San Miguel Pure Foods

2008

ANNUAL REPORT

SAN MIGUEL CORPORATION

San Miguel Pure Foods

SAN MIGUEL FOODS, INC. | MONTEREY | San Miguel Mills | PUREFOODS HORMEL | Magnolia | San Miguel Super Coffeemix | San Miguel Pure Foods Indonesia

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ANNUAL REPORT

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Message to Stockholders

Resilience in the Face of Tough Times

The year 2008 was a year like no other for San Miguel Pure Foods Company, Inc. as your Company was confronted with challenges characterized by unprecedented increases in commodity prices and weak consumer demand.

To meet obstacles head on, we redoubled our efforts to put in place initiatives that would transform your Company into a stronger and more efficient organization, thus paving the way for increased revenues, lower production costs and improved efficiencies.

While volumes contracted across most of the business segments, revenues were nevertheless robust, with feeds, poultry, value-added meats, flour, and ice cream posting double-digit growth rates. Total revenues reached an all-time high of P71.1 billion or a 15% growth from 2007, as the businesses took some pricing measures to cover rising input costs. Revenues were likewise bolstered by new product offerings, an expanded distribution network, and higher export sales.

In an effort to make the Company more profitable, a series of programs focused on innovation were launched—which will enable us to come up with more breakthrough products. We have started to train our people along these lines to further inculcate a mindset of strategic thinking and a culture of innovation.

The integration of Company-wide outbound logistics allowed SMPFC to maximize synergies among our branded businesses, lowering distribution costs across the group. From a highly fragmented logistics support system, we now have an integrated outbound logistics group, a consolidated warehouse, and a standardized outbound logistics process, policies and guidelines.

To meet the obstacles head on, we redoubled our efforts to put in place initiatives that would transform your Company into a stronger and more efficient organization

We also ratcheted up our raw material substitution program —with the cassava hectarage expanding to more than 30,000 hectares and generating over 100,000 metric tons of produce. This resulted in substantial savings for the Company, helping cushion the impact of significant raw material price increases. The program also benefited more than 120 farmer groups nationwide.

To secure higher margins and manage volatilities in the global commodity markets, we continued to build our portfolio of value-added products. The shift from commodity to value-added offerings has gathered pace over the years, from 24% in 2000, to 49% in 2008. This reflects how aggressively we are working on this strategy.

Despite the slowdown in consumer spending, the Food Group managed to maintain market leadership in majority of our product segments.

Despite the slowdown in consumer spending, the Food Group managed to maintain market leadership in majority of our product segments. Our commodity businesses remained market leaders in their respective segments.

Ramon S. Ang
Vice Chairman

Eduardo M. Cojuangco, Jr.
Chairman

Francisco S. Alejo III
President

One of the major innovations we introduced to keep our offerings relevant and affordable to consumers was the introduction of smaller packaging formats.

B-MEG, Magnolia Fresh Chicken, Monterey, and Purefoods flour remained the dominant brands. In value-added meats, Purefoods-Hormel continued to lead in the hotdog, ham, bacon and chicken nuggets markets. Butter and margarine continued to hold sway with their flagship brands –Magnolia and Star Margarine –while our Coffee was first in the coffeemix sugar-free segment, and a strong second in the coffeemix category.

One of the major innovations we introduced to keep our offerings relevant and affordable to consumers was the introduction of smaller packaging formats. Several products from the dairy, oils, and value-added meats businesses were sold in smaller and more affordable packs to address shrinking disposable incomes.

We also increased our presence in supermarkets, convenience stores, and other retail formats, increasing our distribution network by 42.5% from last year. We pioneered the Community Partner Program to expand our reach to the grassroots level. The program taps residents of communities to sell and distribute our products to stores and establishments within their designated community. Through this, areas that cannot be penetrated by distributors due to viability and security concerns can now be accessed and served. The program already contributed 82 additional distribution channels on the first year alone.

Our products continued to make headway in international markets. Total export revenues grew by 45% to P1 billion in 2008. Driving export sales were the value-added meats segments whose sales grew by 48% from the previous year, and poultry exports which grew by 33%.

