NAC

NICKEL ASIA CORP.

2010 Annual Report

TABLE OF CONTENTS

1 Who We Are

2 Vision, Mission Statement and Core Values

3 Corporate Structure

4 Sales and Financial Highlights

5 Joint Statement to Shareholders

8 Map of Mineral Properties

9 Review of Operations

12 Review of Exploration

15 Summary of Ore Reserves and Resources

16 Sustainability Report

20 Statement of Management's Responsibility for Financial Statements

21 Independent Auditors' Report

22 Consolidated Statements of Financial Position

23 Consolidated Statements of Income

24 Consolidated Statements of Comprehensive Income

25 Consolidated Statements of Changes In Equity

26 Consolidated Statements of Cash Flows

27 Notes to Consolidated Financial Statements

92 Directors and Officers

IBC Corporate Directory

WHO WE ARE

Nickel Asia Corporation is the Philippines' largest producer of lateritic nickel ore and one of the largest in the world. We have a long operating history, starting with the sale of ore in 1977 from our first mine, Rio Tuba. Since then, we have expanded to four operating mines and have sold a total of about 60 million tonnes of ore up to 2010.

We export both saprolite and limonite ore to customers in Japan and China. Our customers use our ore for the production of ferronickel and nickel pig iron, both used to produce stainless steel, and for the production of pig iron used for carbon steel. We are also the exclusive supplier of limonite ore from our Rio Tuba mine to the country's first hydrometallurgical nickel processing plant, Coral Bay, where we have a 6% effective equity interest. Coral Bay became operational in 2005 and currently operates at a capacity of 24,000 tonnes of contained nickel and 1,500 tonnes of contained cobalt per year in the form of a mixed nickel-cobalt sulfide. It has proven to be the world's most efficient facility using the high-pressure acid leach (HPAL) process.

In 2010, we made an investment of P4.4 billion for a 22.5% equity interest in the country's second hydrometallurgical nickel processing plant under Taganito HPAL Nickel Corporation. Using the same technology as in Coral Bay, the plant is currently under construction beside our Taganito mine and is scheduled to come on stream in mid-2013 at a capacity of 30,000 tonnes of contained nickel and 2,600 tonnes of contained cobalt per year. Our Taganito mine will supply all of the limonite ore for the plant. At a total project cost of $1.4 billion, the plant will represent the single largest investment in the Philippine minerals sector to-date.

Apart from our four operating mines, we have seven properties in various stages of exploration for nickel. In November 2010, we concluded the purchase of Cordillera Exploration Co., Inc. from Anglo American, with four properties in the Central Cordillera of northern Luzon that are prospective for gold and copper. The purchase marks our first step in our vision to become a diversified mineral resource company.

We are focused on growth. At the same time, we take our responsibilities toward safety, environmental protection and community relations and development seriously. Our efforts in these fields have resulted in numerous awards received over the years during the annual Presidential Mineral Industry Environmental Awards. We believe that sustainable development is the only way forward for any mining operation and we exert great effort to achieve its principles. We are committed to responsible mining and to running every facet of our operations in a world-class manner.

Flag Ceremony, Rio Tuba Mine Site

VISION

To be a world-class diversified mineral resource company that has exemplary relationships with all stakeholders.

MISSION STATEMENT

Using best global industry practices, we are committed to:

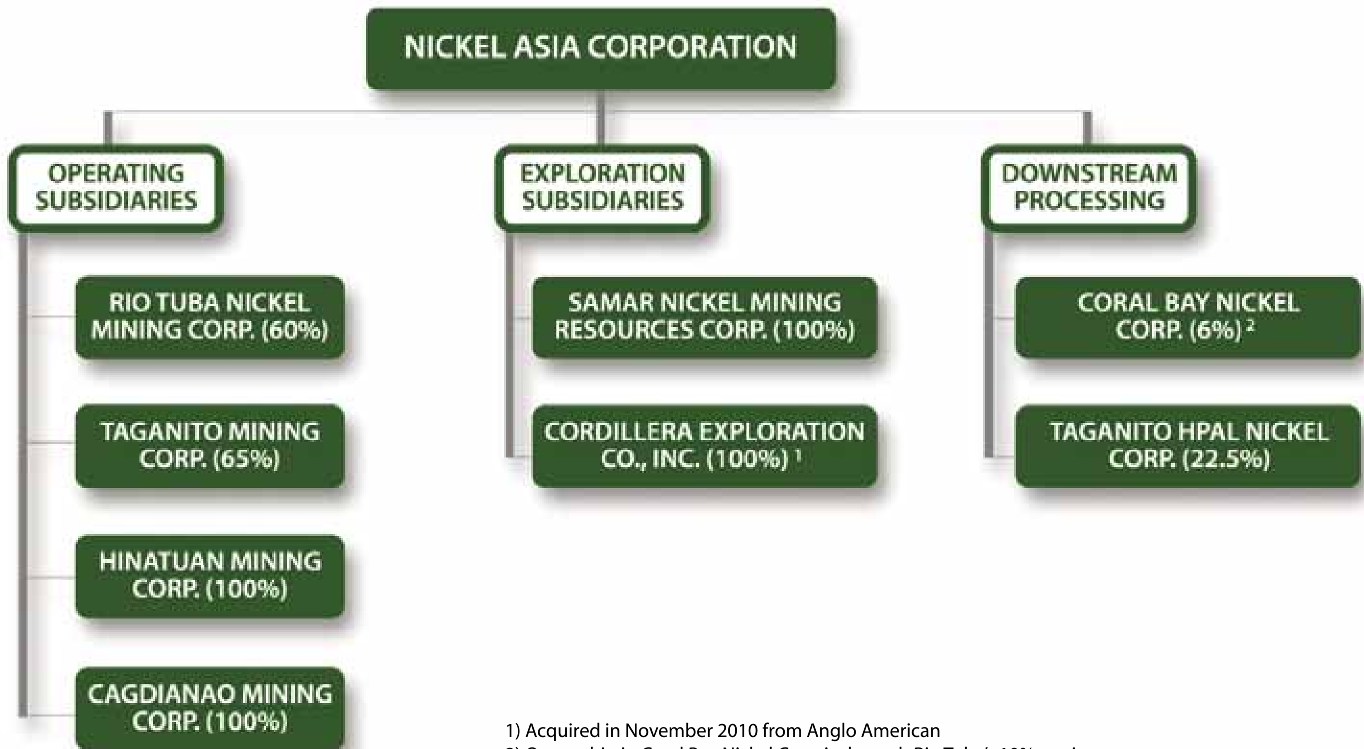
- Optimizing our current operations.
- Exploring and developing additional deposits for nickel and other minerals to sustain our growth.
- Delivering to our customers quality mineral products in a timely manner.
- Nurturing our employees and providing a safe and healthy workplace for them to achieve their full potential.
- Uplifting the quality of life of our host communities.
- Protecting the environment in all our operations.
- Adopting the highest standards of corporate governance.

CORE VALUES

Competence
Efficiency
Responsibility to all stakeholders
Teamwork
Integrity and honesty
Financial growth
Dedication

Taganito HPAL Plant Construction

CORPORATE STRUCTURE

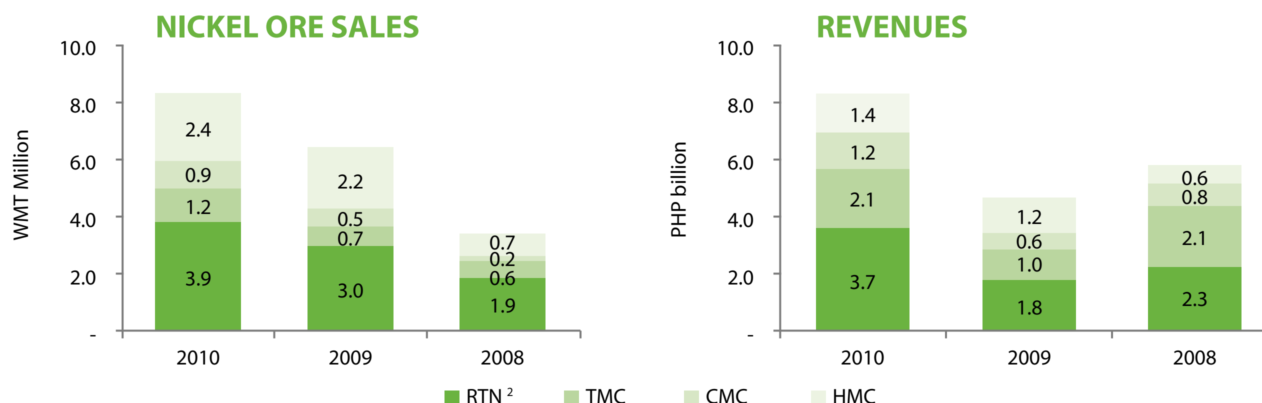


1) Acquired in November 2010 from Anglo American
2) Ownership in Coral Bay Nickel Corp. is through Rio Tuba's 10% equity

SALES AND FINANCIAL HIGHLIGHTS

SALES AND FINANCIAL HIGHLIGHTS

	2010	2009	2008
SALES HIGHLIGHTS			
Total Sales (WMT '000)	8,340	6,459	3,448
LME-based Sales (WMT '000)	3,835	3,401	2,417
Payable Nickel (lbs.'000)	9,837	7,562	9,149
Realized LME Price ($/lb.)	9.6	6.5	10.8
Tonnage -based Sales (WMT '000)	4,505	3,058`	1,031
Ave. Price ($/WMT)	18.3	12.7	25.8
FINANCIAL HIGHLIGHTS (PHP '000)			
Revenues			
Sale of Ore	8,074,298	4,333,208	5,579,347
Services and Others	261,740	353,518	247,730
	8,336038	4,686,726	5,827,077
Cost and Expenses			
Cost of Sales and Services	4,024,307	3,309,151	2,740,050
General and Administrative	475,732	456,195	613,111
Excise Tax and Royalties	523,208	288,897	475,337
	5,023,247	4,054,243	3,828,498
Finance and Other Income / (Expenses) - net	(61,154)	(2,710)	(76,564)
Provision for (Benefit from) Income Tax	947,728	169,254	1,061,772
Net Income			
Attributable to Equity Holders of the Parent	1,478,870	302,887	179,208
Attributable to Non Controlling Interests	825,039	157,632	681,035
	2,303,909	460,519	860,243
Earnings Per Share (PHP)[1]	1.10	0.31	0.18
Financial Condition			
Cash and Cash Equivalents	6,805,968	6,779,215	7,452,631
Other Current Assets	3,052,655	4,490,637	3,792,170
Non Current Assets	11,647,438	5,087.106	5,593,858
Current Liabilities	1,335,731	1,168,996	1,456,581
Non Current Liabilities	2,094,781	911,107	1,108,196
Total Stockholders' Equity	18,075,549	14,276,855	14,273,882
Book Value Per Share (PHP)	13.5	14.6	14.7



[1]Earnings Per Share is computed based on outstanding common shares as of year end.
[2]Revenues include sales from limestone, cobalt, services and others.

JOINT STATEMENT TO SHAREHOLDERS

The year 2010 was a milestone for our company. Following a successful Initial Public Offering (IPO), the largest ever for a Philippine mineral resource company, our shares were listed in the Philippine Stock Exchange on 22 November 2010. We extend our warmest greetings to you, our new shareholders, and we thank you for your support and confidence in our company and in our management team.

Taganito HPAL Plant Project

The year in review was also significant in other respects. On 15 September 2010, we signed a Shareholders' Agreement with Sumitomo Metal Mining Co., Ltd. (SMM) and Mitsui & Co., Ltd., which formalized the terms of our new joint venture under Taganito HPAL Nickel Corp. to construct and operate the country's second hydrometallurgical nickel processing plant. The facility will have a capacity of 30,000 tonnes of contained nickel and 2,600 tonnes of contained cobalt per year in the form of a mixed nickel-cobalt sulfide and is estimated to cost $1.4 billion, 40% of which will be financed through equity and the balance through debt. We have a 22.5% interest in this project and made our full equity investment of P4.4 billion on 11 November 2010. Our investment represents the bulk of the P4.8 billion of funds raised in our IPO, net of associated expenses.

The plant is designed to treat limonite ore using the high-pressure acid leach (HPAL) process under license from SMM, the majority partner in this venture and one of our major shareholders. The process is identical to what is being used in the country's first HPAL facility, Coral Bay, where we have a 6% effective ownership. Coral Bay was commissioned in 2005 at a capacity of 10,000 tonnes of contained nickel per year and has since been expanded to 24,000 tonnes per year. It has proven to be the most successful HPAL plant in the world in terms of its ability to operate at capacity and achieve low operating costs per unit, resulting in profitable operations.

The significance of this project to our company is two-fold. First, our equity stake is at a level where we can account for our share of the earnings of the plant on an equity accounting basis. Second, similar to the situation in Coral Bay where all of the required limonite ore comes from our Rio Tuba mine, our Taganito mine will supply the required feed to the new plant over an estimated 30-year project life, significantly boosting our overall sales of nickel ore. It should be noted that without these plants, it would be difficult to sell such type of ore, which both our Rio Tuba and Taganito mines have a significant amount of.

As we go to press, construction of the plant is well underway and on schedule for commissioning in mid-2013. The project represents the single largest investment in the Philippine minerals sector to-date and every effort will be made on our part to contribute to its successful completion.

Operating Results

The year in review also saw quite a turnaround from the situation prevailing in the prior year when the effects of the 2008 global financial crisis was still very much evident. Improved economic conditions, particularly in our region of the world, saw better demand for our nickel ore and higher prices. Overall sales of ore from our four operating mines increased by almost 30% from 6.5 million wet metric tons (WMT) in 2009 to 8.3 million WMT, the highest level achieved in our operating history.

Of particular significance is the growth in shipments of our medium-grade saprolite ore with a nickel grade of around 1.8%, which more than doubled to 2.4 million WMT. For the first time, we also made shipments of low-grade saprolite ore with a nickel grade of about 1.5%. These are indications of the declining availability of high-grade saprolite (2% and above nickel grade) in the region.

In terms of prices, our realized LME nickel price applicable to sales of saprolite to Japan and of limonite to the Coral Bay plant averaged $9.60 per pound of payable nickel, a 49% increase from the prior year's average of $6.45 per pound. The weighted average price for our nickel ore sales to China, which is priced on a per WMT basis, was $18.32 per WMT compared to $12.72 per WMT for the prior year, a 44% improvement.

Left: Gerard H. Brimo, President and CEO
Right: Manuel B. Zamora, Jr., Chairman

Rehabilitated Mine Area, Rio Tuba Mine Site

The higher sales volumes and prices resulted in an almost doubling of our revenues, from P4.7 billion in the prior year to P8.3 billion, and a surge in our attributable net income from P302.9 million in 2009 to P1.48 billion in 2010. Our bottom line result would have been considerably higher were it not for the strengthening of the Philippine Peso against the US Dollar, which led to attributable foreign exchange transaction losses of P444.3 million for the year.

On the basis of earnings generated during the year in review, on 25 March 2011 the Board of Directors declared a cash dividend of P0.35 per share, payable on 9 May 2011 to shareholders of record as of 11 April 2011.

Purchase of Cordillera Exploration

Yet another significant event in 2010 was our purchase of Cordillera Exploration Co., Inc. from Anglo American, who have decided to exit the country. Cordillera Exploration has a number of properties in the Central Cordillera region of northern Luzon that are prospective for gold and copper. A significant amount of exploration work has already been conducted in the Manmanok property, province of Apayao, including ground and airborne geophysical surveys. On the basis of the results, Anglo has identified drilling targets for sedimentary-hosted epithermal gold and possibly porphyry style copper-gold mineralization. It is our intention to continue with the exploration work in order to pinpoint drilling targets more closely, and to eventually drill the property.

We are pleased to note SMM's decision to join us in Cordillera Exploration on the basis of a Shareholders' Agreement that we executed on 11 May 2011. Under its terms, SMM will invest $1.5 million to obtain 25% equity, and has the option to invest a further $2.8 million for an additional 15% equity in the company once the initial investment has been spent. SMM has considerable expertise in gold and copper and we are quite encouraged that they have agreed to join us in our efforts to diversify into these other metals.

Outlook

For 2011, we have concluded sales contracts for about 10 million WMT of ore, an over 20% increase over the volume sold in the prior year. We note as well continuing strong nickel prices so far this year. While the tragic events that took place in Japan in March affected the ferronickel plant of our long-standing Japanese buyer of our saprolite ore and shareholder, Pacific Metals Company (PAMCO), the damage is not severe and we have been able to place tonnage with other buyers. There has therefore been no disruption to our shipments. We are pleased to note that PAMCO's plant is expected to be operational in June 2011.

Rehabilitated Mine Area, Taganito Mine Site

On the exploration front for nickel, a significant development during the year in review was our receipt of the necessary endorsements from the communities and local government units in relation to our Manicani project. This will pave the way for a resumption of drilling of the lateritic nickel deposit in the latter part of 2011, which had been partially drilled some years ago. We are hopeful that we can block sufficient tonnage of nickel ore to warrant placing this property into eventual production.

Finally, we look forward to the start of drilling for gold in the Manmanok property under Cordillera Exploration, which we expect towards the later part of 2011. It is certainly our intention to grow our core nickel business, but we would be remiss if we did not take advantage of the prospectiveness for other metals in our country as the opportunities arise.

Acknowledgments

We would like to thank the financial institutions involved in our IPO; UBS, CLSA, ATR-Kim Eng and SB Capital, for their efforts in enabling us to successfully conclude our IPO and become a publicly listed company. We acknowledge as well the contribution of our officers, managers and technical teams at our mine sites to this effort. Achieving a record level of shipments in the midst of the frenzied activity associated with the IPO involved a considerable amount of work and was quite an accomplishment. They deserve our commendation.

Finally, our gratitude goes to our Directors for their wisdom and guidance over a very busy year.

Manuel B. Zamora, Jr.
Chairman

Gerard H. Brimo
President & CEO

MAP OF MINERAL PROPERTIES

Legend

- Operating Mines
- Exploration Projects - Nickel
- Exploration Projects - Gold and Copper

REVIEW OF OPERATIONS

Rio Tuba Nickel Mining Corporation
(RTN - 60% Owned)

Mining Volume

The volume of ore mined for the year amounted to 2,710,578 WMT, consisting of 959,862 WMT of saprolite ore and 1,750,716 WMT of limonite ore. Stripping volume for the year amounted to 141,797 WMT.

RTN retrieved 2,069,950 WMT of limonite ore from stockpiles in order to provide feed to the Coral Bay HPAL facility. As of year-end 2010, RTN's limonite ore stockpiles amounted to 27,101,583 WMT. A further 937,851 WMT of oversized materials was recovered from ore delivered to the plant, consisting of 571,500 WMT of saprolite ore and 366,351 WMT of limonite ore.

	2010	2009
Tonnage Mined (In WMT)		
Saprolite	959,862	455,294
Limonite	1,750,716	951,983
Sales Data		
Saprolite – Japan (WMT)	224,672	190,345
Average nickel grade	2.03%	2.07%
Average payable nickel	20.36%	17.52%
Average realized LME price (per pound)	US$9.69	US$6.71
Saprolite – China (WMT)	1,030,690	272,140
Average nickel grade	1.75%	1.68%
Average price (per WMT)	US$23.30	US$13.14
Limonite – CBNC (WMT)	2,620,989	2,520,231
Average nickel grade	1.33%	1.12%
Average payable nickel	6.96%	6.43%
Average realized LME price (per pound)	US$10.06	US$6.53

Shipments

RTN sold a total of 1,255,362 WMT of saprolite ore in 2010. High-grade saprolite ore (2.0% nickel grade and above) amounting to 194,620 WMT was delivered to PAMCO while 30,052 WMT of medium-grade saprolite ore (approx. 1.8% nickel grade) was delivered to SMM. The realized London Metal Exchange (LME) nickel price for these shipments averaged US$9.69 per pound while the payable nickel averaged 20.36%. Medium and low-grade saprolite ore (approx. 1.5% nickel grade) totaling 1,030,690 WMT were sold to Chinese customers at an average price of US$23.30 per WMT.

RTN delivered 2,620,989 WMT of limonite ore to the Coral Bay HPAL facility. The realized LME nickel price for these sales averaged US$10.06 per pound while the payable nickel averaged 6.96%. In addition, RTN sold 224,865 WMT of limestone to the Coral Bay HPAL facility and rendered a variety of services to the plant, such as handling and hauling of materials.

The dry weather, which prevailed during the year, had a positive impact in terms of increased saprolite ore production, but had a negative effect in terms of decreased limonite ore sales to the plant. This was due to the water shortage that occurred, which forced the plant to operate at about 25% capacity for nearly two months.

LCT Loading of Nickel Ore, Taganito Mine Site

Taganito Mining Corporation (TMC - 65% Owned)

Mining Volume

The volume of ore mined for the year amounted to 2,752,095 WMT, consisting of 813,949 WMT of saprolite ore and 1,938,146 WMT of limonite ore. Stripping volume for the year amounted to 594,217 WMT.

TMC continued to accumulate limonite ore in preparation for the startup of the Taganito HPAL facility, scheduled for mid-2013. As of year-end 2010, the total stockpiles of limonite ore amounted to 19,298,321 WMT. Upon the signing of a shareholders agreement in September 16, 2010, which established the terms that would apply to the sale of limonite ore to the Taganito HPAL facility, all costs relating to mining and stockpiling of limonite ore became chargeable to inventory. Prior to this date, all such costs were expensed in the year incurred.

	2010	2009
Tonnage Mined (In WMT)		
Saprolite	813,949	860,506
Limonite	1,938,146	1,566,550
Sales Data		
Saprolite – Japan (WMT)	676,914	494,121
Average nickel grade	1.90%	2.09%
Average payable nickel	18.38%	18.10%
Average realized LME price (per pound)	US$9.01	US$6.29
Saprolite – China (WMT)	454,788	249,411
Average nickel grade	1.82%	1.84%
Average price (per WMT)	US$27.96	US$17.68
Limonite – CBNC (WMT)	68,345	-
Average nickel grade	1.23%	-
Average payable nickel	6.00%	-
Average realized LME price (per pound)	US$10.19	-

Shipments

TMC sold a total of 1,200,047 WMT of nickel ore in 2010. High-grade saprolite ore amounting to 247,850 WMT and medium-grade saprolite ore amounting to 429,064 WMT were sold to PAMCO. The realized LME nickel price for these shipments averaged US$9.01 per pound while the payable nickel averaged 18.38%.

Medium-grade saprolite ore amounting to 454,788 WMT was sold to Chinese customers at an average price of US$27.96 per WMT. Additionally, 68,345 WMT of HPAL-grade limonite ore (approx. 1.20% nickel grade) was delivered to the Coral Bay HPAL facility for testing purposes. The realized LME nickel price for this tonnage averaged US$10.19 per pound while the payable nickel averaged 6.00%.

Cagdianao Mining Corporation (CMC - 100% Owned)

Mining Volume

The volume of ore mined for the year amounted to 631,428 WMT, consisting of 261,838 WMT of saprolite ore and 369,590 WMT of limonite ore. Stripping volume for the year amounted to 217,000 WMT.

Production of medium-grade saprolite ore was increased in order to meet the demand from PAMCO and the Chinese market. This ore was produced by blending existing stockpiles with high-grade saprolite ore that was mined during the year.

	2010	2009
Tonnage Mined (In WMT)		
Saprolite	261,838	119,455
Limonite	369,590	275,220
Sales Data		
Saprolite – Japan (WMT)	244,064	195,861
Average nickel grade	2.01%	2.05%
Average payable nickel	18.33%	16.77%
Average realized LME price (per pound)	US$10.01	US$6.44
Saprolite – China (WMT)	321,249	248,272
Average nickel grade	1.86%	1.86%
Average price (per WMT)	US$30.97	US$17.18
Limonite – China (WMT)	330,640	101,742
Average nickel grade	1.51%	1.47%
Average price (per WMT)	US$12.59	US$13.00

Shipments

CMC sold a total of 895,953 WMT of nickel ore in 2010. High-grade saprolite ore amounting to 145,672 WMT and medium-grade saprolite

Mining Operations, Taganito Mine Site

Post-IPO Press Conference, Philippine Stock Exchange

ore amounting to 98,392 WMT were sold to PAMCO. The realized LME nickel price for these shipments averaged US$10.01 per pound while the payable nickel averaged 18.33%.

Medium-grade saprolite ore totaling 321,249 WMT was sold to Chinese customers at an average price of US$30.97 per WMT. High-grade limonite ore (approx. 1.50% nickel grade) totaling 330,640 WMT was also sold to Chinese customers at an average price of US$12.59 per WMT.

Hinatuan Mining Corporation (HMC - 100% Owned)

Mining Volume

The volume of ore mined for the year amounted to 2,433,832 WMT, consisting of 347,905 WMT of saprolite ore and 2,085,927 WMT of limonite ore. Stripping volume for the year amounted to 4,400 WMT. HMC's mining plan for 2010 was adjusted in the middle of the year to take advantage of the emerging market for a new type of low-grade limonite ore containing about 0.60% nickel and 50% iron.

HMC relied principally on contractors to undertake mining and earthmoving activities with respect to limonite ore production. Contractors were not utilized for activities related to saprolite ore production, due to the more stringent quality standards imposed by saprolite ore buyers.

	2010	2009
Tonnage Mined (In WMT)		
Saprolite	347,905	88,084
Limonite	2,085,927	319,967
Sales Data		
Saprolite – China (WMT)	265,043	247,021
Average nickel grade	1.76%	1.86%
Average price (per WMT)	US$25.82	US$17.19
Limonite – China (WMT)	2,101,807	1,939,626
Average nickel grade	0.90%	1.00%
Average price (per WMT)	US$11.44	US$10.86

Shipments

HMC sold a total of 2,366,850 WMT of nickel ore in 2010 to Chinese customers. Medium-grade saprolite ore totaling 265,043 WMT was sold at an average price of US$25.82 per WMT. High-grade limonite ore totaling 206,814 WMT was sold at an average price of US$12.59 per WMT. Finally, low-grade limonite ore (less than 1.00% nickel grade) totaling 1,894,993 WMT was sold at an average price of US$11.22 per WMT. This is inclusive of about one million WMT of the new type of low-grade limonite ore mentioned above, which previously was not saleable.

REVIEW OF EXPLORATION

Coral Bay HPAL Plant

NICKEL

RTN

Brownfield exploration and development drilling were conducted at the periphery of the Guintalunan and Mangingidong deposits. For exploration drilling, a total of 819 holes equivalent to 7,706 meters was accomplished, resulting in the blocking of additional ore amounting to 3.5 million WMT of limonite ore with average grades of 1.24% nickel and 34.49% iron, and 1.6 million WMT of saprolite ore with an average grade of 1.55% nickel, both in the Measured mineral resource category. For development drilling, a total of 747 holes equivalent to 6,342 meters were completed. As a result, about 700,000 WMT of ore previously classified as Indicated mineral resources was upgraded to Measured resources.

Nursery, Taganito Mine Site

RTN controls the Bulanjao exploration property immediately west of the present mining operations by virtue of a Mining Lease Contract with government. The property has previously been partially drilled and mined until the Palawan Council for Sustainable Development (PCSD) imposed a restriction on mining activities above a certain elevation. The conversion of the Mining Lease Contract to a Mineral Production Sharing Agreement (MPSA), a requirement of the 1995 Mining Act, has therefore been delayed. Recently, the Municipality of Bataraza, where the property is located, reclassified the Bulanjao area as open to mineral development. A final endorsement from the PCSD is necessary before RTN can receive the MPSA on the property. Partial drilling conducted in the past has resulted in Measured and Indicated mineral resources of 7.5 million WMT of saprolite

ore with an average grade of 1.88% nickel and 19.2 million WMT of limonite ore with an average grade of 1.01% nickel. Further drilling will be conducted on the property once the MPSA is received.

