

COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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

SANTIAGO A. POLIDO
Contact Person

840-45-00
Company Telephone Number

1	2	3	1
Month	Day		

Fiscal Year

SEC FORM 17-Q (Amended)
FORM TYPE

0	5	2 nd Tuesday
Month	Day	

Annual Meeting

N/A
Secondary License Type, If Applicable

Dept Requiring this Doc	Amended Articles Number / Section					
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="text-align: center;">2,896</td></tr> </table> <p style="text-align: center;">Total No. of Stockholders</p>	2,896	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">N/A</td> <td style="text-align: center;">N/A</td> </tr> <tr> <td style="text-align: center;">Domestic</td> <td style="text-align: center;">Foreign</td> </tr> </table> <p style="text-align: center;">Total Amount of Borrowings</p>	N/A	N/A	Domestic	Foreign
2,896						
N/A	N/A					
Domestic	Foreign					

To be accomplished by SEC Personnel concerned

File Number	LCU
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Document ID	Cashier
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STAMPS

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SECURITIES AND EXCHANGE COMMISSION

**SEC FORM 17-Q (Amended)
QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended: September 30, 2008
2. Commission identification number: ASO 94-008745
3. BIR Tax Identification No.: 047-003-945-022V
4. Name of Issuer: ALASKA MILK CORPORATION
5. Jurisdiction of Incorporation: Makati City, Philippines
6. Industry Classification Code: (SEC Use Only)
7. Address: 6th Floor Corinthian Plaza, 121 Paseo de Roxas, Makati City
8. Telephone No.: 840-4500 / 840-5921 to 39
9. Former name, former address and former fiscal year, if changed since last report: Not Applicable
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

<u>Title of Each Class</u>	<u>Number of Shares (as of September 30, 2008)</u>
Common Stock	913,598,200 shares*

* *net of 53,496,678 shares held under Treasury*

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

YES ()

NO ()

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

Philippine Stock Exchange - Common, Class A shares

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding (12) months or for such other shorter period the registrant was required to file such reports.

YES (✓)

NO ()

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

YES (✓)

NO ()

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The Financial Statements are attached to this SEC Form 17-Q (pages 12 to 43).

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion on the Company's financial condition and results of operations should be read in conjunction with the attached unaudited financial statements of Alaska Milk Corporation as of and for the period ended September 30, 2008 and selected notes to financial statements.

Results of Operations

Coming from a seasonally strong second quarter, retail consumption of liquid canned milk products softened during the third quarter of the year as consumer spending slowed down on account of rising food and fuel prices. As of end September 2008, the Evaporated Milk Category contracted versus the same period last year influenced in part by an unusually short summer period which dampened consumer demand for cold beverages. Retail consumption of sweetened condensed milk products, however, staged a mild recovery compared to year-ago level largely due to the brisk off-take of the lower-priced sweetened condensed creamer brands. The Powdered Milk Market, on the other hand, was slightly down versus the same period last year as a result of the double-digit contraction of the premium-priced Full Cream segment.

Notwithstanding the general slowdown in milk consumption, revenues for the third quarter of 2008 grew by ₱127 million or 6% to ₱2.389 billion from ₱2.262 billion in the same period last year largely driven by the robust sales volume performances of the powdered milk and UHT businesses. Sales volume of the Company's powdered milk business continued to grow on account of the improvement in stock supply and sustained brand-building activities for the Alaska Powdered Filled Milk. Off-take of the UHT ready-to-drink milk line remained brisk through the quarter following the re-launch of Alaska Choco. In addition, the incremental sales volume contributed by newly launched Alaska Yoghurt Drink helped push volumes higher. Combined sales volume of the liquid canned milk business, on the other hand, was flat.

Cost of sales and operating expenses for the third quarter of the year amounted to ₱2.313 billion, up 14% from ₱2.034 billion in the same period last year largely due to higher cost of production inputs as well as heightened advertising and promotional spending to support volume growth. Despite margin pressures attendant to the cost increases of primary raw and packaging materials, the

Company did not implement a price hike during the year to stave off a further decline in consumer demand for milk products. As a result operating income and operating margin for the quarter narrowed to ₱75.9 million and 3.2%, respectively, from year-ago operating income of ₱227.7 million and operating margin of 10.1%.

Net interest expense of ₱13.4 million was incurred for the quarter, compared to interest income of ₱0.3 million in the same period last year, due to the availment of short-term loans associated with higher working capital requirements given the expanded business portfolio of the Company as well as the high cost of major raw materials.

Other miscellaneous income for the quarter amounted to ₱11.3 million, ₱4.9 million or 76% higher compared to year-ago miscellaneous income of ₱6.4 million due to higher gain on the Company's foreign exchange transactions.

Provision for income tax for the third quarter of the year was lower by ₱42.8 million or 64% at ₱23.6 million from ₱66.4 million in the same period last year due primarily to the lower taxable income. This resulted in a net income of ₱50.1 million or 2.1% of net sales, lower than same period last year's net income of ₱168.0 million or 7.4% of net sales.

Following the performance in the third quarter, revenues for the first nine months of the year grew by 14% to ₱7.082 billion from ₱6.222 billion in the same period last year. Sustained brand-building initiatives through advertising and promotions translated in improved shelf off-take for both existing and new brands. Combined sales volume of the liquid canned milk business grew, partly due to the incremental sales volume generated by the acquired / licensed liquid canned milk brands. Sales volume of the Alaska brand, on the other hand, was stable underpinned by the robust off-take of the lower-priced creamer products.

To further drive-up usage going into the peak Christmas Season, selling prices of the Company's portfolio of sweetened condensed creamers (Alaska, Carnation and Liberty) were rolled back effective October 3, 2008. In addition, in-store activations and consumer promotions are scheduled for implementation in the fourth quarter of 2008 to maximize seasonal opportunities.

Sales volume of the Alaska Powdered Filled Milk posted double-digit growth rates for the first nine months of the year, outperforming the powdered milk market's contraction. The growth in sales volume is largely due to the strong consumer recall for the product through brand-building efforts, alongside the improvements in distribution levels. Accordingly, market share of Alaska Powdered Filled Milk expanded versus the same period last year.

Combined sales volume of the Company's UHT business for the period ending September 2008 likewise posted strong double-digit growth rates owing to the

robust sales volume growth of the Alaska ready-to-drink (RTD) milk line. Market share gains were likewise registered across the different segments of the RTD Milk Market as well as in the Creams Market.

Cost of sales and operating expenses for the nine-months ending September 2008 grew at a faster rate than the 14% increase in revenues, by 24% to ₱6.696 billion from year-ago cost of sales and operating expenses of ₱5.415 billion. Substantially higher cost of production inputs, particularly skimmed milk powder and tinplate, pushed cost of sales higher year-on-year. Operating expenses likewise increased on the back of higher distribution-related charges as well as extensive marketing and promotional activities to support volume growth. Altogether, this put operating income for the first nine months of 2008 at ₱386.4 million and operating margin at 5.5% from ₱807.1 million and 13.0%, respectively, in the same period last year.

Net interest expense for the period ending September 30, 2008 amounted to ₱49.1 million, compared to interest income of ₱24.2 million in the same period last year due to interest payments made on short-term loans availed by the Company to finance its working capital requirements. Miscellaneous income, on the other hand, amounted to ₱13.4 million, a reversal from the ₱7.1 million miscellaneous charges incurred in the same period last year on account of the gain on sale of investment properties as well as higher gain on foreign exchange transactions.

