares of stock of FEP representing 13.31% of the outstanding shares for £1,922 (or ₱170,495). On September 23, 2008, Philex Petroleum completed the purchase of additional 5,935,311 shares of FEP for £2,849 (or ₱235,499). The purchase of the shares representing 19.73% of the issued capital stock of FEP brought to 61.46%, including the 28.42% interest of FECR, the total number of shares owned and controlled by the Group, which requires consolidation of FEP to the Group.

The provisional fair values of the identifiable net assets of FEP as of the date of acquisition are as follows:

	Fair Values	Carrying Values
Assets		
Cash and cash equivalents	₱43,158	₱43,158
Receivables	29,927	29,927
Advances to subsidiaries	186,311	186,311
Inventories	3,212	3,212
Property and equipment	179,735	180,661
Investments	282	282
Deferred exploration costs	1,897,621	1,897,621
Other assets	43,633	43,633
	2,383,879	2,384,805
Liabilities		
Accounts payable and accrued expenses	12,427	12,427
Contingent liability	387,374	–
Other payables	183,817	183,817
	583,618	196,244
Net assets	₱1,800,261	₱2,188,561

The initial accounting for this business combination is provisional primarily in view of the inherent uncertainties in the oil and gas industry that could impact the determination of the fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed.

The share of the Group in the foregoing provisional fair values amounted to ₱303,344 while the cost of the business combination amounted to ₱436,638 which consisted of the cash purchase price and transaction costs incurred for the equity interest in FEP. The goodwill, based on the initial accounting for this business combination amounted to ₱133,294.

The acquisition of FEP by Philex Petroleum in 2008 qualified as a step acquisition and resulted in the Parent Company's step-by-step comparison of the cost of the individual investments with the Group's interest in the fair value of FEP identifiable assets, liabilities and contingent liabilities at each transaction dates. A revaluation surplus amounting to ₱94,247 was recognized which pertains to the adjustment to the fair values of the net assets of FEP relating to the previously held interest of the Parent Company in FEP through FECR.

From the date of acquisition, FEP contributed a net loss of ₱74,097 to the profit or loss of the Group. If the acquisition of FEP had been completed at the beginning of the year, FEP would have contributed to the profit or loss of the Group net losses of ₱192,802.

Acquisition of FECR
In December 2007, the Parent Company acquired 50.6% of the shares of FECR, a Canadian entity listed in the NASDAQ OTC Bulletin Board and in the Frankfurt and Munich Stock Exchanges, for US$5,400 (or ₱226,275). FECR is a holding company based in Calgary, Alberta, Canada that has mining and oil assets in the Philippines.

The fair values of the identifiable net assets of FECR as of the date of acquisition are as follows:

	Fair Values	Carrying Values
Assets		
Cash and cash equivalents	₱173,153	₱173,153
Investments	209,785	274,413
Other assets	3,456	3,456
	386,394	451,022
Liabilities		
Accounts payable and accrued expenses	114,786	114,786
Other payables	28,523	28,523
	143,309	143,309
Net assets	₱243,085	₱307,713

The share of the Parent Company in the foregoing fair values amounted to ₱123,001. The cost of the business combination amounted to ₱226,275 which consisted of the cash purchase price and transaction costs incurred for the Parent Company's equity interest in FECR. The 2007 consolidated balance sheet was not restated for the final goodwill amount since management believes that the difference between the final and provisional amounts is insignificant.

5. Segment Information

The primary segment reporting format is determined to be business segments as the Group's risk and rate of return are affected predominantly by differences in the products produced. The operating businesses are organized and managed separately through the Parent Company and its subsidiaries according to the nature of the products provided, with each segment representing a strategic business unit that offers different products to different markets.

As of December 31, 2008, the Group has two main business segments - mining and oil and gas operations.

The Group's operating business segments remain to be neither organized nor managed by geographical segment.

The following tables present revenue and profit and certain assets and liability information regarding the Group's business segments.

Year ended December 31, 2008:

	Mining	Oil and Gas	Unallocated Corporate Balances	Eliminations	Total
Revenue					
Sales to external customers	**₱9,708,037**	**₱9,330**	**₱–**	**₱–**	**₱9,717,367**
Results					
Profit (loss) before tax, interest expense and interest income	₱3,318,835	(₱154,413)	(₱283)	₱5,774	₱3,169,913
Net interest income	97,364	2,813	130	–	100,307
Income (loss) before income tax	3,416,199	(151,600)	(153)	5,774	3,270,220
Income tax expense	(466,513)	(3,314)	–	–	(469,827)
Net income	**₱2,949,686**	**(₱154,914)**	**(₱153)**	**₱5,774**	**₱2,800,393**
Assets and Liabilities					
Segment assets	₱18,340,118	₱2,374,519	₱6,130	(₱1,206,265)	₱19,514,502
Investments	1,610,166	1,028,926	–	(2,000,000)	639,092
Deferred income tax assets	171,674	–	–	–	171,674
Consolidated total assets	**₱20,121,958**	**₱3,403,445**	**₱6,130**	**(₱3,206,265)**	**₱20,325,268**
Consolidated total liabilities	**₱9,198,816**	**₱976,705**	**₱33**	**(₱3,305,083)**	**₱6,870,471**
Other Segment Information					
Addition to property, plant and equipment (PPE)	₱966,664	₱–	₱–	₱–	₱966,664
Depreciation and amortization	774,340	66,485	–	–	840,825
Mark-to-market losses	470,102	–	–	–	470,102
Non-cash expenses other than depreciation and amortization and mark-to-market losses	849,836	10,113	–	–	859,949

As of December 31, 2007 and 2006, the Group had the Padcal mine as its only operating segment.

6. **Cash and Cash Equivalents**

Cash and cash equivalents consist of:

	2008	2007
Cash on hand and in banks (Notes 18 and 21)	**₱205,797**	₱781,426
Short-term deposits (Notes 18 and 21)	**10,507,309**	1,848,882
	₱10,713,106	₱2,630,308

Cash in banks and cash equivalents earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the cash requirements of the Group, and earn interest at the respective short-term deposit rates. Interest income arising from cash in banks and short-term deposits amounted to ₱153,850, ₱127,705 and ₱41,199 in 2008, 2007 and 2006, respectively.

7. Accounts Receivable

Accounts receivable consist of:

	2008	2007
Trade (Notes 18 and 21)	**₱4,721**	₱1,771,486
Accrued interest (Notes 18 and 19)	**50,038**	–
Others - net of allowance for doubtful accounts of ₱628 in 2008 and ₱1,361 in 2007 (Notes 18 and 19)	**72,943**	54,420
	₱127,702	₱1,825,906

The Parent Company's trade receivables arise from shipments of copper concentrates to Pan Pacific Copper Co., Ltd. (PPC) (see Note 28). Trade receivables are due within one week after the customer received the shipments and do not bear interest. In 2008, the Parent Company's trade receivables from PPC were adjusted by ₱395,484 to reflect the effect of the quotational pricing, which was based on forward commodity prices, and resulted to a net payable to PPC of ₱142,197 (see Note 28). Meanwhile, BEMC's trade receivables arise from the sale of coal to various customers.

Accrued interest receivables arise from the Group's short-term deposits.

The following is a rollforward analysis of the allowance for impairment losses recognized on other accounts receivable:

	2008	2007
At beginning of year	**₱1,361**	₱3,358
Write-offs	**(733)**	(1,997)
At end of year	**₱628**	₱1,361

The impaired receivables were specifically identified as of December 31, 2008 and 2007.

8. Inventories

Inventories consist of:

	2008	2007
Mine products:		
At NRV	**₱380,960**	₱59,862
At Cost	**5,661**	–
Materials and supplies:		
On hand:		
At cost	**812,367**	767,008
At NRV	**35,894**	35,894
In transit - at cost	**27,648**	34,921
	₱1,262,530	₱897,685

The mine products inventories that are carried at cost pertain to coal inventories of BEMC. As of December 31, 2008 and 2007, the cost of materials and supplies inventories on hand that are carried at NRV amounted to ₱320,178.

Materials and supplies on hand include non-operating materials and supplies at PGPI's Bulawan Mine which ceased operations in 2002, that do not qualify as assets held for sale under PFRS 5. Details of these non-operating materials and supplies are as follows:

	2008	2007
Cost	**₱287,905**	₱247,905
NRV	**35,894**	35,894
Lower of cost and NRV	**35,894**	35,894

9. Other Current Assets

Other current assets consist of:

	2008	2007
Input tax recoverable - net of allowance for probable loss of ₱179,570 in 2008 and 2007	**₱316,663**	₱238,954
Prepaid expenses and others	**124,047**	4,735
	₱440,710	₱243,689

Input tax recoverable represents the value-added tax (VAT) paid on purchases of applicable goods and services, net of output tax liabilities, which can be recovered as tax credit against future tax liability of the Group upon approval by the Philippine Bureau of Internal Revenue (BIR) and/or the Philippine Bureau of Customs.

10. Property, Plant and Equipment

Property, plant and equipment consist of:

As of December 31, 2008:

	Mine and Mining Properties	**Land, Buildings and Improvements***	**Machinery and Equipment**	**Surface Structures**	**Construction in Progress**	**Non-operating Property and Equipment at Bulawan Mine**	**Total**
Cost:							
January 1	**₱5,996,379**	**₱371,549**	**₱4,774,327**	**₱101,242**	**₱156,954**	**₱2,197,683**	**₱13,598,134**
Additions	**462,219**	**5,492**	**510,639**	**–**	**176,304**	**–**	**1,154,654**
Disposals	**–**	**(10,517)**	**(432,301)**	**(3,481)**	**(49,619)**	**–**	**(495,918)**
Reversals	**–**	**(131,667)**	**–**	**–**	**–**	**–**	**(131,667)**
Reclassifications within the "Property, plant and equipment" account	**–**	**–**	**44,770**	**–**	**(44,770)**	**–**	**–**
December 31	**6,458,598**	**234,857**	**4,897,435**	**97,761**	**238,869**	**2,197,683**	**14,125,203**

(Forward)

	Mine and Mining Properties	Land, Buildings and Improvements*	Machinery and Equipment	Surface Structures	Construction in Progress	Non-operating Property and Equipment at Bulawan Mine	Total
Accumulated Depletion and Depreciation:							
January 1	**(₱3,980,345)**	**(₱284,077)**	**(₱3,201,634)**	**(₱90,486)**	**₱–**	**(₱2,197,683)**	**(₱9,754,225)**
Depletion and depreciation for the year (Note 16)	**(475,498)**	**(5,035)**	**(291,010)**	**(1,647)**	**–**	**–**	**(773,190)**
Disposals	**–**	**10,516**	**386,909**	**3,481**	**–**	**–**	**400,906**
Reversals	**–**	**67,563**	**–**	**–**	**–**	**–**	**67,563**
December 31	**(4,455,843)**	**(211,033)**	**(3,105,735)**	**(88,652)**	**–**	**(2,197,683)**	**(10,058,946)**
Net Book Values	**₱2,002,755**	**₱23,824**	**₱1,791,700**	**₱9,109**	**₱238,869**	**₱–**	**₱4,066,257**

* Cost of land amounted to ₱1,163. This also includes capitalized costs of mine rehabilitation of ₱18,130 and related accumulated amortization of ₱8,188. In 2008, the Parent Company completed the review of its Final Mine Rehabilitation and Decommissioning Plan (FMR/DP). The review resulted to a decrease in FMR/DP costs of ₱64,104.