TMC

Exploration and some development drilling work were carried out at the Taga-1, Urbiztondo, Hayanggabon, and Kinalablaban areas of the lateritic nickel deposit during the year in review. A total of 1,071 holes equivalent to 12,078 meters were completed. As a result, 5.35 million WMT was blocked as additional ore, of which about 5.0 million WMT is limonite ore in the Measured and Indicated mineral resource categories with average grades of 1.11% nickel and 44.82% iron.

CMC

A total of 1,567 holes equivalent to 16,462 meters of mostly development drilling outside previously defined pit limits were accomplished. A review of old exploration data south of the pit that used to host ore stockpiles was also carried out. The additional drilling and the review of prior exploration data resulted in the blocking of additional ore amounting to 1.81 million WMT of limonite ore in the Indicated mineral resource category, with average grades of 1.55% nickel and 37.67% iron, and 1.53 million WMT of saprolite ore in the Inferred category with an average grade of 2.01% nickel.

CMC controls the Libjo exploration property in the province of Dinagat by virtue of an Operating Agreement with the claimholder. Partial drilling conducted in the past shows 1.5 million WMT of saprolite ore with an average grade of 1.44% nickel and 17.9 million WMT of limonite ore with an average grade of 0.84% nickel in the Measured and Indicated mineral resource categories. A new drilling plan has been prepared for 2011 with the objective of expanding resources.

HMC

Exploration and development drilling were conducted just outside previously defined pit limits. For exploration drilling, a total of 80 holes equivalent to 1,086 meters, and for development drilling a total of 58 holes equivalent to 851 meters, were completed. These resulted in the blocking of additional ore equivalent to 393,000 WMT of limonite ore with average grades of 0.78% nickel and 49.5% iron, and 108,000 WMT of saprolite ore with an average grade of 1.37% nickel, both in the Indicated mineral resource category.

HMC controls the South Dinagat exploration property in Nonoc Island, province of Surigao del Norte, under an Operating Agreement which expires in October 2011. The Agreement allows HMC to mine and ship saprolite ore and a number of shipments have been accomplished in past years. Development drilling was started late 2010 on the remaining portions of the deposit.

Indigenous Learning System Graduation, Rio Tuba Mine Site

Samar Nickel Mining Resources Corporation (SNM – 100% Owned)

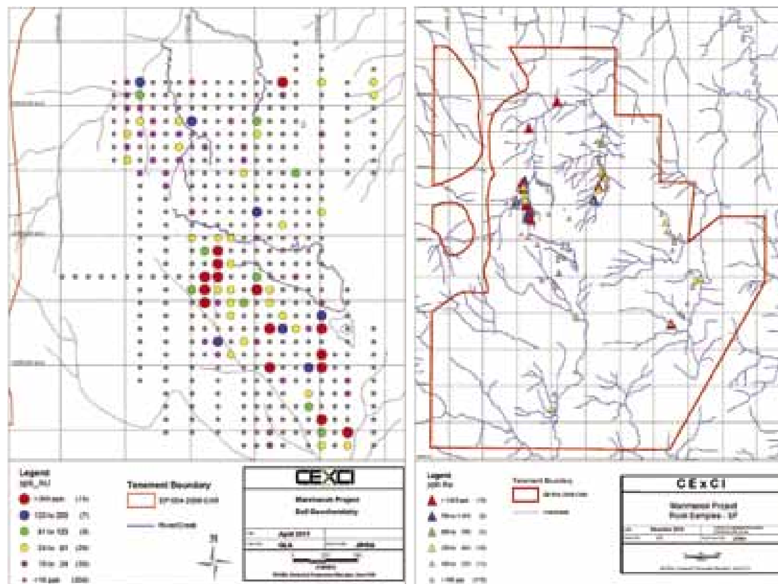
The MPSA relating to the Manicani property in Eastern Samar was previously held by HMC and assigned in 2010 to SNM, a newly incorporated company. The property was partially drilled and mined in the late 1990s. Shipments of stockpiled ore were made in 2004 and 2005 by contractors, which resulted in social problems. In 2004 a regional Panel of Arbitrators recommended the cancellation of the MPSA on environmental grounds. HMC disputed the allegations and the Mines Adjudication Board of the DENR upheld the MPSA in September 2009. Since then, substantial social development work has been accomplished. Towards the later part of 2010, favorable endorsements were received from the host communities and local government units approving the resumption of operations. Pending final approval by the DENR shortly, SNM will commence drilling work to delineate the deposit prior to mine development. Previous drilling work shows 2.5 million WMT of saprolite ore with an average grade of 1.8% nickel and 35.6 million WMT of limonite ore with an average grade of 1.2% nickel in the Inferred mineral resource category.

GOLD AND COPPER

Cordillera Exploration Co., Inc. (CEXCI – 100% Owned)

In November 2010, we concluded the purchase of CEXCI from a Philippine subsidiary of Anglo American plc, who have decided to exit the country. As part of the terms of the purchase, we assumed a royalty of 1% of net smelter returns and payments of $1.0 million per year up to a total of $10 million should a deposit be discovered in any of the properties and placed in commercial operation.

CEXCI has four properties in the central Cordillera of northern Luzon that are prospective for gold and copper. Two of the four properties are located at Mankayan and straddle the provinces of Benguet, Ilocos Sur and Mountain Province. The Kutop property straddles the provinces of Abra and Kalinga, while the Manmanok property is located in the province of Apayao.



Substantial geochemical and geophysical work has already been accomplished in portions of the 7,802-hectare Manmanok property by the previous owners, Newmont Philippines, and by Anglo American as well. Anglo American believes that the property could contain shallower sedimentary-hosted epithermal gold with the possibility of deeper copper-gold porphyry style deposits, and had identified four drilling targets. Additional geologic and geochemical work is scheduled for the second quarter of 2011 as a prelude to drilling, which is expected to take place towards the latter part of the year.

Sports and Recreation Area, Rio Tuba Town Site

Nickel Nook Restaurant, Rio Tuba Town Site

School Assembly, Rio Tuba Town Site

SUMMARY OF ORE RESERVES AND RESOURCES

TOTAL ORE RESERVES (1)
As of December 31, 2010

Operation	Mineral Type	Classification	Tonnes (kwmt)	Tonnes (kdmt)	% Ni	% Fe	Contained Ni (kt)
Rio Tuba	Saprolite	Proved & Probable	14,311	8,856	1.66		147
	Limonite	Proved & Probable	54,419	37,398	1.24	36.76	465
Taganito	Saprolite	Proved & Probable	21,122	15,155	1.88		284
	Limonite	Proved & Probable	124,231	83,259	1.13	45.48	940
Cagdianao	Saprolite	Proved	2,601	1,927	2.14		41
	Limonite	Proved	555	411	1.55	37.67	6
Taganaan	Saprolite	Probable	3,254	2,410	1.77		43
	Limonite	Probable	12,054	8,929	0.85	48.12	76
Total Reserves	**Saprolite**	**Proved & Probable**	**41,288**	**28,348**	**1.82**		**515**
	Limonite	**Proved & Probable**	**191,259**	**129,997**	**1.14**	**43.13**	**1,487**

This summary was prepared by Engr. Jose S. Saret, who is the current Chief Operating Officer of Nickel Asia Corporation. Engr. Saret is a Competent Person under the definition of the Philippine Mineral Reporting Code (PMRC) and has sufficient experience as to the type of deposit and mineralization. He has given his consent to the Public Reporting of this statement concerning Ore Reserve estimation.

TOTAL MINERAL RESOURCES (1) (2)
As of December 31, 2010

Operation	Mineral Type	Classification	Tonnes (kwmt)	Tonnes (kdmt)	% Ni	% Fe	Contained Ni (kt)
Rio Tuba	Saprolite	Measured & Indicated	17,931	10,653	1.85		197
	Limonite	Measured & Indicated	61,306	41,869	1.26	36.74	529
	Saprolite	Inferred	11,979	7,488	1.76		132
	Limonite	Inferred	5,943	4,130	1.29	36.76	53
Taganito	Saprolite	Measured & Indicated	21,122	15,155	2.10		319
	Limonite	Measured & Indicated	124,231	83,259	1.14	45.48	946
	Saprolite	Inferred	447	324	2.07		7
	Limonite	Inferred	535	359	0.95	43.56	3
Cagdianao	Saprolite	Measured	2,955	2,189	2.15		47
	Limonite	Measured & Indicated	2,670	1,978	1.55	34.36	31
	Saprolite	Inferred	1,531	1,134	2.01		23
	Limonite	Inferred	0				
Taganaan	Saprolite	Indicated	4,067	3,012	1.77		53
	Limonite	Indicated	15,068	11,161	0.85	48.12	95
	Saprolite	Inferred	108	80	1.37		1
	Limonite	Inferred	0				
Total Resources	**Saprolite**	**Measured & Indicated**	**46,075**	**31,009**	**1.99**		**616**
	Limonite	**Measured & Indicated**	**203,275**	**138,267**	**1.16**	**42.88**	**1,601**
	Saprolite	**Inferred**	**14,065**	**9,026**	**1.80**		**163**
	Limonite	**Inferred**	**6,478**	**4,489**	**1.26**	**37.30**	**56**

This summary was prepared by Radegundo S. de Luna, who is a Consultant Geologist for Nickel Asia Corporation. Mr. de Luna is a Competent Person for Exploration and Mineral Resource Estimation under the PMRC. He has sufficient experience which is relevant to the type of deposit and mineralization.

(1) Ore Reserves and Mineral Resource tonnages are shown in full. Nickel Asia Corporation owns 60% of Rio Tuba, 65% of Taganito, and 100% of the Cagdianao and Taganaan operations.
(2) Inclusive of Mineral Resources converted to Ore Reserves.

Note: Cut-off grades used to estimate Mineral Resources are as follows:

Rio Tuba	Saprolite: Ni >= 1.2%, Fe < 20%	Limonite: Ni >=0.8%, Fe >=20%
Taganito	Saprolite: Ni >= 1.5%, Fe < 20%	Limonite: Ni >=0.8%, Fe >=20%
Cagdianao	Saprolite: Ni >= 1.8%, Fe < 20%	Limonite: 1.4% < Ni, Fe >=20%
Taganaan	Saprolite: Ni >= 1.3%, Fe < 20%	Limonite: 0.3% < Ni, Fe >47%

SUSTAINABILITY REPORT

We are committed to the principles of sustainable development and recognize our responsibilities toward the environment, the communities where we operate and the health and safety of our workforce.

Our operations manage their environmental projects through Annual Environmental Protection and Enhancement Programs (AEPEPs). These are prepared and submitted yearly for review to their respective Multi-Partite Mine Monitoring Teams (MMT) and Mine Rehabilitation Fund Committees, and finally for approval to the Mines and Geosciences Bureau (MGB). The 1995 Mining Act requires minimum annual expenditures of 3 to 5% of direct mining and (where applicable) milling costs for environmental protection and remediation. This requirement is complied with, if not occasionally exceeded, by our operations. Dedicated and qualified environmental teams in each of our operations are responsible for preparing and implementing their respective AEPEPs. Their work is subject to quarterly audits by the MMTs composed of representatives of the MGB, the Environmental Management Bureau, local government officials, and civil society organizations.

Lateritic nickel deposits are shallow and their extraction does not require the use of explosives. The environmental impact of our mining operations is therefore limited to ground disturbance that can result in erosion and sedimentation, and dust. The AEPEPs of our operations provide for erosion and sedimentation control primarily through the use of sediment settling ponds, which are regularly maintained. Removal of the sediment material is a periodic activity and where appropriate, the material is used as backfill in the rehabilitation of mined out areas. Supplementary measures for rainfall erosion include soil covers, drainage structures to keep surface run off away from disturbed areas and water velocity reducers. For dust control, windbreaks and water sprays along road networks are being used.

Our AEPEPs also provide for progressive rehabilitation of mined-out areas. This involves re-contouring of the ground, provision of backfill material where required and adequate topsoil, and re-vegetation using native species that are grown in nurseries at each of our operations. With proper care and maintenance, survival rates have averaged over 85%. The nurseries at our four mine sites have the capacity to grow about 200,000 seedlings per year of native species that are suitable for mine rehabilitation. In 2010, the combined environmental expenditures of our four operating mines amounted to P88.7 million.

In the area of social responsibility, the 1995 Mining Act requires minimum annual expenditures for community development programs of 1% of direct mining and (where applicable) milling costs. Our yearly expenditures normally exceed this minimum requirement. In late 2010, the MGB issued an Administrative Order raising the minimum requirement to 1.5% of total operating costs, which order is currently under review. In 2010, the combined social expenditures of our four operating mines amounted to P109.9 million.

Our operations manage their social expenditures through their respective Social Development Management Plans (SDMPs). These are five-year programs containing a list of priority projects identified and approved for implementation in consultation with the host communities. The work involved in identifying and implementing the SDMPs, as well as the overall responsibility for maintaining strong relationships with our host communities, lies with Community Relations teams at each of our mine sites.

In the area of safety and in accordance with the Mining Act and other pertinent laws, each operation employs a safety team under an accredited Safety Officer to promulgate safety measures and procedures and to ensure that these

TMC Model Vegetable Farm

RTN Foundation School Children, Rio Tuba Mine Site

are followed. Training programs are also being conducted regularly. In 2010, our four operations recorded a total of 15.28 million man-hours worked with a Frequency Rate of 0.52 (fatal plus non-fatal accidents) and an Incident Rate (including non-lost time accidents) of 3.73 per million man-hours worked.

RTN

Environmental

In 2010, rehabilitation was started on 14 hectares (has.) of mined-out areas with re-contouring and planting of over 16,000 seedlings. This brings the total mined-out areas rehabilitated to-date to 238 has. with over 500,000 seedlings planted. Outside of the mining areas, 48has. have been planted with over 19,000 seedlings, bringing the total to-date to 298 has. with over 300,000 seedlings planted. RTN also maintains a 6 has. mangrove plantation and over 4,000 propagules were planted during the year, bringing the total to over 16,000 propagules planted. Continuous maintenance of silt sumps and ponds located in strategic areas of the mine site were conducted throughout the year.

For its exemplary environmental programs, RTN received the Presidential Mineral Industry Environmental Award - Platinum Achievement (surface mining category) during the 2010 annual National Mine Safety and Environment Conference.

Social

RTN's SDMP expenditures are coursed through the RTN Foundation, Inc. and are combined with the SDMP expenditures of the adjacent Coral Bay processing plant for proper coordination. The RTN Foundation funds numerous social development projects. Chief among these are a kindergarten, elementary and high school offered largely for free (token payments are required per student) with an enrollment of 1,237 students, almost half from the adjoining communities; and a fully staffed hospital available to employees, dependents and indigenous tribes for free while residents of the adjoining communities are charged on a cost basis, which accepted 2,700 in-patients and considerably more out-patients in 2010. Numerous livelihood, infrastructure projects and scholarships are also being funded by the Foundation.

With respect to the indigenous tribes in the area of the operations, the Foundation continues to construct housing in coordination with the Gawad Kalinga Foundation, with 208 units built to-date in six sites. The Foundation also funds an Indigenous Learning System accredited by the Department of Education in conjunction with the St. Jude Catholic School, with 667 students enrolled in 2010 in three different levels. RTN as well pays the equivalent of a 1% royalty to the tribes in the form of specific projects, although at this time an ancestral land or domain title has not yet been obtained. This expenditure is considered as part of RTN's overall social expenditures.

TMC

Environmental

Backfilling of close to 40 tonnes of soil material was carried out during the year in specific mined out areas scheduled for rehabilitation. The total mined out areas rehabilitated to-date amount to 71 has. with over 100,000 seedlings planted. Outside of the mined out areas, 21.5 has. have been planted with over 50,000 seedlings, bringing the total to 251 has. with over 320,000 seedlings planted. TMC as well maintains a 4 has. mangrove plantation with over 10,000 propagules planted to-date.

Social

During the year in review, construction of 120 housing units for the indigenous tribal communities of Taganito and Urbiztondo, in coordination with Gawad Kalinga Foundation and as a joint undertaking with Taganito HPAL Nickel Corp, was started. Funding for this project is over and above the company's commitment under its SDMP. Assistance was also provided to our host tribal communities in terms of formulating their 2010 community plan, financial literacy, the planning and implementation of a Mamanwa store and cafe' adjacent to the new housing area, and other initiatives, including the continuing provision of Indigenous Learning System teachers.

The majority of the SDMP-funded projects was in the area of infrastructure, with emphasis on projects associated with the Taganito and Urbiztondo elementary schools and the donation of information technology equipment to the Taganito high school. In line with the company's continuing goal of encouraging entrepreneurship in the host barangays, financial and technical assistance was provided for the establishment of the Hayanggabon and Cagdianao public markets, the organization of three livelihood and enterprise groups and training programs in masonry, agricultural development, and other entrepreneurship initiatives in coordination with the East-West Seed Company, TESDA, and the Stu Clark Centre for Entrepreneurship together with the Canadian Embassy.

CMC

Environmental

A total of over 7,000 seedlings of various species in over 6.5 has. outside of the mining areas was planted during the year in review. This brings the total to over 70,000 seedlings planted in 84 has. within CMC's permitted area that has been targeted for reforestation. Organic fertilizer from the company's vermi-compost project is being used to improve survival rates. Also during the year the company planted over 1,000 mangrove propagules in 0.4 has. within a marine protected area that the company is maintaining. To-date, close to 5,000 propagules have been planted.

Similar to RTN, for its exemplary environmental programs, CMC received the Presidential Mineral Industry Environmental Award - Platinum Achievement (surface mining category) during the 2010 annual National Mine Safety and Environment Conference.

Social

Cooperative development and training programs on aquaculture and agriculture were given priority during the year, with special attention paid to the Valencia Women's Multi-Purpose Cooperative. As part of this effort, families in

RTN Foundation Hospital, Rio Tuba Mine Site

Operating Room, RTN Foundation Hospital

Local Festival, Brgy. Rio Tuba

the host barangay were encouraged to produce vegetables in their backyards for their own needs and as an enterprise. With respect to SDMP funded projects, infrastructure projects were prominent, such as the provision of electrical connection for Sitio Baliwan, and repair and maintenance of the Boa-Valencia road, the Valencia water system, street lighting and school library. The operation continued its commitment to prioritize education by giving financial assistance to deserving college students and by providing honoraria to volunteer teachers at the Valencia schools and daycare center, as well as donations of instructional materials and equipment. Medical missions were also conducted during the year, a continuing effort of the operation.

HMC

Environmental

HMC rehabilitated 7.7 has. of newly mined out areas in 2010 with over 8,500 seedlings planted. Outside of the mining areas, over 1,200 seedlings were planted in a 1.1 has. area during the year. To-date, about of 25.3 has. have been planted with over 28,000 seedlings as part of HMC's reforestation projects. HMC also maintains a 2 has. mangrove plantation with close to 5,000 propagules planted to-date. During the year, HMC inaugurated a material recovery facility as part of its solid waste management program.

Social

In line with the thrust of its SDMP, the operation implemented projects in the areas of education, health, infrastructure and livelihood for the adjoining communities. Assistance was provided for the construction of a school canteen and supplies store as well as for the operation of the school itself in Barangay Talavera. Financial assistance was also provided to a number of deserving students in college while part-time summer jobs were made available to them and to other students from the host communities to ease the tuition burden on the families. Medical missions were also conducted during the year, a continuing effort of the operation, while medical equipment were provided to health centers in the adjoining communities.

RTN Foundation / Gawad Kalinga Housing Project

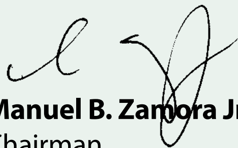
STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Nickel Asia Corporation** is responsible for all information and representations contained in the financial statements for the years ended December 31, 2010 and 2009. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgement of management with an appropriate consideration to materiality.

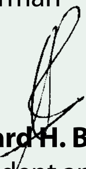
In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

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

SyCip Gorres Velayo & Co., the independent auditors and appointed by the stockholders, has examined the financial statements of the Company as of and for the year ended December 31, 2010 in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the stockholders.



Manuel B. Zamora Jr.
Chairman



Gerard H. Brimo
President and Chief Executive Officer

Emmanuel L. Samson
Chief Financial Officer

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-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Nickel Asia Corporation and Subsidiaries

We have audited the accompanying consolidated financial statements of Nickel Asia Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2010 and 2009, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010, 2009 and 2008, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nickel Asia Corporation and its subsidiaries as at December 31, 2010 and 2009, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-2
Tax Identification No. 102-096-009
BIR Accreditation No. 08-001998-72-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641518, January 3, 2011, Makati City

March 25, 2011

NICKEL ASIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(AMOUNTS IN THOUSANDS, EXCEPT NUMBER OF SHARES)

	December 31	
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱6,805,968**	₱6,779,215
Financial assets at fair value through profit or loss (FVPL) (Note 5)	**–**	318,215
Trade and other receivables (Note 6)	**1,113,255**	1,338,878
Available-for-sale (AFS) financial assets (Note 8)	**469,976**	1,081,291
Inventories (Note 7)	**1,416,431**	1,503,325
Other current assets (Note 9)	**52,993**	248,928
Total Current Assets	**9,858,623**	11,269,852
Noncurrent Assets		
AFS financial assets (Note 8)	**907,161**	883,408
Property and equipment (Note 10)	**3,762,607**	2,156,687
Investment property (Note 11)	**50,845**	60,053
Investment in an associate (Note 12)	**4,570,453**	–
Long-term stock pile inventory - net of current portion (Note 13)	**964,994**	1,108,178
Deferred income tax assets - net (Note 34)	**414,014**	273,050
Other noncurrent assets (Note 14)	**977,364**	605,730
Total Noncurrent Assets	**11,647,438**	5,087,106
TOTAL ASSETS	**₱21,506,061**	₱16,356,958
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 15)	**₱935,179**	₱866,223
Income tax payable	**322,127**	252,373
Current portion of long-term debt (Note 16)	**78,425**	50,400
Total Current Liabilities	**1,335,731**	1,168,996
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 16)	**1,465,826**	337,477
Deferred income tax liabilities - net (Note 34)	**440,770**	477,103
Deferred rent income (Note 32)	**83,799**	–
Provision for mine rehabilitation and decommissioning (Note 17)	**55,419**	46,202
Pension liability (Note 33)	**48,967**	50,325
Total Noncurrent Liabilities	**2,094,781**	911,107
Equity Attributable to Equity Holders of the Parent		
Capital stock (Note 18)	**677,116**	478,812
Additional paid-in capital (Note 18)	**8,075,641**	4,894,613
Other components of equity:		
Cost of share-based payment plan (Note 19)	**1,101**	–
Net valuation gains on AFS financial assets (Note 8)	**37,589**	28,261
Share in cumulative translation adjustment (Note 12)	**120,411**	–
Asset revaluation surplus (Note 31)	**34,778**	35,161
Retained earnings	**5,987,024**	7,659,271
	14,933,660	13,096,118
Less cost of 132,991,182 treasury shares (Notes 1 and 18)	**–**	(1,821,994)
	14,933,660	11,274,124
Non-controlling Interests	**3,141,889**	3,002,731
Total Equity	**18,075,549**	14,276,855
TOTAL LIABILITIES AND EQUITY	**₱21,506,061**	₱16,356,958

See accompanying Notes to Consolidated Financial Statements.

NICKEL ASIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(AMOUNTS IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

	Years Ended December 31		
	2010	2009	2008
REVENUES (Notes 11 and 32)			
Sale of ore	**₱8,074,298**	₱4,333,208	₱5,579,347
Services and others	**261,740**	353,518	247,730
	8,336,038	4,686,726	5,827,077
COSTS AND EXPENSES			
Cost of sales (Note 21)	**3,062,028**	2,516,289	2,318,901
Cost of services (Note 22)	**141,067**	240,899	121,489
Shipping and loading costs (Note 23)	**821,212**	551,963	299,660
Excise taxes and royalties (Notes 24 and 37)	**523,208**	288,897	475,337
General and administrative (Note 25)	**475,732**	456,195	613,111
	5,023,247	4,054,243	3,828,498
FINANCE INCOME (Note 28)	**130,768**	230,294	400,280
FINANCE EXPENSES (Note 29)	**(81,240)**	(161,629)	(1,522,255)
OTHER INCOME (CHARGES) - net (Note 30)	**(110,682)**	(71,375)	1,045,411
INCOME BEFORE INCOME TAX	**3,251,637**	629,773	1,922,015
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 34)			
Current	**1,148,564**	391,594	976,959
Deferred	**(200,836)**	(222,340)	84,813
	947,728	169,254	1,061,772
NET INCOME	**₱2,303,909**	₱460,519	₱860,243
Net income attributable to:			
Equity holders of the parent	**₱1,478,870**	₱302,887	₱179,208
Non-controlling interests	**825,039**	157,632	681,035
	₱2,303,909	₱460,519	₱860,243
Basic earnings per share (Note 20)	**₱1.43**	₱0.31	₱0.18

NICKEL ASIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(AMOUNTS IN THOUSANDS)

	Years Ended December 31		
	2010	2009	2008
NET INCOME	**₱2,303,909**	₱460,519	₱860,243
OTHER COMPREHENSIVE INCOME (LOSS)			
Share in translation adjustment of an associate (Note 12)	**120,411**	–	–
Net valuation gain (loss) on AFS financial assets (Note 8)	**11,947**	63,475	(122,234)
Asset revaluation surplus (Note 31)	**(383)**	(383)	(383)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX	**131,975**	63,092	(122,617)
TOTAL COMPREHENSIVE INCOME - NET OF TAX	**₱2,435,884**	₱523,611	₱737,626
Total comprehensive income attributable to:			
Equity holders of the parent	**₱1,608,226**	₱367,364	₱56,856
Non-controlling interests	**827,658**	156,247	680,770
	₱2,435,884	₱523,611	₱737,626

See accompanying Notes to Consolidated Financial Statements.