Provision for income tax decreased by ₱145.3 million or 56% to ₱112.2 million as of end September 2008 from ₱257.6 million a year ago on account of the lower taxable income as a result of the drop in profitability level. This brought net income for the first nine months of 2008 at ₱238.5 million or 3.4% of net sales, lower than net income in the same period last year of ₱566.5 million or 9.1% of net sales. Basic earnings per share (EPS) for the period ending September 30, 2008 is equivalent to ₱0.26, lower compared to the year-ago EPS of ₱0.60.

Financial Condition

Total assets as of September 30, 2008 stood at ₱6.046 billion, ₱1.08 billion or 15% lower than the ₱7.126 billion in total assets as of end December 2007.

Cash and cash equivalents was ₱22.7 million or 17% lower at ₱113.6 million compared to end December 2007 balance of ₱136.3 million due to the lower cash inflows attributed to lower profit levels. Also contributing to the decline in cash balance is the partial payment of the Company's short-term loans, settlement of maturing import bills and the acquisition of treasury shares during the nine-month period.

Accounts receivable of ₱592.3 million as of September 30, 2008 was ₱229.1 million or 28% lower versus end December 2007 balance of ₱821.4 million as

sales during the third quarter of 2008 was lower compared to sales in fourth quarter of 2007.

Inventories decreased by ₱760 million or 28% from ₱2.677 billion in end 2007 to ₱1.917 billion as of September 30, 2008 as inventory level of skimmed milk powder went down following a build-up of stock position towards the latter part of 2007.

Prepaid expenses of ₱58.4 million as of end September 2008 was ₱34 million or 37% lower compared to the end December 2007 balance of ₱93.4 million due to lower prepayments for import-related taxes on account of lower importations made during the third quarter of 2008 vis-à-vis fourth quarter of 2007.

Property, plant and equipment (net of accumulated depreciation) as of end September 2008 amounted to ₱1.326 billion, ₱116 million or 10% higher compared to end December 2007 balance of ₱1.210 billion primarily due to capital expenditures made during the nine-month period (acquisition of new manufacturing equipment and construction of the Company's logistics / distribution center).

Investment properties decreased by ₱39 million due to the sale of a Company-owned condominium property.

The Company's total liabilities reached ₱2.539 billion as of September 30, 2008, ₱854 million or 25% lower compared to the end December 2007 balance of ₱3.393 billion.

The Company paid down ₱1.325 billion of its outstanding short-term loans (including ₱1.100 billion in additional short-term loans availed during the nine-month period) which reduced the bank loan balance to ₱575 million as of September 30, 2008 from the end December 2007 balance of ₱800 million.

Acceptances payable of ₱415.1 million was ₱675.9 million or 62% lower versus end December 2007 balance of ₱1.091 billion due to the settlement of maturing obligations on the Company's import bills.

Income tax payable amounted to ₱18.7 million, ₱59.1 million or 76% lower compared to the end December 2007 balance of ₱78 million due to the payment of corporate income tax last April 2008 in addition to a lower taxable income for the nine-month ending September 30, 2008.

Dividends payable for the quarter ending September 2008 increased by ₱68.5 million or 94% to ₱141.2 million from ₱72.7 million in December 2007 due to the declaration of a ₱0.30 per share cash dividend last May 13, 2008. The foregoing cash dividend is payable quarterly from June 30, 2008 to March 30, 2009.

Net income of ₱238.5 million for the first nine months of 2008, less cash dividend declaration of ₱277.8 million, reduced the retained earnings account to ₱2.658 billion as of end September 2008 from ₱2.698 billion in retained earnings balance as of end December 2007.

The cost of shares held in treasury increased to ₱223.3 million as of September 30, 2008 from ₱33.3 million in December 31, 2007 following the acquisition of 38.1 million common AMC shares under the Company's share buy-back program.

The Company's current ratio stands at 1.06:1 as of September 30, 2008, slightly lower than the 1.10:1 current ratio as of end December 2007. Debt-to-equity ratio, on the other hand, improved to 0.72:1 compared to end December 2007's debt-to-equity ratio of 0.91:1.

Alaska Milk Corporation does not anticipate any liquidity problems in the next twelve (12) months.

Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.

Domestic consumption activity will continue to depend on the overall economic performance of the Philippines. A recurrence of the unprecedented increase in oil prices and rice crisis that hit the country earlier this year will exert upward pressure on the consumer price index. This will weigh heavily on demand for basic goods and services, milk products included, as consumers put a tighter rein on household spending given shrinking disposable incomes.

Skimmed milk powder (SMP) and foreign exchange costs have a significant impact on the Company's net income and profitability levels. World prices of SMP eased further as buying interests slowed down due to market uncertainties brought about by concerns of an impending global recession. Quotes are currently around the US\$2,500/MT level, down from US\$3,300/MT to US\$3,800/MT in August 2008. Buyers are cautious and are purchasing short of their full requirements at the moment. Some traders feel that prices could soften from current levels over the next few months. Current global supply is sufficient to meet commitments until the new season gets underway.

SMP prices and foreign exchange will continue to have a material impact on the Company's cost and profitability. The softening of SMP prices from its record levels in 2007 will ease margin pressures in the coming months. However, the recovery in margins will be slower as the Company exhausts higher-priced inventories purchased during the earlier part of 2008. The stability of the Philippine Peso vis-à-vis the US Dollar will likewise have an impact on the Company's level of profitability. In view of the continued volatility in the financial

markets, the Company continues to actively hedge part of its US Dollar requirements.

Any significant elements of income or loss that did not arise from the issuer's continuing operations.

All of the company's income/earnings arose from its continuing operations.

Any seasonal aspects that had a material effect on the financial condition or results of operations.

Sales of milk products exhibit some seasonality during the year, particularly for liquid canned milk products. Historically, sales in the second quarter are strong for this category due to the summer season when use of the liquid canned milk increases during fiesta season and for “halo-halo”. Demand during the third quarter of the year usually slackens, compared to the summer (second quarter) and peaks again during the Christmas (fourth quarter) season. A similar pattern also applies to the all-purpose cream product. On the other hand, sales of powdered filled milk and UHT milk are less prone to seasonal influences as these products are used as regular milk drink/beverage.

Discussion of the company’s top five (5) key performance indicators.

The following are the major performance measures that the Company uses. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year.

KPI	Definition	9-Months Ending Sep '08	9-Months Ending Sep '07
Operating Margin	<p>The operating margin is the percentage of the Company's earnings before interest and tax (EBIT) or operating income to net sales for a given period. This KPI measures the return obtained for every peso of revenue earned, after all cost of sales and operating expenses are deducted.</p> <p>Formula: $\frac{\text{Operating Income}}{\text{Net Sales}}$</p>	5.5%	13.0%

KPI	Definition	9-Months Ending Sep '08	9-Months Ending Sep '07
Return on Sales	<p>The return on sales is the percentage of the Company's net income after tax to net sales for a given period. This KPI provides a measure of return for every peso of revenue earned, after all other operating expenses and non-operating expenses, including provision for income taxes, are deducted.</p> <p>Formula: $\frac{\text{Net Income}}{\text{Net Sales}}$</p>	3.4%	9.1%
Return on Equity (for the 9-month period)	<p>The return on equity is the percentage of the Company's net income to stockholders' equity. This KPI is a measure of the shareholders' return for every peso of invested equity</p> <p>Formula: $\frac{\text{Net Income}}{\text{Total Stockholders' Equity}}$</p>	6.8%	15.6%
Debt to Equity Ratio	<p>Debt to equity ratio is the ratio of debt to total stockholders' equity. This KPI is a measure of the Company's use of leverage and solvency position.</p> <p>Formula: $\frac{\text{Total Liabilities}}{\text{Total Stockholders' Equity}}$</p>	0.72:1	0.62:1
EBITDA	<p>EBITDA is computed by adding back depreciation and amortization expenses (both non-cash expenses) to earnings before interest and income tax. This KPI is a measure of the Company's ability to generate cash from operations.</p>	₱626.1 M	₱909 M

Any events that will trigger direct or contingent financial obligations that is material to the company, including any default or acceleration of an obligation.