While most of our core businesses performed strongly in 2008, the significant drop in profitability of our Flour and Magnolia businesses due to higher raw material costs, resulted in income from operations dropping by 23% to P1.8 billion. In addition, soft consumer demand, increased operating expenses, and mark-to-market losses further weighed down the Food Group's total performance. Notwithstanding these factors, San Miguel Pure Foods managed to post profit after tax of P148.7 million.

In anticipation of a market recovery in the next two years, opportunities will again emerge as consumers continue to demand convenient, healthy, and high-quality products.

As your Company faced these challenges in 2008, we have emerged more resilient. With expansion, volume growth, and profitability as our three major thrusts for 2009, we will intensify efforts to pursue programs that will further transform San Miguel Pure Foods into a stronger, more profitable Company.

Financial Highlights

(In Thousand Pesos, Except Per Share Data)

San Miguel Pure Foods Company, Inc. and Subsidiaries

	2008	2007
REVENUES	71,075,925	62,052,029
NET INCOME	148,686	182,093
Attributable to:		
Equity holders of the Parent	77,194	30,591
Minority interests	71,492	151,502
STOCKHOLDERS' EQUITY	14,960,608	14,810,142
PER SHARE		
BASIC EARNINGS	0.55	0.22
STOCKHOLDERS' EQUITY*	105.92	104.86

* Based on the number of shares outstanding at the end of each year.

Management's Discussion and Analysis

Commodity Businesses

While the Feeds and Basic Meats businesses posted slight volume declines as a result of weak demand, Poultry volumes remained strong throughout the year. Aided by favorable prices, consolidated sales revenue of these agro-industrial businesses amounted to P45.4 billion, 15% higher than 2007.

Feeds

In the light of weak demand, particularly in hog feeds, the Feeds business sustained its profitability in 2008, helped by a three-pronged strategy namely: profitable volumes, raw material and plant capacity management, and fixed cost reduction. Volume growth in poultry and aquatic feeds combined with improved selling prices helped push revenues 17% higher than 2007.

To mitigate the impact of high raw material prices, alternative raw materials were used in feed formulations, generating cost savings for the Feeds business. The bulk handling in Luzon and direct transfer of raw materials to SMFI plants in VisMin also resulted in efficiencies and contributed to lowering distribution costs.

The business also launched new products to complete B-MEG Hog Premium and B-MEG Dynamix Lines. It has partnered with international pharmaceutical manufacturer and Ireland-based Norbrook to launch San Miguel Animal Health Care's first and only long-acting injectable line in the market today: Norotyl LA, Alamycin LA, and Multivitamins.

Poultry

The Poultry business achieved volume growth through a combination of significant increases in major accounts, Magnolia Chicken Stations, foodservice, live sales, and export business, setting off an 18% increase in sales revenue, and pushing up operating income.

The popular Magnolia Chicken Stations yielded rewards as well. At present, there are close to 300 outlets versus 217 outlets in 2007, growing volumes by 29%. An ad campaign for Magnolia Chicken Stations called *"Mas Maraming Pwede",* with Kris Aquino as endorser, was also launched. Export sales in 2008 posted a 33% revenue growth over prior year as the push for better selling prices resulted in double-digit margin contribution.

We continued to pursue improvements in our operating efficiencies. We increased our coverage of Climate Controlled Systems for our poultry farms, which helped raise productivity and lower broiler cost, thus generating savings of about P60 million in 2008.

The business also received ISO 9001:200v, ISO 22000, and HACCP certifications from Certification International for its Magnolia Poultry Processing Plant in San Fernando, Pampanga, further proving its commitment to meet the globally recognized standards for food safety. A Seal of Excellence was also given by the National Meat Inspection Service (NMIS) for consistently being the Best Meat Establishment in the country. It is the only processing plant included in NMIS' Hall of Fame.

Meats

The Basic Meats business registered revenue growth of 3% to P6.4 billion versus last year.