NICKEL ASIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008 (AMOUNTS IN THOUSANDS)

	Equity Attributable to Equity Holders of the Parent										
	Capital Stock (Note 18)	**Additional Paid-in Capital (Note 18)**	**Cost of Share based Payment Plan (Note 19)**	**Net Valuation Gains (Losses) on AFS Financial Assets (Note 8)**	**Share in Cumulative Translation Adjustment of an Associate (Note 12)**	**Asset Revaluation Surplus (Note 31)**	**Retained Earnings**	**Treasury Shares (Notes 1 and 18)**	**Total**	**Non-controlling Interests**	**Total**
Balances at December 31, 2009	**₱478,812**	**₱4,894,613**	**₱–**	**₱28,261**	**₱–**	**₱35,161**	**₱7,659,271**	**(₱1,821,994)**	**₱11,274,124**	**₱3,002,731**	**₱14,276,855**
Net income	**–**	**–**	**–**	**–**	**–**	**–**	**1,478,870**	**–**	**1,478,870**	**825,039**	**2,303,909**
Other comprehensive income (loss)	**–**	**–**	**–**	**9,328**	**120,411**	**(383)**	**–**	**–**	**129,356**	**2,619**	**131,975**
Total comprehensive income (loss)	**–**	**–**	**–**	**9,328**	**120,411**	**(383)**	**1,478,870**	**–**	**1,608,226**	**827,658**	**2,435,884**
Cost of share-based payment (Note 19)	**–**	**–**	**1,101**	**–**	**–**	**–**	**–**	**–**	**1,101**	**–**	**1,101**
Issuance of shares (Notes 1 and 18)	**123,304**	**3,008,155**	**–**	**–**	**–**	**–**	**–**	**–**	**3,131,459**	**–**	**3,131,459**
Cash dividends - ₱3.16 per share (Note 18)	**–**	**–**	**–**	**–**	**–**	**–**	**(3,076,500)**	**–**	**(3,076,500)**	**–**	**(3,076,500)**
Asset revaluation surplus transferred to retained earnings (Note 31)	**–**	**–**	**–**	**–**	**–**	**–**	**383**	**–**	**383**	**–**	**383**
Reissuance of treasury shares (Notes 1 and 18)	**–**	**172,873**	**–**	**–**	**–**	**–**	**–**	**1,821,994**	**1,994,867**	**–**	**1,994,867**
Stock dividends (Note 18)	**75,000**	**–**	**–**	**–**	**–**	**–**	**(75,000)**	**–**	**–**	**–**	**–**
Share of minority in cash dividends of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(688,500)**	**(688,500)**
Balances at December 31, 2010	**₱677,116**	**₱8,075,641**	**₱1,101**	**₱37,589**	**₱120,411**	**₱34,778**	**₱5,987,024**	**₱–**	**₱14,933,660**	**₱3,141,889**	**₱18,075,549**
Balances at December 31, 2008	₱410,891	₱3,089,349	₱–	(₱36,599)	₱–	₱35,544	₱7,498,213	₱–	₱10,997,398	₱3,276,484	₱14,273,882
Net income	–	–	–	–	–	–	302,887	–	302,887	157,632	460,519
Other comprehensive income (loss)	–	–	–	64,860	–	(383)	–	–	64,477	(1,385)	63,092
Total comprehensive income (loss)	–	–	–	64,860	–	(383)	302,887	–	367,364	156,247	523,611
Issuance of shares (Note 18)	67,921	1,801,238	–	–	–	–	–	–	1,869,159	–	1,869,159
Repurchase of own shares (Note 18)	–	–	–	–	–	–	–	(2,882,228)	(2,882,228)	–	(2,882,228)
Sale of treasury shares (Note 18)	–	4,026	–	–	–	–	–	1,060,234	1,064,260		1,064,260
Cash dividends - ₱0.35 per share (Note 18)	–	–	–	–	–	–	(142,212)	–	(142,212)	–	(142,212)
Asset revaluation surplus transferred to retained earnings (Note 31)	–	–	–	–	–	–	383	–	383	–	383
Share of minority in cash dividends of a subsidiary	–	–	–	–	–	–	–	–	–	(430,000)	(430,000)
Balances at December 31, 2009	₱478,812	₱4,894,613	₱–	₱28,261	₱–	₱35,161	₱7,659,271	(₱1,821,994)	₱11,274,124	₱3,002,731	₱14,276,855
Balances at December 31, 2007	₱3,390,483	₱101,499	₱–	₱85,370	₱–	₱35,927	₱7,318,622	₱–	₱10,931,901	₱2,891,464	₱13,823,365
Net income	–	–	–	–	–	–	179,208	–	179,208	681,035	860,243
Other comprehensive income (loss)	–	–	–	(121,969)	–	(383)	–	–	(122,352)	(265)	(122,617)
Total comprehensive income (loss)	–	–	–	(121,969)	–	(383)	179,208	–	56,856	680,770	737,626
Effect of merger (Note 31)	(2,979,592)	2,987,850	–	–	–	–	–	–	8,258	–	8,258
Asset revaluation surplus transferred to retained earnings (Note 31)	–	–	–	–	–	–	383	–	383	–	383
Share of minority in cash dividends of a subsidiary	–	–	–	–	–	–	–	–	–	(295,750)	(295,750)
Balances at December 31, 2008	₱410,891	₱3,089,349	₱–	(₱36,599)	₱–	₱35,544	₱7,498,213	₱–	₱10,997,398	₱3,276,484	₱14,273,882

See accompanying Notes to Consolidated Financial Statements.

NICKEL ASIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(AMOUNTS IN THOUSANDS)

	Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱3,251,637**	₱629,773	₱1,922,015
Adjustments for:			
Depreciation and depletion (Note 27)	**560,170**	470,384	362,198
Interest income (Note 28)	**(128,758)**	(162,052)	(235,460)
Dividend income (Notes 8 and 30)	**(120,246)**	(1,028)	(69,126)
Unrealized foreign exchange losses (gains) - net	**73,798**	238,449	(994,160)
Loss (gain) on :			
Derivative transactions - net (Notes 29 and 36)	**46,987**	78,748	1,417,068
Valuation on AFS financial assets transferred from equity to profit or loss - net (Notes 8, 28 and 29)	**9,520**	1,191	(31,751)
Changes in fair value of financial assets at FVPL (Notes 5, 28 and 29)	**(2,010)**	(52,865)	37,291
Change in provision for mine rehabilitation and decommissioning estimates (Note 28)	**–**	(15,377)	(19,935)
Sale of property and equipment (Note 30)	**–**	719	(368)
Impairment of deferred mine exploration costs (Notes 14 and 30)	**–**	–	6,239
Interest expense (Note 29)	**10,865**	20,762	39,544
Accretion interest on provision for mine rehabilitation and decommissioning (Notes 17 and 29)	**9,217**	7,621	8,655
Equity in net losses of an associate (Note 12)	**6,412**	–	–
Movements in pension liability	**(1,358)**	13,464	17,346
Cost of share-based payment plan (Note 19)	**1,101**	–	–
Operating income before working capital changes	**3,717,335**	1,229,789	2,459,556
Decrease (increase) in:			
Trade and other receivables	**148,508**	(398,371)	(15,337)
Inventories	**230,078**	648,024	234,111
Other current assets	**195,935**	(68,380)	(14,424)
Increase (decrease) in trade and other payables	**68,193**	133,426	(716,227)
Net cash generated from operations	**4,360,049**	1,544,488	1,947,679
Interest received	**112,373**	148,956	235,334
Dividends received	**120,246**	1,028	69,126
Income taxes paid	**(1,078,810)**	(549,835)	(3,171,735)
Interest paid	**(15,954)**	(20,762)	(39,544)
Net cash flows from (used in) operating activities	**3,497,904**	1,123,875	(959,140)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Financial assets at FVPL	**(136,881)**	(1,546,225)	(728,484)
AFS financial assets (Note 8)	**(1,732,591)**	(2,143,085)	(292,989)
Property and equipment (Note 10)	**(2,058,497)**	(240,048)	(1,173,531)
Investment in an associate (Note 12)	**(4,443,075)**	–	–
Proceeds from (payments for):			
Sale of financial assets at FVPL (Note 5)	**457,106**	1,568,077	811,025
Sale of AFS financial assets (Note 8)	**2,323,172**	1,436,410	578,147
Settlement of derivative transactions (Note 36)	**(46,987)**	(274,273)	(857,267)
Sale of property and equipment	**845**	3,261	822
Decrease (increase) in:			
Deferred rent income (Note 32)	**83,799**	–	–
Other noncurrent assets	**(371,634)**	182,789	(353,955)
Net cash flows used in investing activities	**(5,924,743)**	(1,013,094)	(2,016,232)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Issuance of capital stock (Note 18)	**3,131,459**	1,869,159	8,258
Reissuance of treasury shares (Note 18)	**1,994,867**	1,064,260	–
Availment of long-term debt (Note 16)	**1,202,781**	–	141,853
Payments of:			
Cash dividends (Note 18)	**(3,765,000)**	(572,212)	(295,750)
Long-term debt	**(49,827)**	(52,663)	(26,539)
Repurchase of own shares (Note 18)	**–**	(2,882,228)	–
Net cash flows from (used in) financing activities	**2,514,280**	(573,684)	(172,178)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**87,441**	(462,903)	(3,147,550)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**6,779,215**	7,452,631	9,670,594
EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	**(60,688)**	(210,513)	929,587
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱6,805,968**	₱6,779,215	₱7,452,631

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

Nickel Asia Corporation (the Company, Parent Company) was registered with the Philippine Securities and Exchange Commission (SEC) on July 24, 2008. The Company is primarily engaged in investing in and holding of assets of every kind and description and wherever situated, as and to the extent permitted by law. It is also registered, within the limits prescribed by law, to engage in the business of mining of all kinds of ore, metals and minerals.

Initial Public Offering (IPO)
On June 16, 2010, the Board of Directors (BOD) of the Company approved the resolutions for the IPO of up to 304,500,000 common stock with a par value of ₱0.50 subject to the registration requirement of the SEC and the Philippine Stock Exchange (PSE).

On September 13, 2010, the Company filed an application for listing the common shares with the PSE. On October 5, 2010, the Company filed the Registration Statement together with the preliminary prospectus with the SEC and on October 20, 2010, the PSE approved the application of the Company for the initial listing of 304,500,000 common shares.

The IPO of the Company's shares with an offer price of ₱15.00 per share, consisted of the following:
- 304,500,000 common shares (consisting of 132,991,182 shares held in treasury and new common shares of 171,508,818)
- The Company has granted an option, exercisable in whole or in part to purchase up to 45,675,000 Optional Shares at the offer price, on the same terms and conditions as the common shares, solely to cover over-allotments, if any. The Over-Allotment Option is exercisable from and including the Listing Date and ending on the date thirty (30) days from the Listing Date.

On October 21, 2010, the SEC approved the Company's Registration Statement. The listing ceremony was held on November 22, 2010 (the Listing Date), the Company's stock symbol, NIKL officially entered into the electronic board of the PSE marking the start of the public trading of the Company's common stock through the stock market.

Reorganization of the Group
On February 25, 2009, the Stockholders of the Company and Nickel Asia Corp. (NAC), a company incorporated under the laws of the British Virgin Islands (BVI) to acquire and hold the nickel mining and processing assets of members of the founding shareholders, approved the Plan of Merger between the Company and NAC. Under the Plan of Merger:

- The Company is the surviving corporation and that NAC's corporate existence shall cease by operation of law as provided under the laws of BVI upon the effective date of merger which is March 15, 2009, subject to the approval by the SEC;
- The Company shall become the owner of all the rights, businesses, assets and other properties and shall assume all the debts and liabilities of NAC as shown in NAC's audited statement of financial position as at December 31, 2008; and
- The Company shall issue to the stockholders of NAC 385,891,199 common shares in exchange for the assets and liabilities of NAC.

On April 15, 2009, the SEC approved the merger which was accounted for as a tax-free transaction using the pooling of interest method (see Note 31). As a result, all prior period consolidated financial statements presented have been restated to include the results of operations, financial position and cash flows of both companies as if they had always been combined. Certain reclassifications were made to conform the presentation of the consolidated financial statements. There were no material pre-merger transactions between the Company and NAC.

On November 30, 2009, the Company received tax-free property dividends from Hinatuan Mining Corporation (HMC) in the form of HMC's investment in subsidiaries in Cagdianao Mining Corporation (CMC) and Taganito Mining Corporation (TMC) based on CMC and TMC's book values as at August 31, 2009. The said declaration of property dividends were approved by the SEC and Bureau of Internal Revenue (BIR) on February 3, 2010 and December 22, 2009, respectively. This resulted to the Company's direct ownership in CMC and TMC.

On or before August 4, 2006, NAC acquired ownership of all the shares of HMC, sixty percent (60%) of the shares of Rio Tuba Nickel Mining Corporation (RTN) and twenty percent (20%) of the shares of CMC held directly or indirectly by the founding shareholders and certain directors of HMC, RTN and CMC.

All of these transactions are collectively referred to herein as the 'Reorganization'.

As a result of the Reorganization, the Parent Company owns all of the outstanding shares of HMC and CMC, sixty-five percent (65%) of TMC and sixty percent (60%) of RTN.

The Subsidiaries

HMC

HMC was registered with the SEC on October 9, 1979, is a one hundred percent (100%) owned subsidiary of the Company and is primarily engaged in the exploration, mining and exporting of nickel ore located in Hinatuan, Nonoc and Manicani Islands, Surigao del Norte. The registered office address of HMC is 3rd Floor, NAC Centre, 143 Dela Rosa corner Adelantado Streets, Legaspi Village, Makati City.

CMC

CMC was registered with the SEC on July 25, 1997, is a one hundred percent (100%) owned subsidiary of the Company and is primarily engaged in the exploration, mining and exporting of nickel ore located in Barangay Valencia, Municipality of Cagdianao, Province of Dinagat Island. The registered office address of CMC is 4th Floor, NAC Centre, 143 Dela Rosa Street, Legaspi Village, Makati City, Philippines.

TMC

TMC was registered with the SEC on March 4, 1987, is a sixty-five percent (65%) owned subsidiary of the Company and is primarily engaged in the exploration, mining and exporting of nickel ore located in Claver, Surigao del Norte. The registered office address of TMC is 4th Floor, NAC Centre, 143 Dela Rosa corner Adelantado Streets, Legaspi Village, Makati City.

RTN

RTN was registered with the SEC on July 15, 1965, is a sixty percent (60%) owned subsidiary of the Company and is primarily engaged in the exploration, mining and exporting nickel ore and providing non-mining services located in Barangay Rio Tuba, Municipality of Bataraza, Palawan. The registered office address of RTN is 2nd Floor, NAC Centre, 143 Dela Rosa Street, Legaspi Village, Makati City, Philippines.

Falck Exp Inc. (FEI)

FEI was registered with the SEC on November 22, 2005, is a eighty-eight percent (88%) owned subsidiary of the Company through HMC, CMC and TMC, and is primarily engaged in the business of exploring, prospecting, and operating mines and quarries of all kinds of ores and minerals, metallic and non-metallic. FEI has not yet started commercial operations. The registered office address of FEI is 3rd Floor, NAC Centre, 143 Dela Rosa Street, Legaspi Village, Makati City, Philippines.

La Costa Shipping and Lighterage Corporation (LCSLC)

LCSLC was registered with the SEC on October 23, 1992, is a one hundred percent (100%) owned subsidiary of the Company through HMC, and is primarily engaged in the chartering out of Landing Craft Transport (LCT) and providing complete marine services. The registered office address of LCSLC is 7th Floor, NAC Centre, 143 Dela Rosa Street, Legaspi Village, Makati City, Philippines. LCSLC was acquired by HMC in April 2010 (see Note 31).

Samar Nickel Mining Resources Corporation. (SNMRC)

SNMRC was registered with the SEC on May 11, 2010, is a one hundred percent (100%) owned subsidiary of the Company and is primarily engaged in the exploration, mining and exporting of mineral ores. SNMRC has not yet started commercial operations. The registered office address of SNRMC is 6th Floor, NAC Centre, 143 Dela Rosa Street, Legaspi Village, Makati City, Philippines.

Cordillera Exploration Co., Inc. (CEXCI)

CEXCI was registered with the SEC on October 19, 1994, is a one hundred percent (100%) owned subsidiary of the Company and is primarily engaged in the business of large-scale exploration, development and utilization of mineral resources. CEXCI has a number of mining properties at various stages of exploration. It is currently not engaged in any development or commercial production activities. The registered office address of CEXCI is 4th Floor, NAC Centre, 143 Dela Rosa Street, Legaspi Village, Makati City, Philippines.

The Parent Company's registered office address is 6th Floor, NAC Centre, 143 Dela Rosa Street, Legaspi Village, Makati City.

The consolidated financial statements as at December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010, were authorized for issuance by the Parent Company's BOD on March 25, 2011.

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

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at FVPL, AFS financial assets and derivative instruments, which are measured at fair value. The consolidated financial statements and these notes are presented in Philippine peso, the Parent Company's and its subsidiaries' functional currency. All amounts are rounded to the nearest thousand (₱000) except when otherwise indicated.

Statement of Compliance

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

Basis of Consolidation from January 1, 2010

The consolidated financial statements include the Parent Company and the following subsidiaries (collectively referred to as the Group):

	Country of Domicile	Nature of Business	Effective Ownership	
			2010	2009
HMC	Philippines	Mining	100%	100%
CMC	Philippines	Mining	100%	100%
SNMRC	Philippines	Mining	100%	–
CEXCI	Philippines	Mining	100%	–
LCSLC*	Philippines	Services	100%	–
FEI*	Philippines	Mining	88%	88%
TMC	Philippines	Mining	65%	65%
RTN	Philippines	Mining and Services	60%	60%

*Direct and indirect ownership

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.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the Subsidiaries are prepared for the same reporting year as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Non-controlling Interest

Non-controlling interest represents interest in a subsidiary that is not owned, directly or indirectly, by the Parent Company. Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Parent Company and to the non-controlling interest. Total comprehensive income is attributed to the equity holders of the Parent Company and to the non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Non-controlling interest represents the portion of profit or loss and the net assets not held by the Group. Transactions with non-controlling 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.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences, recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent company's share of components previously recognized in other comprehensive income to profit or loss.

Basis of Consolidation Prior to January 1, 2010

The above mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Non-controlling interests represented the portion of profit or loss and net assets in the Subsidiaries not held by the Group and are presented separately in the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of financial position separately from the parent's equity.
- Acquisition of non-controlling interest is 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.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

Reorganization of the Group

As discussed in Note 1, the acquisition of NAC by the Company fell outside the scope of PFRS 3, *Business Combinations*. Following the guidance regarding the selection of an appropriate accounting policy provided by Philippine Accounting Standards (PAS) 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the transaction has been accounted for in the consolidated financial statements using the pooling of interests method, which reflects the economic substance of the transaction. In accordance with the requirements of the pooling of interests method, the comparative information in the consolidated financial statements has been extracted from the consolidated financial statements of NAC, and the financial statements of the combined Group represent a continuation of NAC's financial statements.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRSs and Philippine Interpretations which were adopted as at January 1, 2010.

Revised Standards and New Interpretations

- Revised PFRS 3, *Business Combinations* and Amended PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 17, *Distributions of Non-Cash Assets to Owners*

Amendments and Improvements to Standards

- Amendment to PAS 39, *Eligible Hedged Items*
- Amendment to PFRS 2, *Group Cash-settled Share-based Payment Transactions*
- Improvements to PFRSs in 2008, with respect to PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
- Improvements to PFRSs in 2009

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

Revised Standards and New Interpretations

- Revised PFRS 3, *Business Combinations* and Amended PAS 27, *Consolidated and Separate Financial Statements,* are effective for the Group beginning January 1, 2010.

Revised PFRS 3 introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. Amended PAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by Revised PFRS 3 and Amended PAS 27 will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. The change in accounting policy was applied prospectively.

- Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners,* are effective for the Group for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for noncash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. This interpretation is not currently applicable to the Group, as it has not made any non-cash distributions.

Amendments to Standards

- Amendment to PAS 39, *Eligible Hedged Items* clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. This amendment is not currently applicable to the Group, as it has not entered into any such hedges.

- Amendment to PFRS 2, *Group Cash-settled Share-based Payment Transactions,* are effective for the Group beginning July 1, 2009. It clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of Revised PFRS 3.

Improvements to PFRSs

The omnibus amendments to PFRSs issued in 2009 were issued primarily with a view of removing inconsistencies and clarifying wording. The adoption of the following amendments resulted in changes to accounting policies but did not have any significant impact on the financial position or performance of the Group.

- PFRS 2, *Share-based Payment* clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of revised PFRS 3, *Business Combinations*.

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

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

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

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

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

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

Other amendments resulting from Improvements to PFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

Future Changes in Accounting Policies
The Group did not early adopt the following standards, amendments, improvements and Philippine interpretations:

- PFRS 9, *Financial Instruments: Classification and Measurement*, introduces new requirements on the classification and measurement of financial assets. It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in PAS 39, *Financial Instruments: Recognition and Measurement*. The approach in the new standard is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in PAS 39. The standard is effective date for mandatory adoption on January 1, 2013. Earlier application is permitted for financial statements beginning on or after January 1, 2010 in the Philippines.

- Revised PAS 24, *Related Party Disclosures*, was revised in response to concerns that the previous disclosure requirements and the definition of a 'related party' were too complex and difficult to apply in practice, especially in environments where government control is pervasive. The revised standard addresses these concerns by providing a partial exemption for government-related entities and by providing by simplifying the definition of a related party and removing inconsistencies. The revised standard is effective for annual periods beginning on or after January 1, 2011, with earlier application permitted.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. These transactions are often referred to as debt for equity swaps. The interpretation clarifies the requirements of PFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially.

  It clarifies that:
  - the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability;
  - the equity instruments issued are measured at their fair value. If their fair value cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished; and
  - the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit or loss for the period.

  The interpretation is effective for annual periods beginning on or after July 1, 2010 with earlier application permitted.

- Amendment to PAS 32, *Classification of Rights Issues*, addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment issued today requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendment is effective for annual periods beginning on or after February 1, 2010, with earlier application permitted.

- Amendment to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement*, which is itself an interpretation of PAS 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, applies

in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset and is is effective for annual periods beginning on or after January 1, 2011, with early adoption permitted.

- 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 interpretation is effective for annual periods beginning on or after January 1, 2012.

- Amendment to PFRS 1, *Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters,* relieves first-time adopters of PFRSs from providing the additional disclosures introduced in Amendments to PFRS 7, *Improving Disclosures about Financial Instruments*. It thereby ensures that first-time adopters benefit from the same transition provisions that Amendments to PFRS 7 provides to current PFRS preparers. Additionally, the amendment to PFRS 1 clarifies the conclusions and intended transition for Amendments to PFRS 7. The effective date of the amendment is July 1, 2010, with earlier application permitted.

The Group does not expect any significant impact in the consolidated financial statements when it adopts the above standards, amendments, improvements and Philippine interpretations. The revised and additional disclosures provided by the standards, amendments, improvements and interpretations will be included in the consolidated financial statements when these are adopted in 2011, 2012 and 2013 when applicable.

Summary of Significant Accounting Policies

Foreign Currency Translation
The consolidated financial statements are presented in Philippine peso (₱), which is the Parent Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the entities in the Group is also the Philippine peso. Transactions in foreign currencies are initially recorded in Philippine peso at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at functional currency rate of exchange ruling at the end of reporting period. All differences are taken to consolidated statement of income.

As at the financial reporting period, the statement of financial position of an associate (whose functional currency is other than the Philippine peso) is translated into the presentation currency of the Company (the Philippine peso) at the rate of exchange at the financial reporting period and, the statement of income is translated at the monthly average exchange rates for the year. The exchange differences arising on the translation is recognized in other comprehensive income. Upon disposal of such associate, the component of other comprehensive income relating to that particular foreign operation will be recognized in the consolidated statement of income.

Financial Instruments
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position 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 (regular way trades) are recognized on the trade date (i.e., the date that the Company commits to purchase or sell the asset).

Initial recognition of financial instruments
All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting period.

The Group's financial assets are in the nature of financial assets at FVPL, loans and receivables and AFS financial assets. The Group has no financial assets classified as HTM investments as at December 31, 2010 and 2009.

The Group's financial liabilities are in the nature of other financial liabilities.

Determination of Fair Values of Financial Instruments
The fair value of financial instruments that are traded in active markets at each end of the financial reporting period is determined by reference to quoted market prices or dealer price quotations, bid price for long positions and ask price short positions, without any deduction for transaction costs.

For financial instruments not traded in anctive market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

The Group uses hierarchy in determining and disclosing the fair value of financial instruments by valuation technique:

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 36.

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

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

Financial Assets at FVPL
Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Fair value gains or losses on investments held for trading net of interest income accrued on these assets, are recognized in the consolidated statement of income under "Finance income".

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as financial asset at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated by management on initial recognition as at FVPL, if any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains and losses on them on a different basis; or

- The assets are part of group of financial assets, liabilities or both which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management or investment strategy; or

- The financial instrument contains an embedded derivative that would need to be separately recorded.

As at December 31, 2010 and 2009, investments in structured notes are designated at FVPL since these contain embedded derivatives which significantly modify the notes' cash flows. Also, managed funds and investment in bonds are designated as at FVPL since these are managed and evaluated on a fair value basis, in accordance with a documented investment strategy (see Notes 5 and 36).

Derivative Financial Instruments

Derivative financial instruments (including bifurcated embedded derivatives) are initially recognized at fair value on the date in 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.

An embedded derivative is separated from the hybrid or combined contract if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment of embedded derivatives is only done when there are changes in the terms of the contract that significantly modifies the contractual cash flows.

Where derivatives are designed as effective hedging instruments, provision of hedge accounting apply. Any gains or losses arising from changes in fair value on derivatives that do no quality for hedge accounting are taken directly to profit or loss for the year.

As at December 31, 2010 and 2009, the Group has no outstanding derivative contracts.

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, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The amortization is included in finance expense in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income as "Finance expense".

Loans and receivables are included in current assets if maturity is within twelve (12) months from the end of reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2010 and 2009, the Group's loans and receivables include cash and cash equivalents, trade and other receivables and mine rehabilitation fund (MRF) included in other noncurrent assets in the consolidated statement of financial position (see Notes 4, 6 and 14).

AFS Financial Assets

AFS financial assets are those which are designated as such or do not qualify to be classified or designated as at FVPL, HTM investments or loans and receivables.

Financial assets may be designated at initial recognition as AFS financial assets if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are measured at fair value. The effective yield component of AFS debt instruments, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the consolidated statement of income under "Finance income" or "Finance expense". The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported in other comprehensive income as "Net valuation gains (losses) on AFS financial assets". Unquoted AFS financial assets, where there is no reliable basis of their fair values, are measured at cost less any impairment loss.

AFS financial assets are included in current assets if it is expected to be realized or disposed of within twelve (12) months from the financial reporting period. Otherwise, these are classified as noncurrent assets.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS financial assets are reported as "Interest income" using the EIR. Dividends earned on holding AFS financial assets are recognized in consolidated statement of income when the right of payment has been established. The losses arising from impairment of such investments are recognized in consolidated statement of income.

The Group's investments in quoted debt securities and quoted and unquoted equity securities are classified under this category (see Note 8).

Loans and Borrowings
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the statement of income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in "Finance expense" in the statement of income.

This accounting policy applies primarily to the Group's long-term debt, trade payables and other obligations that meet the above definition (other than liabilities that are covered by other accounting standards, such as income tax payable and pension) (see Notes 15 and 16).

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the 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. In such case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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 of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of income.

Impairment of Financial Assets
The Group assesses at each financial reporting period whether there is any objective evidence that a financial asset or a 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 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 debtors or a group of debtors 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 a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and Receivables

For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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 there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

Interest income continues to be recognized based on the original EIR of the asset. The interest income is recorded as part of "Finance income" in the consolidated statement of income. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss decreases because of 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 financial reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized as other comprehensive 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 while increases in fair value after impairment are recognized directly in equity through the consolidated statement of comprehensive income.

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. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.

Future interest income continues to be accrued based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. The interest income is recorded as part of "Finance income" in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized through the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

If there is objective evidence that an impairment loss on an unquoted equity instrument for AFS financial assets carried at cost, such as unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 for a similar financial asset. Objective evidence of impairment includes, but is not limited to, significant financial difficulty of the issuer or obligor and it becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Offsetting of Financial Instruments

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

Business Combinations and Goodwill from January 1, 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through consolidated statement of income. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in consolidated statement of income or as change to other income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Business Combination Prior to January 1, 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets. Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.
When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.
Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

Business Combination Accounted for Using the Pooling of Interest Method

Business combinations involving entities or entities under common control with no consideration transferred are accounted for using the pooling of interest method which is scoped out of PFRS 3, *Business Combination*. The pooling of interests method generally involve the following:

- The assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, that would otherwise be done under the purchase method. The only adjustments that are made are to harmonize accounting policies;

- No new goodwill is recognized as a result of the combination; the only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred and the equity acquired is reflected within equity;
- The consolidated statement of income reflects the results of the combining entities for the full year, irrespective of when the combination took place;
- Comparatives are presented as if the entities had always been combined.