There are no events anticipated or planned that will trigger any direct or contingent financial obligation.

All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities of other persons created during the reporting period.

There are no material off-balance sheet transactions or arrangements or obligations or relationships created during the period in review.

Item 3. Financial Risk Management Objectives and Policies

The Company's financial risk management objectives and policies are discussed in Note 18 of the accompanying unaudited financial statements.

In compliance with the Securities and Exchange Commission's directive, the following disclosures on the Company's financial instruments for the period ended September 30, 2008 are hereby provided:

- a. The Company's financial condition remains strong with no significant currency, interest, credit and liquidity risks. Other than the settlement of maturing import bills and partial payment of short-term bank loans, there were no significant changes in the financial investments and obligations of the Company as of September 30, 2008 compared to the audited balance sheet as of December 31, 2007. The Company's bank loan balance, at ₱575 million as of end September 2008, consists of peso-denominated short-term loans with a fixed interest rates ranging from 5.22% to 6.73% per annum.
- b. The Company's cash is invested in low-risk, fixed income investments with reputable financial institutions. There are no indications that the value of these investments will be severely affected by fair value accounting, including mark-to-market valuations. In addition, Alaska Milk Corporation has no investments in foreign securities.


SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer: ALASKA MILK CORPORATION



Santiago A. Polido
Corporate Secretary



Arnold L. Abad
Vice President – Accounting & Controller


November 17, 2008

ALASKA MILK CORPORATION
 BALANCE SHEETS
 AS OF DATES INDICATED
 (In Thousand Pesos)

	<u>SEP 30, 2008</u>	<u>DEC 31, 2007</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 5)	P 113,607	P 136,340
Trade and Other Receivables - Net (Note 6)	592,279	821,447
Available-for-Sale Investments (Note 7)	2,556	2,556
Inventories (Note 8)	1,917,294	2,677,295
Prepaid Expenses and Other Current Assets	58,445	93,414
Total Current Assets	<u>2,684,181</u>	<u>3,731,052</u>
Noncurrent Assets		
Property, plant and equipment - net (Note 9)	1,326,448	1,210,652
Investment properties - net (Note 10)		39,084
Intangible assets - net (Note 11)	1,695,468	1,808,016
Deferred tax assets	216,852	216,852
Net Pension Assets	55,153	55,153
Other noncurrent assets	68,256	67,153
Total Noncurrent Assets	<u>3,362,177</u>	<u>3,394,909</u>
Total Assets	<u>P 6,046,358</u>	<u>P 7,125,961</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities		
Bank loans (Note 12)	P 575,000	P 800,000
Trade and other payables (Note 13)	1,388,547	1,351,893
Acceptances Payable	415,139	1,090,993
Income Tax Payable	18,690	77,803
Dividends payable	141,255	72,727
Total Liabilities	<u>2,538,631</u>	<u>3,393,416</u>
Stockholder's Equity		
Capital Stock	967,095	966,205
Additional Paid In Capital	105,447	101,780
Retained Earnings	2,658,487	2,697,849
Treasury Stocks	(223,302)	(33,289)
Total Stockholder's Equity	<u>3,507,727</u>	<u>3,732,545</u>
Total Liabilities and Stockholder's Equity	<u>P 6,046,358</u>	<u>P 7,125,961</u>

See accompanying Notes to Financial Statements

Certified Correct:



ARNOLD L. ABAD
 VP for Accounting and Controller



ALASKA MILK CORPORATION
STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
For the Nine Months Ended September 30, 2008 and 2007
(In Thousand Pesos)

	3 mos. Ended September 30		9 mos. Ended September 30	
	2008	2007	2008	2007
CAPITAL STOCK	967,095	966,185	967,095	966,185
Additional Paid-in Capital	105,447	100,923	105,447	100,923
RETAINED EARNINGS				
Cash and Cash Equivalents (Note 5)	1,125,000	745,000	1,125,000	745,000
Appropriated for the Share - Buy Back Program	300,000	200,000	300,000	200,000
Trade and Other Receivables - Net (Note 6)				
Available-for-Sale Investments (Note 7)	1,183,352	1,483,884	1,272,846	1,370,465
Inventories (Note 8)	50,135	167,988	238,464	566,535
Dividends declared	-	-	(277,824)	(285,128)
Appropriation for capital inv. project during the qtr.	-	-	-	-
Balance at end of quarter	1,233,487	1,651,872	1,233,487	1,651,872
Property, plant and equipment - net (Note 9)	2,658,487	2,596,872	2,658,487	2,596,872
Investment properties - net (Note 10)				
Intangible assets - net (Note 11)	-	-	-	-
Additions/(Deductions) during the period	-	-	-	-
Balance at end of quarter	-	-	-	-
TREASURY STOCK				
Balance at beginning of quarter	(161,263)	(33,289)	(33,289)	(33,289)
Acquisition	(62,039)	-	(190,013)	-
Balance at end of quarter	(223,302)	(33,289)	(223,302)	(33,289)
	3,507,727	3,630,692	3,507,727	3,630,692

Bank loans (Note 12)

Trade and other payables (Note 13)

Certified Correct:



ARNOLD L. ABAD
VP for Accounting and Controller



ALASKA MILK CORPORATION
COMPARATIVE INCOME STATEMENTS
For the Three Months Ended September 30, 2008 and 2007
(In Thousand Pesos)

	<u>3 mos. Ended SEP 30,2008</u>	<u>3 mos. Ended SEP 30,2007</u>	<u>9 mos. Ended SEP 30,2008</u>	<u>9 mos. Ended SEP 30,2007</u>
SALES	P 2,388,646	P 2,261,544	P 7,082,354	P 6,222,517
COST OF SALES & OPERATING EXPENSES	<u>2,312,743</u>	<u>2,033,814</u>	<u>6,695,993</u>	<u>5,415,447</u>
INCOME FROM OPERATION	75,902	227,730	386,361	807,070
OTHER INCOME/(CHARGES)				
Interest -Net	(13,454)	306	(49,086)	24,172
Miscellaneous	11,329	6,427	13,424	(7,130)
Total	<u>(2,125)</u>	<u>6,733</u>	<u>(35,661)</u>	<u>17,042</u>
INCOME BEFORE INCOME TAX	73,778	234,463	350,700	824,112
PROVISION FOR INCOME TAX	<u>23,643</u>	<u>66,475</u>	<u>112,236</u>	<u>257,577</u>
NET INCOME	50,135	167,988	238,464	566,535
Retained Earnings at Beginning of Period	2,608,352	2,428,884	2,697,847	2,315,465
Dividend Declared/Paid		-	(277,824)	(285,128)
Retained Earnings at End of Period	P <u>2,658,487</u>	P <u>2,596,872</u>	P <u>2,658,487</u>	P <u>2,596,872</u>
Appropriated Retained Earnings:				
Appropriation for various capital investment project & stock buy back program	1,425,000	945,000	1,425,000	945,000
Treasury stock Acquired	223,302	33,289	223,302	33,289
Unappropriated retained earnings	<u>1,010,185</u>	<u>1,618,584</u>	<u>1,010,185</u>	<u>1,618,584</u>
	P <u>2,658,487</u>	P <u>2,596,872</u>	P <u>2,658,487</u>	P <u>2,596,872</u>
Earnings Per Share	P 0.05	P 0.18	P 0.26	P 0.60
No. of Shares Issued	967,094,878	966,184,878	967,094,878	966,184,878
Less: No. of Treasury Stocks	<u>(53,496,678)</u>	<u>(15,368,734)</u>	<u>(53,496,678)</u>	<u>(15,368,734)</u>
Total Shares Issued net of Treasury Stocks	<u>913,598,200</u>	<u>950,816,144</u>	<u>913,598,200</u>	<u>950,816,144</u>