Meanwhile, the business continued to expand distribution and widen product availability, with 166 Monterey Neighborhood Meatshops and 250 Monterey Supermarket Meatshops nationwide. Fifty-six Neighborhood Meatshops were evolved to include a Magnolia Neighborhood Chicken Station franchise, strengthening synergies and widening accessibility to the two popular brands. These measures helped in driving sales.

The Philippine Retailers Association also elevated Monterey Meatshop to the Hall of Fame as "Best Retailer". The meatshop was also recognized by Entrepreneur Magazine and the Philippine Franchise Association as the "Fastest Growing Franchise" and one of the "Top Low-Cost Franchises" in 2008. It also broke records with 40 Neighborhood outlets opening nationwide throughout the year—the most number of outlets opened in a year.

The Northern Mindanao (Sumilao) 4,400 sow level hog farm began operations, marking the start of the second phase of San Miguel Pure Foods' Integrated Agro-Industrial Zone (IAIZ) program.

Flour

Price increases and the growing value-added flour segment of the business allowed milling operations to post P8.4 billion in revenues for 2008, 31% above 2007 level.

Despite this, however, San Miguel Mills, Inc.'s profitability suffered a downturn because the business was not able to offset the effect of soaring wheat prices with selling price increases. Programs to improve operational efficiencies and bring down costs somehow helped mitigate the decline.

The business' efforts to shift sales to customized flour and premixes are starting to pay off, protecting margins and locking-in key customers.

Value-Added Businesses

Refrigerated and Canned Meats from Purefoods-Hormel

Sustained growth in all segments combined with better selling prices allowed Purefoods-Hormel to achieve double-digit revenue growth. Operating income ended higher than previous year. Purefoods-Hormel's Foodservice and Export Businesses also posted double-digit volume growths versus 2007.

Innovation paved the way for the business to sustain its strong performance with new production introductions like Tender Juicy Sweet Corn Hotdog—the first sweet corn hotdog with real corn kernels inside, Star Hotdog—the latest, affordable hotdog enriched with Star Margarine, new and exciting shapes for Purefoods Chicken Fun Nuggets, and Ulam King—the unparalleled alternative food choice for the "masa" and an inexpensive, delicious, saucy and meaty viand. The health benefits of Chick 'N Tasty Hotdog were also emphasized with its choline (an essential food nutrient that enhances memory) component. Two of the Philippines' top chefs, Gene Gonzales and Reggie Aspiras became the new endorsers of Purefoods Corned Beef, emphasizing the corned beef's full and tender taste that only a product with 100% pure beef can provide. The business had a winner with its newly-launched Purefoods Manyaman Hotdog in selected North Luzon wet markets. Manyaman Hotdog is specially created and customized to satisfy the preferences of the Pampangeños and consumers from North Luzon.

These new products furthered bolstered the business' portfolio of high-quality and value-for-money offerings.

The Purefoods-Hormel Cavite Plant posted record-breaking scores in Supplier Quality Management System (SQMS) Audit commissioned by the McDonald's Group. It also maintained its ISO 9001:2000 and 14000:204 certification for the third consecutive year.

Dairy, Oils, and Fats

Rising dairy raw material costs and softer demand for dairy products due to increases in retail prices adversely affected Magnolia Inc.'s overall performance. Except for ice cream and butter, volumes fell across all other categories. Price adjustments across all product lines were not sufficient to offset the high cost of raw materials. Despite a slight recovery in the fourth quarter, total revenue declined by 7% versus the previous year. Operating income was likewise negatively affected since the business was not able to pass on the high raw material prices to consumers.

To lower consumer cash outlay, the Company embarked on an all-out cost reduction program via reformulations and down-sizing of product offerings. The business also started to generate savings from freight and handling costs brought about by the integration of the Food Group's logistical functions.

Despite the financial setbacks, butter and margarine continued to dominate their respective categories with flagship brands –Magnolia, Dari Creme and Star Margarine. In an effort to expand the market, the business introduced Daily Quezo in smaller unit packs, and Dairy Blend, and Nutri-Oil in reduced pack sizes.

