

SECURITIES AND EXCHANGE COMMISSION

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

1. For the quarterly period ended: June 30, 2009
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 June 30, 2009)</u>
Common Stock	967,104,878 shares*

** inclusive of 79,640,676 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 filed as part of this quarterly report, pages 11 to 15, and are incorporated herein by reference to said quarterly report.

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

The following discussions should be read in conjunction with the attached unaudited financial statements of Alaska Milk Corporation (the "Company") as of and for the period ended June 30, 2009 (with comparative figures as of December 31, 2008 and for the period ended June 30, 2009). Certain information and footnote disclosures normally included in the audited financial statements have been omitted.

Results of Operations

Off-take of the Company's core milk products remained brisk during the quarter, with revenues up 5% at ₱2.687 billion from ₱2.551 billion in the second quarter of 2008. Combined sales volume of the liquid canned milk business expanded during a seasonally strong second quarter. Sales volume of the Company's portfolio of economy brands remained robust, reflective of a general trend in shift in demand to lower-priced consumer products. The Company has made its product more affordable through a price rollback on selected milk brands which drove consumption higher. Sales volume of Alaska Powdered Filled Milk (APFM) was likewise brisk, posting double-digit growth rates on the back of extensive distribution drives and down-the-line marketing initiatives. To reinforce the brand's nutritional value, a new advertising campaign for APFM ("Drink Your Food") was launched, utilizing all media channels. Combined sales volume of the UHT business (ready-to-drink and ready-to-use), on the other hand, was stable.

Cost of sales and operating expenses for the second quarter went down by 8% to ₱2.181 billion from ₱2.380 billion in the same period last year as cost of major raw materials (both imported and local) continue to trend lower from their peak levels in 2008. Operating expenses, however, increased over the same period last year due to higher distribution-related charges attendant to increased sales volume. In addition, operating expenses rose on the back of heightened advertising and trade marketing support to drive consumer demand and off-take for Alaska Milk products. Altogether, this put operating income for the second quarter of 2009 to ₱506 million, ₱335 million or 196% higher than year-ago operating income of ₱171 million. Operating margin, on the other hand, improved to 18.8% from 6.7%.

Net interest income earned during the quarter amounted to ₱4.9 million, a reversal from the ₱21.9 million net interest expense incurred in the same period last year as cash inflows improved significantly on the back of higher profitability and reduced working capital requirements. As of end June 2009, all of the Company's outstanding short-term bank loans have been fully paid, ending the semester with a net cash position of ₱978 million.

Other miscellaneous income for the quarter amounted to ₱2.3 million, 43% lower than the ₱4.0 miscellaneous income earned a year ago due to the absence of one-time gain. This is partly because of last year's base had the benefit of gain from sale of investment properties.

Provision for income tax for the second quarter of the year was higher by ₱37.4 million or 74% at ₱88.2 million from ₱50.8 million in the same period last year as a result of higher profitability. This brought net income for the second quarter at ₱425.2 million or 15.8% of net sales, ₱323.1 million or 316% higher than net income of ₱102.1 million in the second quarter of 2008.

Following the strong performance of the second quarter, revenues for the first half of 2009 stood at ₱5.347 billion, 14% higher than revenues of ₱4.694 billion in the same period last year. The foregoing growth in revenues was largely due to sales volume gains in the liquid canned milk and powdered milk businesses.

Notwithstanding the double-digit growth in revenues, cost of sales and operating expenses for the first half of the year grew at a slower pace of 5%, at ₱4.597 billion from ₱4.383 billion a year ago. This is largely due to the decline in cost of production inputs, in particular imported skimmed milk powder, locally-sourced sugar and coconut oil as well as fuel cost. Altogether, this put operating income for the six-months ending June 2009 at ₱749.3 million, ₱438.8 million or 141% higher than year-ago operating income of ₱310.5 million. Operating margin more than doubled to 14.0% from 6.6% a year ago.

Net interest income earned for the first six months of the year was at ₱3.2 million, compared to the ₱35.6 million net interest expense incurred last year on higher cash inflows attendant to improvement in profitability and reduced working capital requirements. Miscellaneous income, on the other hand, was 53% higher at ₱3.2 million compared to ₱2.1 million largely due to gains in foreign exchange transactions.

Provision for income tax increased by ₱44.7 million or 50% to ₱133.3 million as of end June 2009 from ₱88.6 million a year ago on account of the higher taxable income. This brought net income for the first semester of the year to ₱622.5 million, 230% higher than net income of ₱188.3 million in the same period last year. Return on sales likewise improved to 11.6% from 4.0% a year ago. The first semester net income is equivalent to an earnings-per-share (EPS) of ₱ 0.70 compared to an EPS of P0.20 in the same period last year.

Financial Condition

Total current assets as of June 30, 2009 stood at ₱2.884 billion, ₱162 million or 5% lower than the ₱3.046 billion in total current assets as of end December 2008.