See accompanying Notes to Financial Statements

Certified Correct:

ARNOLD L. ABAD
VP for Accounting and Controller

ALASKA MILK CORPORATION
CASH FLOW STATEMENTS
For the Three Months Ended September 30, 2008 and 2007
(In Thousand Pesos)

	3 mos. Ended SEP 30, 2008	3 mos. Ended SEP 30, 2007	9 mos. Ended SEP 30, 2008	9 mos. Ended SEP 30, 2007
CASH FLOW FROM OPERATING ACTIVITIES				
Net Income	P 50,135	P 167,988	P 238,464	P 566,535
Depreciation & Amortizations	80,461	38,775	239,712	101,928
Cash and Cash Equivalents (Note 5)				
Decrease/Increase in Current Assets	451,878	356,457	1,022,113	(864,141)
Trade and Other Receivables - Net (Note 6)	244,081	(339,991)	(696,292)	504,999
Available-for-Sale Investments (Note 7)				
Inventories (Note 8)	P 826,555	P 223,230	P 803,997	P 309,321
CASH FLOW FROM INVESTING ACTIVITIES				
Payment for purchase of Prop. Plant & Equipt.	(94,865)	(62,950)	(233,310)	(245,394)
Treasury Stocks	(82,038)	-	(190,013)	-
Property, plant and equipment - net (Note 9)				
Investment properties - net (Note 10)				
Intangible assets - net (Note 11)	(2,661)	(12,336)	26,327	(1,921,651)
Net Investment Flows	P (159,565)	P (75,286)	P (396,995)	P (2,167,046)
CASH FLOW FROM FINANCING ACTIVITIES				
Settlement/Proceeds of Bank loans	(665,000)	-	(225,000)	-
Issuance of Capital Stock	-	4,929	4,557	11,119
Dividend payment	(68,518)	(71,270)	(209,295)	(190,061)
Net Financing Flows	P (733,518)	P (66,341)	P (429,738)	P (178,942)
NET CASH PROVIDED/USED				
Bank loans (Note 12)	P (66,526)	P 81,603	P (22,735)	P (2,036,667)
	P 180,134	P 72,492	P 136,340	P 2,190,765
CASH AND CASH EQUIVALENTS & SHORT- TERM INVESTMENTS AT END OF THE PERIOD				
	P 113,607	P 154,095	P 113,607	P 154,095

See accompanying Notes to Financial Statements

Certified Correct:

ARNOLD L. ABAD
VP for Accounting and Controller

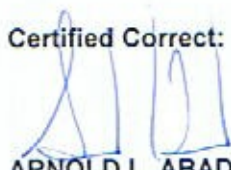


ALASKA MILK CORPORATION
AGING OF ACCOUNTS RECEIVABLE
AS OF SEPTEMBER 30, 2008
(In Thousand Pesos)

	CURRENT	PAST DUE		TOTAL
		1-60 DAYS	OVER 61 DAYS	
Trade - net	460,522	72,695	63,659	596,875
Cash and Cash Equivalents (Note 5)				91,750
Trade and Other Receivables - Net	460,522	72,695	63,659	688,625
Available-for-Sale Investments (Note 7)				(96,347)
Inventories (Note 8)				592,279

Property, plant and equipment - net (Note 9)
Investment properties - net (Note 10)
Intangible assets - net (Note 11)

Certified Correct:



ARNOLD L. ABAD
VP for Accounting and Controller



ALASKA MILK CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Alaska Milk Corporation (the Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on September 26, 1994. The Company is primarily involved in the manufacture, distribution and sale of liquid, powdered and ultra-heat treated milk products under the Alaska brand. The registered office address of the Company is 6th Floor, Corinthian Plaza, Paseo de Roxas, Makati City.

2. Basis of Preparation

The accompanying financial statements of the Company have been prepared on the historical cost basis, except for derivative instruments, which have been measured at fair value.

The financial statements are presented in Philippine peso, which is the Company's functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance

The accompanying financial statements have been prepared in compliance with PFRS. PFRS includes statements named PFRS and Philippine Accounting Standards (PAS), including interpretations, issued by the Financial Reporting Standards Council (FRSC).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PAS, new PFRS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) starting January 1, 2007:

- PFRS 7, *Financial Instruments: Disclosures*, requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under PFRS. The adoption of this standard resulted in the inclusion of additional disclosures in the financial statements.

FRSC has approved an amendment to the transition provisions of PFRS 7 that gives transitional relief with respect to the presentation of comparative information for the new risks disclosures about the nature and extent of risks arising from financial instruments in paragraphs 31 to 42 of PFRS 7. Accordingly, an entity that applies PFRS 7 for annual periods beginning on or after January 1, 2007 need not present comparative information.

- Amendment to PAS 1, *Presentation of Financial Statements*, requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosures are shown in Note 27.

The following Philippine Interpretations from IFRIC are effective for annual periods beginning on or after January 1, 2007 but are not relevant to the Company:

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*, requires PFRS 2, *Share-based Payment*, to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation had no impact on the financial position or performance of the Company.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, states that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Company has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Company.
- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*, requires that an entity must not reverse an impairment loss recognized in the previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Company had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Company.

Future Changes in Accounting Policies

The Company did not early adopt the following standards, Philippine Interpretations and amendments that have been approved but are not yet effective:

- PFRS 8, *Operating Segments*, becomes effective for financial years beginning on or after January 1, 2009, and will replace PAS 14, *Segment Reporting*. It adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheets and statements of income and companies will need to provide explanations and reconciliations of the differences. The Company assessed that the adoption of this standard will have no significant impact on the financial statements.
- Amendment to PAS 23, *Borrowing Costs*, becomes effective for financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Company is currently assessing the impact of the interpretation on the financial statements.
- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*, becomes effective for annual periods beginning on or after March 1, 2007. This requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is

required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Company does not expect this interpretation to have significant impact on its financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, becomes effective for annual periods beginning on or after January 1, 2008. This interpretation covers contractual arrangements arising from entities providing public-to-private service concession arrangements if control of the assets remains in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. The Company expects that this interpretation will have no impact on the financial statements as no such arrangement currently exists.
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, becomes effective for annual periods beginning on or after July 1, 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transactions in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company expects that this interpretation will have no impact on the Company's financial statements as no such schemes currently exist.
- Philippine Interpretation IFRIC 14, PAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, becomes effective for annual periods beginning on or after January 1, 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. The Company is currently assessing the impact of the interpretation on the financial statements.