As of December 31, 2007:

	Mine and Mining Properties	Land, Buildings and Improvements*	Machinery and Equipment	Surface Structures	Construction in Progress	Non-operating Property and Equipment at Bulawan Mine	Total
Cost:							
January 1	₱5,552,478	₱371,010	₱4,411,519	₱101,242	₱134,565	₱2,200,699	₱12,771,513
Additions	395,825	539	677,457	–	196,021	–	1,269,842
Disposals	–	–	(440,205)	–	–	(3,016)	(443,221)
Reclassifications within the “Property, plant And equipment” account	48,076	–	125,556	–	(173,632)	–	–
December 31	5,996,379	371,549	4,774,327	101,242	156,954	2,197,683	13,598,134
Accumulated Depletion and Depreciation:							
January 1	(3,510,902)	(261,490)	(2,983,767)	(88,839)	–	(2,200,699)	(9,045,697)
Depletion and depreciation for the year (Note 16)	(469,443)	(22,587)	(292,028)	(1,647)	–	–	(785,705)
Disposals	–	–	74,161	–	–	3,016	77,177
December 31	(3,980,345)	(284,077)	(3,201,634)	(90,486)	–	(2,197,683)	(9,754,225)
Net Book Values	₱2,016,034	₱87,472	₱1,572,693	₱10,756	₱156,954	₱–	₱3,843,909

* Cost of land amounted to ₱1,163. This also includes capitalized costs of mine rehabilitation of ₱149,797 and related accumulated amortization of ₱74,070.

Mine and mining properties as of December 31, 2008 and 2007 include mine development cost of the 782 Meter Level project amounting to ₱413,816 and ₱621,826, respectively.

Land, buildings and improvements include the estimated costs of rehabilitating the Parent Company’s Padcal Mine. These costs, net of accumulated amortization, amounted to ₱9,942 and ₱75,727 as of December 31, 2008 and 2007, respectively. These were based on technical estimates of probable costs, which may be incurred by the Parent Company in rehabilitating the said mine from 2015 up to 2024, discounted using the Parent Company’s borrowing rate of 8% per annum. The related accumulated accretion of interest amounted to ₱8,509 and ₱55,134 as of December 31, 2008 and 2007, respectively.

Non-operating property and equipment in Bulawan mine pertains to PGPI's fully-depreciated exploration equipments that are presently not in use. These assets do not qualify as assets held for sale under PFRS 5 and are thus retained as property, plant and equipment.

Machinery and equipment includes certain mine machineries, which were used as securities for one of the Parent Company's loan in 2005 (see Note 14). In 2007, the loan was fully paid and the mine machinery was accordingly released.

11. Investments

AFS financial assets

The Group's AFS financial assets consist of the following:

	2008	2007
Investments in quoted shares of stock of:		
Indophil Resources NL (Indophil)	**₱122,782**	₱361,064
Philippine Realty & Holdings Corporation (PRHC)	**23,283**	53,381
The Philodrill Corporation (Philodrill)	**5,610**	135,542
Other quoted equity investments	**519**	124
	152,194	550,111
Investments in unquoted shares of stock of:		
Pitkin Petroleum Limited (Pitkin)	**212,051**	212,051
Philippine Associated Smelting and Refining Corporation	**14,055**	14,055
Other unquoted equity investments	**504**	204
	226,610	226,310
	₱378,804	₱776,421

AFS financial assets in quoted shares of stock are carried at fair value with cumulative changes in fair values presented as a separate account in equity. Meanwhile, AFS financial assets in unquoted shares of stock are carried at cost because fair value bases (i.e., quoted market prices) are not readily available nor is there an alternative basis of deriving a reasonable valuation as of balance sheet date.

As of December 31, 2008 and 2007, the cumulative increase in value of AFS financial assets amounted to ₱1,727 and ₱144,402, respectively. These changes in fair values in the same amounts have been recognized and shown as "Net unrealized gain on increase in value of AFS financial assets" account in the equity section of the consolidated balance sheets and is also shown in the consolidated statements of changes in equity. The cost of these AFS financial assets as of December 31, 2008 and 2007 amounted to ₱150,467 and ₱419,968, respectively.

In 2008 and 2007, the Parent Company, at various dates, sold its investment in shares of stock of Philodrill with a cost of ₱18,551 and ₱65,352, respectively. Total gain on sale of ₱84,565 in 2008 and ₱106,843 in 2007, including the realization of the increase in fair value of the disposed AFS financial assets, were recognized in the consolidated statements of income.

In 2008, fair value changes amounting to ₱30,716 relating to Indophil shares were transferred from equity to profit or loss and an impairment loss amounting to ₱226,979 was recognized as part of the "Provisions and allowances for losses" account in the 2008 consolidated statement of income due to significant decline in value. The unrealized foreign exchange losses amounting to ₱109,739 which are related to the Indophil shares were likewise transferred from equity to profit or loss. Meanwhile, fair value changes amounting to ₱96,531 in 2008 and ₱69,527 in 2007 relating to Philodrill shares, which were disposed, were transferred from equity to profit or loss.

The following table shows the movement of the "Net unrealized gain on increase in value of AFS financial assets" account:

	2008	2007
January 1	**₱144,402**	₱115,751
Net increase (decrease) in value of AFS financial assets during the year	**(46,144)**	98,178
Realization of increase in value of AFS financial assets through sale	**(96,531)**	(69,527)
December 31	**₱1,727**	₱144,402

In 2007, the Parent Company and Philex Petroleum acquired a total of 10.7% equity interest in Pitkin, a Texas-based junior exploration company in the United Kingdom currently producing on a small scale basis in Louisiana but with properties in offshore Vietnam and Peru.

Investments in Shares of Stock

Investments in shares of stock pertain to investments in joint venture entities and in associate.

Investments in Joint Ventures

Investments in joint ventures include investment in shares of stock of MECI and SMECI (see Note 27) that are accounted for at equity. The Group's proportionate ownership interests in MECI and SMECI and their respective subsidiaries as of December 31, 2008 and 2007 follow:

	Percentage of Ownership	
	Direct	Indirect
MECI	60	–
NLEMCI *	–	100
SMECI	–	60
SMMCI **	–	100

* Incorporated on October 12, 1999 and has not started commercial operations (see Note 27).
**Incorporated on January 4, 2000 and has not started commercial operations (see Note 27).

The following are the summarized consolidated financial information of MECI and SMECI:

	MECI	SMECI
2008		
Current assets	**₱152,876**	**₱5,155**
Noncurrent assets	**86,185**	**1,433,116**
Current liabilities	**237,964**	**1,441,240**
Equity (Capital deficiency)	**1,097**	**(2,969)**
Net loss	**369**	**622**

	MECI	SMECI
2007		
Current assets	₱152,876	₱556
Noncurrent assets	84,690	1,184,782
Current liabilities	236,100	1,187,685
Equity (Capital deficiency)	1,466	(2,347)
Net loss	767	1,055

Investment in Associate
Investment in associate pertains to Philex Petroleum's investment in the shares of stock of PERC which is accounted for at equity.

Acquisition of additional 19.85% of PERC
On March 24, 2008, Philex Petroleum acquired additional 27,180,551 shares of PERC for ₱244,625. The acquisition of the shares, which is equivalent to 19.85% of the issued capital of PERC, brought to 20.6% the total ownership interest of Philex Petroleum in PERC.

The following are the summarized financial information of PERC as of December 31, 2008:

Current assets	₱177,069
Noncurrent assets	813,064
Current liabilities	20,913
Noncurrent liabilities	15,324
Equity	953,896
Net income	99,742

Subscription Payable
Subscription payable amounting to ₱53,528, which is included as part of "Provisions and other payables" account in the consolidated balance sheets, as of December 31, 2008 and 2007 is related to the investment in shares of stock of PRHC.

12. **Deferred Exploration Costs and Other Noncurrent Assets**

Deferred exploration costs and other noncurrent assets consist of:

	2008	2007
Deferred oil exploration costs	**₱2,016,149**	₱86,375
Less allowance for unrecoverable portion	**86,375**	86,375
	1,929,774	–
Deferred mine exploration costs	**1,551,774**	1,060,675
Less allowance for unrecoverable portion	**888,060**	888,060
	663,714	172,615
Others	**121,576**	111,847
Less allowance for unrecoverable portion	**47,435**	47,435
	74,141	64,412
	₱2,667,629	₱237,027

Deferred Oil and Mine Exploration Costs

a. Deferred mine and oil exploration costs relate to projects that are currently on-going. The recovery of these costs depends upon the success of exploration activities and future development of the corresponding mining properties or the discovery of oil and gas producible in commercial quantities. Allowances have been provided for those deferred costs that are specifically identified to be unrecoverable.

b. On December 8, 2005, PGPI entered into Heads of Agreement (HOA) with Indexa Corp. (IC), and IC in turn executed on the same day a Deed of Assignment, assigning its full interest over the HOA to FECR, a company incorporated in Canada and a related party. The said Deed of Assignment became effective on January 2, 2006.