Meanwhile, Magnolia Ice Cream was able to grow its volume by 12% and revenues by 24% versus last year. This was primarily due to the strategic packaging and product innovations introduced in the market, as seen in the successful range of Limited Edition products launched last summer and the Christmas season. Magnolia Ice Cream even won the "Packaging Excellence Award in Food Retail Category" given by the Packaging Institute of the Philippines last December 2008.

The ice cream business was also able to expand distribution both locally (Bicol, Bohol, and Cagayan de Oro) and overseas via export sales to Australia. In October 2008, the business registered a double digit retail market share of 10%.

Foodservice

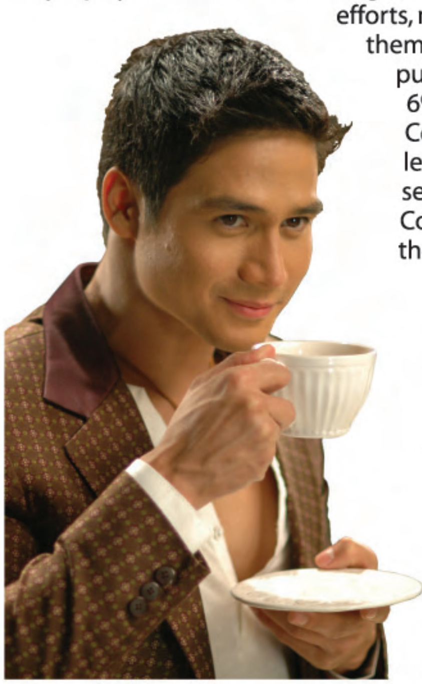
Great Food Solutions, our foodservice arm, grew revenues by 7% to P5.9 billion as they increased market share from the country's top foodservice industry players like the Jollibee Group, major pizza chains like Shakey's, Yellow Cab, Pizza Hut and Lotsa Pizza, the 7-11 convenience store, and Goldilock's bakeshop among others. GFS also pushed the high-priced segments of Purefoods-Hormel and Poultry.


Our food service solutions experts - our menu bestseller.

The sustained product and service innovations, improved product customization capabilities, co-branding programs with the respected names in the industry, together with the aggressive technical, culinary, and food safety trainings of all GFS front liners, also triggered the business' solid performance.

Coffee

San Miguel Super Coffeemix Company, Inc. maintained its position as a major player in the coffeemix segment through wider distribution efforts, new product launches, and a new thematic tri-media campaign, pushing revenues to grow by 6% to P545 million. The Company solidified its market leadership in the Sugar Free segment with the San Mig Coffee brand garnering 58% of the market.



The introduction of San Mig Coffee 2-in-1 Coffeemix—the first and only complete line of sweetened black coffee in the market, highlights the Company's thrust in providing innovative and relevant products to consumers.

San Miguel Food Shops continued to draw customers to their Snack Bar and grocery section. Nationwide, 14 Food Shops are currently in operation to continue providing additional distribution channels to a growing raft of San Miguel products.

Other retail distribution outlets include 230 Smokey's outlets nationwide, 58 Outbox food carts, and a newly opened San Mig Café at the Manila Ocean Park.

Snacks and Noodles Business

The Snacks and Noodles business registered a 3% increase in revenue. Two new product categories were introduced in 2008: Magnolia Real Good Instant Noodles, the first of its kind noodles with real meat and vegetables, and E-Aji Thin and Light snacks that has 30% less fat, all-natural ingredients, no preservatives, and 0% transfat. Both have the "no added MSG" component to address the health and wellness needs of consumers.

Regional Operation

Indonesia

Internal improvements, market innovation, and expanded reach generated positive results both in volume and value growth for PT San Miguel Pure Foods Indonesia (PT SMPFI). The business' performance was a complete turnaround from 2007's operating loss. Revenue grew by 9% as PT SMPFI posted a positive performance.

PT SMPFI is the leading producer and marketer of Halal processed meat products for retail and institutional customers and now ranks second in the processed meats industry with four core brands: Vida, Farmhouse, PF Choice, and Gusto.