Cash and cash equivalents was ₱804 million or 463% higher at ₱978 million compared to end December 2008 balance of ₱174 million due to higher profitability and reduced working capital requirements.

Accounts receivable balance of ₱598 million as of June 30, 2009 was ₱288 million or 32% lower versus end December 2008 balance of ₱886 million as sales for the second quarter of the year was lower compared to sales in fourth quarter of 2008. Also contributing to the decline in accounts receivable is the higher collection turnover.

Inventories decreased by ₱689 million or 35% from ₱1.945 billion in 2008 to ₱1.256 billion as of June 30, 2009 as unit cost of primary raw and packaging materials declined from their peak levels.

Prepaid expenses of ₱52 million as of end June 2009 was ₱11 million or 27% higher compared to the end December 2008 balance of ₱41 million due to advance payments made for advertising and retirement benefits.

Property, plant and equipment (net of accumulated depreciation) as of end June 2009 amounted to ₱1.418 billion, ₱83 million or 6% higher compared to end December 2008's balance of ₱1.335 billion primarily due to various capital expenditures.

Intangible assets as of June 30, 2009, on the other hand, was lower by ₱84 million or 5% at ₱1.570 billion from ₱1.654 billion in December 2008 due to amortization of intangibles from January to June 2009.

Other noncurrent assets decreased by ₱10 million or 16%, from ₱64 million as of December 31, 2008 to ₱54 million as of June 30, 2009 due to the amortization of deferred input taxes on fixed assets.

Total assets as of June 30, 2009 stood at ₱6.134 billion, ₱173 million or 3% lower than the ₱6.307 billion in total assets as of end December 2008.

The Company paid down all of its outstanding short-term bank loans during the quarter from a balance of ₱175 million in December 31, 2008.

Trade and other payables of ₱1.486 billion as of end June 2009 was lower by ₱161 million or 10% versus ₱1.648 billion as of end December 2008 due to the payment of maturing obligations.

Acceptances payable of ₱500 million was ₱314 million or 39% lower compared to end December 2008 balance of ₱814 million due to the settlement of maturing obligations on the Company's import bills

Income tax payable as of end June 2009 amounted to ₱75 million due to the provisions made for the Company's income tax liability relative to its first half 2009 earnings, offsetting carry-over income tax receivable outstanding as of December 31, 2008.

Total liabilities as of end June 2009 went down by ₱575 million or 20% to ₱2.233 billion from ₱2.808 billion as of December 31, 2008.

Net income of ₱622 million for the first semester of 2009, less cash dividend declaration of ₱177 million, increased the retained earnings account to ₱3.156 billion as of end June 2009 from ₱2.711 billion in retained earnings balance as of end December 2008.

The cost of shares held in treasury increased to ₱333 million as of June 30, 2009 from ₱290 million in December 31, 2008 following the acquisition of 11.4 million common shares under the Company's share buy-back program.

The Company's current ratio stands at 1.31:1 as of June 30, 2009, higher than the 1.10:1 current ratio as of end December 2008. Debt-to-equity ratio, on the other hand, improved to 0.57:1 compared to end December 2008's debt-to-equity ratio of 0.80:1.

Alaska Milk Corporation does not anticipate any liquidity problems in the next twelve (12) months. Cash generated from operations, as well as existing cash balance, will be the main source of funds for working capital requirements, capital expenditures, as well as maintenance expenses. The Company likewise has existing credit lines / facilities with banks to meet sudden increases in working capital requirements and required capital expenditures.

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.

The Company's performance is affected by general economic and political conditions in the Philippines. Despite concerns of a protracted global recession, the domestic consumer market remained robust driven in part by a low inflation environment and sustained remittances of overseas Filipino workers.

Skimmed milk powder (SMP) is the most significant raw material that the Company uses in all of its products and has a major impact on the Company's profitability levels. Prices of SMP in the international market were steady the past few months with prices ranging at US\$1,950 per metric ton to US\$2,150 per

metric ton. Global milk production growth continues to slowdown alongside declining dairy consumption. Nonetheless, supply remains adequate to meet export requirements for the near term.

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 volatility in the financial markets, the Company actively hedges 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. As an integral part of home-grown tradition, Filipinos are fond of celebrating events and festivities / fiestas and food hold great significance for such events. In most cases, liquid canned milk products are considered to be the best complements to a number of local dishes. Specifically, evaporated milk is used to make local dishes creamier while condensed milk is ideal for making desserts. In most retail outlets, especially during holiday seasons, such product complements are highlighted and given appropriate shelf space. Historically, sales in the second quarter / summer months are brisk for this category when usage of liquid canned milk increases due to its unparalleled role in the unique taste of local *halo-halo*. Demand during the third quarter of the year usually slackens and peaks again during the fourth quarter / Christmas 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	6-Months Ending Jun '09	6-Months Ending Jun '08
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>	14.0%	6.6%
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>	11.6%	4.0%
Return on Equity (for the 6-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>	16.0%	5.4%

KPI	Definition	6-Months Ending Jun '09	6-Months Ending Jun '08
Debt to Equity Ratio	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. Formula: $\frac{\text{Total Liabilities}}{\text{Total Stockholders' Equity}}$	0.57:1	0.86:1
EBITDA	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.	₱921.0 M	₱469.7 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.