3. Summary of Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amounts of the affected asset or liability in the future.

Judgments

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

Functional Currency. The Company has determined that its functional currency is the Philippine peso. It is the currency of primary economic environment in which the Company operates.

Operating Leases. The Company has entered into various lease agreements either as a lessor or a lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. All of the Company's lease agreements were determined as operating leases.

Estimates and Assumptions

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

Estimating Allowance for Doubtful Accounts. The Company maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of allowance is evaluated by the Company on the basis of factors that affect the collectibility of the accounts. The review is accomplished using a combination of specific and collective assessment. The factors considered in specific impairment assessment are the length of the Company's relationship with customers, customers' current credit status based on known factors, age of the accounts and other available information that will indicate objective evidence that the customers are unable to meet their financial obligations. The collective impairment assessment is based on historical loss experience and deterioration in the market in which the customers' operate. The amounts and timing of recorded provision for doubtful accounts for any period would differ if the Company made different assumptions or utilized different estimates.

Impairment of Available-for-Sale (AFS) Investments - Significant and Prolonged Decline in Fair Value. The Company determines that an AFS investment is impaired when there has been a significant or prolonged decline in the fair value below its cost. The Company determines that a decline in fair value of greater than 20% of cost is considered to be a significant decline and a decline for a period of more than twelve months is considered to be a prolonged decline. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates, among other factors, the normal volatility in price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance.

Net Realizable Value of Inventories. The Company records a provision for excess of cost over the net realizable value of materials and supplies whenever the value of materials and supplies becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. The lower of cost or net realizable value of inventories is reviewed on a monthly basis to reflect the accurate valuation in the financial records. Materials and supplies identified to be obsolete and unusable are written off and charged as expense for the year.

Estimated Useful Lives of Property, Plant and Equipment, Investment Properties and Intangible Assets with Finite Useful Lives. The useful life of each of the Company's property, plant and equipment, investment properties and intangible assets with finite useful lives is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and 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 asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any property, plant and equipment and investment properties and intangible assets with finite useful lives would increase the recorded cost of sales and operating expenses and decrease noncurrent assets.

Estimated Useful Lives of Intangible Assets with Indefinite Useful Life. Intangible assets are regarded to have an indefinite useful life when, based on an analysis of all the relevant factors,

there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Company.

Impairment of Trademarks with Indefinite Useful Life. The Company determines whether trademarks are impaired at least annually. This requires an estimation of the value in use of the trademarks. Estimating the value in use amount requires management to make an estimate of the expected future cash flows from the trademarks and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of Nonfinancial Assets. PFRS requires that an impairment review be performed when certain impairment indicators are present.

Determining the value of nonfinancial assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Company to conclude that such assets are impaired. Any resulting impairment could have a material impact on the financial condition and results of operations of the Company.

The preparation of the estimated future cash flows involves judgments and estimations. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of recoverable values.

No impairment loss was recognized in 2008 and 2007.

Realizability of Deferred Tax Assets. The Company reviews its deferred tax assets at each balance sheet date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Company's assessment on the recognition of deferred tax assets is based on forecasted taxable income in the following periods.

Pension Benefits. The present value of the pension obligations depends on certain factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate, expected rate of return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The expected return on plan assets assumption is determined on a uniform basis, taking into consideration historical returns, asset allocation and future estimates of long-term investment returns.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension costs are based in part on current market conditions.

While it is believed that the Company's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's pension obligations.

Share-based Payment. PFRS 2 requires the fair value of equity instruments granted to be based on market prices, if available, and to take into account the terms and conditions upon which those equity instruments were granted. In the absence of market prices, fair value is estimated, using a valuation technique to estimate what the price of those equity instruments would be on measurement date in an arm's-length transaction between knowledgeable, willing parties.

The valuation technique shall be consistent with generally accepted valuation techniques for pricing financial instruments, and shall incorporate all factors and assumptions that knowledgeable, willing market participants would consider in setting the price.

Any changes in the option pricing model used and the inputs to that model, such as weighted average share price, historical daily volatility, expected daily volatility, dividend yield, risk-free interest rate risk and any other inputs to the model, including the method used and any other assumptions may materially affect the Company's value of equity-settled share options granted. A discussion of share-based payments is disclosed in Note 15.

Fair Value of Financial Assets and Liabilities. The Company carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments. Significant components at fair value measurement were determined using verifiable objective evidence. However, the amount of changes in fair value would differ if the Company utilized different valuation methodologies and assumptions.

The fair values of the financial assets and liabilities as of September 30, 2008 and December 31, 2007 are disclosed in Note 19.

Contingencies. The estimate of the probable costs for the resolution of possible claims has been developed in consultation with outside legal counsel handling the Company's defense in these matters and is based upon an analysis of potential results (see Note 21). Management and its legal counsel believe that the Company has substantial legal and factual bases for its position and is of the opinion that losses arising from these legal claims, if any, will not have a material adverse impact on the financial statements. There was no provision for contingencies in 2008 and 2007.

4. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Short-term Investments

Short-term investments include time deposits with original maturities of more than three months but less than one year.

Financial Assets and Financial Liabilities

Date of Recognition. The Company recognizes a financial asset or a financial liability in the balance sheets when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

Subsequent to initial recognition, the Company classifies its financial instruments in the following categories: financial assets and financial liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial assets and other financial liabilities. The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

Determination of Fair Value. The fair value of financial instruments traded in active markets at balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

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

Financial Assets

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 instrument or a financial guarantee contract. Gains and losses on investments held for trading are recognized in the statements of income.

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis; or
- the assets are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Company has no financial assets at FVPL as of September 30, 2008 and December 31, 2007.

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. Loans and receivables are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest method. Loans and receivables are classified as current assets when the Company expects to realize or collect the asset within twelve months from balance sheet date. Otherwise, these are classified as noncurrent assets.

HTM Investments. HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the statements of income when the HTM investments are derecognized or impaired, as well as through the amortization process. Assets under this category are classified as current assets if maturity is within 12 months from balance sheet date and as noncurrent assets if maturity is more than a year from balance sheet date.

The Company has no financial assets classified as HTM investments as of September 30, 2008 and December 31, 2007.

AFS Financial Assets. AFS financial assets are nonderivative financial assets that are designated in this category or are not classified in any of the other categories. The Company designates assets as AFS financial assets when they have the intention to sell those assets when the need arises. Subsequent to initial recognition, AFS financial assets are carried at fair value in the balance sheets. Changes in the fair value of such assets are reported as revaluation reserve for AFS financial assets in the stockholders' equity section of the balance sheets until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in stockholders' equity is transferred to the statements of income. Interest earned on holding AFS financial assets are recognized in the statements of income using the effective interest rate. Assets under this category are classified as current assets

if the expected realization of the investment is within 12 months from balance sheet date and as noncurrent assets if maturity is more than a year from balance sheet date.

The Company's investment in unlisted shares of stock is classified under this category (see Note 7).

The Company acquired and holds the investment to earn dividends. The Company also intends to dispose the investment when the need arises.

Financial Liabilities

Financial Liabilities at FVPL. Financial liabilities are classified in this category if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Company elects to designate a financial liability under this category. Gains and losses from fair value changes of liabilities classified as at FVPL are recognized in the statements of income.

Other Financial Liabilities. This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

This category includes bank loans, trade and other payables, acceptances payable and dividends payable (see Notes 12 & 13).