Our Board of Directors


Eduardo M. Cojuangco, Jr.
Chairman


Ramon S. Ang
Vice Chairman


Francisco S. Alejo III
President


Leo S. Alvez


Menardo R. Jimenez


Jose T. Pardo


Cancio C. Garcia


Iñigo Zobel
Resigned March 2009


Ferdinand K. Constantino
Resigned March 2009


Romulo L. Neri
Elected March 2009


Jesusa Victoria H. Bautista
Elected March 2009

Our Operations Committee

a Francisco S. Alejo III
President
San Miguel Pure Foods Company, Inc.

b Zenaida M. Postrado
Vice President and Division Chief Finance Officer
San Miguel Pure Foods Company, Inc.

c Ma. Soledad E. Olives
Assistant Vice President and Manager
Corporate Planning and Management Staff Group

d Eliezer O. Capacio
Vice President and Manager
Division Human Resources

e Eduardo B. Martinez
Vice President and Manager
Technology and Facilities Group

f Elenita D. Go
Vice President and Manager
Business Procurement Group

g Archie B. Gupalor
Assistant Vice President and General Manager
San Miguel Integrated Sales

h Enrique A. Punsalang
Vice President and Manager
Division Logistics Group

i Norman C. Ramos
Vice President and General Manager
San Miguel Foods, Inc. Feeds Business

j Rita Imelda B. Palabyab
Vice President and General Manager
San Miguel Foods, Inc. Poultry Business

k Leo A. Obviar
Assistant Vice President and Officer-in-Charge
Monterey Foods Corporation

l Florentino C. Policarpio
President and Milling Cluster Manager
San Miguel Mills, Inc.

m Junadette A. Avedillo
Assistant Vice President and General Manager
San Miguel Mills, Inc. Branded Business

n Julio R. Gregorio
Assistant Vice President and General Manager
San Miguel Mills, Inc. Flour Business

o Noel Anthony M. Tempongko, Jr.
Vice President and General Manager
The Purefoods-Hormel Company, Inc.

p Reginald I. Baylosis
Vice President and General Manager
Magnolia, Inc. Butter, Margarine, Cheese, Jellyace, Milk and Specialty Oils Businesses

q Mauricio Mayo A. Alcon, Jr.
Assistant Vice President and General Manager
Magnolia, Inc. Ice Cream Business

r Michael Allan N. Castro
Assistant Vice President and General Manager
San Miguel Super Coffeemix Company, Inc.

s Tomas S. Cadiz, Jr.
Assistant Vice President and General Manager
Retailing Business Cluster

t Helene Z. Pontejos
Assistant Vice President and General Manager
SMPFC- Great Food Solutions

u Rolando A. Cabredo
Regional Cluster Director
Indonesia and Vietnam Cluster
President
PT San Miguel Pure Foods Indonesia

v Gil R. Buensuceso
General Manager
PT San Miguel Pure Foods Indonesia

w Teddy C. Kho
Assistant Vice President and General Director
San Miguel Pure Foods Vietnam Co. Ltd.

Arthur O. Juan (Not in Photo)
President
San Miguel Foods, Inc.
Retired May 2009

Our Product Portfolio

A vast portfolio of products and brands that have become the mark of trust for generations of consumers in the Philippines and around the world.

AGRO-INDUSTRIAL

FEEDS

Animal & Aquatic Feeds

Hog Feeds

- B-MEG Premium Hog Feeds
- B-MEG Dynamix Hog Feeds
- Pureblend Hog Feeds
- B-MEG Expert Hog Feeds
- Bonanza Hog Pellets
- Jumbo Hog Mash

Poultry Feeds

- B-MEG Premium Layer
- Pureblend Layer
- B-MEG Expert Layer
- B-MEG Layer (Regular)
- B-MEG Premium Broiler
- Pureblend Broiler
- B-MEG Broiler (Regular)
- PBX Broiler
- B-MEG Integra