Inventories

Inventories, excluding the long-term stock pile inventory, are valued at the lower of cost or net realizable value (NRV). Cost is determined by the average production cost during the year for beneficiated nickel silicate ore and limestone ore exceeding a determined cut-off grade and moving average method for materials and supplies. NRV of beneficiated ore and limestone ore inventories is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. For materials and supplies, cost is determined using the moving average method and composed of purchase price, transport, handling and other costs directly attributable to its acquisition. NRV of materials and supplies is the current replacement cost.

Long-term Stock Pile Inventory

The long-term stock pile inventory of RTN is carried at the lower of cost or NRV. Cost is represented by the fair value of the long-term stock pile inventory related to the acquisition of the controlling interest in RTN in August 2006. The fair value was determined using the present value of the estimated cash flows which RTN will derive from the sale of this inventory to Coral Bay Nickel Corporation (CBNC) under its Nickel Ore Supply Agreement with CBNC (see Note 32). NRV of long-term inventory stock pile is the cost less any allowance for impairment losses.

Property and Equipment

Except for land, property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment loss. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Land is stated at cost less any impairment in value.

Depreciation is computed on the straight-line basis over the following estimated useful lives of the assets:

Category	Number of Years
Machinery and equipment	5
Buildings and improvements	5-25

Mining properties and development costs include the capitalized cost of mine rehabilitation and decommissioning. Depletion on mining properties and development costs is calculated based on the unit-of-production method based on the estimated economically recoverable reserves to which they relate to or are written-off if the property is abandoned.

The asset revaluation surplus which arose from the acquisition of the controlling interest in RTN in August 2006, relates to the land, machinery and equipment, and building improvements. The related and applicable depreciation on these assets is transferred periodically to retained earnings.

Construction in-progress represents work under construction and is stated at cost. Construction in-progress is not depreciated until such time that the relevant assets are completed and available for use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The estimated recoverable reserves, residual values, useful lives and depreciation and depletion methods are reviewed periodically to ensure that the estimated recoverable reserves, residual values, periods and methods of depreciation and depletion are consistent with the expected pattern of economic benefits from items of property and equipment. The residual values, if any, is reviewed and adjusted, if appropriate, at each end of reporting period.

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

When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

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

Investment Property
Investment property is measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation.

Depreciation is computed on a straight-line basis over estimated useful life of twelve (12) years.

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

As the accounting for the investment property uses the cost model, transfers between investment property and owner-occupied property do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Investment in an Associate
The Group's investment in an associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of earnings or losses of an associate is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Deferred Mine Exploration Costs
Expenditures for mine exploration work prior to drilling are charged to operations. Expenditures for the acquisition of property rights are capitalized. When it has been established that a mineral deposit is commercially mineable and a decision has been made to formulate a mining plan (which occurs upon completion of a positive economic analysis of the mineral deposit), costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized. Upon the start of commercial operations, such costs are transferred to property and equipment. Capitalized amounts may be written down if future cash flows, including potential sales proceeds related to the property, are projected to be less than the carrying value of the property. If no mineable ore body is discovered, capitalized acquisition costs are expensed in the period in which it is determined that the mineral property has no future economic value.

Costs incurred during the start-up phase of a mine are expensed as incurred. Ongoing mining expenditures on producing properties are charged against earnings as incurred. Major development expenditures incurred to expose the ore, increase production or extend the life of an existing mine are capitalized.

Impairment of Non Financial Assets

Property and Equipment, Investment Property and Other Noncurrent Assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or CGU is written down to its 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 asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses are recognized in consolidated statement of income.

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

Investment in an Associate

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in an associate. The Group determines at end of reporting period whether there is any objective evidence that the investment in an associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in consolidated statement of income.

Deferred Mine Exploration Costs

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

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

Provisions

General

Provisions are recognized when 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. The expense relating to any provision is presented in consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, 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 a borrowing cost.

Provision for Mine Rehabilitation and Decommissioning
The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is installed or the ground/ environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in consolidated statement of income as "Finance expense". Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and provision for mine rehabilitation and decommissioning when they occur. Decrease in rehabilitation liability that exceeds the carrying amount of the corresponding rehabilitation asset is recognized immediately in consolidated statement of income. For closed sites, changes to estimated costs are recognized immediately in consolidated statement of income.

MRF committed for use in satisfying environmental obligations are included within "Other noncurrent assets" in the consolidated statement of financial position.

Other Comprehensive Income
Other comprehensive income comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRS.

Capital Stock
Common shares are classified as equity.

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

Preferred shares are classified as equity if it is non-redeemable, or redeemable only at the Parent Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Parent Company's BOD. Preferred shares are classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in the consolidated statement of income as accrued.

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

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

Retained Earnings
Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments. When the retained earnings account has a debit balance, it is called "deficit." A deficit is not an asset but a deduction from equity.

Basic/Diluted Earnings (Loss) Per Share
Basic earnings (loss) per share amounts are calculated by dividing the net income (loss) attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year.

Diluted earnings (loss) per share amounts are calculated by dividing the net income (loss) attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares, excluding treasury shares.

Revenue Recognition

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

Sale of Beneficiated Nickel Ore and Limestone Ore

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which in the case of deliveries other than to CBNC, coincides with the loading of the ores into the buyer's vessel. In the case of deliveries to CBNC, this occurs at the time the ore passes into the ore preparation hopper of CBNC's plant. Under the terms of the arrangements with customers, the Group bills the remaining ten to twenty percent (10% - 20%) of the ores shipped based on the assay tests agreed by both the Group and the customers. Where the assay tests are not yet available as at end of financial reporting period, the Group accrues the remaining ten to twenty percent (10% - 20%) of the revenue based on the amount of the initial billing made.

Rendering of Services

Revenue from rendering of services of RTN consists of construction contracts and service fees. Contract fee is recognized by reference to the stage of completion of the service. Service fee is recognized as the services are substantially rendered.

Interest

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

Dividend

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

Rental

Revenue is recognized based on a straight-line basis over the term of the lease agreement.

Cost and Expenses Recognition

Cost and expenses are decreases in economic benefits during the financial reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Cost and expense, interest expense and other finance costs are recognized in consolidated statement of income in the period these are incurred.

Leases

Determination of Whether an Arrangement Contains a Lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

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

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

Group as a Lessee

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

Group as a Lessor

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

Pension Benefits
The Group has two funded and two unfunded noncontributory defined benefit retirement plans covering substantially all of its employees. Pension costs are actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded ten percent (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 plans.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately in the consolidated statement of income.

The defined pension asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized 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.

Share-based Payment Transactions
The executives of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of income charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in personnel costs.

No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or 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 vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The option to purchase the Parent Company's 12 million common shares was excluded from the computation of diluted earnings per share because the effect was antidilutive (see Note 20).

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 end of the reporting period.

Current income tax relating to items recognized directly in the consolidated statement of changes in equity is recognized in equity and not in consolidated statement of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in foreign subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits and unused tax losses can be utilized except:

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

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

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

Deferred tax relating to items recognized outside consolidated statement of income is recognized outside consolidated statement of income. Deferred income tax items are recognized in correlation to the underlying transaction either in other income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Business Segments

For management purposes, the Group is organized into operating segments (mining and services) according to the nature of the products and the services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The segment locations are the basis upon which the Group reports its primary segment information for the mining segment. All of the segments operate and generate revenue only in the Philippines. Financial information on business segments is presented in Note 40.

Contingencies

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

Events after the Reporting Period

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

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

The consolidated financial statements prepared in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

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

Judgments

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

Determining Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Parent Company, the functional currency of the Parent Company has been determined to be the Philippine peso. Each subsidiary in the Group also determines its own functional currency. The functional currency of the subsidiaries in the Group is also the Philippine peso. The functional currency is the currency of the primary economic environment in which the Parent Company and its subsidiaries operates. It is the currency that mainly influences the expenses, in which funds from financing activities are generated, and in which receipts from operating activities are generally retained.

Valuation of Long-Term Inventory Stock Pile

The determination of the Group's long-term inventory stockpile include among others, projected revenues, operating and delivering costs from the sale of the long-term stock pile. Actual results that differ from the Group's assumptions generally affect the Group's recognized expense and recorded obligation in such future periods. The long-term stock pile inventory is carried at the lower of cost or NRV. An allowance for inventory losses is recognized when the carrying value of those assets is not recoverable and exceeds their NRV. Long-term stock pile – net of current portion amounted to ₱965.0 million and ₱1,108.2 million as at December 31, 2010 and 2009, respectively (see Note 13).

Assessing Recoverability of Deferred Mine Exploration Costs

The application of the Group's accounting policy for deferred mine exploration costs requires judgment in determining whether it is likely that future economic benefits are certain, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after mine explorations costs are capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in consolidated statement of income in the period when the new information becomes available. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds their fair value.

Deferred mine exploration costs, included in "Other noncurrent assets", as at December 31, 2010 and 2009 amounted to ₱79.3 million and ₱47.0 million, respectively. Allowance for impairment losses recognized on deferred mine exploration costs amounted to ₱10.3 million as at December 31, 2010 and 2009 for both years (see Note 14).

Determining Operating Lease Commitments - Group as a Lessee

The Group has entered into commercial property and vehicle leases. The Group has determined that it does not retain all the significant risks and rewards of ownership of these properties which are leased on operating leases.

Determining Operating Lease Commitments - Group as a Lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Assessing Production Start Date

The Group assesses the stage of each mine development project to determine when a mine moves into the production stage. The criteria used to assess the start date of a mine are determined based on the unique nature of each mine development project. The Group considers various relevant criteria to assess when the mine is substantially complete, ready for its intended use and moves into the production phase. Some of the criteria include, but are not limited to the following:

- the level of capital expenditure compared to construction cost estimates;
- completion of a reasonable period of testing of the property and equipment;
- ability to produce ore in saleable form; and
- ability to sustain ongoing production of ore.

When a mine development project moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for capitalizable costs related to mining asset additions or improvements, mine development or mineable reserve development. It is also at this point that depreciation or amortization commences.

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty as at reporting period, that have the most significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are as follows:

Estimating Allowance for Impairment Losses on Trade and Other Receivables

The Group evaluates specific accounts where the Group has information that certain customers are unable to meet their financial obligations. The Group assesses individually the receivables based on factors that affect its collectibility. Factors such as the Group's length of relationship with the customers and the customer's current credit status are considered to ascertain the amount of allowances that will be recorded in the receivables account. These allowances are re-evaluated and adjusted as additional information is received.

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

The carrying value of trade and other receivables amounted to ₱1,113.3 million and ₱1,338.9 million as at December 31, 2010 and 2009, respectively. Allowance for impairment losses on trade and other receivables amounted to ₱214.3 million and ₱215.2 million as at December 31, 2010 and 2009, respectively (see Note 6).

Estimating Beneficiated Nickel Ore and Limestone Ore Reserves

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties. The Group estimates its ore reserves based on information compiled by Competent Persons as defined in accordance with Philippine Mineral Reporting Code (PMRC) which depend significantly on the interpretation of geological data obtained from drill holes and other sampling techniques, which is extrapolated to produce estimates of the size, shape, depth and grade of ore bodies. In addition, to calculate the reserves in accordance with the Joint Ore Reserves Committee (JORC) Code, the Group makes estimates and assumptions regarding a number of economic and technical factors, such as production rates, grades, production and transport costs and prices. These economic and technical estimates and assumptions may change in the future in ways that affect the quality and quantity of the reserves. The Group reviews and updates estimates as required, but at least annually, to reflect actual production, new exploration data or developments and changes in other assumptions or parameters. These estimates will change from time to time to reflect mining activities, analyses of new engineering and geological data, changes in ore reserve and mineral resource holdings, modifications of mining plans or methods, changes in nickel prices or production costs and other factors.

Estimating Allowance for Impairment Losses on Inventory

The Group maintains allowance for inventory losses at a level considered adequate to reflect the excess of cost of inventories over their NRV. NRV tests are performed at least annually and represent the estimated future sales price of the product based on prevailing spot metals prices at the reporting period, less estimated costs to complete production and bring the product to sale. Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained ore ounces based on assay data. Stockpile tonnages are verified by periodic surveys. Increase in the NRV of inventories will increase the cost of inventories but only to the extent of their original production costs.

As at December 31, 2010 and 2009, inventories carried at lower of cost or NRV amounted to ₱1,416.4 million and ₱1,503.3 million, respectively. Allowance for inventory losses recognized amounted to ₱384.3 million and ₱440.6 million as at December 31, 2010 and 2009, respectively (see Note 7).

Estimating Impairment Losses on AFS Financial Assets
The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as twenty percent (20%) or more of the original cost of investment, and "prolonged", as greater than six (6) months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and discount factors for unquoted equities in determining the amount to be impaired.

The fair value of AFS financial assets amounted to ₱1,377.1 million and ₱1,964.7 million as at December 31, 2010 and 2009, respectively (see Note 8).

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

The carrying values of property and equipment as at December 31, 2010 and 2009 amounted to ₱3,762.6 million and ₱2,156.7 million, respectively. The balance of the accumulated depreciation of property and equipment amounted to ₱2,581.6 million and ₱2,485.1 million as at December 31, 2010 and 2009, respectively. The carrying values of investment property as at December 31, 2010 and 2009 amounted to ₱50.9 million and ₱60.1 million, respectively. The balance of the accumulated depreciation of investment property amounted to ₱53.3 million and ₱44.0 million as at December 31, 2010 and 2009, respectively (see Notes 10 and 11).

Estimating Impairment Losses on Property and Equipment and Investment Property
The Group assesses impairment on property and equipment and investment property whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

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

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

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss is recognized and charged to earnings if the discounted expected future cash flows are less than the carrying amount. Fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the market rate for a term consistent with the period of expected cash flows. No impairment loss was recognized in 2010 and 2009.

The aggregate net book values of property and equipment amounted to ₱3,762.6 million and ₱2,156.7 million as at December 31, 2010 and 2009, respectively. The aggregate net book values of investment property amounted to ₱50.9 million and ₱60.1 million as at December 31, 2010 and 2009, respectively (see Notes 10 and 11).

Estimating Impairment Losses on Investment in an Associate
Impairment review of investment in an associate is performed when events or changes in circumstances indicate that the carrying value exceeds its fair value. Management has determined that there are no events or changes in circumstances in 2010 that may indicate that the carrying value of investment in an associate may not be recoverable. The carrying values of the Group's investment in an associate amounted to ₱4,570.5 million as at December 31, 2010 (see Note 12).

Estimating Allowance for Impairment Losses on Nonfinancial Other Current Assets and Other Noncurrent Assets
The Group provides allowance for impairment losses on nonfinancial other current assets and other noncurrent assets when they can no longer be realized. The amounts and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease other current assets or other noncurrent assets.

The carrying value of other current assets amounted to ₱53.0 million and ₱248.9 million as at December 31, 2010 and 2009, respectively, while other noncurrent assets, net of cash held in escrow, MRF, deferred mine exploration costs and pension asset, amounted to ₱548.6 million and ₱555.8 million as at December 31, 2010 and 2009, respectively. There is no allowance for impairment losses on the Group's nonfinancial other current assets and other noncurrent assets as at December 31, 2010 and 2009 (see Notes 9 and 14).

Estimating Provision for Mine Rehabilitation and Decommissioning
The Group assesses its provision for mine rehabilitation and decommissioning annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the provision. 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 end of reporting period 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 statement of financial position by adjusting the rehabilitation asset and liability. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of income.

Provision for mine rehabilitation and decommissioning amounted to ₱55.4 million and ₱46.2 million as at December 31, 2010 and 2009, respectively (see Note 17).

Determining Pension Benefits
The determination of the Group's obligation and cost for pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions, as described in Note 33, include among others, discount rates, expected rates of return and future salary increase rates. In accordance with PAS 19, actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligations in such future periods. While management believes that its assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the Group's pension and other retirement obligations.

As at December 31, 2010 and 2009, pension asset included under "Other noncurrent assets" account amounted to ₱19.8 million and ₱16.6 million, respectively (see Notes 14 and 33). Pension liability amounted to ₱49.0 million and ₱50.3 million as at December 31, 2010 and 2009, respectively (see Note 33).

Share-based Payment Transactions
The Parent Company's Executive Stock Option Plan (ESOP) grants qualified participants the right to purchase common shares of the Company at a grant price. The ESOP recognizes the services received from the eligible employees and an equivalent adjustment to the equity account over the vesting period. The Parent Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 19. While management believes that the estimates and assumptions used are reasonable and appropriate, significant differences in actual experience or significant changes in the estimates and assumptions may materially affect the stock compensation costs charged to operations.

The cost of share-based payment plan recognized as expense in 2010, with a corresponding charge to the equity account amounted to ₱1.1 million. As at December 31, 2010, the balance of employee share-based payment plan amount in the equity section of the consolidated statement of financial position amounted to ₱1.1 million.

Assessing Recoverability of Deferred Income Tax Assets
The Group reviews the carrying amounts of deferred income tax assets at each end of reporting period and reduces the amounts to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

The Group has net deferred income tax assets amounting to ₱414.0 million and ₱273.1 million as at December 31, 2010 and 2009, respectively (see Note 34).

Determining Fair Values of Financial Instruments
Where the fair values of financial assets and liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility and correlation. Certain financial assets and liabilities were initially recorded at its fair value (see Note 36).

4. Cash and Cash Equivalents

	2010	2009
Cash on hand and with banks	**₱1,847,488**	₱642,580
Short-term cash investments	**4,958,480**	6,136,635
	₱6,805,968	₱6,779,215

Cash with banks earn interest at the respective bank deposit rates. Short-term cash investments are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group and earn interest at the respective short-term cash investment rates.

The Group has United States dollar (US$)-denominated cash and cash equivalents amounting to ₱4,006.0 million and ₱6,449.3 million as at December 31, 2010 and 2009, respectively (see Note 35).

Interest income earned from cash and cash equivalents amounted to ₱123.8 million, ₱152.5 million and ₱232.8 million in 2010, 2009 and 2008, respectively (see Note 28).

Cash with banks amounting to ₱297.0 million representing proceeds from the IPO, were deposited in escrow and are restricted as to withdrawal for specified purpose as determined in the prospectus submitted with the SEC (see Note 14).

5. Financial Assets at FVPL

This account consists of investments that are designated as at FVPL. Designated FVPL investments consist of structured notes with embedded derivatives (e.g., call and put options) that significantly modify the notes' cash flows, mutual funds that are managed on a fair value basis and investment in bonds with put option feature.

FVPL investments include:

Investment	Terms	**2010**	2009
Structured Notes			
Commodity-Linked Investments	US$1.0 million investment in certificate of deposits with a coupon of 12% and maturing in January 2010. The deposits are linked to crude oil commodities. The return will be 100% if the prices of crude oil are or above US$66.27. 175% return will be received if the prices of crude oil commodities are or above US$115.97.	**₱–**	₱48,598

(Forward)

Investment	Terms	2010	2009
	US$1.0 million investment in certificate of deposits with a coupon of 12% and maturing in March 2010. The deposits are linked to crude oil commodities. The return will be 100% if the prices of crude oil are or above US$70.94. 180% return will be received if the prices of crude oil commodities are or above US$127.69.	–	46,200
	US$1.0 million investment in certificate of deposits with a coupon of 12% and maturing in March 2010. The deposits are linked to crude oil commodities. The return will be 100% if the prices of crude oil are or above US$78.10. 175% return will be received if the prices of crude oil commodities are or above US$136.68.	–	45,242
Equity-Linked Investments	Investment linked to Sumitomo Metal Mining Co. Ltd. (SMM) shares with notional amount of JPY49.5 million and maturing in January 2010. If the closing price of the underlying is at or above the put strike price of JPY1,268.1, the note will be redeemed at 100% in cash but if the closing price of the underlying is below the put strike price, the Parent Company will receive 39,000 shares at the strike price and the residue balance in cash.	–	24,503
Managed Funds	US$0.004 million investment in managed funds with the objective of capital appreciation over the medium term. The funds invest in convertible bonds of Asia outside of Japan, and in equivalent transferable securities. This fund yields 1.8% per annum.	**₱–**	₱62,622
	US$1.0 million investment in managed funds listed in the Irish Stock Exchange, with monthly redemption yielding dividends of up to US$12.5 per share.	–	43,587
Investment in Bonds	US$1.0 million bond certificates (notional amount of US$1 per bond) maturing in January 2010 with a fixed coupon rate of 6% per annum.	–	47,463
		₱–	₱318,215

The fair value of settled financial assets at FVPL amounted to ₱457.1 million, ₱1,568.1 million and ₱811.0 million in 2010, 2009 and 2008, respectively. Net changes in fair value of financial assets at FVPL amounted to a gain (loss) of ₱2.0 million, ₱52.9 million and (₱37.3 million) in 2010, 2009 and 2008, respectively (see Notes 28 and 29).

Interest income earned in 2010, 2009 and 2008 amounted to ₱5.0 million, ₱9.6 million and ₱2.6 million, respectively (see Note 28).

6. Trade and Other Receivables

	2010	2009
Trade (see Note 32)	**₱433,810**	₱701,102
Receivable from CBNC (see Note 32)	**662,561**	524,950
Amounts owed by related parties (see Note 32)	**2,871**	21,772
Receivable from World Aviation Corporation (WAC)	–	13,860
Others (see Note 32)	**228,326**	292,428
	1,327,568	1,554,112
Less allowance for impairment losses	**214,313**	215,234
	₱1,113,255	₱1,338,878

Trade receivables and receivable from CBNC are noninterest-bearing and are generally on seven (7)-day to thirty (30)-day terms.

The Group has United States dollar (US$)-denominated trade and other receivables amounting to ₱728.1 million and ₱908.9 million as at December 31, 2010 and 2009, respectively (see Note 35).

Other receivables comprise mainly of receivables from contractors and suppliers which are noninterest-bearing and are generally collectible on demand. These include receivable from THNC amounting to ₱3.1 million and ₱78.8 million as at December 31, 2010 and 2009, respectively (see Note 32).

On October 17, 2006, RTN entered into a Deed of Sale with WAC for the sale of its Citation Aircraft for US$1.5 million of which US$0.3 million was received as payment at the date of the execution of the contract and the balance of US$1.2 million receivable in four (4) equal annual installments beginning November 2007 with interest of three percent (3%) per annum.

On November 21, 2006, RTN, WAC and a local bank entered into an escrow agreement wherein the balance of US$1.2 million was deposited in escrow with the local bank which should be released to RTN in accordance with the schedule of payment as indicated in the Deed of Sale. RTN received the last payment in November 2010 amounting to $0.3 million.

Movements of allowance for impairment losses as at December 31, 2010 and 2009 follow:

2010	**Trade**	**Others**	**Total**
Balances at January 1	**₱213,168**	**₱2,066**	**₱215,234**
Acquisition of LCSLC (see Note 31)	**5,633**	**–**	**5,633**
Provision (see Note 29)	**26,756**	**–**	**26,756**
Recovery (see Note 29)	**(22,105)**	**–**	**(22,105)**
Foreign exchange adjustment	**(11,205)**	**–**	**(11,205)**
Balances at December 31	**₱212,247**	**₱2,066**	**₱214,313**

2009	Trade	Others	Total
Balances at January 1	₱166,751	₱154	₱166,905
Provision (see Note 29)	38,906	1,912	40,818
Write-off (see Note 29)	(3,567)	–	(3,567)
Foreign exchange adjustment	11,078	–	11,078
Balances at December 31	₱213,168	₱2,066	₱215,234

7. Inventories

	2010	2009
Beneficiated nickel ore and limestone ore - at cost	**₱740,852**	₱889,806
Beneficiated nickel ore - at NRV	**275,119**	230,876
Current portion of long-term stock pile inventory (see Note 13)	**143,184**	162,201
Materials and supplies:		
At NRV	**214,805**	178,637
At cost	**42,471**	41,805
	₱1,416,431	₱1,503,325

Movements of allowance for inventory losses in 2010 and 2009 follow:

2010	**Beneficiated nickel ore**	**Materials and supplies**	**Total**
Balances at January 1	**₱418,177**	**₱22,469**	**₱440,646**
Recovery during the year (see Note 30)	**(56,330)**	**–**	**(56,330)**
Balances at December 31	**₱361,847**	**₱22,469**	**₱384,316**

2009	Beneficiated nickel ore	Materials and supplies	Total
Balances at January 1	₱418,177	₱21,628	₱439,805
Provision during the year (see Note 30)	–	11,271	11,271
Recovery during the year (see Note 30)	–	(10,430)	(10,430)
Balances at December 31	₱418,177	₱22,469	₱440,646

The cost of beneficiated nickel ore provided with allowance for inventory losses amounted to ₱637.0 million and ₱649.1 million as at December 31, 2010 and 2009, respectively, while the cost of materials and supplies provided with allowance for inventory losses amounted to ₱237.3 million and ₱201.1 million as at December 31, 2010 and 2009, respectively.

8. AFS Financial Assets

	2010	2009
Quoted instruments:		
Debt security	**₱295,481**	₱723,362
Equity securities	**227,271**	386,952
Unquoted equity securities	**854,385**	854,385
	₱1,377,137	₱1,964,699

Quoted instruments are carried at fair market value as at end of the reporting period. Unquoted equity instruments are carried at cost as at end of the reporting period, since the fair values of these investments cannot be reliably measured.

The movements in AFS financial assets account follow:

	2010	2009
Balances at January 1	**₱1,964,699**	₱1,211,225
Additions	**1,732,591**	2,143,085
Disposals	**(2,323,172)**	(1,436,410)
Effect of changes in foreign exchange rate	**(8,928)**	(16,676)
Movements recognized in equity:		
Gains recognized in equity	**1,701**	71,438
Reclassification adjustments for income included in consolidated statement of income (see Note 29)	**9,520**	1,191
Income tax effect	**(1,893)**	(7,769)
Valuation gains taken into the consolidated statement of comprehensive income - net of tax	**9,328**	64,860
Non-controlling interest in gains (losses) recognized in equity	**2,619**	(1,385)
Balances at December 31	**1,377,137**	1,964,699
Less: noncurrent portion	**907,161**	883,408
Current portion	**₱469,976**	₱1,081,291

AFS financial assets pertain to investments in common and preferred shares of various local and foreign public and private companies, golf club shares and debt securities. As at December 31, 2010 and 2009, quoted shares amounting to ₱227.3 million and ₱389.9 million, respectively, were classified as current based on management's intention to dispose the shares within one (1) year from end of reporting period. The noncurrent portion of AFS financial assets amounted to ₱907.2 million and ₱883.4 million as at December 31, 2010 and 2009, respectively. As at December 31, 2010, the Group has no intention to dispose its unquoted equity shares within the next year.

Dividend income earned from AFS financial assets amounted to ₱120.2 million in 2010, of which ₱114.0 million relates to dividends coming from investments in unquoted securities, ₱1.0 million and ₱69.1 million in 2009 and 2008, respectively (see Note 30).

The valuation gains (losses) of ₱9.3 million, ₱64.9 million and ₱122.0 million is net of share in non-controlling interest amounting to ₱2.6 million, (₱1.4 million) and (₱0.3 million) as at December 31, 2010, 2009 and 2008, respectively.