Derivative Financial Instruments and Hedging

Freestanding Derivative. The Company uses derivative financial instruments such as forward contracts to hedge the risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded Derivative. The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes party to the contract. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at fair value through profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Derecognition of Financial Assets and Liabilities

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

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

When the Company 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 Company’s continuing involvement in the asset.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

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

Impairment of Financial Assets

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

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

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

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

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

Assets Carried at Cost. If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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.

AFS Investments. For AFS investments, the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statements of income, is removed from equity and recognized in the statements of income. Impairment losses on equity investments are not reversed through the statements of income. Increases in fair value after impairment are recognized directly in the stockholders' equity.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as loans and receivables and HTM investments. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of interest income in the statements of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statements of income, the impairment loss is reversed through the statements of income.

Offsetting Financial Instruments

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

Inventories

Inventories are valued at the lower of cost or net realizable value.

Costs incurred in bringing each product into its present location and condition are accounted for using the weighted average method, as follows:

Finished goods	–	cost includes direct materials, labor and a proportion of manufacturing overhead costs based on normal operating capacity; and
Goods in transit, raw and packaging materials and spare parts, supplies and others	–	purchase cost.

The net realizable value for finished goods is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. The net realizable value of goods in transit, raw and packaging materials and spare parts, supplies and others is the current replacement cost.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and amortization and any accumulated impairment in value. The cost includes the cost of replacing part of property, plant and equipment if such cost meets the recognition criteria. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs necessary in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the item has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have improved the condition of the asset beyond the originally assessed standard of performance, the expenditures are capitalized as additional cost of property, plant and equipment.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

Land improvements	20 years
Buildings and leasehold improvements	15 years or term of the lease, whichever is shorter
Machinery and equipment	10 years
Transportation equipment	3-5 years
Office furniture, fixtures and other equipment	3 years

The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at each financial yearend.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization is credited or charged to current operations.

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

Machinery and equipment under installation and machinery in-transit are stated at cost. These are not depreciated until such time that the relevant assets are available for use.

Construction in-progress represents properties under construction and is stated at cost. This includes cost of construction, equipment and other direct costs. Construction in-progress is not depreciated until such time that the relevant asset is completed and becomes available for use.

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

An item of property, plant 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 the statements of income in the year the asset is derecognized.

Investment Properties

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

Depreciation is calculated on a straight-line basis over the estimated useful life of 20 years.

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

If the property occupied by the Company as an owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Investment properties are derecognized when either they have been disposed 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 retirement or disposal of an investment property are recognized in the statements of income in the year of retirement or disposal.

As of September 30, 2008, the company has no investment properties.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

License Brands, Trademarks and Computer Software License. The costs of license brands, trademarks and computer software license represent the purchase price at the date of acquisition. The Company assessed the useful lives of license brands and computer software license to be finite. The Company assessed the useful life of trademarks to be indefinite because they are expected to contribute net cash inflows indefinitely.

License brands and computer software license are amortized over the economic useful life and are assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for license brands and computer software license with finite useful lives are reviewed at least each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on license brands and computer software license are recognized in profit or loss in the expense category consistent with the function of the intangible assets.

The amortization of license brands and computer software license is computed using the straight-line method over 10 years and 3 years, respectively. The amortization for computer software license commences when the asset is available for use.

Trademarks with indefinite useful lives are not amortized but are tested for impairment annually, either individually or at the cash generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

Impairment of Nonfinancial Assets with Definite Useful Lives

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs to sell and 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 exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The net selling price is the amount obtainable from the sale of the asset in an arm's-length transaction less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflow, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses of continuing operations are recognized in the statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount

since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of income as gain or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Treasury Stock

Own equity instruments which are reacquired are deducted from stockholders' equity. No gain or loss is recognized in the statements of income on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

Revenue

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

Sales. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery. Sales returns and sales discounts are deducted from sales to arrive at net sales shown in the statements of income.

Interest. Interest is recognized as the interest accrues, taking into account the effective yield on the related asset.

Rent. Rent income is recognized on a straight-line basis over the term of the lease agreement.

Operating 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.

Company as Lessee. Leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the balance sheets at amounts equal, at the inception of the lease, to the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are directly charged against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statements of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Company as Lessor. Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating lease. Lease income from operating

leases is recognized as income in the statements of income on a straight-line basis over the lease term.

Share-based Payment Transactions

The key executives and members of management of the Company are granted options to purchase shares, subject to restrictions, terms and conditions provided in the Executive Employee Stock Option Plan (EESOP).

The cost of equity-settled transactions, for awards granted after November 2002, is measured by reference to the fair value at the date on which they are granted.

The cost of equity-settled transactions is recognized with a corresponding increase in the stockholders' equity ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The amount reflected in the statements of income represents the movement in cumulative expense recognized as of the beginning and end of the period. No expense is recognized for awards that do not ultimately vest.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not recognized for the awards is recognized immediately.

Pension Benefits

The Company has a funded, noncontributory defined benefit retirement plan administered by a Board of Trustees covering all permanent employees. The cost of providing benefits under the defined benefits plan is determined using the projected unit credit actuarial valuation method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Pension expense includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains (losses) and effect of any curtailments or settlements. Past service cost is amortized over a period until the benefits become vested. The portion of the actuarial gains and losses is recognized when it exceeds the corridor (10% of the greater of the present value of obligation or market related value of the plan assets) at the previous reporting date, divided by the expected average remaining working lives of active plan members.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation at balance sheet date and any actuarial gains and losses not recognized, reduced by past service cost not yet recognized and the fair value at balance sheet date of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits availed in the form of refund from the plan or reductions in the future contributions to the plan.

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

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

Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in the functional currency rate at date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange at balance sheet date. All differences are taken to the statements of income. All exchange rate differences, including those arising on the settlement of monetary items at rates different from those at which they were recorded, are recognized in the statements of income in the year in which the differences arise, except for foreign currency differences arising from financial assets designated as cash flow hedge.

Taxes

Current Tax. Current 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 balance sheet date.

Deferred Tax. Deferred tax is provided using the balance sheet liability method on temporary differences at balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilized except when the deferred 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 income nor taxable income or loss.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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 balance sheet date.

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

Sales Tax. Revenue, expenses and assets are recognized net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of “Prepaid expenses and other current assets” or “Trade and other payables” accounts in the balance sheets.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingencies

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

Events After Balance Sheet Date

Post year-end events that provide additional information about the Company’s position at balance sheet date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

Earnings Per Share (EPS)

Basic EPS is calculated by dividing the net income for the year by the weighted average number of shares outstanding during the year.

Diluted EPS is computed by dividing net income by the weighted average number of shares outstanding during the year, adjusted for the effects of dilutive stock options. Stock options are deemed to have been converted into shares on the date when the options were granted.

Segment Reporting

For purposes of segment reporting, the Company does not have other reportable segment other than milk manufacturing.

5. Cash and Cash Equivalents

This account consists of:

	9/30/2008 (in '000's)	12/31/2007 (in '000's)
Cash on hand and in banks	₱6,347	₱42,540
Short-term deposits	107,260	93,800
	₱113,607	₱136,340

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

6. Trade and Other Receivables

This account consists of trade and others net of allowance for doubtful accounts. Trade receivables generally have 30 days term while other receivables are normally settled throughout the financial year.

7. Available-for-Sale Investments

The balance of this account as of September 30, 2008 and December 31, 2007 consists of investments in unlisted shares of stock. These shares are unquoted and there are no reliable sources of fair market values. Consequently, the investments are stated at cost.