   Among the relevant provisions of the HOA are:

   i. PGPI will incorporate a subsidiary into which PGPI shall transfer its full interest over Mine Production Sharing Agreement No. 148-99-XIII (MPSA 148), together with the accumulated exploration costs incurred thereon.

   ii. PGPI shall undertake to apply for all approvals from the Bureau of Mines to permit PGPI to transfer 40% equity over this subsidiary to FECR. PGPI shall further undertake to obtain same approvals to cover FECR's or its designate's or affiliate's possible increase in its equity to 60%.

   iii. FECR will commit and provide the amount of US$250 to PGPI after the legal ownership of MPSA 148 has been transferred to the subsidiary.

   iv. FECR will provide US$100 each month from January 1, 2006 to October 31, 2006 to the subsidiary to fund expenditures to further determine and delineate the reserves of MPSA 148. Should the extension beyond October 2006 of the exploration permit not be obtained, FEC will be entitled to call the advances and demand full repayment from the subsidiary, which repayment shall be guaranteed by PGPI.

   In compliance with the above provisions of the HOA:

   i. On October 20, 2005, PGPI incorporated LMC. On December 13, 2005, PGPI assigned MPSA 148 to LMC, and transferred to the latter all accumulated exploration costs related to this property. Accordingly, the amount of US$250 was released to PGPI.

   ii. On December 29, 2005, PGPI received from FECR the amount of US$250 following the transfer to LMC of PGPI's legal ownership over MPSA 148 in December 2005.

   iii. FECR provided US$100 each month from January 1, 2006 to October 31, 2006 to LMC to fund expenditures to further determine and delineate the reserves of MPSA 148. This amount is recorded by LMC as part of payable to affiliated companies. On November 30, 2006, PGPI was able to obtain from the Bureau of Mines a permit to extend beyond October 2006 the exploration of MPSA 148. As of December 31, 2006, certain requirements necessary for the transfer of 40% equity of FECR in LMC were not yet complied with. Accordingly, LMC remained as a wholly owned subsidiary of PGPI. On September 30, 2007, FECR earned and got its 40% equity stake in LMC, in view of the completion of documentation requirements of the transfer of the shares. At that time, FECR was not yet a subsidiary of the Parent Company (see Note 2). Also at the time of the 40% transfer to FECR, the carrying value of portion of FECR's advances amounted to ₱11,260 ($250). Upon conversion, this resulted in an excess of ₱4,141 over the par value of LMC's newly issued shares to FECR and accordingly, was taken up by the Group in the 2007 consolidated balance sheet as an additional paid-in capital.

<u>Others</u>

a. "Others" primarily pertains to materials and supplies that are being used in operations over a period of more than one year. These are amortized over the periods in which these are usable, normally ranging from 2 to 3 years.

b. Included in "Others" are accounts that the Parent Company and PGPI maintain with Land Bank of the Philippines (LBP) to establish their respective Mine Rehabilitation Funds (MRF), pursuant to the requirements of Republic Act (R.A.) No. 7942, otherwise known as "The Philippine Mining Act of 1995." The MRF shall be used for the physical and social rehabilitation of areas and communities affected by the Padcal, Bulawan and Sibutad mining activities, and for research in the social, technical and preventive aspects of the mines' rehabilitation. As of December 31, 2008 and 2007, the Parent Company's MRF amounted to ₱5,692 and ₱5,612, respectively, while PGPI's MRF amounted to ₱6,389 and ₱6,388, respectively.

13. Short-term Bank Loans

Short-term bank loans as of December 31, 2008 consist of unsecured short-term US dollar-denominated loans with repricing every 30 to 120 days, obtained from various local banks with interest rate from 3.75% to 6.40% in 2008. Interest expense arising from short-term bank loans amounted to ₱48,743 in 2008.

14. Long-term Debt

Long-term debt in 2007 relates to the Parent Company's loans as follows:

Long-term debt to PPC (US$6,493) (Notes 18 and 19)	₱268,028
Less current portion	206,406
	₱61,622

Interest expense arising from long-term debt amounted to ₱2,827, ₱93,915 and ₱125,684 in 2008, 2007 and 2006, respectively.

On March 11, 2004, the Parent Company entered into a Loan Agreement with PPC whereby PPC granted a facility under which advance payments of the purchase price of concentrates under their Sales Agreement (see Note 28) of up to US$15,000 (the Loan) will be made available to the Parent Company. The Parent Company drew the Loan on March 30, 2004 and used the net proceeds therefrom for the development and operation of the 782 Meter Level of the Padcal Mine (see Notes 1 and 10) and related matters.

The Loan from PPC is payable in annual installments in the amount of US$5,000 starting on April 1, 2006 by way of application and set off (without penalty, charge or fee) at US$70 per Dry Metric Ton (DMT) against the provisional payments for each shipment of copper concentrate under the Parent Company's Sales Agreement with PPC, provided that the total amount of the set-off in any 12-month period commencing on April 1 each year shall not exceed the annual installment for that period. Final repayment date is on March 31, 2009. Interest accrues on the Principal Outstanding at the LIBOR for the Interest Period, as defined in the Loan Agreement, plus 1.5% per annum. The Parent Company may prepay all or part of the Principal Outstanding, subject to certain conditions as indicated in the Loan Agreement. All long-term debt to PPC was paid in full by the Parent Company in 2008.

The Parent Company's significant undertakings included restrictions on (a) the sale or disposal of all or substantial part of its material assets, except as allowed under the Loan Agreement, (b) creation of security interest over its assets or on future assets, except as allowed under the Loan Agreement, and (c) certain financial covenants. As of December 31, 2008 and 2007, the Parent Company has complied with these undertakings.

15. Accounts Payable and Accrued Liabilities

	2008	2007
Trade (Note 18)	**₱362,142**	₱253,745
Accrued royalties and excise taxes	**102,951**	111,117
Accrued expenses - outside services (Note 18)	**68,153**	50,018
Trust receipts and acceptances (Note 18)	**61,530**	104,684
Withholding taxes	**32,169**	69,610
Accrued interest (Note 18)	**13,664**	8,985
Other non-trade and accrued liabilities (Note 18)	**139,462**	89,870
	₱780,071	₱688,029

16. Costs and Expenses

Costs and expenses include the following:

	2008	2007	2006
Mining and milling costs:			
Materials and supplies	**₱1,309,586**	₱1,213,068	₱1,140,826
Communications, light and water	**889,569**	1,095,932	1,084,068
Personnel (Note 17)	**788,163**	705,603	665,991

(Forward)

	2008	2007	2006
Depletion and depreciation (Note 10)	**₱705,627**	₱784,528	₱701,365
Contracted services	**374,698**	312,720	341,207
Others	**106,163**	65,319	186,047
	₱4,173,806	₱4,177,170	₱4,119,504
Mine products taxes and royalties:			
Royalties	**₱367,029**	₱244,402	₱184,792
Excise taxes	**211,033**	213,508	170,752
	₱578,062	₱457,910	₱355,544
General and administrative expenses:			
Personnel (Note 17)	**₱158,077**	₱165,635	₱129,168
Contracted services	**25,405**	48,317	41,409
Exploration supplies	**11,350**	16,804	17,862
Others	**332,742**	165,317	28,452
	₱527,574	₱396,073	₱216,891

17. **Retirement Benefits Cost**

The Parent Company and PGPI have a funded, noncontributory defined benefit group retirement plan, administered by a board of trustees, covering all of their permanent employees. The following tables summarize the components of the net benefit expense recognized in the consolidated statement of income and the funded status and amounts recognized in the consolidated balance sheets:

The details of net retirement benefits cost are as follows:

	2008	2007	2006
Current service cost	**₱49,902**	₱47,322	₱32,383
Interest cost on defined benefits obligation	**52,542**	53,762	69,408
Expected return on plan assets	**(46,943)**	(47,854)	(32,153)
Net actuarial loss recognized during the year	**24,736**	27,828	9,313
Past service cost	**5,942**	5,942	5,942
	₱86,179	₱87,000	₱84,893
Portions recognized in:			
Mining and milling costs	**₱74,114**	₱74,820	₱56,760
General and administrative expenses	**12,065**	12,180	28,133
	₱86,179	₱87,000	₱84,893
Actual return (loss) on plan assets	**(₱151)**	₱27,832	₱151,227

The details of accrued retirement benefits cost are as follows:

	2008	2007
Defined benefits obligation	**₱939,377**	₱928,311
Fair value of plan assets	**(695,148)**	(586,790)
	244,229	341,521
Unrecognized net actuarial losses	**(146,252)**	(191,776)
Unrecognized past service cost	**(17,826)**	(23,769)
	₱80,151	₱125,976

Actuarial gains and losses and past service cost relate to amendments on plan benefits and changes in actuarial assumptions subsequent to transition date.

Changes in present value of defined benefit obligation are as follows:

	2008	2007
January 1	**₱928,311**	₱895,965
Current service cost	**49,902**	47,322
Interest cost on defined benefits obligation	**52,542**	53,762
Benefits paid	**(23,492)**	(39,584)
Actuarial gains on obligation	**(67,886)**	(29,154)
December 31	**₱939,377**	₱928,311

Changes in fair value of plan assets are as follows:

	2008	2007
January 1	**₱586,790**	₱478,542
Expected return on plan assets	**46,943**	47,854
Actuarial losses on plan assets	**(47,093)**	(20,022)
Actual contributions to the plan	**132,000**	120,000
Benefits paid	**(23,492)**	(39,584)
December 31	**₱695,148**	₱586,790

The categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2008	2007
Cash and cash equivalents	**11%**	100%
Investments in bonds and other instruments	**87%**	0%
Receivables	**2%**	0%
	100%	100%

The overall expected return on the 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 Parent Company and PGPI's expected contribution to their funds for 2009 amounts to ₱137,215.