PART II – OTHER INFORMATION

The Company has no other pertinent information to disclose in this quarterly report.

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.

ALASKA MILK CORPORATION



Arnold L. Abad
Vice President – Accounting & Controller



Santiago A. Polido
Corporate Secretary

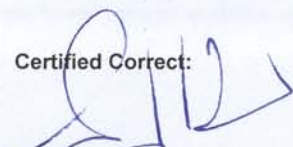
August 14, 2009

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

	<u>JUN 30, 2009</u>	<u>DEC 31, 2008</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 5)	P 977,796	P 173,705
Trade and Other Receivables - Net (Note 6)	598,192	886,051
Inventories (Note 7)	1,255,969	1,945,375
Prepaid Expenses and Other Current Assets	51,882	40,742
Total Current Assets	<u>2,883,839</u>	<u>3,045,873</u>
Noncurrent Assets		
Property, plant and equipment - net (Note 9)	1,417,475	1,334,706
Available-for-Sale Investments (Note 8)	2,556	2,556
Intangible assets - net (Note 10)	1,569,814	1,653,584
Deferred tax assets	154,316	154,316
Net Pension Assets	52,068	52,068
Other noncurrent assets	53,689	64,145
Total Noncurrent Assets	<u>3,249,918</u>	<u>3,261,375</u>
Total Assets	<u>P 6,133,757</u>	<u>P 6,307,248</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities		
Bank loans (Note 11)	P -	P 175,000
Trade and other payables (Note 12)	1,486,495	1,647,747
Acceptances Payable	499,932	813,637
Income Tax Payable	75,313	-
Dividends payable	140,370	141,254
Obligation under finance lease- current portion	2,579	2,546
Total Current liabilities	<u>2,204,689</u>	<u>2,780,185</u>
Non-Current Liability - Oligation under finance lease- net current portion	28,275	27,917
Total Liabilities	<u>2,232,964</u>	<u>2,808,102</u>
Stockholder's Equity		
Capital Stock	967,105	967,095
Additional Paid In Capital	110,615	110,590
Retained Earnings	3,156,100	2,711,124
Treasury Stocks	(333,027)	(289,663)
Total Stockholder's Equity	<u>3,900,793</u>	<u>3,499,146</u>
Total Liabilities and Stockholder's Equity	<u>P 6,133,757</u>	<u>P 6,307,248</u>

See accompanying Notes to Financial Statements

Certified Correct:


 ARNOLD L. ABAD
 VP for Accounting and Controller

ALASKA MILK CORPORATION
 COMPARATIVE INCOME STATEMENTS
 For the Six Months Ended June 30, 2009 and 2008
 (In Thousand Pesos)

	3 mos. Ended June 30		6 mos. Ended June 30	
	JUN 30,2009	JUN 30,2008	JUN 30,2009	JUN 30,2008
SALES	P 2,687,257	P 2,551,230	P 5,346,789	P 4,693,710
COST OF SALES & OPERATING EXPENSES	<u>2,181,051</u>	<u>2,380,311</u>	<u>4,597,483</u>	<u>4,383,249</u>
INCOME FROM OPERATION	506,206	170,919	749,306	310,461
OTHER INCOME/(CHARGES)				
Interest -Net	4,909	(21,940)	3,251	(35,633)
Miscellaneous	<u>2,284</u>	<u>3,977</u>	<u>3,206</u>	<u>2,096</u>
Total	<u>7,193</u>	<u>(17,963)</u>	<u>6,457</u>	<u>(33,537)</u>
INCOME BEFORE INCOME TAX	513,399	152,955	755,763	276,924
PROVISION FOR INCOME TAX	<u>88,202</u>	<u>50,810</u>	<u>133,295</u>	<u>88,593</u>
NET INCOME	425,197	102,145	622,468	188,331
Retained Earnings at Beginning of Period	2,908,396	2,784,034	2,711,124	2,697,849
Dividend Declared/Paid	<u>(177,493)</u>	<u>(277,824)</u>	<u>(177,493)</u>	<u>(277,824)</u>
Retained Earnings at End of Period	P <u><u>3,156,100</u></u>	P <u><u>2,608,354</u></u>	P <u><u>3,156,100</u></u>	P <u><u>2,608,354</u></u>
Appropriated Retained Earnings:				
Appropriation for various capital investment project & stock buy back program	1,625,000	945,000	1,625,000	945,000
Treasury stock Acquired	333,027	161,263	333,027	161,263
Unappropriated retained earnings	<u>1,198,073</u>	<u>1,502,091</u>	<u>1,198,073</u>	<u>1,502,091</u>
	P <u><u>3,156,100</u></u>	P <u><u>2,608,354</u></u>	P <u><u>3,156,100</u></u>	P <u><u>2,608,354</u></u>
Earnings Per Share	P 0.48	P 0.11	P 0.70	P 0.20
No. of Shares Issued	967,104,878	967,094,878	967,104,878	967,094,878
Less: No. of Treasury Stocks	<u>(79,640,676)</u>	<u>(40,963,676)</u>	<u>(79,640,676)</u>	<u>(40,963,678)</u>
Total Shares Issued net of Treasury Stocks	<u><u>887,464,202</u></u>	<u><u>926,131,202</u></u>	<u><u>887,464,202</u></u>	<u><u>926,131,200</u></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 Six Months Ended June 30, 2009 and 2008
(In Thousand Pesos)