8. Inventories

This account consists of finished goods, raw and packaging materials, spareparts, supplies and others, goods in-transit. Allowance for inventory obsolescence is deducted from this account.

9. Property, Plant and Equipment

This account consists of Land and improvements, Buildings and leasehold improvements, Machinery and equipment, Transportation equipment, Office Furniture, fixtures and other equipment, Machinery and equipment under installation and construction in progress. Accumulated depreciation and amortization is deducted from this account.

Estimated useful lives of the assets are as follows:

Land improvements	20 years
Buildings and leasehold improvements	15 years or term of the lease contracts, whichever is shorter
Machinery and equipment	10 years
Transportation equipment	3 to 5 years
Office furniture, fixtures and other equipment	3 years

10. Investment Properties

This account represents various condominium properties. A certain condominium property is being leased out to a third party. As of September 30, 2008, the company has no investment properties in its books.

11. Intangible Assets

This account consists of license brands and computer software license with finite useful life and trademarks with indefinite useful life. Accumulated amortization is deducted from this account.

12. Bank Loans

The balance of the account consists of peso-denominated short-term loans with annual fixed interest rates ranging from 5.22% to 6.73%.

13. Trade and Other Payables

This account consists of:

	9/30/2008	12/31/2007
	(in '000's)	(in '000's)
Trade	₱623,562	₱534,767
Accrued Expenses	723,272	766,639
Others	41,713	50,487
	₱1,388,547	₱1,351,893

The terms and conditions of the above liabilities follow:

- Trade payables are noninterest-bearing and are normally settled on 60 days' term.
- Accruals and other payables are settled within the next financial year.

14. Pension Plan

The Company has a funded, noncontributory defined benefit pension plan, which provides for death, disability and pension benefits for all its regular employees, and requires contributions to the fund. The benefits are based on years of continuous service and final covered compensation.

15. Share-based Payment

On February 12, 2002, the BOD approved the provisions of the EESOP, administered by a Committee, with the following terms:

Participants	Key executives and members of management as recommended by the Committee to the BOD, subject to restrictions, terms and conditions provided in the EESOP
Number of common shares available for EESOP	5% of the outstanding capital stock
Exercise price	Not less than 90% of the average closing price of the Company's stock as stated in Philippine Stock Exchange's daily quotation sheet for the past 30 trading days immediately preceding the date of grant
Vesting	1/3 on the effectivity of the grant, 1/3 after one year from the effectivity of the grant, and 1/3 after two years from the effectivity of the grant
Expiration	After the lapse of the three-year duration of any grant

16. Related Party Disclosures

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Transactions with related parties include the following:

- a. The Company charges GenOSI, Inc. (GenOSI) and Wentworth Development Corporation (WDC), affiliates, for their share in the expenses incurred by directors and officers common to these companies.
- b. The Company has a ten-year lease agreement with WDC starting March 1, 2000 for the lease of provincial office space. Annual lease payments for the whole term of the lease amount to ₱ 0.6 million.
- c. The Company recognizes incentives to the members of the BOD, management and employees based on a certain percentage of operating income.
- d. The Company leases the land where its manufacturing plant is situated from AMC Retirement Plan for a period of 25 years starting November 9, 2004. Annual lease payments for the whole term of the lease amount to ₱15.6 million.

On January 1, 2006, the Company entered into another 25 years lease agreement with AMC Retirement Plan for the lease of land adjacent to where the manufacturing plant is situated. The lease is renewable at the option of the Company, at an annual rent of ₱13.2 million.

17. Agreements

a. License and Purchase Agreements

On April 16, 2007, the Company signed a license agreement with Société Des Produits Nestlé S.A. (Nestlé) granting the Company an exclusive license to manufacture and sell Nestlé's Carnation and Milkmaid brands for canned milk products. Royalty expense is computed at 5% of net sales.

On the same date, the Company also acquired the liquid milk trademarks from Nestlé.

b. Distribution Agreement

On August 18, 2005, the Company entered into a Distribution Agreement with Kellogg Asia Marketing, Inc. (Kellogg), designating the Company as distributor of Kellogg products within the territory specified in the agreement.

In consideration of the services rendered by the Company, Kellogg shall pay the Company a fee equivalent to a certain percentage of the price list to trade as stated in the agreement.

c. Lease Agreements

As Lessee

- i) The Company has a lease agreement with a third party for the lease of land and warehouse in Cainta for a period of three (3) years until September 30, 2008.
- ii) The Company has lease agreements with various third parties for the lease of land and warehouse in different provinces for a period of one (1) year, automatically renewable every year.

As Lessor

- i) The Company assumed all the rights and obligations of a lessor related to the condominium property as discussed in Notes 8. The agreement is for a period of three (3) years until March 31, 2008, renewable under such terms and conditions agreeable to both parties. The contract of lease was not renewed and the property has been sold last May 2008.
- ii) The Company has an existing lease agreement with a third party for a lease on condominium property for a period of one (1) year until February 29, 2008, renewable at the option of both parties. The contract was not renewed and the property has since reclassified as part of fixed assets.

18. Financial Risk Management Objectives and Policies

The Company's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, short-term investments and bank loans. The main purpose of these financial instruments is to finance the Company's operations. The Company has various other financial

assets and liabilities such as trade and other receivables, AFS investments, receivable from Meralco, trade and other payables, acceptances payable and dividends payable.

The Company also enters into forward currency contracts. The purpose is to manage the currency risks arising from the Company's operations and its sources of finance.

The main risks arising from the Company's financial instruments are foreign currency risk, credit risk, interest rate risk and liquidity risk. The BOD and management review and agree on the policies for managing each of these risks and they are summarized below.

Foreign Currency Risk

The Company's exposure to foreign currency risk pertains to foreign-currency denominated monetary assets and liabilities. The Company's financial position or performance can be affected by the movements in the ₱/US\$ exchange rates.

The following table shows the Company's foreign currency-denominated monetary assets and liabilities and their peso equivalents as at September 30, 2008 and December 31, 2007:

	2008		2007	
	US\$ (in 000's)	PhP (in 000's)	US\$ (in 000's)	PhP (in 000's)
Current financial assets:				
Cash and cash equivalents	\$70	₱3,301	\$46	₱1,908
Short-term investments	–	–	–	–
Advances to supplier	483	22,747	495	20,446
Total financial assets	553	26,047	542	22,354
Current financial liabilities:				
Acceptances payable	8,823	415,139	26,429	1,090,993
Other payables	–	–	–	–
Total financial liabilities	8,823	415,139	26,429	1,090,993
Net financial assets (liabilities)	(\$8,270)	(₱389,092)	(\$25,886)	(₱1,068,639)

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were ₱47.05 to US\$1.00 and ₱41.28 to US\$1.00, the Philippine peso to U.S. dollar exchange rates as at September 30, 2008 and December 31, 2007, respectively.

To manage foreign exchange risks, stabilize cash flows and improve investment and cash flow planning, the Company enters into forward contracts aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on operating results and cash flows.

The following table demonstrates the sensitivity to a reasonably possible change in US\$ exchange rate, with all other variables held constant, of the Company's income before income tax and management incentive bonus and equity (due to revaluation of monetary assets and liabilities):

	Increase in ₱	Effect on Inc Before Income and Manage Incentive B	Effect on E
2008	₱1.95	₱16.1 million decrease	₱9.9 million decrease

The decrease in ₱ to US\$ rate means stronger peso against the U.S. dollar while an increase in ₱ to US\$ rate means stronger US dollar against the peso.