The principal assumptions used in determining retirement benefits cost for the Group's plan are as follows:

	2008	2007	2006	2005
Number of employees	**2,196**	2,221	2,299	2,451
Discount rate per annum	**6.25%**	5.66%	6%	12%
Expected annual rate of return on plan assets	**8%**	8%	10%	12%
Future annual increase in salary	**10%**	10%	10%	8%

Amounts for the current and previous period are as follows:

	2008	2007	2006	2005
Defined benefit obligation	**(₱939,377)**	(₱928,311)	(₱895,965)	(₱578,399)
Plan assets	**695,148**	586,790	478,542	267,946
Deficit	**(244,229)**	(341,517)	(417,423)	(310,453)
Experience adjustment on plan liabilities	**53,531**	(39,806)	6,203	–

18. **Financial Instruments**

Fair Values of Financial Instruments

The following table shows the carrying amounts and fair values of the Group's financial assets and financial liabilities:

	2008		2007	
	Fair values	**Carrying values**	Fair values	Carrying values
Assets:				
Cash and cash equivalents:				
Cash on hand and in banks	**₱205,797**	**₱205,797**	₱781,426	₱781,426
Short-term deposits	**10,507,309**	**10,507,309**	1,848,882	1,848,882
Accounts receivable - net:				
Trade	**4,721**	**4,721**	1,771,486	1,771,486
Accrued interest	**50,038**	**50,038**	–	–
Others	**72,943**	**73,571**	54,420	54,420
Derivative assets	**–**	**–**	95,721	95,721
AFS financial assets:				
Quoted equity investments	**152,194**	**152,194**	550,111	550,111
Unquoted equity investments	**226,610**	**226,610**	226,310	226,310
Liabilities:				
Short-term bank loans	**4,039,200**	**4,039,200**	–	–
Accounts payable and accrued liabilities:				
Trade	**362,142**	**362,142**	253,745	253,745
Trust receipts and acceptances	**61,530**	**61,530**	104,684	104,684

(Forward)

	2008		2007	
	Fair values	**Carrying values**	Fair values	Carrying values
Accrued expenses - outside services	**₱68,153**	**₱68,153**	₱50,018	₱50,018
Accrued interest	**13,664**	**13,664**	8,985	8,985
Other nontrade and accrued liabilities	**139,462**	**139,462**	89,870	89,870
Dividends payable	**173,301**	**173,301**	217,797	217,797
Long-term debt, including current portion	**–**	**–**	265,373	268,028
Derivative liabilities	**948,937**	**948,937**	633,054	633,054
Provisions and other payables	**53,528**	**53,528**	82,052	82,052

The carrying amounts of cash and cash equivalents, accounts receivable, short-term bank loans and accounts payable and accrued liabilities approximate their fair values because of their short-term nature. Quoted AFS financial assets are carried at fair value based on the quoted values of the securities.

The aggregate carrying value of the Company's long-term liabilities of ₱265,373 that are repriced either monthly or quarterly approximates their aggregate fair value as of December 31, 2007. Those long-term debt with an aggregate carrying value of ₱268,028 that are repriced semi-annually have an aggregate fair value of ₱265,373 as of December 31, 2007. The fair values of these instruments are 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.

The fair values of derivative instruments are based on counterparty valuation.

Categories of Financial Instruments:

	2008	2007
Loans and receivables:		
Cash and cash equivalents		
Cash on hand and in banks	**₱205,797**	₱781,426
Short-term deposits	**10,507,309**	1,848,882
Accounts receivable:		
Trade	**4,721**	1,771,486
Accrued interest	**50,038**	–
Others - net	**72,943**	54,420
	10,840,808	4,456,214
AFS financial assets:		
Quoted equity investments	**152,194**	550,111
Unquoted equity investments	**226,610**	226,310
	378,804	776,421
Derivatives designated as cash flow hedges:		
Derivative assets	**–**	95,721
	₱11,219,612	₱5,328,356

All financial liabilities of the Group as of December 31, 2008 and 2007 are categorized under "other financial liabilities" except for derivative liabilities, which are designated as cash flow hedges.

19. Financial Risk Management Objectives and Policies and Hedging Activities

Financial Risk Management Objectives and Policies
The Group's principal financial instruments, other than derivatives, comprise mainly of long-term debt and bank loans, cash and cash equivalents, and AFS financial assets. The main purpose of these financial instruments is to provide financing for the Group's operations and capital intensive projects. The Group has various other financial assets and liabilities such as accounts receivable, and accounts payable and accrued liabilities, which arise directly from its operations.

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group.

Financial Risks
The main risks arising from the Group's financial instruments are credit and concentration risks, liquidity risk, and market risk. The market risk exposure of the Group can be further classified to foreign currency risk, cash flow interest rate risk, equity price risk, and commodity price risk. The BOD reviews and approves the policies for managing some of these risks and they are summarized as follows:

Credit and concentration risks
Credit risk is such risk where the Group could incur a loss if its counterparties fail to discharge their contractual obligations, although the Group trades only with recognized, creditworthy third parties. About 86% of the Parent Company's annual mineral products sales are to, and 100% of the outstanding trade receivables are from, PPC (see Note 7). At present, the Parent Company has a supply agreement with PPC, assuring PPC with sale of the Parent Company's mine products as discussed in Note 28. This agreement is effective until the closure of Padcal Mine currently expected to be in 2014.

With respect to credit risk arising from the other financial assets of the Group, which comprise of cash and cash equivalents and AFS financial assets, the Group's exposure to credit risk could arise from default of the counterparty, having a maximum exposure equal to the carrying amount of these instruments.

The table below summarizes the Group's exposure to credit risk for the components of the consolidated balance sheet as of December 31, 2008 and 2007:

	2008	2007
Cash and cash equivalents, excluding cash on hand:		
Cash in bank	**₱203,972**	₱781,309
Short-term deposits	**10,507,309**	1,848,882

(Forward)

	2008	2007
Accounts receivable:		
Trade	**₱4,721**	₱1,771,486
Accrued interest	**50,038**	–
Others	**72,943**	54,420
AFS financial assets:		
Quoted equity investments	**152,194**	550,111
Unquoted equity investments	**226,610**	226,310
Derivative assets	**–**	95,721
Gross maximum credit risk exposure	**₱11,217,787**	₱5,328,239

The table below shows the credit quality of the Group's financial assets by class as of December 31, 2008 and 2008 based on the Group's credit evaluation process:

As of December 31, 2008:

	Neither past due nor impaired		Past due or individually impaired	
	High Grade	Standard		**Total**
Cash and cash equivalents, excluding cash on hand:				
Cash in bank	₱203,972	₱–	₱–	**₱203,973**
Short-term deposits	10,507,309	–	–	**10,507,309**
Accounts receivable:				
Trade	4,721	–	–	**4,721**
Accrued interest	50,038	–	–	**50,038**
Others	72,943	–	628	**73,571**
AFS financial assets:				
Quoted equity investments	–	152,194	226,979	**379,173**
Unquoted equity investments	–	226,610	–	**226,610**
Total	₱10,838,983	₱378,804	₱227,607	**₱11,445,395**

As of December 31, 2007:

	Neither past due nor impaired		Past due or individually impaired	
	High Grade	Standard		Total
Cash and cash equivalents, excluding cash on hand:				
Cash in bank	₱781,309	₱–	₱–	₱781,309
Short-term deposits	1,848,882	–	–	1,848,882
Accounts receivable:				
Trade	1,771,486	–	–	1,771,486
Others	54,420	–	1,361	55,781
AFS financial assets:				
Quoted equity investments	–	550,111	–	550,111
Unquoted equity investments	–	226,310	–	226,310
Derivative assets	–	95,721	–	95,721
Total	₱4,456,097	₱872,142	₱1,361	₱5,329,600

Credit quality of cash and cash equivalents and AFS financial assets are based on the nature of the counterparty and the Group's internal rating system.

High grade accounts receivables pertain to those receivables from customers that consistently pay before maturity.

The Group has no past due but not impaired financial assets as of December 31, 2008 and 2007.

Liquidity risk

Liquidity risk is such risk where the Group becomes unable to meet its payment obligations when they fall due under normal and stress circumstances. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group addresses liquidity concerns primarily through cash flows from operations and short-term borrowings, if necessary.

The following tables summarizes the maturity profile of the Group's non-derivative financial liabilities as of December 31, 2008 and 2007, respectively based on contractual undiscounted repayment obligations (including interest):

As of December 31, 2008:

	On demand	Within 1 year	More than 1 year	**Total**
Short-term bank loans	₱–	₱4,049,455	₱–	**₱4,049,455**
Accounts payable and accrued liabilities	–	779,571	–	**779,571**
Dividends payable	173,301	–	–	**173,301**
Provisions and other payables	53,528	–	–	**53,528**
Total undiscounted financial liabilities	₱226,829	₱4,829,026	₱–	**₱5,055,855**

As of December 31, 2007:

	On demand	Within 1 year	More than 1 year	Total
Accounts payable and accrued liabilities	₱–	₱507,302	₱–	₱507,302
Dividends payable	217,797	–	–	217,797
Long-term debt, including current portion	–	210,877	61,622	272,499
Provisions and other payables	82,052	–	–	82,052
Total undiscounted financial liabilities	₱299,849	₱718,179	₱61,622	₱1,079,650

As of December 31, 2008 and 2007, the Group's derivatives financial liabilities amounted to ₱948,937 and ₱633,054, of which ₱634,080 and ₱174,265, respectively, pertain to maturity/exercise dates within one year.

Market risks

Foreign currency risk

Foreign currency risk is such risk where the value of the Group's financial instruments diminishes due to unfavorable changes in foreign exchange rates. The Parent Company's transactional currency exposures arise from sales in currencies other than its functional currency (see Note 7). All of the Parent Company's sales are denominated in US Dollar. Also, the Parent Company is exposed to foreign exchange risk arising from its US Dollar-denominated cash and cash equivalents, trade receivables, and long-term debt (see Note 21). For the years December 31, 2008, 2007 and 2006, the Parent Company recognized ₱313,511, ₱311,263 and ₱74,862, respectively, in foreign exchange losses arising from the translation of these foreign currency-denominated financial instruments.

As the need arises, the Parent Company enters into structured currency derivatives to cushion the effect of foreign currency fluctuations.

The following table summarizes the impact on the consolidated income before income tax of reasonably possible changes in the exchange rates of US Dollar against the Peso:

USD Appreciate/(Depreciate)	**2008**	2007
1%	**(₱5,923)**	₱33,587
(1%)	**5,923**	(33,587)

There is no other impact on the Group's equity other than those affecting profit or loss.

Cash flow interest rate risk

Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. As of December 31, 2008, the Group's exposure to the risk in changes in market interest rates relates primarily to the Parent Company's short-term bank loans.

The Group relies on budgeting and forecasting techniques to address cash flow concerns. The Group also keeps its cash flow interest rate risk minimum by prepaying, to the extent possible, interest-bearing debt using operating cash flows. In 2008, the Group prepaid long-term debt aggregating to ₱268,028 (see Note 14).

The following table demonstrates the sensitivity to reasonably possible change in interest rates, with all other variables held constant, of the Group's 2008 income before income tax:

Change in market rate of interest	Effect on income before income tax
(1.0%)	₱742
(0.5%)	371
1.0%	(₱742)
0.5%	(371)

There is no other impact on the Group's equity other than those affecting profit or loss.