	3 mos. Ended June 30		6 mos. Ended June 30	
	2009	2008	2009	2008
CAPITAL STOCK	967,105	967,095	967,105	967,095
Additional Paid-in Capital	110,615	105,447	110,615	105,447
RETAINED EARNINGS				
Appropriated for various capital investment projects	1,125,000	745,000	1,125,000	745,000
Appropriated for the Share - Buy Back Program	500,000	200,000	500,000	200,000
Unappropriated:				
Balance at the beginning of quarter	1,283,396	1,839,034	1,086,124	1,752,849
Net Income	425,197	102,145	622,468	188,331
Dividends declared	(177,493)	(277,824)	(177,493)	(277,824)
Appropriation for capital inv. project during the qtr.	-	-	-	-
Balance at end of quarter	1,531,100	1,663,355	1,531,099	1,663,356
	3,156,100	2,608,355	3,156,099	2,608,356
CUMULATIVE TRANSLATION ADJUSTMENT				
Balance at beginning of quarter	-	-	-	-
Additions/(Deductions) during the period	-	-	-	-
Balance at end of quarter	-	-	-	-
TREASURY STOCK				
Balance at beginning of quarter	(333,027)	(161,263)	(289,663)	(33,289)
Acquisition	-	-	(43,364)	(127,974)
Balance at end of quarter	(333,027)	(161,263)	(333,027)	(161,263)
	3,900,793	3,519,633	3,900,792	3,519,633

See accompanying Notes to Financial Statements

Certified Correct:

ARNOLD L. ABAD

VP for Accounting and Controller

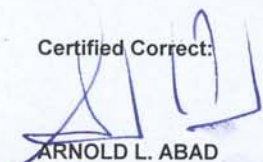
ALASKA MILK CORPORATION
CASH FLOW STATEMENTS
For the Six Months Ended June 30, 2009 and 2008
(In Thousand Pesos)

	3 mos. Ended June 30		6 mos. Ended June 30	
	JUN 30,2009	JUN 30,2008	JUN 30,2009	JUN 30,2008
CASH FLOW FROM OPERATING ACTIVITIES				
Net Income	P 425,196	P 102,145	P 622,468	P 188,331
Depreciation & Amortizations	86,158	79,285	171,705	159,251
Net Change in Assets & Liabilities				
Decrease/Increase in Current Assets	194,965	445,915	965,610	570,235
Decrease/Increase in Current Liabilities	<u>250,372</u>	<u>(247,407)</u>	<u>(399,023)</u>	<u>(940,372)</u>
Net Operational Flows	P <u>956,691</u>	P <u>379,938</u>	P <u>1,360,760</u>	P <u>(22,555)</u>
CASH FLOW FROM INVESTING ACTIVITIES				
Payment for purchase of Prop. Plant & Equipt.	(159,724)	(66,357)	(170,705)	(138,444)
Increase/Decrease in Other Assets	3,263	29,491	9,856	28,989
Net Investment Flows	P <u>(156,461)</u>	P <u>(36,866)</u>	P <u>(160,849)</u>	P <u>(109,456)</u>
CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds of Bank loans	(50,000)	(270,000)	(175,000)	440,000
Issuance of Capital Stock	35	4,073	35	4,557
Treasury Stocks	-	-	(43,363)	(127,975)
Dividend payment	<u>(43,511)</u>	<u>(69,456)</u>	<u>(177,493)</u>	<u>(140,776)</u>
Net Financing Flows	P <u>(93,475)</u>	P <u>(335,384)</u>	P <u>(395,821)</u>	P <u>175,806</u>
NET CASH PROVIDED/USED	P <u>706,755</u>	P <u>7,690</u>	P <u>804,089</u>	P <u>43,795</u>
CASH AND CASH EQUIVALENTS & SHORT- TERM INVESTMENTS AT BEG. OF THE PERIOD				
	P <u>271,040</u>	P <u>172,444</u>	P <u>173,705</u>	P <u>136,340</u>
CASH AND CASH EQUIVALENTS & SHORT- TERM INVESTMENTS AT END OF THE PERIOD				
	P <u><u>977,795</u></u>	P <u><u>180,134</u></u>	P <u><u>977,795</u></u>	P <u><u>180,134</u></u>

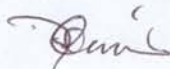
See accompanying Notes to Financial Statements