Credit Risk

The Company trades only with recognized, creditworthy third parties. It is the Company'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 Company's exposure to bad debts is not significant. The Company does not grant credit terms without the specific approval of the credit departments under the direction of credit committee. Moreover, the credit committee regularly reviews the age and status of outstanding accounts receivable.

There are no significant concentrations in credit risk.

The Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of financial assets of the Company, which comprise cash and cash equivalents, short-term investments and AFS investments.

As of September 30, 2008, the aging analysis of trade receivable and other receivables is as follows:

In 000's	Neither Past	Past Due but Not Impaired		Impaired		Total
	Due Nor Impaired	<30 days	30-60 days	Individual	Collective	
Trade	P460,522	P40,053	P5,580	P33,260	P57,461	P596,875
Advances to supplier	54,923	-	-	-	-	54,923
Others	31,201	-	-	5,626	-	36,827
	P546,645	P40,053	P5,580	P38,886	P57,461	P688,625

As of September 30 2008, the credit quality of the Company's financial assets is as follows:

In 000's	Neither Past Due Nor Impaired		Past Due or Impaired	Total
	High Grade	Standard Grade		
Cash and cash equivalents	P113,607	P-	P-	P113,607
AFS investments	-	2,556	-	2,556
Trade receivables	276,313	184,209	136,354	596,875
Advances to supplier	54,923	-	-	54,923
Others	18,270	12,480	5,626	36,827
Receivable from Meralco	-	6,389	-	6,389
At September 30, 2008	P463,113	P205,634	P141,980	P810,728

High grade receivables are from key accounts and wholesalers who are highly reputable and progressive and consistently pay within their maturity dates. Standard grade receivables are from other key accounts and medium-sized customers that normally pay within their due dates, while those with past due or impaired accounts are from customers who exceed their credit terms.

Cash and cash equivalents are considered high grade as management trades only with top banks in the Philippines. All other financial assets were assessed by management as standard grade as these are realized within the normal terms.

Interest Rate Risk

Interest rate risk arises on interest-bearing financial instruments recognized in the balance sheets. The Company ensures that all interest-bearing loans and borrowings are made at a fixed rate of interest.

As of September 30, 2008 and December 31, 2007, the Company's bank loans are at fixed rate of interest, hence, the Company is not sensitive to interest rate changes.

Liquidity Risk

The Company's exposure to liquidity risk pertains to difficulty in raising funds to meet obligations associated with financial liabilities.

The Company's objective is to maintain a balance between continuity and flexibility through the use of internally generated funds and banks. The Company regularly evaluates its projected and actual cash flow information and continuously assess conditions in the financial markets.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

	2008 (in 000's)			Total
	On Demand	Less than 3 Months	3 to 12 Months	
Bank loans	P-	P575,000	P-	P575,000
Trade and other payables	-	1,358,672	29,875	1,388,547
Acceptances payable	-	415,139	-	415,139
Dividends payable	-	70,627	70,627	141,255
	P-	P2,419,439	P100,502	P2,519,941

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares. No changes were made in the objectives, policies, or processes during the periods ended September 30, 2008 and December 31, 2007.

The Company monitors its capital gearing by measuring the ratio of debt to total capital. Debt includes bank loans, trade and other payables, acceptances payable and dividends payable. The Company's policy is to keep within the gearing ratio at 70:30. As of September 30, 2008 and December 31, 2007, the Company's ratios of debt to total capital are 42% and 47%, respectively.

Details are as follows:

	2008 (in 000's)	2007 (in 000's)
Bank loans	P575,000	P800,000
Trade and other payables	1,388,547	1,351,894
Acceptances payable	415,139	1,090,993
Dividends payable	141,254	72,727
Total debt (a)	2,519,941	3,315,614
Total stockholders' equity	3,507,727	3,732,545
Total debt and stockholders' equity (b)	P6,027,668	P7,048,159
Gearing ratio (a/b)	42%	47%

19. Financial Instruments

Fair Values

The carrying values and fair values of financial instruments are as follows:

	2008 in 000's)		2007 (in 000's)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Loans and receivables:				
Cash and cash equivalents	₱113,607	₱113,607	₱136,340	₱136,340
Short-term investments	–	–	–	–
Trade and other receivables:				
Trade	506,155	506,155	766,940	766,940
Advances to suppliers	54,923	54,923	23,543	23,543
Others	31,201	31,201	30,965	30,965
Receivable from Meralco (see Note 31)	6,389	6,389	7,987	7,446
	712,275	712,275	965,774	965,233
AFS Investments	2,556	2,556	2,556	2,556
	₱714,831	₱714,831	₱968,330	₱967,789
Financial liabilities:				
Financial liabilities at FVPL - derivative liabilities				
	₱–	₱–	₱2,026	₱2,026
Other financial liabilities:				
Bank loans	575,000	575,000	800,000	800,000
Trade and other payables				
Trade	623,562	623,562	534,767	534,767
Accruals for:				
Selling and marketing expenses	249,221	249,221	538,285	538,285
Employees-related expenses	111,613	111,613	106,572	106,572
Importation charges, royalty and other expenses	362,438	362,438	121,782	121,782
Others	41,713	41,713	24,150	24,150
	1,388,547	1,388,547	1,325,557	1,325,557
Acceptances payable	415,139	415,139	1,090,993	1,090,993
Dividends payable	141,255	141,255	72,727	72,727
	₱2,519,941	₱2,519,941	₱3,291,302	₱3,291,302

Cash and Cash Equivalents, Short-term Investments, Trade and Other Receivables, Bank Loans, Trade and Other Payables, Acceptances Payables and Dividends Payable. The carrying amounts of these financial assets and liabilities approximate their fair values primarily due to the short-term nature of these financial instruments.

AFS Investments. The investments AFS consist of unquoted shares of stock. Consequently, the investment is carried at cost.

Receivable from Meralco. Receivable from Meralco pertains to Meralco refund as disclosed in Note 21. The fair value is estimated based on the discounted value of future cash flows using the applicable rate for similar type of instruments. The receivable was discounted using prevailing market rates of 8.68% to 8.96% in 2007.

Derivative Instruments

The Company uses short-term forward contracts to manage its foreign currency exposure arising from importations.

20. Board of Investments

On September 7, 2006, the Board of Investments (BOI) approved the Company's application for registration of its Anhydro Plant 2 Project as a pioneer project under the Executive Order No. 226, also known as the Omnibus Investments Code of 1987. The registration entitles the Company to certain tax and other incentives. The Certificate of Registration was issued by the BOI on January 10, 2007.

On December 19, 2006, the BOI approved the Company's appeal for the grant of a 6-year income tax holiday (ITH) incentive, which the Anhydro Plant 2 Project is entitled to as a pioneer project. The ITH incentive will start on May 2007 or the actual start of the Project's commercial operations, whichever is earlier.

21. Other Matters

a. Refund from Meralco

As a customer of Meralco, the Company expects to receive a refund for some of its previous billings under Phase IV of Meralco's refund scheme. Under the Meralco refund scheme, the refund may be received through postdated checks or as a fixed monthly credit to bills with cash option. The Company intends to recover through fixed monthly credit to bills with cash option, starting 2006 up to 2010.

b. Lawsuits

The Company is either a defendant or plaintiff in several civil cases primarily involving collection of receivables and labor cases. Based on the representation of the Company's external legal counsel, management is of the opinion that the resolution of such cases will not have a material adverse effect on the Company's financial position and results of operations.