Equity price risk

Equity price risk is such risk where the fair values of investments in quoted equity securities could decrease as a result of changes in the levels of equity indices and the value of individual stocks. The management strictly monitors the movement of the share prices pertaining to its investments. The Group is exposed to equity securities price risk because of investments held by the Parent Company, which are classified in the consolidated balance sheets as AFS financial assets (see Note 11). These investments, totaling ₱152,194 as of December 31, 2008, represent 0.75% of the total assets of the Group.

The effect on equity, as a result of a possible change in the fair value of the Parent Company's equity instruments held as AFS financial assets as at December 31, 2008, that could be brought by changes in equity indices with all other variables held constant, are as follows:

Currency	Change in quoted prices of investments carried at fair value	2008	2007
AU$	Increase by 10%	**₱12,278**	₱36,106
	Increase by 5%	**6,139**	18,053
	Decrease by 10%	**(12,278)**	(36,106)
	Decrease by 5%	**(6,139)**	(18,053)
PHP	Increase by 10%	**₱2,941**	₱19,044
	Increase by 5%	**1,471**	9,585
	Decrease by 10%	**(2,941)**	(19,044)
	Decrease by 5%	**(1,471)**	(9,585)

The impact on the Group's equity excludes the impact on transactions affecting profit or loss.

Commodity price risk

The Parent Company's mine products revenues are based on international commodity quotations (i.e., primarily on the LME and London Bullion Metal Association quotes) over which the Parent Company has no significant influence or control. This exposes the Groups's results of operations to commodity price volatilities that may significantly impact its cash inflows. The Parent Company enters into derivative transactions as a means to mitigate the risk of fluctuations in the market prices of its mine products.

The table below shows the effect on income before income tax should the change in the prices of copper and gold occur based on the inventory of the Parent Company as of December 31, 2008:

Change in metal prices	Effect on income before income tax
Increase by 10%	₱38,096
Decrease by 10%	(38,096)

The table below shows the effect on equity should the change in the prices of copper and gold occur based on the gold derivatives of the Parent Company as of December 31, 2008:

Change in metal prices	Effect on equity
Increase by 10%	(₱608,330)
Decrease by 10%	608,330

Derivative Financial Instruments

The following table provides information about the Parent Company's derivative financial instruments outstanding as of December 31, 2008 and 2007 and the related fair values:

	2008		2007	
	Asset	**Liability**	Asset	Liability
Gold options	**₱–**	**₱478,835**	₱44,118	₱608,222
Copper swaps	**–**	**–**	43,326	24,832
Structured currency derivatives	**–**	**470,102**	8,277	–

Gold Options

The Parent Company purchased put options and sold call options on gold (zero-cost collar structure) and designated these as cash flow hedges of forecasted production of gold. The put options provide protection for 2,500 ounces every month during which the average gold price is below the put strike of $610 per ounce. The sold calls for the same number of ounces have strike prices of $800 per ounce. These transactions will mature early part of 2011.

Two new gold collar transactions were entered into in December 2008 and designated as cash flow hedges. Each transaction provides protection for 1,000 troy ounces of gold every month from January to June 2009. Agreed put strikes are $700 and $750 while call strikes are at $1,000 and $1,006.

As of December 31, 2008 and December 31, 2007, respectively, negative fair values of the gold options are ₱478,835 and ₱564,104.

Copper Swaps

The Parent Company has three outstanding swap agreements in 2007 that economically hedge a portion of its copper production. To obtain swap prices better than market on the dates of the trades, the swap agreements include the options of the counterparty to extend the period of the swap agreement.

For 2008, there are no outstanding copper swaps as of cut-off date. Most recent copper transaction expired last October 2008 and option to extend was not exercised.

Structured currency derivatives

The Parent Company entered into structured currency derivatives that consist of a series of sell-US$ forwards and sold call options, each with a total of US$37,000 notional amount with various expiry dates until September 2009 and will terminate ('knock-out') if an accumulated Peso gain is reached. As of December 31, 2008, the structured currency derivatives, which are accounted for as at FVPL, has a negative fair value of ₱470,102.

Embedded derivatives
As of December 31, 2008 and 2007, the Parent Company has embedded derivatives, which is represented by the price exposure, relative to its provisionally priced commodity sales contracts (see Note 28). Gains and losses from the marking-to-market of open or provisionally priced sales are recognized through adjustments to revenue in the consolidated statement of income and to trade debtor in the consolidated balance sheet. The Parent Company determines mark-to-market prices using the forward price for the quotational period stipulated in the contract. The effect of these negative fair value adjustments arising from outstanding derivatives as of December 31, 2008 amounted to ₱395,484, which is presented under revenue and adjusted against receivables (see Note 7).

Fair value changes on derivatives
Fair value changes of derivatives that are not designated as accounting hedges flow directly to Profit or Loss, while those which are designated as accounting hedges go to equity. Realized gains and losses on settlement are adjusted to the related revenue accounts.

The details of the net changes in the fair values of all derivative instruments as of December 31, 2008 and 2007 are as follows:

	2008	2007
Beginning of year	**(₱520,431)**	₱143,172
Net changes in fair values of derivatives:		
Designated as accounting hedges	**(61,769)**	(808,008)
Not designated as accounting hedges	**(646,931)**	16,452
Amortization of gold option premium	–	(34,089)
	(1,229,131)	(682,473)
Fair value of settled instruments*	**280,194**	162,042
End of year	**(₱948,937)**	(₱520,431)

**2007 balances include amounts that are currently due to the Parent Company amounting to ₱16,902 as of December 31, 2007.*

Hedge effectiveness of cash flow hedges
Below is a rollforward of the Parent Company's cumulative translation adjustments on cash flow hedges for the years ended December 31, 2008 and 2007:

	2008	2007
Beginning of year	**₱510,383**	(₱79,928)
Changes in fair value of cash flow hedges	**40,626**	808,008
Transferred to consolidated statements of income*	**(127,828)**	(162,042)
Tax effects of items taken directly to or transferred from equity	**(87,996)**	(55,655)
End of year	**₱335,185**	₱510,383

**2007 balances include amounts that are currently due to the Parent Company amounting to ₱16,902 as of December 31, 2007.*

20. Capital Management

The Group maintains a capital base to cover risks inherent in the business. The primary objective of the Group's capital management is to optimize the use and earnings potential of the Group's resources, ensuring that the Group complies with externally imposed capital requirements, if any, and considering changes in economic conditions and the risk characteristics of the Group's activities. No significant changes have been made in the objectives, policies and processes of the Group from the previous years.

The following table summarizes the total capital considered by the Group:

	2008	2007
Capital stock	**₱3,880,851**	₱2,968,571
Additional paid-in capital	**681,749**	102,306
Retained earnings	**7,584,186**	5,582,293
	₱12,146,786	₱8,653,170

21. Foreign Currency-Denominated Monetary Assets and Liabilities

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
Assets:				
Cash and cash equivalents	**$96,611**	**₱4,590,947**	$44,943	₱1,855,247
Trade receivables	**–**	**–**	42,914	1,771,486
Accrued interest receivable	**416**	**19,768**	–	–
	$97,027	**₱4,610,715**	$87,857	₱3,626,733
Liabilities:				
Short-term bank loans	**$85,000**	**₱4,039,200**	$–	₱–
Trade payables	**4,881**	**231,945**	–	–
Long-term debt, including current portion	**–**	**–**	6,493	268,033
	$89,881	**₱4,271,145**	$6,493	₱268,033

As of December 31, 2008 and 2007, the exchange rates of the Philippine Peso to the United States Dollar (US$) are ₱47.52 and ₱41.28 to US$1, respectively. As of March 10, 2009, the exchange rate is ₱48.35 to US$1.

22. Related Party Transactions

Related Party Transactions and Relationships

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 enterprises and their key management personnel, directors, or its stockholders.

Transactions with Related Parties

a. The Parent Company made cash advances to PGPI to complement PGPI's working capital and capital expenditure requirements. A portion of these advances are secured by mortgage participation certificates on certain mining asset of PGPI.

b. The Parent Company and PGPI are reimbursed by Anglo's wholly owned local subsidiary, Anglo American Exploration (Philippines), Inc. for the expenses that the Parent Company and PGPI incur pertaining to the exploration activities of NLEMCI and SMMCI (see Note 27). Total reimbursements amounted to ₱1,379 in 2008 and ₱3,573in 2007. As of December 31, 2008 and 2007, the Parent Company's receivables from these transactions amounted to ₱747 and ₱104, respectively, while PGPI's receivables amounted to ₱4,086 and ₱2,404, respectively, and are presented as "Others" under "Accounts receivable" account in the consolidated balance sheets.

   For the years ended December 31, 2008, 2007 and 2006, the Group has not made any provision for doubtful debts relating to the amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

c. Furthermore, PGPI's outstanding liability to SMMCI as of December 31, 2008 and 2007 amounts to ₱500.

Compensation of Key Management Personnel

Compensation of key management personnel pertains to short-term benefits amounting to ₱58,869, ₱43,148, and ₱28,780 in 2008, 2007 and 2006, respectively.