The Group uses the specific identification method in determining the cost of securities sold.

The Group recognized impairment losses of nil, ₱3.3 million and ₱36.6 million in 2010, 2009 and 2008, respectively, pertaining to AFS equity instruments presented in profit or loss in the consolidated statement of income under "Finance expense" (see Note 29).

9. Other Current Assets

	2010	2009
Tax credit certificates	**₱22,702**	₱215,356
Prepaid rent	**13,222**	14,050
Prepaid insurance	**10,411**	15,440
Advances and deposits	**3,058**	500
Others	**3,600**	3,582
	₱52,993	₱248,928

10. Property and Equipment

	2010					
	Land	Mining Properties and Development Costs	Machinery and Equipment	Buildings and Improvements	Construction In-progress	Total
Cost:						
Balances at January 1	₱241,417	₱314,476	₱3,283,525	₱789,349	₱13,062	₱4,641,829
Acquisition of LCSLC (see Note 31)	–	–	157,698	–	–	157,698
Additions	820	–	754,526	13,534	1,209,673	1,978,553
Capitalized borrowing costs (see Note 16)	–	–	–	–	5,089	5,089
Transfers (see Note 39)	–	94,141	(3,788)	12,691	(8,903)	94,141
Disposals	–	–	(475,558)	(57,589)	–	(533,147)
Balances at December 31	242,237	408,617	3,716,403	757,985	1,218,921	6,344,163
Accumulated depreciation and depletion:						
Balances at January 1	–	174,094	1,985,626	325,422	–	2,485,142
Acquisition of LCSLC (see Note 31)	–	–	77,754	–	–	77,754
Depreciation and depletion (see Note 27)	–	1,987	463,367	85,608	–	550,962
Disposals	–	–	(474,713)	(57,589)	–	(532,302)
Balances at December 31	–	176,081	2,052,034	353,441	–	2,581,556
Net book values	₱242,237	₱232,536	₱1,664,369	₱404,544	₱1,218,921	₱3,762,607

	2009					
	Land	Mining Properties and Development Costs	Machinery and Equipment	Buildings and Improvements	Construction In-progress	Total
Cost:						
Balances at January 1	₱242,154	₱176,080	₱3,124,229	₱747,360	₱40,007	₱4,329,830
Additions	998	–	199,580	29,321	10,149	240,048
Adjustment for capitalized cost of mine rehabilitation and decommissioning (see Note 17)	–	3,824	–	–	–	3,824
Transfers (see Note 39)	(1,735)	134,572	24,152	12,942	(37,094)	132,837
Disposals	–	–	(64,436)	(274)	–	(64,710)
Balances at December 31	241,417	314,476	3,283,525	789,349	13,062	4,641,829
Accumulated depreciation and depletion:						
Balances at January 1	–	174,092	1,659,241	251,693	–	2,085,026
Depreciation and depletion (see Note 27)	–	2	387,171	74,003	–	461,176
Transfers	–	–	(330)	–	–	(330)
Disposals	–	–	(60,456)	(274)	–	(60,730)
Balances at December 31	–	174,094	1,985,626	325,422	–	2,485,142
Net book values	₱241,417	₱140,382	₱1,297,899	₱463,927	₱13,062	₱2,156,687

Borrowing costs amounting to ₱5.1 million and nil in 2010 and 2009, respectively, were capitalized as part of construction in-progress. The rate used to determine the amount of borrowing costs eligible for capitalization was 2.45%, which is the EIR of the specific borrowing (see Note 16).

Pier facilities (included under "Buildings and Improvements") with a carrying value of ₱290.7 million and ₱338.3 million as at December 31, 2010 and 2009, respectively, were mortgaged as collateral for the long-term debt mentioned in Note 16.

Depreciation on the excess of the fair value of the assets acquired from RTN over their corresponding book values transferred to retained earnings amounted to ₱0.4 million in 2010, 2009 and 2008.

11. **Investment Property**

	2010	2009
Cost:		
Balances at January 1 and December 31	**₱104,096**	₱104,096
Accumulated depreciation:		
Balances at January 1	**44,043**	34,835
Depreciation (see Note 27)	**9,208**	9,208
Balances at December 31	**53,251**	44,043
Net book values	**₱50,845**	₱60,053

Investment property consists of condominium units rented out as office spaces (see Note 37f). Rental income in 2010, 2009 and 2008 amounted to ₱9.9 million, ₱8.4 million and ₱9.1 million, respectively (see Note 30). Direct operating expenses in 2010, 2009 and 2008 amounted to ₱8.7 million, ₱4.7 million and ₱5.9 million, respectively included under the "General and administrative expenses".

The estimated fair value of investment property amounted to ₱162.3 million and ₱160.6 million as at December 31, 2010 and 2009, respectively, based on the capital value per square meter of Grade B commercial condominiums in Makati Central Business District.

12. **Investment in an Associate**

The Parent Company, together with SMM and Mitsui Co., Ltd., signed a Shareholders' Agreement on September 15, 2010, dividing the ownership of Taganito HPAL Nickel Corporation (THNC), into twenty two point five percent (22.5%), sixty two point five percent (62.5%) and fifteen percent (15.0%), respectively.

On November 4, 2010, pursuant to the terms of the above agreement, the Parent Company entered into a subscription agreement with THNC for the subscription of 921,375,000 common shares for the total amount of US$ 102,375,000 or ₱4,443.08 million equivalent to 22.5% interests in THNC.

THNC, a private entity that is not listed on any public exchange, was incorporated and registered with the Philippine SEC on August 22, 2008. Its principal activities, once operational, consist of the manufacture and export of nickel/cobalt mixed sulfide. THNC is currently undertaking construction and has not yet started commercial operations as at December 31, 2010.

The following are the summarized financial information of THNC as at December 31, 2010. THNC's financial statements are stated in US$ and translated at the closing rate of US$1 ₱ ₱43.84 as at December 31, 2010 for assets and liabilities accounts, historical rates for equity accounts and average rate of US$1 ₱ ₱45.12 for the statement of income accounts in 2010.

Current assets	₱7,238,310
Noncurrent assets	13,128,402
Current liabilities	53,586
Net Assets	₱20,313,126
Income	₱5,969
Operating expenses	(34,468)
Net loss	(₱28,499)

Movements in the investment in an associate follow:

Acquisition costs	₱4,443,075
Equity in net losses for the period	(6,412)
Share in cumulative translation adjustment	133,790
	₱4,570,453

The balance of investment in an associate includes goodwill of ₱105.4 million as at December 31, 2010 while the share in cumulative translation adjustment of an associate is gross of deferred tax liability amounting to ₱13,379 (see Note 34).

13. **Long-term Stock Pile Inventory**

The long-term stock pile inventory pertains to low grade ore extracted from RTN's minesite. This amount was not recognized in RTN's books but was recognized by the Parent Company when it acquired the controlling interest in RTN (see Note 1). The low grade ore inventory was initially recognized and valued at fair value. The fair value of the long-term stockpile inventory was computed using the present value of the estimated future cash flows of RTN which it will derive from the long-term Nickel Ore Supply Agreement with CBNC (see Note 32a). Subsequently, this fair value represented the cost of the long-term stock pile inventory (see Note 31).

The fair value of the inventory as at the date of acquisition amounted to ₱2,036.7 million (see Note 31). A portion amounting to ₱143.2 million and ₱162.2 million representing the estimated future cash flows from the low grade ore inventory that will be delivered to CBNC in the next accounting period, was shown as part of "Inventories" as at December 31, 2010 and 2009, respectively (see Note 7).

The carrying value of long-term stock pile - net of current portion amounted to ₱965.0 million and ₱1,108.2 million as at December 31, 2010 and 2009, respectively.

14. Other Noncurrent Assets

	2010	2009
Cash held in escrow (Note 4)	**₱297,010**	₱–
Input tax	**289,111**	248,732
Advances to claimowners (see Note 37d)	**240,329**	248,798
Deferred mine exploration costs - net (see Note 31)	**79,276**	46,971
MRF	**32,755**	33,319
Pension asset (see Note 33)	**19,750**	16,615
Others	**19,133**	11,295
	₱977,364	₱605,730

Input tax represents the value added tax (VAT) paid on purchases of applicable goods and services, net of output tax, 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.

Advances to claimowners represent advance royalty payments to East Coast Mineral Resources Co., Inc. (East Coast), La Salle Mining Exploration Company (La Salle), Kepha Mining Exploration Company (Kepha) and Ludgoron Mining Corporation (Ludgoron) (see Note 37d).

Deferred mine exploration costs include mining rights amounting to ₱32.3 million and nil as at December 31, 2010 and 2009, respectively (see Note 31).

As at December 31, 2010 and 2009, allowance for impairment losses on deferred mine exploration costs amounted to ₱10.3 million for both years.

15. Trade and Other Payables

	2010	2009
Trade	**₱223,876**	₱104,842
Accrued expenses	**577,009**	616,565
Excise tax	**83,173**	64,881
Withholding tax	**29,160**	27,403
Others	**21,961**	52,532
	₱935,179	₱866,223

Trade, accrued expenses and other payables are noninterest-bearing and are generally settled in less than thirty (30) days' term. Excise tax payable is settled within fifteen (15) days after the end of the quarter when the beneficiated nickel ore and limestone ore were shipped. Withholding taxes are payable ten (10) days after the end of each month. Output tax is derived from other revenues which can be offset against input tax.

The Group has US$-denominated trade and other payables amounting to ₱54.3 million and ₱7.3 million as at December 31, 2010 and 2009, respectively (see Note 35).

16. Long-term Debt

	2010	2009
TMC	**₱1,224,013**	₱–
RTN	**320,238**	387,877
	1,544,251	387,877
Less current portion:		
TMC	**30,600**	–
RTN	**47,825**	50,400
	78,425	50,400
	₱1,465,826	₱337,477

TMC Loan
On October 4, 2010, TMC entered into an Omnibus Agreement with THNC, wherein the latter granted the former a total loan facility amounting to $35.0 million at a prevailing 180-day British Banker Association London Inter-Bank Offered Rate (LIBOR) plus two percent (2%) spread, to finance the construction of the Pier Facilities. The loan shall be drawn down in one or multiple times by July 31, 2011. As at December 31, 2010, TMC's total loan drawn down amounted to $27.9 million, with peso equivalent of ₱1,224.0 million.

Starting 2011, the interest on the loans is payable semi-annually on October 10 and
April 10. The total principal is payable in semi-annual installments of $875,000, starting on October 10, 2011 up to April 10, 2031.

The Omnibus Agreement provides for restriction with respect to creation, assumption, incurrence and permission to exist any lien upon the Pier Facilities and all TMC's other real rights over the same except as permitted under the Omnibus Agreement. Also, the Omnibus Agreement provides for certain conditions which include, among others, maintenance and preservation of TMC's corporate existence, rights, privileges and licenses, prompt submission of written notice to THNC of any and all litigations and administrative arbitration proceedings before any governmental authority affecting TMC, prompt payment of all amounts due under the loan documents and maintenance of all governmental approvals necessary to perform the obligations. As at December 31, 2010, TMC is in compliance with the restrictions.

Interest expense in 2010 amounting to ₱5.1 million was capitalized as part of the cost of construction in-progress (see Note 10).

RTN Loan
On November 25, 2002, RTN entered into an Omnibus Agreement with SMM, wherein the latter granted the former a loan facility amounting to US$1.8 million at prevailing 180-day LIBOR plus two percent (2%) spread, for the construction of the Pier Facilities. In July 2003, an additional loan amounting to US$0.2 million was granted by SMM. Starting 2003, the interest on the original and additional loans is payable semi-annually on February 28 and August 31. The total principal is payable in 20 equal semi-annual installments starting February 28, 2004 up to August 31, 2013. In February 2007, RTN and SMM agreed to an additional loan facility amounting to US$9.0 million. Of the total loan facility, the remaining US$0.5 million was drawn during February and March 2008. The additional loan facility is payable in semi-annual installments starting August 31, 2008 up to February 28, 2018.

In consideration, and to ensure payment of these loans, RTN assigned, transferred, and set over to SMM, absolutely and unconditionally, all of RTN's rights, title, and interest over its future receivable from CBNC under the Throughput Agreement. RTN also constituted a first ranking Mortgage on the Pier Facilities (see Note 10).

The Omnibus Agreement provides for restrictions with respect to creation, assumption, incurrence and permission to exist any lien upon the Pier Facilities and all RTN's other real rights over the same except as permitted under the Omnibus Agreement. Also, the Omnibus Agreement provides for certain conditions which include, among others, maintenance and preservation of RTN's corporate existence, rights, privileges and licenses, prompt submission of written notice to SMM of any and all litigations or administrative or arbitration proceedings before any governmental authority affecting RTN. As at December 31, 2010 and 2009, RTN is in compliance with the restrictions.

The total current portion of long-term debt amounted to ₱78.4 million and ₱50.4 million as at December 31, 2010 and 2009, respectively. Total noncurrent portion of the long-term debt amounted to ₱1,465.8 million and ₱337.5 million as at December 31, 2010 and 2009, respectively.

Interest expense amounted to ₱9.1 million, ₱19.5 million, and ₱20.1 million in 2010, 2009 and 2008, respectively (see Note 29).

17. Provision for Mine Rehabilitation and Decommissioning

	2010	2009
Balance at January 1	**₱46,202**	₱50,134
Accretion interest on provision for mine rehabilitation and decommissioning (see Note 29)	**9,217**	7,621
Effect of change in estimate (see Note 28)	–	(11,553)
Balance at December 31	**₱55,419**	₱46,202

Provision for mine rehabilitation and decommissioning pertains to the estimated decommissioning costs to be incurred in the future on the mined-out areas of the Group.

The Group makes a full provision for the future cost of rehabilitating mine site and related production facilities on a discounted basis on the development of mines or installation of those facilities. The rehabilitation provision represents the present value of rehabilitation costs. These provisions have been created based on the Group's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mine ceases to produce at economically viable rates. This, in turn, will depend upon future ore prices, which are inherently uncertain.

In 2009 and 2008, the Group revised its estimate with regard to mine rehabilitation and decommissioning cost. Net reduction in the provision amounting to nil, ₱11.6 million and ₱18.8 million was recognized as a result of the change in estimate in 2010, 2009 and 2008, respectively (see Notes 10 and 28).

18. Equity

Capital Stock

The capital structure of the Parent Company as at December 31, 2010 and 2009 is as follows:

	2010	2009
Common Stock - ₱0.5 par value		
Authorized - 1,585,600,000 shares		
Subscribed and issued - 1,339,831,828 shares and 957,623,028 in 2010 and 2009, respectively	**₱669,916**	₱478,812
Preferred Stock - ₱0.01 par value		
Authorized - 720,000,000 shares		
Subscribed and issued - 720,000,000 shares in 2010	**7,200**	–
Total	**₱677,116**	₱478,812

Movements in common stock follow:

	Number of Shares	Total
Balances at December 31, 2007	3,390,483	₱3,390,483
Balance at incorporation of surviving entity	16,516,656	8,258
Effect of merger	(3,390,483)	(3,390,483)
Issuance of common stock to effect the merger	805,265,742	402,633
Balances at December 31, 2008	821,782,398	410,891
Issuance of capital stock	135,840,630	67,921
Balances at December 31, 2009	957,623,028	478,812
Declaration of stock dividends	150,000,000	75,000
Issuance of capital stock	232,208,800	116,104
Balances at December 31, 2010	1,339,831,828	₱669,916

Authorized Capital Stock

On February 25, 2009 and April 15, 2009, the Parent Company's stockholders and SEC, respectively, approved the increase in authorized capital stock of the Company from 100 million shares with ₱1.00 par value to 500 million shares with ₱1.00 par value.

On September 20, 2010 and June 16, 2010, the Parent Company's BOD authorized and approved the following resolutions:

a. Increase in authorized capital stock from ₱500.0 million to ₱800.0 million.
b. Creation, from out of the increased authorized capital stock, of 720.0 million preferred shares with a par value of ₱0.01 per share. Preferred share is voting, non-participating but with a fixed cumulative dividend rate of seven percent (7%) per annum.
c. Reduction of the par value of all common stock from ₱1.00 to ₱0.50 per share to effectuate a two-for-one stock split of its shares. The split will result to an additional 412.32 million common shares of stock outstanding.

d. Declaration of stock dividends amounting to ₱75.0 million to existing stockholders of record as at June 15, 2010 to support the increase in its authorized capital stock. On the same date, the stock dividend declaration was approved by the Parent Company's stockholders. The stock dividends correspond to 150.0 million common shares at the issue price equivalent to the reduced par value of ₱0.50 per share.

Issued Capital Stock

The IPO of the Company's shares with an offer price of ₱15.00 per share resulted to the issuance of 217,183,818 common shares and reissuance of 132,991,182 shares held in treasury shares (see Note 1).

In October 2010, shares were issued to Sumitomo Metal Mining Philipine Holdings Corporation (SMMPHC), Nickel Asia Holdings, Inc. (NAHI) and the President of the Parent Company pursuant to the Subscription Agreements entered into on September 24, 2010 whereby:

SMMPHC subscribed to 13,169,982 common shares of the Parent Company for a consideration of ₱206.8 million

The President subscribed to 1,855,000 common shares of the Parent Company for a consideration of ₱26.9 million.

NAHI subscribed to 720,000,000 preferred shares of the Parent Company for a consideration of ₱7.2 million.

In April 2009, pursuant to the Plan of Merger as discussed in Note 1 to the consolidated financial statements, the Company issued capital stock amounting to 385.0 million, divided into 385.0 million common shares with ₱1.0 par value, in exchange for the total net assets of NAC amounting to ₱3,858.9 million. This transaction resulted to the payment of the outstanding unpaid subscription of the Company amounting to ₱16.7 million and additional paid-in capital of ₱2,987.8 million.

Dividends

On August 13, 2010, the Parent Company's BOD declared cash dividends amounting to US$70.0 million, equivalent to ₱3,076.5 million or ₱3.16 per share to stockholders of record as at August 31, 2010. The dividends will be paid at no later than three (3) business days following the listing of the Parent Company's shares in the PSE, provided that if the shares are not listed by December 29, 2010, the cash dividend declaration shall be of no force and effect. The dividends were paid on November 25, 2010.

On January 23, 2009, the Parent Company's BOD declared cash dividends amounting to ₱142.2 million, equivalent to ₱0.35 per share to stockholders of record as at January 1, 2009. The dividends were paid on February 1, 2009.

Treasury Shares

As at December 31, 2009, the Parent Company held 133.0 million shares with total cost of ₱1,822.0 million which were reissued as part of the shares sold through IPO in 2010 (see Note 1).

As at December 31, 2010, the Parent Company has 13 stockholders.

19. Executive Stock Option Plan

On June 16, 2010, the BOD and stockholders of the Parent Company approved the ESOP (the Plan). On December 20, 2010, the Plan was approved by the SEC.

The basic terms and conditions of the ESOP are:

1. The ESOP covers up to 12.0 million shares allocated to Parent Company's officers and the officers of the subsidiaries.
2. The eligible participants are the directors and officers of the Parent Company and its subsidiaries, specifically those with a position of Assistant Vice President and higher, including the Resident Mine Managers of the subsidiaries.
3. The exercise price is ₱13.50.
4. The grant date of the Plan is January 3, 2011 as determined by the Stock Option Committee.
5. The term of the Plan shall be six (6) years and the shares will vest to the participant at the rate of twenty five percent (25%) per year after the first year of the Plan or December 21, 2011.
6. The participant can exercise the vested options by giving notice within the term of the Plan, and can opt to either purchase the shares at the exercise price or request the Parent Company to advance the purchase price and to sell the shares in which case the participant will receive the sales proceeds less the exercise price.

The stock option agreement was made and executed on January 31, 2011 between the Parent Company and the option grantees.

The fair value of the stock options was estimated as at grant date, January 3, 2011, using the Black Scholes-Merton model, taking into account the terms and conditions upon which the options were granted.

The following assumptions were used to determine the fair value of the stock options at effective grant date:

Grant Date	January 3, 2011
Spot price per share	₱15.0
Exercise price	₱13.5
Expected volatility	60.34%
Option life	3.967 years
Dividend yield	2.06%
Risk-free rate	4.50%

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

Cost of share-based payments in 2010 amounted to ₱1.1 million (see Note 26).

20. Basic Earnings Per Share

Basic earnings per common share were computed as follows:

	2010	2009	2008
a. Net income attributable to equity holders of the parent	**₱1,478,870**	₱302,887	₱179,208
b. Weighted average number of common shares issued and outstanding (in thousands)	**1,036,751**	974,852	971,264
Earnings per common share (a/b)	**₱1.43**	₱0.31	₱0.18

The option to purchase the Parent Company's 12.0 million common shares was excluded from the computation of diluted earnings per share because the effect was antidilutive.

There have been no other transactions involving ordinary shares or potential ordinary shares between the financial reporting period and the date of completion of these consolidated financial statements.

21. Cost of Sales

	2010	2009	2008
Production overhead	**₱1,060,868**	₱952,624	₱1,183,849
Outside services	**767,094**	224,553	577,322
Personnel costs (see Note 26)	**521,126**	403,194	461,135
Depreciation and depletion (see Note 27)	**389,699**	337,962	250,139
Long-term stockpile inventory sold (see Note 13)	**162,201**	182,846	173,370
	2,900,988	2,101,179	2,645,815
Net changes in beneficiated nickel ore and limestone ore	**161,040**	415,110	(326,914)
	₱3,062,028	₱2,516,289	₱2,318,901

Outside services pertain to services offered by the contractors related to the mining activities of the Group. These services include, but not limited to, hauling, stevedoring, janitorial, maintenance, security and blasting equipment rental.

22. Cost of Services

	2010	2009	2008
Overhead	**₱57,234**	₱86,396	₱35,393
Outside services	**36,211**	101,018	42,003
Personnel costs (see Note 26)	**32,880**	39,199	34,928
Depreciation and depletion (see Note 27)	**14,742**	14,286	9,165
	₱141,067	₱240,899	₱121,489

23. Shipping and Loading Costs

	2010	2009	2008
Contract fees	**₱511,379**	₱315,944	₱177,564
Fuel, oil and lubricants	**108,314**	112,833	56,220
Personnel costs (see Note 26)	**54,056**	43,860	22,020
Depreciation and depletion (see Note 27)	**49,145**	34,136	33,232
Other services and fees	**98,318**	45,190	10,624
	₱821,212	₱551,963	₱299,660

24. Excise Taxes and Royalties

	2010	2009	2008
Royalties (see Note 37d)	**₱361,722**	₱202,233	₱363,746
Excise taxes (see Note 37d)	**161,486**	86,664	111,591
	₱523,208	₱288,897	₱475,337

25. General and Administrative Expenses

	2010	2009	2008
Personnel costs (see Note 26)	**₱220,385**	₱145,826	₱191,053
Outside services	**61,746**	72,307	81,437
Depreciation (see Note 27)	**55,040**	32,903	31,109
Entertainment, amusement and recreation	**22,495**	15,669	16,160
Taxes and licenses	**21,125**	64,061	122,507
Community relations	**17,736**	48,064	35,705
Transportation and travel	**16,781**	12,252	22,612
Communications, light and water	**11,159**	14,210	11,423
Repairs and maintenance	**3,187**	4,453	10,725
Guarantee fee (see Notes 32b and 37e)	**2,241**	3,146	4,613
Commission	**–**	–	24,754
Others	**43,837**	43,304	61,013
	₱475,732	₱456,195	₱613,111

26. Personnel Costs

	2010	2009	2008
Salaries, wages and employee benefits	**₱779,060**	₱598,575	₱683,897
Pension cost (see Note 33)	**51,390**	36,503	27,910
Cost of share-based payment plan (see Note 19)	**1,101**	–	–
	₱831,551	₱635,078	₱711,807

The amounts of personnel costs are distributed as follows:

	2010	2009	2008
Cost of sales (see Note 21)	**₱521,126**	₱403,194	₱461,135
General and administrative (see Note 25)	**220,385**	145,826	191,053
Shipping and loading costs (see Note 23)	**54,056**	43,860	22,020
Cost of services (see Note 22)	**32,880**	39,199	34,928
Others	**3,104**	2,999	2,671
	₱831,551	₱635,078	₱711,807

27. **Depreciation and Depletion**

	2010	2009	2008
Property and equipment (see Note 10)	**₱550,962**	₱461,176	₱353,417
Investment property (see Note 11)	**9,208**	9,208	8,781
	₱560,170	₱470,384	₱362,198

The amounts of depreciation and depletion expense are distributed as follows:

	2010	2009	2008
Cost of sales (see Note 21)	**₱389,699**	₱337,962	₱250,139
General and administrative (see Note 25)	**55,040**	32,903	31,109
Shipping and loading costs (see Note 23)	**49,145**	34,136	33,232
Cost of services (see Note 22)	**14,742**	14,286	9,165
Others	**51,544**	51,097	38,553
	₱560,170	₱470,384	₱362,198

28. **Finance Income**

	2010	2009	2008
Interest income (see Notes 4 and 5)	**₱128,758**	₱162,052	₱235,460
Gain on:			
Changes in fair value of financial assets at FVPL (see Note 5)	**2,010**	52,865	–
Change in provision for mine rehabilitation and decommissioning estimates (see Note 17)	**–**	15,377	19,935
Transfer from equity to profit or loss of AFS financial assets (see Note 8)	**–**	–	31,751
Recovery of allowance for impairment losses on trade and other receivables	**–**	–	113,134
	₱130,768	₱230,294	₱400,280

29. **Finance Expenses**

	2010	2009	2008
Loss on:			
Derivative transactions - net (see Note 36)	**₱46,987**	₱78,748	₱1,417,068

(Forward)

	2010	2009	2008
Transfer from equity to profit or loss of AFS financial assets (see Note 8)	**9,520**	1,191	–
Changes in fair value of financial assets at FVPL (see Note 5)	**–**	–	37,291
Write-off of trade receivables	**–**	12,489	–
Interest expense (see Note 16)	**10,865**	20,762	39,544
Accretion interest on mine rehabilitation and decommissioning (see Note 17)	**9,217**	7,621	8,655
Provision for impairment losses on trade and other receivables - net (see Note 6)	**4,651**	40,818	19,697
	₱81,240	₱161,629	₱1,522,255

30. **Other Income (Charges)**

	2010	2009	2008
Foreign exchange gains (losses) - net	**(₱482,073)**	(₱214,078)	₱1,060,706
Dividend income (see Note 8)	**120,246**	1,028	69,126
Gain (loss) on:			
Reversal of long-outstanding payable	**74,071**	–	–
Recovery of allowance for inventory losses (see Note 7)	**56,330**	–	–
Bargain purchase (see Note 31)	**10,676**	–	–
Sale of property and equipment	**–**	(719)	368
Reversal of management bonus	**–**	–	153,643
Impairment of deferred mine and exploration costs (see Note 14)	**–**	–	(6,239)
Other services	**61,530**	26,017	21,287
Demurrage	**(34,238)**	(11,769)	–
Materials handling and issuance	**33,691**	604	1,230
Despatch income	**14,055**	11,927	–
Rentals and accommodations	**13,744**	11,928	21,054
Issuance of fuel, oil and lubricants	**6,796**	32,087	57,695
Equity in net losses of an associate (see Note 12)	**(6,412)**	–	–
Special projects	**4,997**	24,657	13,053
Provision for inventory losses (see Note 7)	**–**	(841)	(402,359)
Gain (loss) from pilferage/cargo damages	**–**	1,087	(5,019)
Others - net	**15,905**	46,697	60,866
	(₱110,682)	(₱71,375)	₱1,045,411

Breakdown of the foreign exchange gains (losses) - net follow:

	2010	2009	2008
Realized foreign exchange gains (losses)	**(₱413,291)**	₱17,672	₱171,691
Unrealized foreign exchange gains (losses) on:			
Cash and cash equivalents	**(60,688)**	(210,513)	929,587
Trade and other receivables	**5,016**	(11,095)	3,288
Financial assets at FVPL	**–**	(6,657)	3,657
AFS financial assets	**(8,928)**	(16,676)	24,589
Long-term debt	**(3,420)**	10,259	(62,678)
Other accounts	**(762)**	2,932	(9,428)
	(₱482,073)	(₱214,078)	₱1,060,706

31. **Business Combination**

Acquisition of LCSLC

In April 2010, HMC acquired one hundred percent (100%) of the voting shares of LCSLC, a company registered in the Philippines, primarily engaged in the chartering out of Landing Craft Transport and providing complete marine services. HMC has acquired LCSLC to provide charter services for the Group's nickel operations.