Gamefowl Feeds

- B-MEG Derby Ace

Aquatic Feeds

- B-MEG Premium Tilapia Feeds
- B-MEG Premium Bangus Feeds
- B-MEG Aquaration
- B-MEG Expert Fish Feeds
- B-MEG Prize Catch Floating Feeds
- B-MEG Nutrifloat
- B-MEG CE-90
- Pinoy Sinking Feeds
- Pinoy Floating Feeds

Veterinary Medicines (San Miguel Animal Health Care)

Antibacterial- Water Soluble

- Amoxicillin 20%
- Cephalexin 20%
- Chlortetracycline 25%
- Cotrimoxazole 20%
- Doxycycline 20%
- Lincomycin + Spectinomycin

Supplements- Water Soluble

- Electrolytes
- Paracetamol
- Multivitamins
- Multivitamins + Amino Acids
- Vitamin B (Broiler)
- Vitamin B (Breeder)

Dewormer- Water Soluble

- Levamisole 20%

Disinfectant

- Gluta-Quat

Injectables

- Norotyl LA
- Alamycin LA
- Multivitamins

POULTRY

Wholes

- Magnolia Fresh Chicken (Fresh Chilled & Frozen)
- Magnolia Spring Chicken (Fresh Chilled & Frozen)
- Purefoods Supermanok (Fresh Chilled & Frozen)

Magnolia Chicken Cut-ups (Fresh Chilled and Frozen)

Magnolia Chicken Giblets

Magnolia Chicken Station Products

- Wholes and Fresh Cut-ups
- Convenient Cuts (breast/thigh fillets etc.)
- Cook-Easy Line (pre-marinated, ready-to-cook)

BASIC MEATS

Monterey Meatshop

- Fresh Meats - Pork, Beef & Lamb
- Ready-to-Cook Meats (Timplados)

Monty's (Monterey Food-To-Go)

- Pork BBQ – Ready to Eat

INTEGRATED MILLING

FLOUR MILLING

Hard Wheat Flour

- Emperor Premium Bread Flour
- Pacific Hard Wheat Flour
- Emperor Hard Wheat Flour
- King Hard Wheat Flour
- Monarch Hard Wheat Flour
- Count Hard Wheat Flour

Soft Wheat Flour

- Queen Soft Flour
- Countess Soft Wheat Flour

Specialty Flour

- Baron All-Purpose Flour
- Baron Siopao Flour
- Princess Cake Flour
- Duchess Cake Flour
- Golden Wheat Whole Wheat Flour (Coarse & Fine)
- Golden Wheat Whole Wheat Flour Complete

Customized Flour

- Harina de Pan de Sal
- Royal Premium Noodle Flour
- Prince Noodle Flour
- Prince Wrapper Flour
- Nutri Flour High Gluten Flour

Services

- Product Customization
- Recipe Development
- Technical Training in Baking

Premixes

Mix 'n Bake
- Brownie Mix
- Cookie Mix
- Crinkle Mix
- Muffin Mix
- Pizza Mix
- Bread Mix

Mix 'n Fry
- Pancake & Waffle Mix
- Yeast-Raised Doughnut Mix

Mix 'n Steam
- Siopao Mix
- Puto Mix

Bakery Ingredients

- Zuprim Bread Improver
- Bake Best Baking Powder

SNACKS

E-Aji Dip Snax

- Fries with Cheesy Garlic Dip
- Fries with Sweet Chili Dip
- Nachos with Cheesy Garlic Dip
- Nachos with Fiesta Salsa Dip
- Nachos with Mayo BBQ Dip
- Nachos with Chili Con Carne Dip
- Nachos with Flamin' Hot Salsa Dip
- Ridges with Cheddar Cheese Dip
- Nachos Party Pack with Cheesy Garlic and Salsa Dips
- Nachos Party Pack with Cheddar Cheese and Chili Con Carne Dips

E-Aji Potato Chips (Cheese and Lightly Salted available in Party Pack)

- E-aji Potato Chips Lightly Salted
- E-aji Potato Chips Fiery Hot BBQ
- E-aji Potato Chips Sharp Cheddar
- E-aji Potato Chips Sour Cream and Chives