23. Income Taxes

a. The components of the Parent Company's net deferred income tax assets are as follows:

	2008	2007
Tax effects of:		
Allowances for:		
Doubtful accounts	**₱410**	₱476
Materials and supplies obsolescence	**9,682**	11,295
Losses on input VAT	**51,158**	59,684

(Forward)

	2008	2007
Probable losses in other noncurrent assets	**₱14,231**	₱16,602
Unrecoverable deferred mine and oil exploration costs	**34,780**	40,104
Unamortized past service costs	**72,584**	39,791
Mark-to-market losses on derivative instruments	**141,030**	–
Accumulated amortization of mine rehabilitation cost	**2,457**	17,164
Provisions	**35,338**	43,409
Accrued retirement benefits costs	**24,047**	38,857
Accumulated accretion of interest on provision for mine rehabilitation costs	**2,553**	12,230
Cumulative translation adjustments on hedging instruments	**143,651**	55,655
Unrealized foreign exchange losses (gains) - net	**37,694**	(38,261)
Impairment loss on AFS financial assets	**68,094**	–
Accelerated depreciation	**(418,340)**	(248,283)
Measurement of mine products inventory at NRV	**(47,695)**	–
Net deferred income tax assets	**₱171,674**	₱48,723

b. Deferred income tax liability amounting to ₱842 and ₱3,003 as of December 31, 2008, and 2007, respectively, pertains to unrealized foreign exchange gain of LMC.

c. As of December 31, 2008 and 2007, PGPI's deductible temporary differences, NOLCO and excess of MCIT over RCIT for which deferred income tax assets have not been recognized are as follows:

	2008	2007
NOLCO	**₱87,609**	₱54,886
Provision for probable losses	**80,000**	40,000
Deductible temporary differences on allowances for:		
Non-operating materials and supplies obsolescence	**30,492**	30,492
Doubtful accounts	**628**	628
Write-down of:		
Property, plant and equipment and deferred mine exploration costs	**1,076,598**	1,076,598
Non-operating materials and supplies	**181,486**	181,486
Input tax	**9,045**	9,045
Deductible temporary difference relating to depreciation of non-operating property, plant and equipment	**9,551**	9,551
Excess of MCIT over RCIT	**379**	798

d. As of December 31, 2008, PGPI's NOLCO and excess of MCIT over RCIT that can be claimed as deduction from future taxable income and used as deductions from future RCIT, respectively, are as follows:

Incurred During the Year Ended December 31	Available for Deduction Until December 31	NOLCO Amount	NOLCO Tax Effect	MCIT
2006	2009	₱18,749	₱5,625	₱311
2007	2010	29,599	8,880	17
2008	2011	39,261	11,778	51
		₱87,609	₱26,283	₱379

The following are the movements of PGPI's NOLCO and excess of MCIT over RCIT for the years ended December 31:

	2008	2007
NOLCO		
January 1	**₱54,886**	₱53,353
Additions	**39,261**	29,599
Expirations	**(6,538)**	(28,066)
December 31	**₱87,609**	₱54,886
MCIT		
January 1	**₱798**	₱1,518
Additions	**51**	17
Expirations	**(470)**	(737)
December 31	**₱379**	₱798

e. The components of the Group's provision for deferred income tax for the years ended December 31, 2008, 2007 and 2006 relate to the following:

	2008	2007	2006
Movements in allowances and reserves relating to:			
Doubtful accounts	**₱67**	₱699	₱–
Materials and supplies obsolescence	**1,614**	26,688	–
Unrecoverable costs of deferred mine Exploration costs	**5,324**	–	(393)
Property, plant and equipment		–	–
Probable losses on other current and noncurrent assets	**10,898**	34,808	5,438
Others	**1,153**	–	(7,097)
Measurement of mine products inventory at NRV	**47,695**	–	–
Mark-to-market losses on derivative instruments	**(141,030)**	–	–
Provisions	**8,067**	–	–
Amortization of mine rehabilitation costs	**14,707**	(1,921)	(2,444)

(Forward)

	2008	2007	2006
Accelerated depreciation	**₱170,057**	(₱745)	₱93,709
Accretion of interest on provision for mine rehabilitation costs	**9,678**	(1,578)	(1,928)
Unrealized foreign exchange gains - net	**(75,956)**	(461)	(13,433)
Accrued retirement benefits costs	**14,810**	17,242	280
Unamortized past service costs	**(32,793)**	(6,515)	(5,426)
Realized translation adjustment on hedging instruments	**12,254**	(12,254)	–
Impairment loss on AFS financial assets	**(68,094)**	–	–
Provision for (benefit from) deferred income tax	**(₱21,549)**	₱55,963	₱68,706

f. The following table shows the details of the Group's current provision for income tax:

	2008	2007	2006
Parent Company - RCIT	**₱490,656**	₱559,608	₱416,124
BEMC - RCIT	**667**	–	–
PGPI - MCIT	**53**	17	311
LMC - RCIT	**–**	13	–
	₱491,376	₱559,638	₱416,435

g. A reconciliation of the Group's provision for income tax computed at the statutory tax rates based on income before income tax to the provision for income tax is as follows:

	2008	2007	2006
Provision for income tax computed at statutory tax rates	**₱1,144,577**	₱464,563	₱453,579
Additions to (reductions in) income tax resulting from:			
Deductible temporary differences, NOLCO and excess of MCIT over RCIT for which no deferred tax assets were recognized	**93,207**	147,083	34,645
Stock-based compensation expense	**9,476**	7,209	–
Effect of tax rate changes, interest income subjected to a lower tax rate and others - net	**(758,190)**	7,864	(3,083)
Gain on sale of AFS financial assets of subjected to final tax	**(19,243)**	(10,738)	–
NOLCO and excess of MCIT over RCIT for which deferred tax assets were recognized in prior years, expired (used) in current year	**–**	(10,560)	–
Movements in temporary differences for which the related deferred taxes is recognized	**–**	10,180	–
Provision for income tax	**₱469,827**	₱615,601	₱485,141

h. Republic Act (RA) No. 9337 was enacted into law amending various provisions in the existing 1997 National Internal Revenue Code. Among the Reforms introduced by the RA that are still to take effect are the following:

- change in regular corporate income tax rate from 32% to 35% for the next three years effective November 1, 2005 and 30% starting January 1, 2009; and

- change in the allowable deduction for interest expense from 38% to 42% effective November 1, 2005 and 33% effective January 1, 2009.

24. Equity

Capital Stock

As of December 31, 2008, 2007 and 2006, the details of capital stock are as follows:

Type of Shares	Number of Authorized Shares	Number of Issued Shares	Amount
2008			
Common Stock	**5,000,000,000**	**3,880,851,172**	**₱3,880,851**
2007			
Common Stock	5,000,000,000	2,968,571,510	₱2,968,571
2006			
Common Stock	5,000,000,000	2,957,790,260	₱2,957,790

On September 11, 2006, the Philippine SEC approved the declassification of the Parent Company's shares of stock into a single class following the ratification and approval on June 23, 2006 by the Parent Company's stockholders of the resolution by the BOD on March 27, 2006 to declassify the Class A and Class B common stock of the Parent Company into a single class.

Up to the declassification of the common shares in September 2006, both types of common shares were identical in all respects, except that the Class A shares are restricted in ownership to citizens of the Philippines and corporations or associations wherein at least 60% of their capital stock are owned and held by citizens of the Philippines.

Retained Earnings

On March 12, May 17 and October 23, 2007, the Parent Company's BOD authorized the declaration of cash dividends amounting to ₱295,779, ₱295,779 and ₱742,133 (or ₱0.10, ₱0.10 and ₱0.25 per share, respectively, or a total of ₱0.45 per share for the whole year), in favor of stockholders of record as of April 10, June 7 and November 26, 2007, respectively.

Furthermore, on October 23, 2007, the Parent Company's BOD authorized the declaration of 30% stock dividends. The 67% stockholders' approval needed for the declaration was obtained on February 21, 2008. The said stock dividends will favor the stockholders of record as of March 7, 2008. The amount transferred from retained earnings to capital stock due to the stock dividends amounted to ₱890,994.

Treasury Stock

On March 25, 2008, the Parent Company's BOD approved the buyback of 10% of its outstanding shares in the open market at a price perceived by the Parent Company to be lower than the inherent value of the shares. The Parent Company extended its buyback of shares program on August 5, 2008 to acquire another 10% of its outstanding issued shares in the open market. The Parent Company acquired a total of 778,444 shares for a cost of ₱5,621,956. The average cost per share amounted to ₱7.22.

On November 28, 2008, the Parent Company sold to Asia Link B.V. (a wholly owned subsidiary of First Pacific Limited, Inc.) the treasury stock totaling 778,621, representing 20.06% of the total outstanding shares at the price of ₱7.92 per share. Total proceeds from the reissuance of treasury stock amounted to ₱6,125,914.

Minority Interests

On April 23, 2008, the Parent Company and Anatolian executed a Share Purchase Agreement under the terms of which the Parent Company agreed to sell and Anatolian agreed to buy 49% of the outstanding shares of stock of PPC. The sale brought down to 51% the total number of shares owned and controlled by the Parent Company (see Note 2). The consideration received from Anatolian was equal to the minority interest disposed.

In 2008, the increase in minority interest resulted from the acquisition of 33.04% of FEP by PPC that brought to 61.46% the percentage ownership representing the total number of shares owned and controlled by the Parent Company including the 28.42% interest held by FECR (see Note 4).

In 2007, the increase in minority interest resulted from the acquisition of 50.67% of FECR by the Parent Company in December 2007 (see Note 4).

As of December 31, 2008 and 2007, minority interests consist of the following:

	2008	2007
Minority interests on net assets of:		
FEP	**₱1,186,739**	₱–
PPC	**214,240**	–
FECR	**111,171**	152,011
LMC	**–**	3,119
	₱1,512,150	₱155,130

25. Share-based Payments

Parent Company Stock Option Plan

On June 23, 2006, the Parent Company's stockholders approved and ratified the stock option plan of the Parent Company as approved by the Parent Company's BOD on March 31, 2006. Among the salient terms and features of the stock option plan are as follows:

i. Participants: directors, officers, managers and key consultants of the Parent Company and its significantly owned subsidiaries;

ii. Number of shares: up to 3% of the Parent Company's issued and outstanding shares;

iii. Term: Five years from adoption date;

iv. Exercise price: Average stock price during the last 20 trading days prior to the date of grant multiplied by a factor of 0.8, but in no case below par value; and

v. Vesting period: Up to 16.67% in six months from grant date; up to 33.33% in 1 year from grant date; up to 50% in 1.5 years from grant date; up to 66.67% in 2 years from grant date; up to 83.35% in 2.5 years from grant date; and up to 100% in 3 years from grant date.

On January 31, 2007, the stock option plan was submitted for approval to the Philippine SEC. The Philippine SEC approved such plan on March 8, 2007.

A total of three confirmed new grants for 9,000,000 stocks were awarded last August 19 and November 28, 2008.

The following table shows the movements in 2008 and 2007 on stock option plan of the Parent Company:

	Number of Options		Weighted Average Exercise Price	
	2008	2007	**2008**	2007
January 1	**72,915,750**	–	**₱3.43**	₱–
Granted	**41,563,075**	85,750,000	**2.83**	3.38
Exercised	**(32,067,350)**	(10,781,250)	**2.41**	3.08
Forfeited	**(11,776,800)**	(2,053,000)	**2.56**	3.08
December 31	**70,634,675**	72,915,750	**₱3.09**	₱3.43

The number of unexercised vested stock options as of December 31, 2008 and 2007 are 17,972,087 and 4,173,250, respectively.