(1)

Certified Correct:



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VP for Accounting and Controller

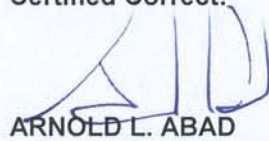


ALASKA MILK CORPORATION
AGING OF ACCOUNTS RECEIVABLE
AS OF JUNE 30, 2009
(In Thousand Pesos)

	CURRENT	PAST DUE				TOTAL
		1-30 DAYS	31-60 DAYS	61-150 DAYS	OVER 91 DAYS	
Trade - net	303,562	127,302	24,783	35,739	69,512	560,898
Non-trade						133,641
Total	303,562	127,302	24,783	35,739	69,512	694,539
Less: Allowance for B/D						(96,347)
Accounts Receivable, Net						<u>598,192</u>

See accompanying Notes to Financial Statements

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 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, Carnation, Liberty, Alpine and Milkmaid brands. 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 Philippine 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) issued by the Financial Reporting Standards Council and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following Philippine Interpretations from IFRIC starting January 1, 2008:

- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*, 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.
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, 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. As the Company has no public-to-private concession arrangements, the interpretation has no impact on its financial position or performance.

- Philippine Interpretation IFRIC 14, PAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*.

The adoption of the above interpretations did not have any 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:

- Revised PFRS 3, *Business Combination*, and Revised PAS 27, *Consolidated and Separate Financial Statements*, become effective for financial years beginning on or after July 1, 2009. Revised PFRS 3 introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Revised PAS 27 requires that a change in the ownership interest of a subsidiary be accounted for as an equity transaction. Therefore, such transaction will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised PFRS 3 must be applied prospectively and will affect future acquisition and transactions with minority interests while the revised PAS 27 must be applied retrospectively subject to certain exceptions. The Company assessed that the adoption of the revised standards will have no impact on the financial statements.
- PAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment)*, becomes effective for financial years beginning on or after July 1, 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Company does not expect that this amendment will have an impact on its financial statements.

The Company adopted the following standards, Philippine Interpretations and amendments that have been approved and are effective for financial years beginning on or after January 1, 2009:

- Revised PFRS 2, *Share-based Payment*, becomes effective for financial years beginning on or after January 1, 2009. It restricts the definition of a vesting condition to condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In case the award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, it must be accounted for as a cancellation.
- 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 full 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.

- Revised PAS 1, *Presentation of Financial Statements*, becomes effective for financial years beginning on or after January 1, 2009. The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income, which presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The revision also includes changes in titles of some of the financial statements to reflect their function more clearly, although not mandatory for use in the financial statements.
- Revised PAS 23, *Borrowing Costs*, becomes effective for financial years beginning on or after January 1, 2009. The standard requires capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
- PAS 32, *Financial Instruments: Presentation*, and PAS 1, *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments)*, become effective for financial years beginning on or after January 1, 2009. The amendment to PAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to PAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Company does not expect that these amendments will have an impact on its financial statements.
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, became effective for financial years beginning on or after July 1, 2008. It 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. As the Company has no customer loyalty schemes, the interpretation has no impact on its financial position or performance.
- IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*, became effective for financial years beginning on or after October 1, 2008. The interpretation is to be applied prospectively. It provides guidance on the accounting for a hedge of a net investment and in identifying foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group, the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Company assessed the adoption of the interpretation will have no impact on the financial statements.

In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The Company adopted the following amendments to standards that will become effective for financial years beginning on or after January 1, 2009:

- Amendment to PFRS 7, *Financial Instruments: Disclosures*, removes the reference to total interest income as a component of finance costs.
- Amendment to PAS 1, *Presentation of Financial Statements*, provides that assets and liabilities classified as held for trading in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, are not automatically classified as current in the balance sheet.
- Amendment to PAS 8, *Accounting Policies, Change in Accounting Estimates and Errors*, clarifies that only the implementation guidance that is an integral part of a PFRS is mandatory when selecting accounting policies.
- Amendment to PAS 10, *Events after the Reporting Period*, clarifies that dividends declared after the end of the reporting period are not obligations.
- Amendment to PAS 16, *Property, Plant and Equipment*, requires items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventory when rental ceases and they are held for sale. It also replaces the term “net selling price” with “fair value less cost to sell”.
- Amendment to PAS 18, *Revenue*, replaces the term “direct costs” with “transaction costs” as defined in PAS 39.
- Amendment to PAS 19, *Employee Benefits*, revises the definition of past service costs, return on plan assets, and short-term and other long-term employee benefits. The standard has been revised such that amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. It deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.
- Amendment to PAS 23, *Borrowing Costs*, revises the definition of borrowing costs to consolidate the two types of items that are considered components of borrowing costs into one - the interest expense calculated using the effective interest rate method calculated in accordance with PAS 39.
- Amendment to PAS 28, *Investment in Associates*, establishes that if an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.
- Amendment to PAS 31, *Interest in Joint Ventures*, provides that if a joint venture is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 31 to disclose the commitments of the venturer and the joint venture as well as summary financial information about the assets, liabilities, income and expense applies.
- Amendment to PAS 34, *Interim Financial Reporting*, requires disclosure of earnings per share in interim financial reports if an entity is within the scope of PAS 33, *Earnings per Share*.