The provisional fair values and carrying values of LCSLC's assets and liabilities at acquisition date are as follows:

	Fair Values	Carrying Values
Assets		
Cash on hand and with banks	₱50	₱50
Trade and other receivables - net	3,088	3,088
Inventories	629	629
Other current assets	15,516	15,516
Property and equipment - net	79,944	38,229
Deferred tax assets	4,938	4,938
Total Assets	104,165	62,450
Liabilities		
Trade and other payables	45,974	45,974
Deferred income tax liability	12,515	–
Total Liabilities	58,489	45,974
Net Assets	45,676	₱16,476
% acquired	100%	
Share on fair value of LCSLC net assets	45,676	
Acquisition cost	35,000	
Gain on bargain purchase (see Note 30)	₱10,676	

Cash flow on acquisition:	
Net cash acquired with the subsidiary	₱50
Cash paid	(35,000)
Net cash outflow	(₱34,950)

From acquisition date to the reporting period, LCSLC has contributed revenues and net income amounting to ₱38.7 million and ₱6.0 million, respectively, to the consolidated statement of income. If the combination had taken place at the beginning of the year, total revenue would have been ₱8,392.0 million and net income for the Group would have been ₱2,312.1 million.

The net assets recognized in the consolidated financial statements were based on a provisional assessment of fair value as the Group had sought an independent valuation for the property and equipment owned by LCSLC. The complete results of this valuation had not been received at the date the consolidated financial statements were approved for issue by the management.

Acquisition of Cordillera Exploration Co. (CEXCI)

In August 2010, the Parent Company entered into a Share and Asset Purchase Agreement (the Agreement) with Anglo American Exploration (Philippines) BV (AAEPB) and Anglo American Exploration (Philippines), Inc. (AAEPI) where the Parent Company agreed to buy AAEPB's direct and indirect rights, interest and obligations in CEXCI, a company incorporated in the Philippines to primarily engage in the business of large-scale exploration, development and utilization of mineral resources.

On November 15, 2010, the Parent Company, AAEPB and AAEPI executed deeds of sale of shares and assets to complete the purchase. As a result of the purchase, the Parent Company acquired 128,000 common shares of CEXCI representing one hundred percent (100%) of its outstanding shares for a total consideration of $750,000 (₱32.2 million) recognized as mining rights for the deferred mine exploration costs of CEXCI with the provisional fair value of nil and a carrying value of ₱166.7 million as at November 15, 2010.

From acquisition date to the reporting period, CEXCI has contributed revenues and net loss amounting to nil and ₱0.3 million, respectively, to the consolidated statement of income. If the combination had taken place at the beginning of the year, total revenues would have been ₱8,336.0 million and net income for the Group would have been ₱2,324.7 million.

Merger with NAC
As discussed in Note 1 to the consolidated financial statements, the Parent Company merged with NAC effective March 15, 2009. The merger, a tax-free transaction, was accounted for using the pooling of interest method. As a result, all prior period consolidated financial statements presented have been restated to include the results of operations and financial position of both companies as if they had always been combined.

Acquisition of RTN
Prior to the merger in 2009 and as discussed in Notes 1 and 2, on August 4, 2006, NAC acquired forty percent (40%) of the voting shares of RTN held by one of the founding shareholders resulting in a controlling interest in RTN. NAC accounted for the purchase of RTN shares under the purchase method.

The acquisition resulted to the recognition of the long-term stock pile inventory amounting to ₱2,036.7 million. As at December 31, 2010 and 2009, the carrying value of the long-term stock pile inventory amounted to ₱965.0 million and ₱1,108.2 million, respectively (see Note 13).

The asset revaluation surplus transferred to retained earnings amounting to ₱0.4 million is net of income tax amounting to ₱0.2 million in 2010, 2009 and 2008.

32. Related Party Transactions

Set out below are the Group's transactions with related parties in 2010, 2009 and 2008, including the corresponding assets and liabilities arising from the said transactions as at December 31, 2010 and 2009:

Related Party	Relationship with Related Parties		Sale of Ore	Sale of Services and Others
Pacific Metals Co., Ltd. (PAMCO)	Stockholder	**2010**	**₱2,620,420**	**₱–**
		2009	₱1,455,947	₱–
		2008	₱3,565,318	₱–
SMM	Stockholder	**2010**	**58,130**	**–**
		2009	–	–
		2008	–	–
CBNC	Affiliate	**2010**	**1,762,077**	**210,581**
		2009	1,014,954	486,382
		2008	891,690	383,140
Totals		**2010**	**₱4,440,627**	**₱210,581**
Totals		2009	₱2,470,901	₱486,382
Totals		2008	₱4,457,008	₱383,140

Related Party	Relationship with Related Parties		Trade and Other Receivables	Amounts Owed by Related Parties	Deferred Rent
PAMCO	Stockholder	**2010**	**₱–**	**₱–**	**₱–**
		2009	₱103,926	–	–
THNC	Associate	**2010**	**3,104**	**2,871**	**83,799**

(Forward)

Related Party	Relationship with Related Parties		Trade and Other Receivables	Amounts Owed by Related Parties	Deferred Rent
		2009	78,787	21,772	–
CBNC	Affiliate	**2010**	**662,561**		**–**
		2009	524,950		–
Totals		**2010**	**₱665,665**	**₱2,871**	₱83,799
Totals		2009	₱707,663	₱21,772	₱–

Terms and Conditions of Transactions with Related Parties

All sales and purchases from related parties are made at prevailing market prices. Outstanding balances as at December 31, 2010, 2009 and 2008 pertain to the extension and receipt of advances to and from related parties and these are unsecured, short-term, interest-free and settlement occurs in cash. Except for the guarantee on the CBNC Loan Obligations (see Note 37), there have been no guarantees received or provided for any related party receivables or payables, respectively. This assessment is undertaken each end of reporting period through examining the financial position of the related party and the market in which the related party operates.

a. Sales and Service Agreements

Nickel Ore Sale Agreements with PAMCO

HMC, CMC and TMC supply saprolite ore to PAMCO under renewable annual agreements. PAMCO is a stockholder of the Parent Company and TMC. All sales made to PAMCO are transacted at prevailing market prices. Under the terms of the agreement, the base price of the ore products for a specific shipment shall be based on London Metal Exchange. PAMCO shall pay the Group ninety percent (90%) of the provisional invoice amount upon receipt of the required documents and pay the final payment of each shipment after the final dry weight and applicable assay have been determined. Outstanding balances as at December 31, 2010 and 2009 are unsecured, interest-free and settlement occurs in cash. Receivable from PAMCO is included as part of trade receivables and is expected to be collected subsequently.

Nickel Ore Sale Agreement with PAMCO and Sojitz Corporation (Sojitz)

RTN supplies saprolite ore to PAMCO under a sale agreement, which shall continue to be valid and in effect until December 2012, wherein PAMCO appointed Sojitz as agent. PAMCO owns thirty-six percent (36%) and Sojitz four percent (4%) of the outstanding shares in the capital stock of RTN.

Nickel Ore Supply Agreement with CBNC

RTN entered into an agreement with CBNC to supply all of the limonite ore requirements for the Coral Bay HPAL facility until the earlier of the cessation of operations of the facility and exhaustion of the limonite ore reserves at the Rio Tuba mine. RTN has also entered into an agreement with CBNC to supply limestone and provide ancillary services to the Coral Bay HPAL facility. CBNC is the owner of the Coral Bay HPAL facility. Receivable from CBNC is included as part of trade and other receivables and is expected to be collected subsequently.

Service Agreements with CBNC

RTN entered into various service agreements with CBNC pertaining to tailings dam construction, materials handling and others.

b. Stockholder Agreements

THNC Stockholder Agreement

On September 15, 2010, the Parent Company together with SMM and Mitsui agreed to make loans to THNC or guarantee the repayment of THNC loans obligation in accordance with the financial requirements of THNC in proportion to their existing shareholding ratio. The Parent Company owns 22.5% of THNC's outstanding capital stock.

CBNC Stockholder Agreement

On July 1, 2002, RTN together with the other stockholders of CBNC agreed to make loans to CBNC or guarantee the repayment of CBNC loans obligation in accordance with the financial requirements of CBNC in proportion to their shareholding ratio. RTN owns ten percent (10%) of CBNC's outstanding capital stock.

In a separate agreement dated October 22, 2002, SMM, which owns fifty-four percent (54%) of CBNC, has agreed to substitute for RTN's obligation to make loans to or guarantee the repayment of CBNC loans obligation. In consideration, RTN shall pay SMM an annual guarantee fee of one percent (1%) of the outstanding CBNC loans obligation (see Note 37e). The guarantee fee is recorded as part of 'General and administrative expenses' in consolidated statement of income (see Note 25).

c. Other Agreements

Option Agreement with THNC
In December 2010, TMC and THNC entered into an Option Agreement wherein THNC signified its intention to use the parcels of land located within the mineral production sharing agreement (MPSA) area. The said parcels of lands will be used by THNC in connection with its project being constructed and located in the Taganito Special Economic Zone (TSEZ). The lease agreement is yet to be finalized and to reserve the exclusive right to use the parcels of land that will be subject of the lease, THNC shall pay a fee, the amount of which shall be determined by TMC, which shall constitute as an option fee to give THNC the irrevocable right to be the preferred lessee of the said parcels of land. The option fee will be considered as an advance rental which shall be deducted from the annual rental fees based on TMC's discretion, with proper and due notice given to THNC. Total option fee paid by THNC amounted to ₱83.8 million classified under "Deferred rent income" in the consolidated statement of financial position.

The Option Agreement shall terminate upon finalization of the lease agreement. As at December 31, 2010, the lease agreement is yet to be finalized.

Other Receivables from THNC
Other receivables from THNC amounting to ₱3.1 million and ₱78.8 million as at December 31, 2010 and 2009, respectively, included in trade and other receivables pertain to reimbursable costs and expenses advanced by the Company to the related party (see Note 6).

Funding Commitment with SMM
RTN's long-term debt was incurred to complete infrastructure projects to support the development of the Coral Bay HPAL facility. These projects included the causeway, trestles and dolphins in the Rio Tuba foreshore and offshore areas (see Note 16).

d. Compensation of Key Management Personnel

The Group considers as key management personnel all employees holding managerial positions up to the president. The short-term benefits of key management personnel of the Group in 2010, 2009 and 2008 amounted to about ₱165.7 million, ₱93.7 million and ₱99.7 million, respectively. The post-employment benefits of key management personnel of the Group amounted to ₱1.3 million in 2010 and ₱2.9 million in 2009 and 2008.

33. Pension Costs

The Group has two (2) funded and two (2) unfunded, noncontributory defined benefit retirement plans covering substantially all of its employees.

The following tables summarize the components of net pension costs recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated statements of financial position for the respective plans:

Net Pension Costs

2010	**RTN**	**TMC**	**CMC**	**HMC**	**Total**
Current service cost	**₱15,696**	**₱6,461**	**₱2,769**	**₱1,855**	**₱26,781**
Interest cost	**29,638**	**8,107**	**1,990**	**1,039**	**40,774**
Past service cost	**–**	**960**	**–**	**–**	**960**
Expected return on plan assets	**(13,340)**	**(4,063)**	**–**	**–**	**(17,403)**
Actuarial losses (gains)	**449**	**–**	**(437)**	**266**	**278**
Expense recognized during the year	**₱32,443**	**₱11,465**	**₱4,322**	**₱3,160**	**₱51,390**

2009	RTN	TMC	CMC	HMC	Total
Current service cost	₱11,902	₱5,891	₱3,147	₱1,575	₱22,515
Interest cost	24,207	7,620	2,210	808	34,845
Past service cost	–	960	–	–	960
Expected return on plan assets	(17,652)	(4,179)	–	–	(21,831)
Actuarial losses	–	14	–	–	14
Expense recognized during the year	₱18,457	₱10,306	₱5,357	₱2,383	₱36,503

2008	RTN	TMC	CMC	HMC	Total
Current service cost	₱14,828	₱6,381	₱3,471	₱1,501	₱26,181
Interest cost	17,318	4,411	1,924	515	24,168
Past service costs	–	5,101	–	–	5,101
Expected return on plan assets	(24,287)	(4,043)	–	–	(28,330)
Actuarial losses	–	447	333	10	790
Expense recognized during the year	₱7,859	₱12,297	₱5,728	₱2,026	₱27,910

Pension Asset (included in Other noncurrent assets)

RTN	**2010**	2009
Fair value of plan assets	**₱302,904**	₱268,520
Present value of defined benefit obligation	**(332,105)**	(288,866)
Unfunded obligation	**(29,201)**	(20,346)
Unrecognized actuarial gains	**48,951**	36,961
Net pension asset	**₱19,750**	₱16,615

Pension Liability

2010	**TMC**	**CMC**	**HMC**	**Total**
Present value of obligation	**₱126,444**	**₱19,726**	**₱10,481**	**₱156,651**
Fair value of plan assets	**(66,172)**	**–**	**–**	**(66,172)**
Unfunded obligation	**60,272**	**19,726**	**10,481**	**90,479**
Unrecognized actuarial gains	**(36,909)**	**(1,595)**	**(3,008)**	**(41,512)**
Net pension liability	**₱23,363**	**₱18,131**	**₱7,473**	**₱48,967**

2009	TMC	CMC	HMC	Total
Present value of obligation	₱79,014	₱19,210	₱9,595	₱107,819
Fair value of plan assets	(55,071)	–	–	(55,071)
Unfunded obligation	23,943	19,210	9,595	52,748
Unrecognized actuarial losses (gains)	(3,085)	2,150	(528)	(1,463)
Unamortized past service cost	(960)	–	–	(960)
Net pension liability	₱19,898	₱21,360	₱9,067	₱50,325

Changes in the Present Value of Defined Benefit Obligation

2010	**RTN**	**TMC**	**CMC**	**HMC**	**Total**
Balances at January 1	**₱288,866**	**₱79,014**	**₱19,210**	**₱9,595**	**₱396,685**
Current service cost	**15,696**	**6,461**	**2,769**	**1,855**	**26,781**
Interest cost	**29,638**	**8,107**	**1,990**	**1,039**	**40,774**
Actuarial losses	**36,933**	**–**	**3,186**	**2,644**	**42,763**
Experience adjustments	**–**	**34,904**	**–**	**–**	**34,904**
Settlement or curtailment losses	**–**	**–**	**122**	**102**	**224**
Benefits paid	**(39,028)**	**(2,042)**	**(7,551)**	**(4,754)**	**(53,375)**
Balances at December 31	**₱332,105**	**₱126,444**	**₱19,726**	**₱10,481**	**₱488,756**

2009	RTN	TMC	CMC	HMC	Total
Balances at January 1	₱215,941	₱76,126	₱21,644	₱7,153	₱320,864
Current service cost	11,902	5,891	3,147	1,575	22,515
Interest cost	24,207	7,620	2,210	808	34,845
Actuarial losses (gains)	46,391	(1,625)	(3,499)	348	41,615
Benefits paid	(9,575)	(8,998)	(4,292)	(289)	(23,154)
Balances at December 31	₱288,866	₱79,014	₱19,210	₱9,595	₱396,685

2008	RTN	TMC	CMC	HMC	Total
Balances at January 1	₱256,557	₱68,494	₱23,577	₱5,752	₱354,380
Current service cost	14,828	6,381	3,471	1,501	26,181
Interest cost	17,318	4,411	1,924	515	24,168
Past service cost	–	7,021	–	–	7,021
Actuarial losses (gains)	(45,009)	–	(4,436)	(2,191)	(51,636)
Experience adjustments	–	(5,934)	(2,892)	1,576	(7,250)
Benefits paid	(27,753)	(4,247)	–	–	(32,000)
Balances at December 31	₱215,941	₱76,126	₱21,644	₱7,153	₱320,864

2007	RTN	TMC	CMC	HMC	Total
Balances at January 1	₱225,268	₱63,723	₱19,256	₱4,593	₱312,840
Current service cost	13,890	5,995	3,209	1,378	24,472
Interest cost	13,967	4,053	1,548	378	19,946
Actuarial losses (gains)	2,702	(259)	(435)	(535)	1,473
Experience adjustments	12,561	(2,217)	(1)	(62)	10,281
Benefits paid	(11,831)	(2,801)	–	–	(14,632)
Balance at December 31	₱256,557	₱68,494	₱23,577	₱5,752	₱354,380

2006	RTN	TMC	CMC	HMC	Total
Balances at January 1	₱201,700	₱46,132	₱7,320	₱4,670	₱259,822
Current service cost	11,133	5,704	3,040	1,509	21,386
Interest cost	20,170	5,536	878	560	27,144
Actuarial losses (gains)	(1,252)	14,724	8,298	1,782	23,552
Experience adjustments	–	(7,675)	(280)	1,528	(6,427)
Benefits paid	(6,483)	(698)	–	(5,456)	(12,637)
Balance at December 31	₱225,268	₱63,723	₱19,256	₱4,593	₱312,840

Changes in the Fair Value of Plan Assets

2010	**RTN**	**TMC**	**Total**
Balances at January 1	**₱268,520**	**₱55,071**	**₱323,591**
Contributions	**35,577**	**8,000**	**43,578**
Expected return on plan assets	**13,339**	**4,063**	**17,403**
Actuarial gains	**24,496**	**1,080**	**25,576**
Benefits paid	**(39,028)**	**(2,042)**	**(41,070)**
Balances at December 31	**₱302,904**	**₱66,172**	**₱369,078**
Actual return on plan assets	**₱37,836**	**₱5,143**	**₱42,979**

2009	RTN	TMC	Total
Balances at January 1	₱211,702	₱56,735	₱268,437
Contributions	27,459	–	27,459
Expected return on plan assets	17,652	4,179	21,831
Actuarial gains	21,282	3,155	24,437
Benefits paid	(9,575)	(8,998)	(18,573)
Balances at December 31	₱268,520	₱55,071	₱323,591
Actual return on plan assets	₱38,933	₱7,334	₱46,267

2008	RTN	TMC	Total
Balances at January 1	₱250,823	₱59,883	₱310,706
Expected return on plan assets	24,287	4,043	28,330
Actuarial losses	(35,655)	(2,944)	(38,599)
Benefits paid	(27,753)	(4,247)	(32,000)
Balances at December 31	₱211,702	₱56,735	₱268,437
Actual return on plan assets	(₱11,369)	₱1,099	(₱10,270)

2007	RTN	TMC	Total
Balances at January 1	₱238,898	₱59,462	₱298,360
Expected return on plan assets	19,112	5,946	25,058
Actuarial gains	4,644	(2,724)	1,920
Benefits paid	(11,831)	(2,801)	(14,632)
Balances at December 31	₱250,823	₱59,883	₱310,706
Actual return on plan assets	₱23,756	₱3,222	₱26,978

2006	RTN	TMC	HMC	Total
Balances at January 1	₱218,631	₱55,203	₱4,173	₱278,007
Expected return on plan assets	26,235	5,520	417	32,172
Actuarial gains	8,910	(563)	(417)	7,930
Contributions	6,791	–	1,283	8,074
Transfer of funds	(15,186)	–	–	(15,186)
Benefits paid	(6,483)	(698)	(5,456)	(12,637)
Balances at December 31	₱238,898	₱59,462	₱–	₱298,360
Actual return on plan assets	₱35,146	₱4,957	₱417	₱40,520

The main categories of plan assets as a percentage of the fair value of total plan assets follow:

2010	**RTN**	**TMC**
Fixed income securities	**83.2%**	**86.7%**
Investments in shares of stock	**16.8%**	**7.9%**
Others	**–**	**5.4%**
	100.0%	**100.0%**

2009	RTN	TMC
Fixed income securities	83.5%	87.0%
Investments in shares of stock	16.5%	7.0%
Others	–	6.0%
	100.0%	100.0%

The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

The principal assumptions used in determining the pension asset (liability) for the Group's plans are shown below:

2010	**RTN**	**TMC**	**HMC**	**CMC**
Discount rate	**8.0%**	**10.3%**	**10.8%**	**7.8%**
Expected rate of return	**7.0%**	**7.0%**	**–**	**–**
Salary increase rate	**10.0%**	**10.0%**	**10.0%**	**8.0%**

2009	RTN	TMC	HMC	CMC
Discount rate	10.3%	10.0%	10.8%	10.4%
Expected rate of return	5.0%	7.0%	–	–
Salary increase rate	10.0%	10.0%	10.0%	10.0%

2008	RTN	TMC	HMC	CMC
Discount rate	7.0%	6.0%	11.3%	10.8%
Expected rate of return	10.0%	7.0%	–	–
Salary increase rate	10.0%	10.0%	10.0%	10.0%

Amounts for the current annual and previous annual four periods are as follows:

2010	**2010**	2009	2008	2007	2006
Plan assets	**₱369,076**	₱323,591	₱268,437	₱310,166	₱298,360
Defined benefit obligation	**(488,746)**	(396,685)	(320,864)	(325,051)	(288,991)
Net pension liability	**(₱119,670)**	(₱73,094)	(₱52,427)	(₱14,885)	₱9,369

The details of the plan per subsidiary level are as follows:

2010	**RTN**	**TMC**	**CMC**	**HMC**	**Total**
Plan assets	**₱302,906**	**₱66,172**	**₱–**	**₱–**	**₱369,078**
Defined benefit obligation	**(332,105)**	**(126,444)**	**(19,726)**	**(10,481)**	**(483,029)**
Net pension liability	**(₱29,199)**	**(₱60,272)**	**(₱19,726)**	**(₱10,481)**	**(₱113,951)**
Experience adjustments	**₱–**	**₱34,904**	**₱–**	**₱–**	**₱34,904**

2009	RTN	TMC	CMC	HMC	Total
Plan assets	₱268,520	₱55,071	₱–	₱–	₱323,591
Defined benefit obligation	(288,866)	(79,014)	(19,210)	(9,595)	(396,685)
Net pension liability	(₱20,346)	(₱23,943)	(₱19,210)	(₱9,595)	(₱73,094)

2008	RTN	TMC	CMC	HMC	Total
Plan assets	₱211,702	₱56,735	₱–	₱–	₱268,437
Defined benefit obligation	(215,941)	(76,126)	(21,644)	(7,153)	(320,864)
Net pension liability	(₱4,239)	(₱19,391)	(₱21,644)	(₱7,153)	(₱52,427)
Experience adjustments	₱–	(₱5,934)	(₱2,892)	₱1,576	(₱7,250)

2007	RTN	TMC	CMC	HMC	Total
Plan assets	₱250,283	₱59,883	₱–	₱–	₱310,166
Defined benefit obligation	(256,557)	(68,494)	(23,577)	(5,752)	(295,722)
Net pension liability	(₱6,274)	(₱8,611)	(₱23,577)	(₱5,752)	(₱14,885)
Experience adjustments	₱12,561	(₱2,217)	(₱1)	(₱62)	₱10,281

2006	RTN	TMC	CMC	HMC	Total
Plan assets	₱238,898	₱59,462	₱–	₱–	₱298,360
Defined benefit obligation	(225,268)	(63,723)	(19,256)	(4,593)	(265,142)
Net pension asset (liability)	₱13,630	(₱4,261)	(₱19,256)	(₱4,593)	₱9,369
Experience adjustments	₱–	(₱7,675)	(₱280)	₱1,528	(₱6,427)

34. Income Taxes

The provision for current income tax shown in the consolidated statements of income includes:

	2010	2009	2008
Regular Corporate Income Tax (RCIT)			
RTN	**₱632,640**	₱215,868	₱542,078
TMC	**309,676**	111,045	347,495

(Forward)

	2010	2009	2008
CMC	**111,830**	28,585	83,464
HMC	**90,965**	31,848	–
LCSLC	**3,441**	–	–
FEI	**12**	6	–
Parent Company	**–**	4,242	–
Minimum Corporate Income Tax (MCIT)			
HMC	**–**	–	3,922
	₱1,148,564	₱391,594	₱976,959

The reconciliation between the provisions for income tax computed at the statutory income tax rates and the provision for income tax as shown at the effective rates in consolidated statement of income follows:

	2010	2009	2008
Income tax at statutory rates	**₱980,729**	₱188,932	₱672,691
Add (deduct) tax effects of:			
Dividend income exempted from tax	**(34,439)**	–	–
Interest income subjected to final tax	**(33,881)**	(35,232)	(68,641)
Non-deductible expenses	**20,911**	19,140	36,675
Movements in deductible (taxable) temporary differences for which deferred income taxes were recognized	**12,484**	(35,592)	39,371
Equity in net losses of an associate	**1,924**	–	–
Pre-merger loss	**–**	32,006	427,632
Non-taxable income	**–**	–	(34,382)
Effect of change in tax rate	**–**	–	(11,574)
Income tax at effective rates	**₱947,728**	₱169,254	₱1,061,772

The components of the Group's net deferred income tax assets and liabilities follow:

	2010	2009	2008
Deferred income tax assets:			
Net operating loss carryover (NOLCO)	**₱188,184**	₱–	₱61,213
Allowance for:			
Inventory losses	**112,777**	129,675	129,423
Impairment losses on trade and other receivables	**64,250**	64,658	50,028
Impairment losses on property and equipment and deferred mine exploration costs	**2,633**	3,201	3,201
Impairment loss on AFS financial assets	**–**	975	–
Unrealized foreign exchange losses	**42,737**	66,333	–
Unrealized foreign exchange gains	**(28,679)**	(10,028)	(62,990)
Provision for mine rehabilitation and decommissioning	**14,964**	12,390	10,845
Pension liability	**13,788**	15,098	8,180
Deferred rent income	**4,190**	–	**–**
Valuation gain on AFS financial assets	**(3,571)**	(1,781)	–
Pre-operating costs	**51**	70	–
Undepleted asset retirement obligation	**(10)**	(595)	(596)
Unrealized gain on valuation of financial assets at FVPL	**–**	(6,946)	–
MCIT	**–**	–	3,922
Others	**2,700**	–	–
Total	**₱414,014**	₱273,050	₱203,226
Deferred income tax liabilities:			

(Forward)

	2010	2009	2008
Long-term stockpile inventory	**₱332,463**	₱381,123	₱435,977
Asset revaluation surplus	**85,675**	75,282	76,166
Share in cumulative translation adjustments	**13,379**	–	–
Unrealized foreign exchange gains	**9,444**	14,620	108,743
Pension asset	**5,925**	4,984	(594)
Allowance for inventory losses	**(2,518)**	(2,518)	(2,518)
Unamortized past service costs	**(3,035)**	(569)	(1,422)
Provision for mine rehabilitation and decommissioning	**(563)**	(324)	(4,196)
Deferred income on sale of aircraft	**–**	4,549	8,825
Valuation gain on AFS financial assets	**–**	–	1,619
Others	**(44)**	(44)	(871)
Total	**₱440,770**	₱477,103	₱621,729

Republic Act No. 9337 was enacted into law effective November 1, 2005 amending various provisions in the existing 1997 National Internal Revenue Code (NIRC) indicating the decrease in the corporate income tax rate from thirty five percent (35%) to thirty percent (30%), consequently, decreasing the non-deductible interest expense rate against interest income from forty two percent (42%) to thirty three (33%) effective January 1, 2009.