The Parent Company uses Customized Binomial Lattice Model to compute for the fair value of the options together with the following assumptions:

	August 19, 2008	November 28, 2008
Spot Price per share	₱7.40	₱4.90
Time to maturity	5 years	5 years
Volatility*	54.34%	56.03
Dividend yield	3.97%	5.94%
Suboptimal exercise behavior multiple	1.5	1.5
Forfeiture rate	2%	2%

**Volatility is calculated using historical stock prices and their corresponding logarithmic returns*

PGI Stock Option Plan

PGI has a stock option plan that provides for the granting of options to certain directors, officers and employees of the Group offering them the choice to either purchase common shares or exercise share appreciation rights ("SARs", or collectively referred to as "tandem options" or "awards"). The SARs allow plan participants to receive common shares or cash, at PGI's option, equal to the difference between the exercise price of an option and the weighted average trading price for the common shares for the five trading days prior to the date the SAR is exercised. Any such tandem option will have an exercise price equal to the closing price on the day the option is granted and will vest over three years, with one third vesting each year, and must be exercised within five years from the date of grant.

PGI's stock option plan was amended in 2001 to comply with the requirements of the TSX Ventures Exchange in Canada following PGI's move to that exchange. Tandem options issued prior to the 2001 plan amendment must be exercised within 10 years from the date of grant.

In 2006, PGI recognized an income relating to this share-based compensation and a related entry to equity amounting to about ₱12,403 (US$253) representing the value of forfeited and expired options of ₱14,640 (US$299), net of the ₱2,237 (US$46) 2006 expense. In 2005, an expense amounting to about ₱992 (US$18) was recognized. No share-based compensation expense recognized in 2007 or income from forfeited and expired options. The following table illustrates the number of weighted average exercise of, movements in, and weighted average exercise price in Canadian dollars (Cdn$) of share options during the year:

Outstanding stock options with SARS:

	2008		2007		2006	
	Number of Tandem Options	**Weighted Average Exercise Price**	Number of Tandem Options	Weighted Average Exercise Price	Number of Tandem Options	Weighted Average Exercise Price
January 1	**171,500**	**Cdn$0.78**	460,875	Cdn$0.85	1,691,125	Cdn$3.41
Exercised	**–**	**–**	(75,000)	0.60	–	–
Forfeited	**(71,500)**	**1.02**	(214,375)	0.99	(1,230,250)	4.37
December 31	**100,000**	**Cdn$0.60**	171,500	Cdn$0.78	460,875	Cdn$0.85
Exercisable	**100,000**	**Cdn$0.60**	171,500	Cdn$0.78	460,875	Cdn$0.85

Outstanding stock options without SARS:

	2008		2007		2006	
	Number of Tandem Options	**Weighted Average Exercise Price**	Number of Tandem Options	Weighted Average Exercise Price	Number of Tandem Options	Weighted Average Exercise Price
January 1	**200,000**	**Cdn$0.75**	200,000	Cdn$0.75	200,000	Cdn$0.75
Exercised	**–**	**–**	–	–	–	–
Forfeited	**(200,000)**	**–**	(200,000)	–	(200,000)	–
December 31	**–**	**Cdn$0.75**	–	Cdn$0.75	–	Cdn$0.75
Exercisable	**–**	**Cdn$0.75**	–	Cdn$0.75	–	Cdn$0.75

During 2007, 75,000 tandem options were exercised. No options were exercised in 2006 and 2005.

In calculating the fair value of the options at grant date, the Black-Scholes valuation model was used with the following assumptions:

Risk-free interest rate	Ranging from 4% - 5 %
Expected:	
Dividend yield	NIL
Life	Ranging from 3 to 7 years
Volatility	Ranging from 100% - 153%

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. Also, the expected volatility used reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options grant were incorporated into the measurement of fair value.

As of December 31, 2008, there were 100,000 stock options outstanding, with exercise price of Cdn$0.60 that already vested and will expire in 2009.

No share options were granted in 2008 and 2007. There were 475,000 options granted in 2004. The share options were granted on the same terms and conditions as those granted to other employees. The outstanding number of share options granted to directors and officers of PGPI and PGI were 100,000, 371,500 and 660,875 as of December 31, 2008, 2007 and 2006, respectively.

<u>FEP Share Option Plan</u>
FEP has a share option plan, which the Parent Company's management believes that FEP's share option plan is not significant to the consolidated financial statements of the Group.

26. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share are computed as follows:

	2008		2007		2006
	Basic	**Diluted**	Basic	Diluted	Basic/Diluted
Net income attributable to equity holders of the Parent Company	**₱2,892,887**	**₱2,892,887**	₱5,004,991	₱5,004,991	₱3,086,667
Divided by weighted average number of common shares outstanding during the year	**3,473,800,508**	**3,491,772,595**	2,961,195,781	2,965,369,031	2,957,588,634
	₱0.833	**₱0.828**	₱1.690	₱1.688	₱1.044

In 2008 and 2007, the Parent Company considered the effect of its potentially dilutive stock options outstanding as of December 31, 2008 and 2007 (see Note 25). The assumed conversion of these stock options will result in additional 17,972,087 and 4,173,250 common equity shares in 2008 and 2007, respectively. As of December 31, 2006, the Parent Company has no dilutive securities.

27. **Joint Ventures with Anglo**

In order to accelerate exploration, the Parent Company and PGPI entered into separate joint ventures with Anglo covering the Parent Company's Baguio District and PGPI's Surigao del Norte mineral tenements, respectively. Shareholders Agreements were executed on September 2, 1999, pursuant to which, Anglo shall fund all exploration costs up to feasibility studies, if warranted, in return for equity in the tenements. Minimum annual expenditures totaling US$8,000 for the Baguio District and US$2,200 for the Surigao del Norte tenements over a five-year period are required for the respective joint ventures to continue, failing which the tenements would revert at no cost to the Parent Company or to PGPI.

The exploration work of Anglo led to the discovery of the Boyongan copper-gold deposit in August 2000. In 2001, Anglo exceeded the US$2,200 threshold of expenditures and earned a 40% equity interest in the Surigao del Norte tenements. If the project is carried through to the completion of a bankable feasibility study at Anglo's cost, Anglo would be entitled to an additional 30% equity interest in the project, which will bring their equity interest to 70%, and to manage mine development and operations. Anglo would provide full guarantees for non-recourse project financing while PGPI would need to raise its pro-rata share of the equity.

On April 10, 2000 and December 29, 1999, final government approval of the Parent Company and PGPI's respective mining tenements in the form of Mineral Production Sharing Agreements (MPSA) were granted. To implement the terms of the Baguio District joint venture, two companies, namely MECI (60%-owned by the Parent Company and 40%-owned by Anglo) and NLEMCI, were organized in 1999. For the Surigao del Norte joint venture, SMECI (60%-owned by PGPI and 40%-owned by Anglo) and SMMCI (then wholly owned by SMECI) were organized in 1999 and 2000, respectively. In 2000, the Parent Company and PGPI transferred their respective rights and interest in the MPSAs to NLEMCI and SMMCI. All costs incurred by the Parent Company and PGPI arising from their acquisition of ownership interests in MECI and SMECI, respectively, were reimbursed by Anglo. The Parent Company's and PGPI's respective investments in MECI and SMECI are included as part of "Others" in the "Investments in shares of stock" account in the consolidated balance sheets (see Note 11).

In December 2001, Anglo purchased from PGPI an effective 10% equity interest in SMMCI (the company holding the Boyongan deposit and surrounding tenements) for US$20,000, plus additional payments of up to US$5,000 should there be an increase in metal content of the deposit or from any subsequent discovery within the surrounding tenements on the basis of feasibility studies. Benefits from subsequent discovery of minerals by SMMCI that will increase the value of SMMCI shares will inure to Anglo. Conversely, the risk of decrease in the value of SMMCI shares will be suffered by Anglo.

Anglo completed its pre-feasibility study of the Boyongan deposit in December 2007 which concluded that a mining operation based on the currently defined resources, proposed mining and processing methods, assumed long-term copper and gold prices, and estimated capital and operating costs would not provided an acceptable rate of the return on the project investment. Anglo, however, claimed that other mineralized centers have been discovered in the vicinity and are currently the subject of intensive exploration and delineation drilling program which Anglo wanted to continue throughout 2008. Anglo also reported that there was geologic evidence for two additional porphyry copper-gold targets within two kilometers of Boyongan which Anglo plans to test over the next six months. These recent discoveries and their impact were not included in the Boyongan pre-feasibility study. The Parent Company, however, has differing points of view from Anglo on a number of assumptions and conclusions made in the feasibility study. The Parent Company had thus asserted its position that given the results of the study, as provided for under the terms of the joint venture agreements, Anglo should return the Boyongan property to the Parent Company, which Anglo contested.

On September 25, 2008, the Board approved the Parent Company's acquisition of 50% equity interest over the Boyongan copper-gold porphyry property from Anglo. The acquisition, which was consummated on February 6, 2009, was done by way of the sale for US$55,000 (or ₱2,595,725) of the shares, rights and obligations of Anglo in the joint venture companies, namely SMECI and SMMCI. This acquisition effectively gave the Parent Company, together with PGPI, which currently owns the other 50% interest over the property, control over the property (see Note 30).

28. Long-Term Gold and Copper Concentrates Sales Agreement

On March 11, 2004, the Parent Company entered into a Long-Term Gold and Copper Concentrates Sales Agreement (Sales Agreement) with PPC covering the copper concentrates produced at the Padcal Mine (Concentrates). The Sales Agreement shall be effective starting March 11, 2004 until the date of the closure of the Padcal Mine, unless terminated earlier in accordance with the terms of the Sales Agreement.

The sale of mine products is measured based on shipment value price based on quoted metal prices in the LME and weight and assay for metal content. Ninety percent based on the provisional shipment value based on said provisional price is collected upon shipment, while the remaining 10% is collected upon the determination of the final shipment value on final weights and assays for metal content and prices during the applicable quotational period less deduction for insurance and smelting charges.

The Parent Company shall sell to PPC and PPC shall buy from the Parent Company as follows:

a. During the Contract Year starting on April 1, 2004, 75% of the total Concentrates production.

b. From the Contract Year 2005 (starting on April 1, 2005) through the Contract Year 2008 (starting on April 1, 2008), whichever is higher of 60,000 DMT or total production less 10,000 DMT of Concentrates for each Contract Year, provided that such quantity shall be the entire Concentrates production if the Padcal Mine produces less than 60,000 DMT of Concentrates during any Contract Year.

c. Contract Year 2009 (starting on April 1, 2009) onwards, at least 60% of the total Concentrates production during each Contract Year, for which the exact proportion shall be negotiated by the parties in good faith during the Contract Year 2008.