E-Aji Thin and Light

- Chili Tortilla Chips
- Taco Tortilla Chips
- 4 Cheese Tortilla Chips
- Pesto Tortilla Chips

E-Aji Trios

E-Aji Baked Sticks (Cheese, Pizza)

Magnolia Real Good Noodles

POUCH
- Beefy Garlic Goodness Mami
- Chicken Champion Mami
- Beef & Mushroom Royale Mami
- Hearty Vegetables Pancit Canton
- Meaty Overload Pancit Canton
- Chunky Chicken Saute' Pancit Canton
- Party Spaghetti

BOWL
- Garlic Chicken Miki-Sotanghon Soup
- Classic Miki-Sotanghon Guisado
- Spicy Miki-Sotanghon Guisado

Premixes

- Magnolia Pancake Plus with Syrup (Maple, Chocolate, Strawberry)
- Magnolia Pancake & Waffle Mix (500g and 200g)

VALUE-ADDED MEATS

REFRIGERATED MEATS

Hotdogs

- Purefoods Tender Juicy Hotdog (Classic/Jumbo/ Kingsize/ Cocktail/ Balls/Cheesedog/Footlong with Cheese, Sweet Corn)
- Purefoods Beefies Hotdog (Classic, Lots a Cheese, Longgadog)
- Vida Hotdog (Classic, Cheese, Footlong, Balls)
- Purefoods Chick 'N Tasty Chicken Hotdog (Classic, Cheese)
- Purefoods German Franks, Beef Franks and Cheese Franks
- Manyaman Hotdog (Classic Jumbo/Kingsize)
- Purefoods Star Hotdog (Classic)

Sliced Hams

- Purefoods Sweet Ham
- Purefoods Cooked Ham
- Purefoods Ham Selections (Salami, Bologna, Spiced, and Sweetened)
- Purefoods Pritong Pinoy (Tocino, Tapa, Longanisa, and Barbecue)
- Vida Sweet Ham

Whole Hams

- Purefoods Fiesta Ham
- Purefoods Jamon de Bola
- Purefoods Hamon con Keso
- Purefoods Chicken Ham
- Purefoods Chinese Ham
- Purefoods Brick Ham
- Purefoods Pear Shaped Ham
- Purefoods Jamon Royale

Bacons

- Purefoods Honey-cured Bacon
- Purefoods Maple-flavored Bacon
- Purefoods Lean 'N Mean Bacon
- Vida Bacon
- Hormel Bacon

Native & Specialty Lines

- Purefoods Pork Longanisa, Chicken Longanisa, Pork Tapa, Pork Tocino, Chicken Tocino
- Dry Pork Salami, Dry Beef Salami, Chorizo Filipino, Hormel Pepperoni

Convenience Line

- Mom's Kitchen (Adobo Flakes, Callos, Beef Caldereta, Kare-Kare, Patatim)
- Magnolia Chicken Classics

Institutional Products

- Magnolia Rotisserie Chicken

Battered, Breaded & Fried

- Purefood Chicken Fun Nuggets (Crazy-cut Shapes, Number Crunchies, Dino Buddies, Alphabet Bites, Letters, Super Zoomers)
- Magnolia Chicken Products (Chicken Popcorn, Cordon Bleu, Fingers)

Ready-to-Cook Line – Monterey

- Monterey Altanghap (Hamonado, Vigan, Lucban, Alaminos Longanisas & Pork Tocino & Beef Tapa)
- Filipino Favorites (Crispy Pata, Lechon Kawali, Spicy Beef Tapa, Monterey Sisig) & Oriental Lines (Pork Teriyaki, Korean Beef Stew)

Burger Line

- Vida Hamburger & Cheeseburger
- Monterey Hamburger
- Purefoods Flavored Burgers (Cheese, Hot & Spicy, Chorizo, Classic)

GROCERY PRODUCTS

Corned Meats

- Purefoods Corned Beef
- Purefoods Chunkee Corned Beef
- Purefoods Carne Norte
- Gusto Corned Beef