The Parent Company will not be subject to MCIT until 2012.

As at December 31, 2010 and 2009, the Group has NOLCO that can be claimed as deduction from future taxable income and income tax payable and MCIT that can be claimed as tax credit, respectively, as follows:

Year Incurred	Year of Expiration	NOLCO	MCIT
2008	2011	₱204,044	₱3,922
2010	2013	627,281	–
		₱831,325	₱3,922

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

NOLCO	**2010**	2009
Balances at January 1	**₱–**	₱204,044
Additions	**627,281**	–
Applications	**–**	(204,044)
Balances at December 31	**₱627,281**	₱–

MCIT	2009
Balances at January 1	₱3,922
Applications	(3,922)
Balances at December 31	₱–

35. **Financial Risk Management Objectives and Policies**

The Group's main financial instruments are cash and cash equivalents, financial assets at FVPL, AFS financial assets and long-term debt. The main purpose of these financial instruments is to raise funds and maintain continuity of funding and financial flexibility for the Group. The Group has various other financial assets and liabilities such as trade and other receivables, cash held in escrow, MRF and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk. The BOD reviews and approves policies for managing each of these risks and they are summarized below.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The Group trades only with recognized, reputable and creditworthy third parties and/or transacts only with institutions and/or banks which have demonstrated financial soundness. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Except for those impaired trade and other receivables, the Group assessed the loans and receivables as collectible and in good standing.

Since the Group trades only with recognized third parties, there is no requirement for collateral.

Credit Risk Exposure

The table below shows the gross maximum exposure to credit risk for the components of statement of financial position.

	Note	**2010**	2009
Cash and cash equivalents:	4		
Cash with banks		**₱1,846,096**	₱641,291
Short-term cash investments		**4,958,480**	6,136,635
Financial assets at FVPL:	5		
Structured notes		**–**	164,543
Managed funds		**–**	106,209
Investment in bonds		**–**	47,463
Trade and other receivables:	6		
Trade		**221,563**	487,934
Receivable from CBNC		**662,561**	524,950
Amounts owed by related parties		**2,871**	21,772
Receivable from WAC		**–**	13,860
Others		**226,260**	290,362
AFS financial assets:	8		
Quoted equity securities		**227,271**	386,952
Quoted debt security		**295,481**	723,362
Unquoted equity securities		**854,385**	854,385
Other noncurrent assets:	14		
Cash held in escrow		**297,010**	–
MRF		**32,755**	33,319
Total credit risk exposure		**₱9,624,733**	10,433,037

Aging Analysis of Financial Assets

The aging analysis of the Group's financial assets as at December 31, 2010 and 2009 are summarized in the following tables:

2010	**Neither Past Due Nor Impaired (High)**	**Past Due But Not Impaired (30-180 days)**	**Past Due and Individually Impaired**	**Total**
Cash and cash equivalents:	**₱6,804,576**	**₱–**	**₱–**	**₱6,804,576**
Cash with banks	1,846,096	–	–	1,846,096
Short-term cash investments	4,958,480	–	–	4,958,480
Trade and other receivables:	**683,313**	**429,942**	**214,313**	**1,327,568**
Trade	182,363	39,200	212,247	433,810
Receivable from CBNC	277,235	385,326	–	662,561
Amounts owed by related parties	2,871	–	–	2,871
Others	220,844	5,416	2,066	228,326
AFS financial assets:	**₱1,377,137**	**₱–**	**₱–**	**₱1,377,137**
Quoted equity securities	227,271	–	–	227,271
Quoted debt security	295,481	–	–	295,481
Unquoted equity securities	854,385	–	–	854,385
Other noncurrent assets:	**329,765**	**–**	**–**	**329,765**
Cash held in escrow	297,010	–	–	297,010
MRF	32,755	–	–	32,755
Total	**₱9,194,791**	**₱429,942**	**₱214,313**	**₱9,839,046**

2009	Neither Past Due Nor Impaired (High)	Past Due But Not Impaired (30-180 days)	Past Due and Individually Impaired	Total
Cash and cash equivalents:	₱6,777,926	₱–	₱–	₱6,777,926
Cash with banks	641,291	–	–	641,291
Short-term cash investments	6,136,635	–	–	6,136,635
Financial assets at FVPL:	318,215	–	–	318,215
Structured notes	164,543	–	–	164,543
Managed funds	106,209	–	–	106,209
Investment in bonds	47,463	–	–	47,463
Trade and other receivables:	838,726	500,152	215,234	1,554,112
Trade	399,915	88,019	213,168	701,102
Receivable from CBNC	175,487	349,463	–	524,950
Amounts owed by related parties	–	21,772	–	21,772
Receivable from WAC	13,860	–	–	13,860
Others	249,464	40,898	2,066	292,428
AFS financial assets:	1,964,699	–	–	1,964,699
Quoted equity securities	386,952	–	–	386,952
Quoted debt security	723,362	–	–	723,362
Unquoted equity securities	854,385	–	–	854,385
MRF (included in other noncurrent assets)	33,319	–	–	33,319
Total	₱9,931,729	₱501,308	₱215,234	₱10,648,271

Credit Quality of Financial Assets

The credit quality of financial assets is managed by the Group using credit ratings and is classified into three: High grade, which has no history of default; Standard grade, which pertains to accounts with history of one or two defaults; and Substandard grade, which pertains to accounts with history of at least three (3) payment defaults.

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

- Cash and cash equivalents, cash held in escrow and MRF are placed in various foreign and local banks. Material amounts are held by various foreign banks having a Standard and Poor's (S&P) credit rating of at least A. The rest are held by local banks, as approved by the BOD, that have good reputation and low probability of insolvency. Management assesses the quality of these assets as high grade.
- Structured notes, managed funds and investment in bonds are issued by foreign banks with an S&P credit rating of at least A. Management assesses the quality of these assets as high grade.
- Trade receivables and receivable from CBNC pertain to receivables from customers which have good financial capacity and with which the Group has already established a long outstanding relationship. Management assesses the quality of these assets as high grade. Trade and other receivables not foreseen to be collected are classified as sub-standard grade.
- Management assesses the quality of receivable from WAC as high grade since this is already deposited in a bank which releases the funds based on a payment schedule.
- Management assesses the quality of other receivables as high grade since amounts pertain to receivables from customers which have good financial capacity and with whom the Group has already established a long outstanding relationship. The other receivables also include amounts owed by officers and employees that are operational advances in nature. These operational advances are collected subsequently.
- Amounts owed by related parties are advances that are due and demandable. The related parties are operating firms capable of repaying the amount due. Management assesses the quality of these assets as high grade.
- AFS financial assets in debt securities and equity securities are investments that can be traded and from companies with good financial capacity, making the investment secured and realizable. Management assesses the quality of these assets as high grade.

Credit Concentration Risk

The Group has concentration of credit risk on structured notes, managed funds and investment in bonds since these are being managed by one foreign bank. However, the risk is mitigated since the BOD selects foreign banks having an S&P credit rating of at least A to manage the Group's funds.

Liquidity Risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

The Group's objective is to maintain sufficient funding to finance its exploration and mining activities through internally generated funds and advances from related parties. The Group considers its available funds and its liquidity in managing its long-term financial requirements. For its short-term funding, the Group's policy is to ensure that there are sufficient capital inflows to match repayments of short-term debts.

The table below summarizes the maturity profile of the Group's financial liabilities as at December 31, 2010 and 2009 based on contractual undiscounted payments.

2010	**On Demand**	**Less Than Three (3) Months**	**Three (3) to Twelve (12) Months**	**More Than One (1) Year**	**Total**
Trade and other payables					
Trade	**₱37,654**	**₱185,763**	**₱459**	**₱–**	**₱223,876**
Accrued expenses	**253,583**	**33,385**	**286,121**	**–**	**573,089**
Others	**1,907**	**16,665**	**3,389**	**–**	**21,961**
Long-term debt	**–**	**23,913**	**62,273**	**1,458,065**	**1,544,251**
	₱293,144	**₱259,726**	**₱352,242**	**₱1,458,065**	**₱2,363,177**

2009	On Demand	Less Than Three (3) Months	Three (3) to Twelve (12) Months	More Than One (1) Year	Total
Trade and other payables					
Trade	₱87,350	₱16,656	₱836	₱–	₱104,842
Accrued expenses	264,534	49,827	293,493	–	607,854
Others	34,505	12,465	5,562	–	52,532
Long-term debt	–	25,200	25,200	337,477	387,877
	₱386,389	₱104,148	₱325,091	₱337,477	₱1,153,105

The table below summarizes the maturity profile of the Group's financial assets used to manage liquidity risk of the Group as at December 31, 2010 and 2009.

2010	**On Demand**	**Less Than Three (3) Months**	**Three (3) to Twelve (12) Months**	**More Than One (1) Year**	**Total**
Cash and cash equivalents					
Cash with banks	**₱1,846,096**	**₱–**	**₱–**	**₱–**	**₱1,846,096**
Short-term cash investments	**4,958,480**	**–**	**–**	**–**	**4,958,480**
Trade and other receivables					
Trade	**182,363**	**39,200**	**–**	**212,247**	**433,810**
Receivable from CBNC	**277,235**	**93,604**	**291,722**	**–**	**662,561**
Amounts owed by related parties	**2,871**	**–**	**–**	**–**	**2,871**
Others	**195,917**	**28,460**	**1,883**	**2,066**	**228,326**
AFS financial assets			**–**	**–**	
Quoted equity securities	**227,271**	**–**	**–**	**–**	**227,271**
Quoted debt security	**295,481**	**–**	**–**	**–**	**295,481**
Unquoted equity securities	**854,385**	**–**	**–**	**–**	**854,385**
	₱8,840,099	**₱161,264**	**₱293,605**	**₱214,313**	**₱9,509,281**

2009	On Demand	Less Than Three (3) Months	Three (3) to Twelve (12) Months	More Than One (1) Year	Total
Cash and cash equivalents					
Cash with banks	₱641,291	₱–	₱–	₱–	₱641,291
Short-term cash investments	6,136,635	–	–	–	6,136,635
Financial assets at FVPL					
Structured notes	164,543	–	–	–	164,543
Managed funds	106,209	–	–	–	106,209
Investment in bonds	47,463	–	–	–	47,463
Trade and other receivables					
Trade	399,915	88,019	–	213,168	701,102
Receivable from CBNC	175,487	349,463	–	–	524,950
Amounts owed by related parties	–	21,772	–	–	21,772
Current portion of receivable from WAC	13,860	–	–	–	13,860
Others	249,464	40,898	–	2,066	292,428
AFS financial assets			–	–	
Quoted equity securities	389,900	–	–	–	389,900
Quoted debt security	723,362	–	–	–	723,362
Unquoted equity securities	851,437	–	–	–	851,437
	₱9,898,410	₱501,308	₱–	₱215,234	₱10,614,952

Market Risk

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

Foreign Currency Risk

The Group has transactional currency exposures. Such exposure arises from cash and cash equivalents, financial assets at FVPL, AFS financial assets, derivative transactions and sales of beneficiated nickel ore in US$. For its foreign currency-denominated trade receivables, the Group ensures timely follow-up and collection to mitigate the impact of foreign exchange fluctuations.

To mitigate the effects of foreign currency risk, the Group will seek to accelerate the collection of foreign currency-denominated receivables and the settlement of foreign currency-denominated payables, whenever practicable. Also, foreign exchange movements are monitored on a daily basis.

The Group's foreign currency-denominated financial assets and liabilities and their Philippine peso equivalents as at December 31, 2010 and 2009 are as follows:

	2010		2009	
	US$ Amount	**Peso Equivalent**	US$ Amount	Peso Equivalent
Financial assets:				
Cash and cash equivalents	**$91,378**	**₱4,006,012**	$139,596	₱6,449,324
Financial assets at FVPL				
Structured notes	**–**	**–**	3,562	164,543
Managed funds	**–**	**–**	2,299	106,209

(Forward)

	2010		2009	
	US$ Amount	**Peso Equivalent**	US$ Amount	Peso Equivalent
Investment in bonds	**–**	**–**	1,027	47,463
Trade and other receivables	**16,609**	**728,139**	19,673	908,892
AFS financial assets - quoted debt security	**21,993**	**964,173**	15,657	723,363
	$129,980	**₱5,698,324**	$181,814	₱8,399,794
Financial liabilities:				
Trade and other payables	**$1,239**	**₱54,318**	$157	₱7,259
Long-term debt	**35,225**	**1,544,264**	8,396	387,877
	$36,464	**₱1,598,582**	$8,553	₱395,136

The exchange rates used for conversion of US$1.00 to peso equivalent were ₱43.84 and ₱46.20 as at December 31, 2010 and 2009, respectively.

The sensitivity to a reasonably possible change in the exchange rate, with all other variables held constant, of the Group's income (loss) before income tax [due to changes in fair value of monetary assets and liabilities except foreign currency-linked investments (see discussions on other price risks) and structured currency derivatives] as at December 31, 2010 and 2009 follow:

Effect on income before income tax:	Change in exchange rates (in ₱)	Sensitivity of income (loss) before income tax
2010	**Appreciates by 0.80**	**(₱74,813)**
	Depreciates by 0.95	**88,840**
2009	Appreciates by 2	(₱346,522)
	Depreciates by 1	173,261

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

Interest Rate Risk

The Group's exposure to the risk for changes in market interest rate relates to AFS quoted debt and floating-rate long-term debt.

Floating rate instruments expose the Group to cash flow interest rate risk, whereas, fixed interest rate instruments expose the Group to fair value risk. The Group regularly monitors the market interest rate movements and manages its interest rate risks by using a mix of fixed and variable rates.

The following tables set out the carrying amount, by maturity, of the Group's financial instrument that is exposed to cash flow interest rate risk:

2010	**<1 year**	**1-5 years**	**>5 years**	**Total**
Floating rate (LIBOR plus 2% spread) - long-term debt	**₱86,185**	**₱597,092**	**₱860,974**	**₱1,544,251**
2009				
Floating rate (LIBOR plus 2% spread) - long-term debt	₱50,400	₱233,989	₱103,488	₱387,877

Management believes that cash generated from operations is sufficient to pay for its obligations under the loan agreements as they fall due. As at December 31, 2010 and 2009, the interest on the Group's long-term debt is repriced on a 180-day basis.

The sensitivity to a reasonably possible change in the interest rate (in basis points), with all other variables held constant, of the Group's income before income tax and equity as at December 31, 2010 and 2009 are as follows:

	Change in interest rate (in basis points)	Sensitivity to income before income tax	Sensitivity to equity
December 31, 2010			
Long-term debt	+100	**(₱14,716)**	**₱–**
	-100	**14,716**	**–**
AFS financial assets	+100	**–**	**(14,431)**
	-100	**–**	**15,927**
December 31, 2009			
Long-term debt	+100	(3,865)	–
	-100	3,865	–
AFS financial assets	+100	–	(12,316)
	-100	–	12,956

The above analysis does not include the sensitivity of the interest-linked notes to movements in interest rate (see discussions on Other Price Risks).

The impact on the Group's income before income tax is caused by changes in the interest of the floating-rate long-term debt while the impact on the Group's equity is caused by the changes in the market value of AFS quoted debt due to interest rate movements. The impact on the Group's equity excludes the impact on transactions affecting the consolidated statement of income.

Equity Price Risk

Equity price risk is the risk to earnings or capital arising from changes in stock prices relating to its quoted equity securities. The Group's exposure to equity price risk relates primarily to its AFS financial assets on various stocks of listed companies.

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

The table below shows the sensitivity to a reasonably possible change in equity prices on AFS equity instruments as at December 31, 2010 and 2009, except equity-linked investments (see discussions on Other Price Risks). The equity impact is arrived using the reasonably possible change of the relevant market indices and the specific adjusted beta of each stock the Group holds. Adjusted beta is the forecasted measure of the volatility of a security or a portfolio in comparison to the market as a whole.

	Average change in market indices (in percentage)	Sensitivity to equity
2010	**22.88%**	**₱17,118**
	-22.88%	**(17,118)**
2009	30.50%	₱103,321
	-30.50%	(101,502)

The impact on the Group's income before income tax when there is a decline of -30.50% in market indices is (₱1,819), which pertains to the sensitivity of the Group's impaired AFS equity instruments as at December 31, 2009.

The stocks of the AFS financial assets are traded in the following markets: HSI, LUXX, PSE and SPX.

Other Price Risks
The Group's exposure to other price risks arise from its outstanding investments designated as at FVPL, whose fair value changes because of several market factors such as foreign currency, equity prices, commodity prices and interest rates.

The Group manages its risk exposure in FVPL investments by monitoring on a monthly basis the fair market valuation of these investments and ensuring that fluctuations in fair market values are within acceptable limits.

As at December 31, 2010, the Group has no outstanding financial assets at FVPL. As at December 31, 2009, details of the risk exposure of the Group's designated FVPL investments are as follows:

	December 31, 2009	
Market Factors	US Dollar Amount	Peso Equivalent
Foreign Currency and Commodity Price	$3,031	₱140,040
Foreign Currency and Interest Rate	1,558	71,966
Foreign Currency and Equity Price	2,299	106,209
Total	$6,888	₱318,215

The following table shows the impact on the Group's income (loss) before income tax as at December 31, 2009 of a reasonably possible change in the market prices of the designated FVPL investments due to movement of various market factors:

	2009	
Market Factors	Average change in market price (in percentage)	Sensitivity to income (loss) before income tax
Foreign Currency and Commodity Price	+2.24%	₱3,171
	-2.24%	(3,171)
Foreign Currency and Interest Rate	+0.36%	312
	-0.36%	(312)
Foreign Currency and Equity Price	+27.33%	23,631
	-27.33%	(23,631)

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

Capital Management
The Group considers its equity as capital. Its primary objective in capital management is to maintain a strong credit rating in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2010 and 2009.

The Group monitors capital using the debt-to-equity ratio, which is total liabilities divided by equity. The Group's policy is to keep the debt-to-equity ratio to not more than 1:1. Total liabilities include trade and other payables, income tax payable, derivative liabilitites, long-term debt, provision for mine rehabilitation and decommissioning, deferred tax liabilities - net and pension liability. Equity includes capital stock, additional paid-in capital, cost of share-based payment plan, share in cumulative translation adjustments, net valuation gains (losses) on AFS financial assets, asset revaluation surplus, retained earnings and non-controlling interests. The table below shows the Group's debt-to-equity ratio as at December 31, 2010 and December 31, 2009.

	2010	2009
Total liabilities (a)	**₱3,417,132**	₱2,080,103
Equity (b)	**18,093,118**	14,276,855
Debt-to-equity ratio (a/b)	**0.19:1**	0.15:1

36. **Financial Instruments**

Fair Value Information and Categories of Financial Instruments
Set out below is a comparison by class of carrying amounts and fair values of all the Group's financial instruments that are carried in the consolidated financial statements.

	Carrying Values		Fair Values	
	2010	2009	**2010**	2009
FINANCIAL ASSETS				
Loans and Receivables				
Cash and cash equivalents:	**₱6,805,968**	₱6,779,215	**₱6,805,968**	₱6,779,215
Cash on hand and with banks	1,847,488	642,580	1,847,488	642,580
Short-term cash investments	4,958,480	6,136,635	4,958,480	6,136,635
Trade and other receivables:	**1,113,255**	1,338,878	**1,113,255**	1,338,878
Trade	221,563	487,934	221,563	487,934
Receivable from CBNC	662,561	524,950	662,561	524,950
Amounts owed by related parties	2,871	21,772	2,871	21,772
Receivable from WAC	–	13,860	–	13,860
Others	226,260	290,362	226,260	290,362
Other noncurrent assets:	**₱329,765**	₱33,319	**₱329,765**	₱33,319
Cash held in escrow	297,010	–	297,010	–
MRF	32,755	33,319	32,755	33,319
	8,248,988	8,151,412	**8,248,988**	8,151,412
Financial Assets at FVPL				
Structured notes	–	164,543	–	164,543
Managed funds	–	106,209	–	106,209
Investment in bonds	–	47,463	–	47,463
	–	318,215	–	318,215
AFS financial assets				
Quoted equity securities	227,271	386,952	227,271	386,952
Quoted debt security	295,481	723,362	295,481	723,362
Unquoted equity securities	854,385	854,385	854,385	854,385
	1,377,137	1,964,699	**1,377,137**	1,964,699
	9,626,125	₱10,434,326	**9,626,125**	10,434,326
FINANCIAL LIABILITIES				
Other Financial Liabilities				
Trade and other payables:	**₱818,927**	₱831,387	**₱818,927**	₱831,387
Trade	223,876	104,842	223,876	104,842
Accrued expenses	573,089	684,805	573,089	684,805
Others	21,962	41,740	21,962	41,740
Long-term debt	**1,544,251**	387,877	**1,381,275**	391,220
	₱2,351,320	₱1,219,264	**₱2,200,202**	₱1,222,607

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

Cash and Cash Equivalents
The carrying amount of cash and cash equivalents approximates their fair value due to theshort-term maturity of these financial instruments.

Trade and Other Receivables and Trade and Other Payables
Similarly, the carrying amounts of trade and other receivables and trade and other payables approximate their fair values due to the short-term nature of these accounts.

Cash held in Escrow and MRF
The carrying amount of cash held in escrow and MRF approximate their fair values since they are restricted cash with bank which earns interest based on prevailing market rates repriced monthly.

Structured Notes, Managed Funds and Investment in Bonds
The fair value of managed funds is based on quoted prices. The fair values of structured notes, investment in bonds and derivative liabilities are based on counterparty valuations.

AFS Financial Assets
The fair values were determined by reference to market bid quotes as at end of reporting period. For unquoted equity securities for which no reliable basis of fair value measurement is available, these are carried at cost, less impairment loss.
Long-term Debt
The fair values of long-term debt is based on the present value of future cash flows discounted using the current rates available for debt with the same maturity profile as at the end of reporting period ranging from two and 23/100 percent (2.23%) to two and 75/100 percent (2.75%) and two and 17/100 percent (2.17%) to two and 49/100 percent (2.49%) as at December 31, 2010 and 2009, respectively.

Fair Value Hierarchy of Financial Instruments
As at December 31, 2010 and 2009, the following table presents the level of hierarchy of the Company's financial assets at FVPL, AFS debt and equity instruments and derivative liabilities:

	2010		2009	
	Level 1	**Level 2**	Level 1	Level 2
FINANCIAL ASSETS				
Financial assets at FVPL:				
Structured notes	**₱–**	**₱–**	₱–	₱164,543
Managed funds	**–**	**–**	106,209	–
Investment in bonds	**–**	**–**	47,463	–
	–	**–**	153,672	164,543
AFS financial assets:				
Equity securities	**227,271**	**–**	386,952	–
Debt security	**295,481**	**–**	723,362	–
	522,752	**–**	1,110,314	–
	₱522,752	**₱–**	₱1,263,986	₱164,543

As at December 31, 2010 and 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. The only financial instrument of the Group that is classified under Level 2 is the partially principal-protected structured notes. This was classified as such because its fair value corresponds to the fair value of its components, which is a combination of options on commodities.

Freestanding Derivative Instruments
In 2010, the Parent Company entered into commodity collar contracts to manage the commodity price risk arising from the sale of nickel of its subsidiaries. These derivatives are accounted for as transactions not designated as accounting hedges.

As at December 31, 2010 and 2009, the Group has no outstanding freestanding derivative instruments.

The net movements in fair value changes of freestanding derivative transactions as at December 31, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
Net mark-to-market gain (loss) on derivatives at beginning of year	**₱–**	(₱195,525)	₱364,277
Net changes in fair value during the year (see Note 29)	**(46,987)**	(78,748)	(1,417,068)
	(46,987)	(274,273)	(1,052,791)
Fair value of settled instruments	**46,987**	274,273	857,266
Net mark-to-market gain (loss) on derivatives at end of year	₱–	₱–	(₱195,525)

The net changes in fair value of derivatives not designated as accounting hedges are recognized in the consolidated statements of income as 'Loss on derivative transactions - net' (see Note 29). Derivative contracts settled in 2010 pertains to contracts (i.e., commodity swap, target redemption forward and USD/PHP target profit forward with capped loss) entered into in 2010.

There were no contracts terminated prior to maturity for the years ended December 31, 2010 and 2009.

37. Significant Agreements

a. Throughput Agreement with THNC

On October 4, 2010, TMC and THNC, a Philippine corporation, executed a Throughput Agreement wherein TMC will construct the pier facilities within the Taganito Special Economic Zone (TSEZ) pursuant to its role as Developer. The TSEZ is located within the Surigao Mineral Reservation, an area declared for mineral development pursuant to Proclamation 391, under the supervision of the Department of Environment and Natural Resources (DENR) that issued an "Order to Use Offshore Area" dated September 20, 2010 to TMC for the use of such portion of the Surigao Mineral Reservation for the construction of the pier facilities. In relation to this, THNC entered into a Registration Agreement with the Philippine Export Zone Authority (PEZA) to construct and operate a mineral processing plant within the TSEZ as an Ecozone Export Enterprise.

Under the agreement, TMC will make available the pier facilities and provide certain services to THNC in consideration for usage fees and service fees to be paid by the latter starting April 2011 until 2031, unless terminated earlier. The usage fee amounted to $1,360,000 for each semi-annual period to be paid on or before October 10 and April 10.

THNC also agrees to pay service fee that will be agreed upon by both parties which shall be billed on a monthly basis.

Prior to the commencement date, THNC may also request TMC to use any part of the constructed Pier Facilities, which is ready for use, upon payment of reasonable compensation which shall be mutually agreed by the TMC and THNC.

b. Memorandum of Understanding (MOU)

On September 14, 2009, the Parent Company and TMC entered into a Memorandum of Understanding (MOU) with SMM. Pursuant to the terms thereof, the Parent Company and SMM will move ahead on a joint venture basis to build a nickel-cobalt processing plant using the HPAL technology to be located within the TMC's mine in Surigao del Norte, while TMC will supply low-grade nickel ore to the plant over the life of the project. The estimated project cost is $1.4 billion over a three-year construction period which started in the last quarter of 2010. The plant will have an annual capacity of 51,000 dry metric tons of mixed nickel-cobalt sulfide over an estimated 30-year project life. The MOU provides that the equity share of the Parent Company and SMM shall be 20%-25% and 75%-80%, respectively.