- Amendment to PAS 36, *Impairment of Assets*, requires the disclosure of estimates used to determine recoverable amount. It requires that when discounted cash flows are used to estimate fair value less costs to sell, the same disclosure is required as when discounted cash flows are used to estimate value in use.
- Amendment to PAS 38, *Intangible Assets*, requires that for expenditure on advertising and promotional activities, expense is recognized when the entity either has the right to access the goods or has received the services. In addition, the standard deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.
- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement*, clarifies that changes in circumstances relating to derivatives are not reclassifications and therefore may either be removed from, or included in, the fair value through profit or loss (FVPL) classification after initial recognition. The standard also removes the reference to PAS 39 to a segment when determining whether an instrument qualifies as a hedge. In addition, it requires the use of the revised effective interest rate when measuring a debt instrument on the cessation of fair value hedge accounting.
- Amendment to PAS 40, *Investment Property*, revises the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, the standard revises the conditions for a voluntary change in accounting policy to be consistent with PAS 8 and clarifies that the carrying amount of the investment property held under lease is the valuation obtained, increased by any recognized liability.

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 the primary economic environment in which the Company operates.

Operating Lease Commitments - Company as Lessor. The Company has entered into various lease agreements as a lessor. The Company has determined, based on the evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the properties and thus accounts for the contracts as operating leases.

Lease Commitments - Company as Lessee. The Company has entered into various lease agreements as a lessee. Management has determined that all the significant risks and benefits of ownership of the properties, which the Company leases under operating lease arrangement, remain with the lessor and thus accounts for the contracts as operating leases.

Under finance lease arrangement, management determined, based on the terms of the contract and substance of the transaction, that the Company has acquired the economic benefits for the use of the leased asset for the major part of its economic life in return for entering into an obligation to pay for that right an amount approximating, at the inception of the lease, the fair value of the assets and related finance charge. Accordingly, the lease was accounted for as finance 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 maybe 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.

Estimating 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, investment properties and intangible assets with finite useful lives would increase the recorded cost of sales and operating expenses and decrease noncurrent assets.

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

- *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.

No impairment loss was recognized in 2009 and 2008.

- *Other 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 and may lead to future additional impairment charges.

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.

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. The discussion of share-based payments is disclosed in Note 14.

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. Any changes in fair value of these financial assets and liabilities would directly affect profit and loss and equity.

The fair values of financial assets and liabilities as of June 30, 2009 and December 31, 2008 are disclosed in Note 18.

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 2009, 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.

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 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, available-for-sale (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 June 30, 2009 and December 31, 2008.

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 12 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.

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 8). 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.

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, dividends payable and obligation under finance lease (see Note 18).

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 FVPL. 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 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 carrying amount of the asset shall be reduced through the use of an allowance account. 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 stockholders' equity.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in the statements of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized 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 of 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, is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and amortization and any accumulated impairment in value. 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 year-end.

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.

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 any 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.

Research and Development Costs. Research costs are expensed as incurred. Development cost incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

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 5 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.

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

Dividend Income. Revenue is recognized when the Company's right as a shareholder to receive the payment is established.

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

Leases

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, over the period in which the performance and/or service conditions are fulfilled, 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 benefit 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 available 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 “Income tax payable” 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. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

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:

	6/30/2009 (in '000's)	12/31/2008 (in '000's)
Cash on hand and in banks	₱306,556	₱80,170
Short-term deposits	671,240	93,535
	₱977,796	₱173,705

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:

	6/30/2009 (in '000's)	12/31/2008 (in '000's)
Trade	₱560,898	₱805,533
Advances to suppliers	89,959	71,279
Others (see Note 15)	43,682	105,586
	694,539	982,398
Less allowance for doubtful accounts (see Note 17)	96,347	96,347
	₱598,192	₱886,051

The terms and conditions of the above financial assets are as follows:

- Trade receivables are noninterest-bearing and are normally settled on a 30-day term.
- Advances to suppliers and others are noninterest-bearing and are normally settled within the next financial year.

7. 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.

8. Available-for-Sale Investments

The balance of this account as of June 30, 2009 and December 31, 2008 consists of investments in unlisted shares of stock. The shares are unquoted and there are no reliable sources of fair market values. Consequently, the investments are stated at cost.

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. 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.

11. Bank Loans

The balance of the account consists of peso-denominated short-term loans with annual fixed interest rates ranging from 7.0% to 7.07%. As of June 30, 2009 the company has paid up all its short-term bank loans.