Further, if the Parent Company or its affiliate, as defined in the Sales Agreement, develops other mines which produce sulfide floatation copper concentrates, then the Parent Company and its affiliates shall discuss the sale of such copper concentrates with PPC before offering to sell to others.

29. Other Matters

a. The Parent Company's Padcal Operations is registered with the Board of Investments (BOI) on a non-pioneer status. As a BOI-registered enterprise, the Parent Company is entitled to tax and non-tax incentives under the provisions of the Omnibus Investments Code of 1987, availment of which is limited to a period of five to 10 years from the date of registration. The registration with the BOI requires the Parent Company to adhere to certain project timetables, production and sales schedule, to reinvest in exploration projects and to address cyclical downturns in mineral prices through hedging contracts, gold loans, development of other mines and minimization of operating costs through mechanization. Its registration with the BOI also qualifies the Parent Company to avail of automatic zero VAT rating on local purchases of goods and services.

b. The Parent Company, PGPI and FEP are currently involved in certain legal, contractual and regulatory matters that require the recognition of provisions for related probable claims against these companies. Additional provisions amounted to ₱40,628 in 2008. No additional provisions made during 2007 related to these claims. Payments and reversals of provisions amounted to ₱124,136 in 2008 and ₱50,968 in 2007. The disclosure of additional details beyond the present disclosures may seriously prejudice the Group's position and negotiation strategies with respect to these matters. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only a general description is provided.

30. Events After the Balance Sheet Date

a. On February 10, 2009, the Board approved the following resolutions:

   - Amendment of the articles of incorporation to increase the authorized capital stock of the Parent Company from ₱5,000,000 divided into 5,000,000 shares with a par value of ₱1 per share, to ₱8,000,000 divided into 8,000,000 shares with a par value of ₱1 per share; and

   - Declaration of 25% stock dividend to support the increase in authorized capital stock.

b. On February 6, 2009, the Parent Company acquired the 50% interest of Anglo in the Boyongan copper-gold deposit. The acquisition covers the Parent Company's purchase of shares, rights and obligations of Anglo in the joint venture companies, namely SMECI and SMMCI, for US$55,000. Management is still in the process of accounting for this business combination particularly, in allocating the acquisition cost to the identifiable assets and liabilities of the acquired companies.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Amounts in Thousands, Except Par Value Per Share and Number of Shares)

	Attributable to Parent Company Equity Holders									
	Capital Stock - ₱1 Par Value (Note 24)	Additional Paid-In Capital	Retained Earnings	Net Unrealized Gain (Loss) on Increase (Decrease) in Value of AFS Financial Assets (Note 11)	Cumulative Translation Adjustment	Revaluation Surplus (Note 4)	Treasury Stock (Note 24)	Total	Minority Interest (Note 24)	Total
BALANCES AT DECEMBER 31, 2005	**₱2,957,790**	**₱2,393**	**(₱732,980)**	**(₱68,805)**	**₱–**	**₱–**	**(₱339)**	**₱2,158,059**	**₱–**	**₱2,158,059**
Net income for the year	–	–	3,086,667	–	–	–	–	3,086,667	–	3,086,667
Changes in fair values of AFS financial assets during the year, recognized directly in equity (Note 11)	–	–	–	184,556	–	–	–	184,556	–	184,556
Cumulative translation adjustment on hedging instruments (Note 19)	–	–	–	–	79,928	–	–	79,928	–	79,928
Total income and expense for the year, recognized directly in equity	–	–	–	184,556	79,928	–	–	264,484	–	264,484
Total income and expense for the year	–	–	3,086,667	184,556	79,928	–	–	3,351,151	–	3,351,151
Dividends declared during the year - ₱0.15 per share (Note 24)	–	–	(442,132)	–	–	–	–	(442,132)	–	(442,132)
BALANCES AT DECEMBER 31, 2006	**2,957,790**	**2,393**	**1,911,555**	**115,751**	**79,928**	–	**(339)**	**5,067,078**	**–**	**5,067,078**
Net income for the year	–	–	5,004,991	–	–	–		5,004,991	658	5,005,649
Changes in fair values of AFS financial assets during the year, recognized directly in equity (Note 11)	–	–	–	98,178	–	–	–	98,178	–	98,178
Realization of increase in value of AFS financial assets due to disposal (Note 11)	–	–	–	(69,527)	–	–	–	(69,527)	–	(69,527)
Cumulative translation adjustment on hedging instruments (Note 19)	–	–	–	–	(590,311)	–	–	(590,311)	–	(590,311)
Total income and expense for the year, recognized directly in equity	–	–	–	28,651	(590,311)	–	–	(561,660)	–	(561,660)
Total income and expense for the year	–	–	5,004,991	28,651	(590,311)	–	–	4,443,331	658	4,443,989
Issuance of capital stock	10,781	94,158	–	–	–	–	–	104,939	–	104,939
Increase in additional paid-in capital due to conversion of a liability	–	5,755	–	–	–	–	–	5,755	–	5,755
Increase in minority interest (Note 24)	–	–	(562)	–	–	–	–	(562)	154,472	153,910
Dividends declared during the year - ₱0.45 per share (Note 24)	–	–	(1,333,691)	–	–	–	–	(1,333,691)	–	(1,333,691)

(Forward)

	Attributable to Parent Company Equity Holders									
	Capital Stock - ₱1 Par Value (Note 24)	Additional Paid-In Capital	Retained Earnings	Net Unrealized Gain (Loss) on Increase (Decrease) in Value of AFS Financial Assets (Note 11)	Cumulative Translation Adjustment	Revaluation Surplus (Note 4)	Treasury Stock (Note 24)	Total	Minority Interest (Note 24)	Total
BALANCES AT DECEMBER 31, 2007	**₱2,968,571**	**₱102,306**	**₱5,582,293**	**₱144,402**	**(₱510,383)**	**₱–**	**(₱339)**	**₱8,286,850**	**₱155,130**	**₱8,441,980**
Net income for the year	–	–	2,892,887	–	–	–	–	2,892,887	(92,494)	2,800,393
Changes in fair values of AFS financial assets during the year, recognized directly in equity (Note 11)	–	–	–	(46,144)	–	–	–	(46,144)	–	(46,144)
Realization on increase in value of AFS financial assets due to disposal (Note 11)	–	–	–	(96,531)	–	–	–	(96,531)	–	(96,531)
Cumulative translation adjustment on hedging instruments (Note 19)	–	–	–	–	175,198	–	–	175,198	–	175,198
Cumulative translation adjustment on foreign subsidiaries	–	–	–	–	35,072	–	–	35,072	–	35,072
Total income and expense for the year, recognized directly in equity	–	–	–	(142,675)	210,270	–	–	67,595	–	67,595
Total income and expense for the year	–		2,892,887	(142,675)	210,270	–	–	2,960,482	(92,494)	2,867,988
Issuance of capital stock (Note 24)	21,286	32,098	–	–	–	–	–	53,384	–	53,384
Increase in additional paid-in capital due to stock option plan	–	43,190	–	–	–	–	–	43,190	–	43,190
Dividends declared during the year (Note 24)	890,994	–	(890,994)	–	–	–	–	–	–	–
Buyback of treasury stock (Note 24)	–	–	–	–	–	–	(5,621,956)	(5,621,956)	–	(5,621,956)
Reissuance of treasury stock (Note 24)	–	504,155	–	–	–	–	5,622,295	6,126,450	–	6,126,450
Revaluation surplus (Note 4)	–	–	–	–	–	94,247	–	94,247	–	94,247
Increase in minority interest (Note 24)	–	–	–	–	–	–	–	–	1,482,680	1,482,680
Adjustments on provisionary fair valuation of subsidiary's net assets (Note 4)	–	–	–	–	–	–	–	–	(33,166)	(33,166)
BALANCES AT DECEMBER 31, 2008	**₱3,880,851**	**₱681,749**	**₱7,584,186**	**₱1,727**	**(₱300,113)**	**₱94,247**	**₱–**	**₱11,942,647**	**₱1,512,150**	**₱13,454,797**

See accompanying Notes to Consolidated Financial Statements.

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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
Philex Mining Corporation
Philex Building
27 Brixton corner Fairlane Streets
Pasig City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philex Mining Corporation and Subsidiaries included in this Form 17-A and have issued our report thereon dated March 10, 2009. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Martin C. Guantes

Martin C. Guantes
Partner
CPA Certificate No. 88494
SEC Accreditation No. 0325-A
Tax Identification No. 152-884-272
PTR No. 1566434, January 5, 2009, Makati City

March 10, 2009

PHILEX MINING CORPORATION
Schedule B. Amounts Receivable from Directors, Officers, employees, Related Parties and
Principal Stockholders (Other than Affiliates)
As of December 31, 2008

Name	Designation of Debtor	Balance at beginning of period	Additions	Amounts collected	Amounts Written off	Current	Not Current	Balance at end of period
There are no receivables from Directors, Officers, Employees, Related Parties, and Principal Stockholders other than subject to usual terms, for ordinary travel and expense advances, and for other such items arising in the ordinary course of business, and eliminated in consolidation.								

PHILEX MINING CORPORATION
Schedule E. Other Assets
As of December 31, 2008
(in Thousands)

Description	Beginning Balance	Additions at cost	Charged to Cost and Expenses	Charged to Other Accounts	Other Changes Additions (Deduction)	Ending Balance
Deferred Mine exploration and development costs	1,060,675	491,099				1,551,774
Deferred oil exploration costs	86,375	1,929,774				2,016,149
	1,147,050	2,420,873	-	-	-	3,567,923
Less: allowance for unrecoverable costs and accumulated depletion	(974,435)	-				(974,435)
	172,615	2,420,873	-	-	-	2,593,488
Others	111,847	9,729				121,576
Less: allowance for writedown	(47,435)	-				(47,435)
	64,412	9,729	-	-	-	74,141
	237,027	2,430,602	-	-	-	2,667,629

PHILEX MINING CORPORATION
Schedule I. Capital Stock

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by affiliates	Directors, officers and employees	Others
Common	5,000,000,000	3,880,851,172	70,634,675	-	168,613,620	-
	5,000,000,000	3,880,851,172	70,634,675	-	168,613,620	-