Following this agreement is the Taganito HPAL Stockholders Agreement entered into by the Parent Company, SMM and Mitsui and Co., Ltd. (Mitsui), on September 15, 2010 stating that the project will be undertaken by Taganito HPAL Nickel, a company that will be jointly owned by the Parent Company, SMM and Mitsui with equity interest of 22.5%, 62.5% and 15.0%, respectively. The said agreement contains the principal terms of an ore supply agreement to be entered into between THNC and TMC for the supply of limonite ore.

c. Sales Agreements

Nickel Ore Sale Agreement with PAMCO and Sojitz (see Note 32a)

Nickel Ore Supply Agreement with CBNC (see Note 32a)

Nickel Ore Supply Agreements with Chinese customers
HMC, CMC, RTN and TMC have ore supply agreements with a number of Chinese customers, each for a fixed tonnage at specific nickel grades and iron content. The fixed tonnage of ore is generally the volume of expected delivery within a few months. Sale of ore to Chinese customers amounted to ₱3.6 billion, ₱1.9 billion and ₱1.1 billion for the years ended December 31, 2010, 2009 and 2008, respectively.

d. Mining Agreements

MPSA

RTN
On June 4, 1998, the Philippine Government (the Government) approved the conversion of RTN's Mining Lease Contracts under the old mining regime into an MPSA with the Government pursuant to the Philippine Mining Act of 1995. The MPSA allows RTN to explore, develop and continue mining operations for nickel ore within the Contract Area covering 990 hectares in the Municipality of Bataraza, southern Palawan Island. Under RTN's Environmental Compliance Certificate (ECC), however, 144 hectares of the Contract Area are excluded from mining operations, being located within an area classified as "core zone" where mining is prohibited under current regulations of the Palawan Council for Sustainable Development (PCSD).

On April 28, 2005, RTN and the Government entered into a second MPSA covering 85 hectares in the Municipality of Bataraza, which allows RTN to mine limestone in Sitio Gotok. Limestone being mined by RTN pursuant to this second MPSA is being sold to CBNC and used at the Coral Bay HPAL plant.

Under both MPSAs, RTN pays a two percent (2%) excise tax on gross revenues as provided in the Philippine NIRC as the Government's share in its output. Both MPSAs are valid for twenty five (25) years from issuance and renewable for another term of not more than twenty-five (25) years at the option of RTN, with approval from the Government.

On June 20, 2003, RTN submitted an Application for MPSA covering previously approved Mining Lease Contracts over an area of 4,274 hectares within the Municipalities of Bataraza and Rizal. Most of the Contract Area is within the core zone and the Application is pending. On May 30, 2008, the PCSD issued a Resolution interposing no objections to the revision by the Municipality of Bataraza of its Environmentally Critical Areas Network map that, among others, seeks to reclassify the core zone within the Contract Area into a mineral development area. The reclassification was approved by the Municipal Development Council of the Municipality of Bataraza on November 18, 2009, and subsequently approved by the Provincial Board on January 5, 2010. The processing of the Application for MPSA by the Mines and Geosciences Bureau (MGB) is consequently under way.

HMC
Tagana-an Nickel Project
On July 25, 2007, the Government approved the conversion of HMC's Mining Lease Contract into an MPSA, which allows HMC to explore, develop and continue mining operations for nickel ore within the Contract Area covering 773.77 hectares in the Municipality of Tagana-an, Surigao del Norte. Under the MPSA, HMC pays the Government a two percent (2%) excise tax and a five percent (5%) royalty on gross revenues, as the Contract Area is within the Surigao Mineral Reservation. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of HMC, with approval from the Government.

Manicani Nickel Project
On August 13, 1992, HMC and the Government entered into an MPSA, which allows HMC to explore, develop and mine nickel ore within the Contract Area covering 1,165 hectares in Manicani Island, Municipality of Guian, Eastern Samar. Under the MPSA, HMC shall pay the Government a two percent (2%) excise tax, a one percent (1%) royalty and ten percent (10%) of its net revenues, defined as gross revenues less all cost items that are deductible for income tax purposes. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of HMC, with approval from the Government.

On August 2, 2004, the Regional Panel of Arbitrators of the MGB recommended the cancellation of the MPSA as a result of allegations by third parties against the operations of HMC. On September 4, 2009, the Mines and Adjudication Board of the

Department of Environment and Natural Resources issued a decision setting aside the decision of the Panel of Arbitrators. Hence, the MPSA remains in effect. HMC is currently not conducting mining operations in Manicani.

TMC
On July 28, 2008, the Government approved the conversion of TMC's Operating Lease Contract into an MPSA, which allows TMC to explore, develop and continue mining operations for nickel ore within the Contract Area covering 4,584.51 hectares in the Municipality of Claver, Surigao del Norte. On June 18, 2009, the MPSA was amended, increasing the Contract Area to 4,862.71 hectares.

Under the MPSA, TMC pays the Government a two percent (2%) excise tax and a five percent (5%) royalty, as the Contract Area is within the Surigao Mineral Reservation. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of TMC, with approval from the Government.

Operating Agreements

East Coast
On November 19, 2007, CMC entered into an Operating Agreement with East Coast, the holder of an MPSA with Government issued on November 19, 1997 covering a Contract Area of 697.05 hectares in the Municipality of Cagdianao, Dinagat Islands. The Operating Agreement allows CMC to explore, develop and mine nickel ore and obliges it to comply with the terms of the MPSA.

Under the MPSA, CMC pays the Government a two percent (2%) excise tax and a five percent (5%) royalty, as the Contract Area is within the Surigao Mineral Reservation. Under the Operating Agreement, CMC pays East Coast a royalty of seven percent (7%), net of withholding taxes.

The Operating Agreement expired on November 19, 2007 and was renewed for a period of ten (10) years. In consideration, East Coast was paid ₱100.0 million upon signing of the extension, and ₱100.0 million as advances against future royalties, repayable over a ten-year period at a rate of ₱10.0 million per year. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of East Coast, with approval from the Government.

La Salle
On December 18, 2006, TMC entered into an Operating Agreement with La Salle, the holder of an Application for MPSA covering 6,824 hectares in the Municipality of Gigaquit, Surigao del Norte. The Operating Agreement allows TMC to explore, develop and mine nickel ore and limestone once the MPSA is approved, and obliges it to assist La Salle in obtaining the MPSA and to comply with the terms thereof once issued.

The Operating Agreement specifies a royalty to La Salle of five percent (5%) for nickel ore and ₱10.00 per metric ton for limestone. Upon signing of the Agreement, TMC made an advance of ₱1.0 million and ₱0.8 million on the second and third year, each repayable by deductions from future royalties at a rate of twenty five percent (25%) per year over a period of four (4) years. As at December 31, 2010, the MPSA remains pending.

Kepha
On February 14, 2007, TMC entered into an Operating Agreement with Kepha, the holder of an Application for MPSA covering 6,980.75 hectares in the Municipality of Claver, Surigao del Norte. The Operating Agreement allows TMC to explore, develop and mine nickel ore and limestone once the MPSA is approved, and obliges it to comply with the terms of the MPSA.

The Operating Agreement specifies a royalty to Kepha of five percent (5%) for nickel ore and ₱10.00 per metric ton for limestone. Upon signing of the Agreement, TMC made an advance of $1.0 million and ₱6.3 million, repayable by deductions from future royalties at a rate of ten percent (10%) per year over a period of ten (10) years.

On June 19, 2009, the MPSA was issued to Kepha. Under the terms thereof, upon the start of mining operations TMC shall pay the Government a two percent (2%) excise tax and a five percent (5%) royalty, as the Contract Area is within the Surigao Mineral Reservation. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of Kepha, with approval from the Government.

Ludgoron

On August 28, 2007, TMC entered into an Operating Agreement with Ludgoron, the holder of an MPSA with Government issued on July 27, 2007 covering a Contract Area of 3,248 hectares in the Municipality of Carrascal, Surigao del Sur. The Operating Agreement allows TMC to explore, develop and mine nickel ore and obliges it to comply with the terms of the MPSA.

Under the MPSA, upon the start of mining operations TMC shall pay the Government a two percent (2%) excise tax and a five percent (5%) royalty, as the Contract Area is within the Surigao Mineral Reservation. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of Ludgoron, with approval from the Government.

Under the Operating Agreement, TMC shall pay Ludgoron a royalty of five percent (5%). Upon signing of the Agreement, TMC made an advance of $1.0 million, repayable by deductions from future royalties at a rate of ten percent (10%) per year over a period of ten (10) years. In 2009, an additional advance against royalties amounting to ₱10.0 million was made in order to allow Ludgoron to settle a claims conflict.

e. Loan Guarantee Service Fee

Under a loan guarantee service agreement dated October 22, 2002 between RTN and SMM, the latter agreed to satisfy RTN's CBNC loan obligations in consideration of the payment by RTN to SMM of an annual fee equal to one percent (1%) of the relevant outstanding amount.

The fee is payable every February 21 and August 20 of each year. In case of default, such loan guarantee service agreement will be terminated and RTN shall provide loans to CBNC or guarantee the repayment of CBNC's loans payable. Failure to provide such loans or guarantee shall be considered a default under the CBNC Stockholder Agreement.

The loan guarantee service fee amounted to ₱2.2 million, ₱3.1 million and ₱4.6 million in 2010, 2009 and 2008, respectively (see Note 25).

f. Other Agreements

Registration with PEZA

On December 21, 2009, Presidential Proclamation No. 1966 was issued creating and establishing the 680-hectare area situated in Taganito, Municipality of Claver, Province of Surigao Del Norte to be known as TSEZ. TMC is a PEZA-registered operator/developer of the economic zone as per Certificate of Registration No. EZ 10-01. The certificate of registration was signed on January 7, 2010.

Pursuant to TMC's registration with PEZA as an economic zone developer/operator, TMC is entitled to certain incentives in accordance with the provisions of RA No. 7916, otherwise known as "the Special Economic Zone Act of 1995", as amended. The proposed nickel-cobalt processing plant using the HPAL technology will be located within the TMC's mine site in Surigao del Norte.

BOI Certification

On January 20, 2010, TMC and RTN received BOI certifications pursuant to Revenue Memorandum Order No. 9-2000 entitled "Tax Treatment of Sales of Goods, Properties and Services made by VAT-registered Suppliers to BOI registered Manufacturers-Exporters with 100% Export Sales". The certifications are valid from January 1 to December 31, 2010 and renewable annually, unless sooner revoked by the BOI Governing Board. CMC and HMC received the same certifications on February 26, 2010.

Certification for VAT Zero-Rated Status

On March 3, 2009, TMC received a BOI certification pursuant to Revenue Memorandum Order No. 9-2000 entitled "Tax Treatment of Sales of Goods, Properties and Services made by VAT-registered Suppliers to BOI registered Manufacturers-Exporters with 100% Export Sales". The certification is valid from February 23 to December 31, 2009 and renewable annually, unless sooner revoked by the BOI Governing Board.

On January 22, 2009, HMC, CMC and RTN received a certification pursuant to Revenue Memorandum Order No. 9-2000 entitled "Tax Treatment of Sales of Goods, Properties and Services made by VAT-registered Suppliers to BOI registered Manufacturers-Exporters with 100% Export Sales". The certification is valid from January 1 to December 31, 2009 and renewable annually, unless sooner revoked by the BOI Governing Board.

Lease Agreements
HMC and CMC entered into operating lease contracts, generally with a one-year period, with tenants of its condominium properties owned by them.

Lease Contract with the DENR
TMC is a party to a lease contract dated April 10, 2003 with the DENR over a tract of foreshore land located at the Taganito mine comprising an area of approximately 12,000 square meters. The foreshore lease has a term of twenty five (25) years from the date of issue, unless terminated earlier. The DENR may renew the foreshore lease for another twenty five (25) years, at its option. In accordance with the foreshore lease, TMC constructed permanent improvements appropriate for the wharf to facilitate the barging of mine ore to customers' vessels. Under the terms of the lease, if TMC uses or attempts to use the premises for other purposes, all rights and interests, including in the improvements, will be forfeited in favor of the Government. Upon the termination of the lease or any extension, all improvements made by TMC will become the property of the Government.

Joint Undertaking with National Commission on Indigenous Peoples (NCIP)
On December 8, 2009, TMC and NCIP entered into a Joint Undertaking, which confirmed that a one percent (1%) royalty on annual gross revenues of TMC is payable to the Mamanwa Tribe pursuant to a Memorandum of Agreement dated July 18, 2006 between TMC, the NCIP and the Tribe and a Certificate of Ancestral Domain Title issued to the Tribe, within which area TMC's mining operation is located.

Coral Bay HPAL Facility Expansion
In January 2008, SMM announced that it was proceeding with an expansion of the Coral Bay HPAL facility from the current production capacity of 10,000 to 20,000 tons of contained nickel per year at an estimated total cost of US$308.0 million.

RTN participated in the expansion and its share of the cost of the expansion is to be US$30.8 million (based on RTN's current ownership of CBNC). On February 26, 2008, RTN paid US$9.2 million as partial consideration for its share in the Coral Bay HPAL facility expansion.

RTN Loan Facility
On February 20, 2008, SMM agreed to increase the RTN loan facility from US$1.9 million to US$10.9 million.

38. Events after the Reporting Period

Stock Option Agreements
On January 3, 2011, the stock option agreements were made and entered between the Parent Company and the option grantees. The stock option agreement provides that the vesting of granted option shares shall be four (4) years starting from December 21, 2010.

BOI Certification
On January 2011, TMC, HMC and CMC received BOI certification pursuant to RMO No. 9-2000 entitled "Tax Treatment of Sales of Goods, Properties and Services made by VAT-registered Suppliers to BOI registered Manufacturers-Exporters with one hundred percent (100%) Export Sales". The certification is valid from January 1 to December 31, 2011 and renewable annually, unless sooner revoked by the BOI Governing Board.

TMC Loan

In January and February 2011, TMC drawn down additional loan of $0.92 million and $1.09 million, respectively, from its loan facility with THNC (see Note 16).

Dividends

On March 25, 2011, the Parent Company's BOD declared cash dividends equivalent to ₱0.35 per share to stockholders of record as at April 11, 2011. The dividends will be paid on May 9, 2011.

39. Supplemental Disclosure to Statement of Cash Flows

Noncash investing activities in 2010 and 2009 pertain to the following:

	2010	2009
Increase (decrease) in:		
Property and equipment	**₱94,141**	₱132,837
Trade and other receivables	**(94,141)**	62,830
Deferred mine exploration costs	**–**	(195,667)

40. Business Segment Information

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The mining segment is engaged in the mining and exploration of nickel saprolite and limonite ore.

The services segment is engaged in the chartering out of Landing Craft Transportation, construction and rendering of services to CBNC.

There are no inter-segment revenues and expenses for the year ended December 31, 2010, 2009 and 2008.

Financial information on the operation of the various business segments are as follows:

	December 31, 2010									
	Mining							Services and Others		
	HMC									
	South Dinagat	Manicani	Taganaan	Total	CMC	TMC	RTN	RTN/ LCSLC	Others	Total
Revenues (see Note 32)	₱–	₱–	₱1,356,697	₱1,356,697	₱1,225,803	₱2,088,982	₱3,402,816	₱249,310	₱12,430	₱8,336,038
Cost of sales	–	–	442,783	442,783	529,749	630,246	1,459,250	–	–	3,062,028
Cost of services	–	–	–	–	–	–	–	141,067	–	141,067
Shipping and loading costs	–	–	442,416	442,416	113,172	140,007	125,617	–	–	821,212
Excise taxes and royalties	–	–	94,969	94,969	193,064	167,119	68,056	–	–	523,208
Segment operating earnings	₱–	₱–	₱376,529	₱376,529	₱389,818	₱1,151,610	₱1,749,893	₱108,243	₱12,430	₱3,788,523
General and administrative	₱2,373	₱14,701	₱200	₱17,274	₱41,668	₱102,779	₱91,221	₱4,601	₱218,189	₱475,732
Provision for (benefit from) income tax	₱–	₱–	₱103,060	₱103,060	₱115,319	₱298,715	₱570,468	–	(₱139,834)	₱947,728
Net income (loss) attributable to equity holders of the parent	(₱3,813)	(₱14,824)	₱296,936	₱278,299	₱284,953	₱462,192	₱797,547	–	(₱344,121)	₱1,478,870
Segment assets	₱14,878	₱1,304	₱233,244	₱249,426	₱1,112,504	₱4,088,682	₱5,816,936	₱–	₱9,824,499	₱21,092,047
Deferred income tax assets - net	–	–	145,804	145,804	51,118	28,363	–	–	188,729	414,014
Total assets	₱14,878	₱1,304	₱379,048	₱395,230	₱1,163,622	₱4,117,045	₱5,816,936	₱–	₱10,013,228	₱21,506,061
Segment liabilities	₱22,754	₱30,723	₱99,789	₱153,266	₱256,887	₱1,575,291	₱438,674	₱–	₱565,624	₱2,989,742
Deferred income tax liabilities - net	–	–	–	–	–	–	427,391	–	13,379	440,770
Total liabilities	₱22,754	₱30,723	₱99,789	₱153,266	₱256,887	₱1,575,291	₱866,065	₱–	₱579,003	₱3,430,512
Capital expenditures	₱–	₱–	₱67,158	₱67,158	₱26,144	₱1,351,777	₱333,714	₱12,327	₱271,232	₱2,062,352
Depreciation and depletion	₱–	₱–	₱24,778	₱24,778	₱108,748	₱135,502	₱268,526	₱6,432	₱16,184	₱560,170

	December 31, 2009									
	Mining							Services and Others		
	HMC									
	South Dinagat	Manicani	Taganaan	Total	CMC	TMC	RTN	RTN	Others	Total
Revenues (see Note 32)	₱–	₱–	₱1,212,494	₱1,212,494	₱575,436	₱1,041,437	₱1,503,840	₱343,435	₱10,084	₱4,686,726
Cost of sales	–	–	470,032	470,032	351,124	594,337	1,100,796	–	–	2,516,289
Cost of services	–	–	–	–	–	–	–	240,899	–	240,899
Excise taxes and royalties	–	–	84,874	84,874	90,631	83,315	30,077	–	–	288,897
Shipping and loading costs	–	–	324,758	324,758	79,634	85,802	61,769	–	–	551,963
Segment operating earnings	₱–	₱–	₱332,830	₱332,830	₱54,047	₱277,983	₱311,198	₱102,536	₱10,084	₱1,088,678
General and administrative	₱13,603	₱5,360	₱1,633	₱20,596	₱39,502	₱136,672	₱90,036	₱–	₱169,389	₱456,195
Provision for (benefit from) income tax	₱–	₱–	₱63,620	₱63,620	(₱13,508)	₱40,746	₱123,286	₱–	(₱44,890)	₱169,254
Net income (loss) attributable to equity holders of the parent	(₱10,498)	(₱5,464)	₱341,871	₱325,909	(₱3,622)	₱82,068	₱185,841	₱–	(₱287,309)	₱302,887
Segment assets	₱15,236	₱1,650	₱295,347	₱312,233	₱1,392,021	₱2,962,765	₱4,021,149	₱–	₱7,395,740	₱16,083,908
Deferred income tax assets - net	–	–	158,897	158,897	54,606	18,151	–	–	41,396	273,050
Total assets	₱15,236	₱1,650	₱454,244	₱471,130	₱1,446,627	₱2,980,916	₱4,021,149	₱–	₱7,437,136	₱16,356,958
Segment liabilities	₱17,599	₱29,854	₱38,697	₱86,150	₱338,022	₱251,566	₱817,995	₱–	₱109,267	₱1,603,000
Deferred income tax liabilities - net	–	–	–	–	–	–	477,057	–	46	477,103
Total liabilities	₱17,599	₱29,854	₱38,697	₱86,150	₱338,022	₱251,566	₱1,295,052	₱–	₱109,313	₱2,080,103
Capital expenditures	₱–	₱–	₱10,117	₱10,117	₱19,142	₱71,762	₱135,888	₱–	₱3,139	₱240,048
Depreciation and depletion	₱2,477	₱218	₱9,717	₱12,412	₱119,310	₱136,544	₱189,163	₱–	₱12,955	₱470,384

	December 31, 2008									
	Mining							Services and Others		
	HMC									
	South Dinagat	Manicani	Taganaan	Total	CMC	TMC	RTN	RTN	Others	Total
Revenues (see Note 32)	₱56,260	₱–	₱566,372	₱622,632	₱773,896	₱2,134,904	₱2,047,915	₱237,126	₱10,604	₱5,827,077
Cost of sales	474,028	–	146,603	620,631	202,423	492,291	1,003,556	–	–	2,318,901
Cost of services	–	–	–	–	–	–	–	121,489	–	121,489
Excise taxes and royalties	7,453	–	82,703	90,156	121,889	222,329	40,963	–	–	475,337
Shipping and loading costs	12,196	–	122,268	134,464	24,233	82,753	58,210	–	–	299,660
Segment operating earnings	(₱437,417)	₱–	₱214,798	(₱222,619)	₱425,351	₱1,337,531	₱945,186	₱115,637	₱10,604	₱2,611,690
General and administrative	₱66,331	₱3,528	₱–	69,859	₱72,777	₱209,366	₱95,532	₱–	₱165,577	₱613,111
Provision for income tax	₱–	₱–	₱–	₱–	₱168,046	₱484,795	₱560,685	₱–	(₱151,754)	₱1,061,772
Net income (loss) attributable to equity holders of the parent	(₱527,235)	(₱3,241)	(₱198,132)	(₱728,608)	₱390,459	₱951,252	₱986,330	₱–	(₱1,420,225)	₱179,208
Segment assets	₱19,746	₱2,128	₱584,841	₱606,715	₱2,318,126	₱3,360,619	₱4,539,810	₱–	₱5,810,163	₱16,635,433
Deferred tax assets - net	–	–	190,713	190,713	12,513	–	–	–	–	203,226
Total assets	₱19,746	₱2,128	₱775,554	₱797,428	₱2,330,639	₱3,360,619	₱4,539,810	₱–	₱5,810,163	₱16,838,659
Segment liabilities	₱20,708	₱29,562	₱14,321	₱64,591	₱238,783	₱453,597	₱828,257	₱–	₱357,820	₱1,943,048
Deferred tax liabilities - net	–	–	–	–	–	564,171	57,495	–	63	621,729
Total liabilities	₱20,708	₱29,562	₱14,321	₱64,591	₱238,783	₱1,017,768	₱885,752	₱–	₱357,883	₱2,564,777
Capital expenditures	₱–	₱–	₱12,287	₱12,287	₱158,739	₱482,306	₱512,929	₱–	₱7,270	₱1,173,531
Depreciation and depletion	₱6,129	₱–	₱6,808	₱12,937	₱105,900	₱95,428	₱123,793	₱9,950	₱14,190	₱362,198

The Group has revenues from external customers as follows:

Country of Domicile	**2010**	2009	2008
China	**₱3,633,670**	₱1,862,307	₱1,122,339
Japan	**2,678,550**	1,455,947	3,565,318
Local	**2,023,818**	1,014,954	891,690
	₱8,336,038	₱4,333,208	₱5,579,347

The revenue information above is based on the location of the customer.

Revenue from two customers amounted to ₱4,766.9 million, ₱2,470.1 million and ₱4,457.0 million in 2010, 2009 and 2008, respectively, arising from sale of ores.

The Group has non-current assets consisting of property and equipment and investment property located in the Parent Company's country of domicile amounting to ₱3,813.5 million and ₱2,216.7 million as at December 31, 2010 and 2009, respectively.

NICKEL ASIA CORPORATION
RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
PURSUANT TO SEC MEMORANDUM CIRCULAR NO.11
DECEMBER 31, 2010

Retained earnings as at December 31, 2009, *as adjusted to available for dividend distribution*		**₱4,590,653,599**
Add: Net income actually earned/realized during the period		
Net income during the period closed to retained earnings	**1,282,994,044**	
Less:Non-actual/unrealized income net of tax		
Equity in net income of associate/joint venture	-	
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	-	
Unrealized actuarial gain	-	
Fair value adjustment (mark-to-market gains)	-	
Fair value adjustment of investment property resulting to gain	-	
Recognized deferred tax asset that increased the net income	134,065,195	
Adjustment due to deviation from PFRS/GAAP - gain	-	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS	-	
Subtotal	**134,065,195**	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	-	
Unrealized actuarial loss	-	
Adjustment due to deviation from PFRS/GAAP - loss	-	
Loss on fair value adjustment of investment property (after tax)	-	
Subtotal		
Net income actually earned during the period		**1,148,928,849**
Add (less):		
Dividend declarations during the period	(3,076,500,000)	
Appropriations of retained earnings during the period	-	
Reversals of appropriations	-	
Effects of prior period adjustments	-	
Treasury shares	-	
Subtotal		**(3,076,500,000)**
Retained earnings as at December 31, 2010 available for dividend		**₱2,663,082,448**

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Manuel B. Zamora, Jr.
Chairman

Philip T. Ang
Vice Chairman

Gerard H. Brimo
Frederick Y. Dy
Fulgencio S. Factoran, Jr.
Takanori Fujimura
Takeshi Kubota
Luis J.L. Virata
Ronaldo B. Zamora

OFFICERS
Nickel Asia Corporation

Manuel B. Zamora, Jr.
Chairman

Philip T. Ang
Vice Chairman

Gerard H. Brimo
President & Chief Executive Officer

Michio Iwai (1)
Senior Vice President & Chief Operating Oficer

Emmanuel L. Samson
Senior Vice President & Chief Financial Officer

Rolando R. Cruz
Vice President Operations

Jose Roderick F. Fernando
Vice President
Legal & Human Resources
Assistant Corporate Secretary

Martin Antonio G. Zamora
Vice President
Marketing & Procurement

Ma. Angela G. Villamor (2)
Assistant Vice President
Internal Auditor

Barbara Anne C. Migallos
Corporate Secretary

Subsidiaries
Rio Tuba Nickel Mining Corporation

Jose S. Saret (3)
Senior Vice President

Norberto R. Reyes
Vice President
Finance

Philipp D. Ines
Resident Mine Manager

Taganito Mining Corporation

Michio Iwai
Vice President

Lennie A. Terre
Vice President
Finance & Administration

Conrado C. Tambiloc, Jr. (4)
Assistant Vice President

Jose B. Anievas
Resident Mine Manager

Cagdianao Mining Corporation and Hinatuan Mining Corporation

Patrick S. Garcia
Assistant Vice President
Finance

Fernando G. Agustin
Resident Mine Manager, Cagdianao Mine

Angelito V. Gomez
Resident Mine Manager, Taganaan Mine

(1) Up to 31 March 2011
(2) Effective 1 April 2011
(3) Appointed SVP-COO of NAC effective 1 April 2011
(4) Up to 28 February 2011

CORPORATE DIRECTORY

Address

Head Office
6F NAC Centre, 143 Dela Rosa Street
Legaspi Village, Makati City, Philippines 1229
T: +632 892.6669 / 892.4177
F: +632 892.5344

Mine Sites

Rio Tuba Mine
Barangay Rio Tuba, Bataraza, Palawan

Taganito Mine
Barangay Taganito, Claver, Surigao del Norte

Cagdianao Mine
Barangay Valencia, Cagdianao, Dinagat Islands

Hinatuan Mine
Barangay Talavera, Taganaan, Surigao del Norte

Corporate Website
http://www.nickelasia.com

Independent Public Accountants
SyCip Gorres Velayo & Co.

Bankers
Banco de Oro
Bank of the Philippine Islands
BNP Paribas
Credit Suisse
Security Bank Corporation
Union Bank of the Philippines

Transfer Agent
Stock Transfer Service, Inc. 34F, Unit D, Rufino Pacific Tower
6784 Ayala Avenue, Makati City, Philippines
T: +632 403.2410 / 403.2412
F: +632 403.2414

Attorneys
Kapunan, Tamano, Villadolid
Migallos & Luna
Pacis & Reyes
Tan Acut Lopez & Pison

MWC
NIKL
NRCP
PAL
PAX
PCEV
PCKH