12. Trade and Other Payables

This account consists of:

	6/30/2009 (in '000's)	12/31/2008 (in '000's)
Trade	₱567,215	₱771,039
Accrued Expenses	881,776	826,694
Others	37,504	50,014
	₱1,486,495	₱1,647,747

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.

13. 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.

14. 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 the 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

15. 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. The 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. The 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.

16. 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, which expired on 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.
- iii) On October 23, 2007, the Company entered into a 7-year finance lease agreement with Tetra Pak Philippines, Inc. for a packaging equipment at a total consideration of US\$0.7 million or ₱33.9 million, discounted at 5.8% per annum based on treasury bill rate.

The packaging equipment was received on September 26, 2008. The cost was included as part of property, plant and equipment – machinery in-transit and under installation while the related liability was shown as obligation under finance lease in the 2008 balance sheet. The Company expects that commercial operation of the equipment will start in 2009.

As Lessor

- i) The Company leases a condominium property for a period of three (3) years until March 31, 2008. The lease was, however, pre-terminated on February 29, 2008
- ii) The Company had a lease agreement with a third party for the lease of a condominium property for a period of one (1) year until February 29, 2008. In 2008, the Company sold the condominium property.

17. Financial Risk Management Objectives and Policies

The Company's principal financial instruments, other than derivatives, comprise cash and cash equivalents and bank loans. The main purpose of these financial instruments is to finance the Company's operations. The Company has other financial assets and liabilities such as trade and other receivables, AFS investments, receivable from Meralco, trade and other payables, acceptances payable, dividends payable and obligation under finance lease.

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 Philippine Peso equivalents as at June 30, 2009 and December 31, 2008:

	June 30, 2009 (In '000's)		December 31, 2008 (In '000's)	
	US\$	PhP	US\$	PhP
Current financial assets:				
Cash and cash equivalents	\$4,709	₱226,645	\$93	₱4,404
Trade and other receivables	1,651	79,965	1,406	66,799
	6,360	306,610	1,499	71,203
Current financial liabilities:				
Acceptances payable	10,387	499,932	17,122	813,638
Obligation under finance lease (including current portion)	641	30,854	641	30,463
	11,028	530,786	17,763	844,101
Net financial liabilities	(\$4,668)	₱(224,176)	(\$16,264)	(₱772,898)

In translating the foreign currency-denominated monetary assets and liabilities into Philippine Peso amounts, the exchange rates used were ₱48.13 to US\$1.00 and ₱47.52 to US\$1.00, the Philippine Peso to U.S. Dollar exchange rates as at June 30, 2009 and December 31, 2008, 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). There is no impact to the Company other than those already affecting profit or loss:

	Increase (Decrease) in ₱ to US\$ 1	Effect on Income Before Income Tax and Management Incentive Bonus
2009	(₱0.43)	₱2.0 million increase
2008	₱0.19	₱3.1 million decrease

The decrease in ₱ to US\$ rate means stronger Philippine Peso against the U.S. Dollar while an increase in ₱ to US\$ rate means stronger US Dollar against the Philippine 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, AFS investments, trade and other receivables and receivable from Meralco.

As of June 30, 2009 and December 31, 2008, the aging analysis of trade and other receivables is as follows:

June 30, 2009 (In '000's)							
	Neither Past		Past Due but Not Impaired		Impaired		Total
	Due Nor Impaired	<30 I	30-	Individual	Collective		
Trade	P303,562	P113,862	P52,753	P33,260	P57,461	P560,898	
Advances to suppliers	89,959	-	-	-	-	89,959	
Others	38,056	-	-	5,626	-	43,682	
	P431,577	P113,862	P52,753	P38,886	P57,461	P694,539	

December 31, 2008 (In '000's)							
	Neither Past		Past Due but Not Impaired		Impaired		Total
	Due Nor Impaired	<30 I	30-	Individual	Collective		
Trade	P621,822	P76,796	P16,194	P33,260	P57,461	P805,533	
Advances to suppliers	71,279	-	-	-	-	71,279	
Others	99,960	-	-	5,626	-	105,586	
	P793,061	P76,796	P16,194	P38,886	P57,461	P982,398	

As of June 30, 2009 and December 31, 2008, the credit quality of the Company's financial assets is as follows:

June 30, 2009 (In '000's)				
	Neither Past Due Nor Impaired		Past Due or Impaired	Total
	High Grade	Standard Grade		
Cash and cash equivalents	P977,796	P-	P-	P977,796
AFS investments	-	2,556	-	2,556
Trade and other receivables*	274,278	155,752	262,963	692,993
Receivable from Meralco	-	4,243	-	4,243
At June 30, 2009	P1,252,074	P162,551	P354,655	P1,677,588

* Excluding current portion of Receivable from Meralco amounting to P1.5 million as of June 30, 2009.

December 31, 2008 (In '000's)				
	Neither Past Due Nor Impaired		Past Due or Impaired	Total
	High Grade	Standard Grade		
Cash and cash equivalents	P173,705	P-	P-	P173,705
AFS investments	-	2,556	-	2,556
Trade and other receivables	676,357	116,704	189,337	982,398
Receivable from Meralco	-	5,586	-	5,586
At December 31, 2008	P850,062	P124,846	P189,337	P1,164,245

High grade receivables are from key accounts and wholesalers who are highly reputable, progressive and consistently pay before 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 deals 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 either short-term or made at a fixed rate of interest.

As of June 30, 2009 and December 31, 2008, the Company's bank loans have floating interest rates but payable within one month after the balance sheet date. 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 tables below summarize the maturity profile of the Company's financial liabilities based on contractual undiscounted payments as of June 30, 2009 and December 31, 2008:

June 30, 2009 (In '000's)					
	On Demand	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Bank loans	P-	P-	P-	P-	P-
Trade and other payables*	-	1,466,072	-	-	1,466,072
Acceptances payable	-	499,932	-	-	499,932
Dividends payable	-	140,370	-	-	140,370
Obligation under finance lease (including current portion)	-	-	2,579	28,275	30,854
	P0	P2,106,374	P2,579	P28,275	P2,137,228

**Excluding payable to government agencies amounting to P20.4 million, which is not considered a financial liability*

December 31, 2008 (In '000's)					
	On Demand	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Bank loans	P-	P175,430	P-	P-	P175,430
Trade and other payables*	-	1,546,730	69,935	-	1,616,665
Acceptances payable	-	813,638	-	-	813,638
Dividends payable	67,414	73,840	-	-	141,254
Obligation under finance lease (including current portion)	-	-	2,709	31,214	33,923
	P67,414	P2,609,638	P72,644	P31,214	P2,780,910

**Excluding payable to government agencies amounting to P31.1 million, which is not considered a financial liability*

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 June 30, 2009 and December 31, 2008.

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, dividends payable and obligation under finance lease. The Company's policy is to keep the gearing ratio at 70:30. As of June 30, 2009 and December 31, 2008, the Company's ratios of debt to total capital are 36% and 45%, respectively.

Details are as follows:

	June 30, 2009 (In '000's)	Dec. 31, 2008 (In '000's)
Bank loans	P-	P175,000
Trade and other payables	1,486,495	1,647,748
Acceptances payable	499,932	813,638
Dividends payable	140,370	141,254
Obligation under finance lease (including current portion)	30,854	30,463
Total debt (a)	2,157,651	2,808,103
Total stockholders' equity	3,900,793	3,499,145
Total debt and stockholders' equity (b)	P6,058,444	P6,307,248
Gearing ratio (a/b)	36%	45%

18. Financial Assets and Liabilities

Fair Value of Financial Instruments

The following tables set forth the carrying values and estimated fair values of financial assets and liabilities by category and by class recognized as of June 30, 2009 and December 31, 2008:

	June 30, 2009 (In '000's)		December 31, 2008 (In '000's)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Loans and receivables:				
Cash and cash equivalents	P977,796	P977,796	P173,705	P173,705
Trade and other receivables*	596,646	596,646	886,051	886,051
Receivable from Meralco (including current portion)	4,243	4,243	5,586	6,186
	1,578,685	1,578,685	1,065,342	1,065,942
AFS investments	2,556	2,556	2,556	2,556
	P1,581,241	P1,581,241	P1,067,898	P1,068,498

* Excluding current portion of Receivable from Meralco amounting to P1.5 million as of June 30, 2009.

	June 30, 2009 (In '000's)		December 31, 2008 (In '000's)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial liabilities:				
Financial liabilities at FVPL -				
derivative liabilities	P-	P-	P515	P515
Other financial liabilities:				
Bank loans	-	-	175,000	175,000
Trade and other payables**	1,466,072	1,466,072	1,616,150	1,616,150
Acceptances payable	499,932	499,932	813,638	813,638
Dividends payable	140,370	140,370	141,254	141,254
Obligation under finance lease (including current portion)	30,854	30,854	30,463	33,923
	P2,137,228	P2,137,228	P2,776,505	P2,779,965

** Excluding payable to government agencies amounting to P20.4 million and P31.1 million as of June 30, 2009 and December 31, 2008, respectively, the amounts of which are not considered as financial liabilities.

Cash and Cash Equivalents, 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. AFS investments consist of unquoted shares of stock. Consequently, the investments are carried at cost.

Receivable from Meralco. The receivable from Meralco pertains to Meralco refund as disclosed in Note 21.

19. Notes to Statements of Cash Flows

Non-cash Transactions

In 2008, the principal non-cash transactions under investing activities pertain to the acquisition of packaging equipment through a finance lease (see Note 16) and the reclassification of the condominium property from investment properties to property, plant and equipment (see Note 9).

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 the amount through fixed monthly credit to bills with cash option, starting 2006 up to 2010. In 2006, the Company recognized a receivable from Meralco amounting to ₱12.6 million, net of unearned interest income of ₱3.6 million and income from the refund of ₱12.6 million (included in "Cost of sales"). The receivable was discounted using an effective interest rate of 11.7%.

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.