Luncheon Meats

- Purefoods Luncheon Meat
- Purefoods Chinese Luncheon Meat
- Purefoods Beef Loaf
- Gusto Meat Loaf
- Purefoods Chicken Luncheon Meat
- Hormel SPAM

Sausages

- Purefoods Vienna Sausage
- Purefoods Chicken Vienna Sausage
- Gusto Vienna Sausage
- Hormel Vienna Sausage

Canned Beans

- Purefoods Pork & Beans
- Purefoods Chilicon

Canned Viands

- Purefoods Sizzling Delights Sisig
- Gusto Pinoy Sisig
- Ulam King – Meaty Asado
- Ulam King – Meaty Caldereta
- Ulam King – Meaty Gravy
- Ulam King – Meaty Lechon Paksiw
- Ulam King – Meaty Menudo
- Ulam King – Meaty Mechado
- Ulam King – Meaty Spaghetti
- Ulam King – Meaty Palabok

Specialty Grocery Products

- Purefoods Liver Spread
- Purefoods Spaghetti Meat Sauce
- Purefoods Chorizo Filipino
- Gusto Liver Spread

Monterey Chicharon

- Monterey Chicharon Salted
- Monterey Chicharon Chili Vinegar

DAIRY, OILS & FATS

BUTTER, MARGARINE & CHEESE

Butter

- Magnolia Gold and Magnolia Gold Lite
- Magnolia Dairy Blend
- Magnolia Spreadable

Refrigerated Margarine

- Dari Crème and Dari Crème Lite
- Dari Crème Blends (Strawberry, Orange)
- Buttercup
- Baker's Best

Non-Refrigerated Margarine

- Star Margarine (Classic, Sweet Blend, Garlic)
- Delicious Margarine

Cheese

- Magnolia Cheezee (Block and Spread)
- Daily Quezo
- Magnolia Quickmelt
- Magnolia Cheddar
- Magnolia Cream Cheese (Block and Spread)
- Magnolia Christmas Cheeseballs (Seasonal)

GEL-BASED SNACKS AND DESSERTS

- JellYace Fruiteez
- JellYace Bites
- JellYace Snackers
- Magnolia Best Fruits Jam (Strawberry, Pineapple, Apple Cinnamon, Pink Guava, Mango)

MILK

- Magnolia Chocolait
- Magnolia Chocolait Choco Magic (Mocha, Melon, Strawberry)
- Magnolia Fresh Milk
- Magnolia Low Fat Milk
- Magnolia Full Cream Milk

SPECIALTY OILS

- Magnolia Nutri-Oil Coconut Oil
- Magnolia Nutri-Oil Palm Oil

ICE CREAM

Bulk Ice Cream
- Magnolia Classic (Vanilla, Chocolate, Mocca, Strawberry, Ube, Mango, Sweet Corn)
- Magnolia Gold Label (Double Dutch, Rocky Road, Cookies N' Cream, Dulce de Leche, Creamy Halo-Halo, Macapuno Ube Swirl, Buco Salad Royale, Quezo Primero, Choco Chip Cookie Dough, Coffee Vienna)
- Magnolia Chocolait Ice Cream
- Magnolia No Sugar Added (Vanilla, Chocolate)

Frozen Novelties
- Magnolia Pop-a-Cup (Chocolate and Raspberry)
- Magnolia Rainbow Bar
- Cookie Monster
- Magnolia Spinner (Chocolate, Vanilla)
- Magnolia Party Cups (Vanilla, Chocolate, Ube and Mango)

COFFEE

- San Mig Coffee Instant 3-in-1 Coffeemix Regular – Mild, Original, Strong & Extra Strong blends
- San Mig Coffee Instant 3-in-1 Coffeemix Sugar Free – Mild, Original, Strong & Extra Strong blends
- San Mig Coffee 100% Premium Instant Coffee
- San Mig Coffee Instant 2-in-1 Coffeemix Regular – Mild, Original & Strong blends
- San Mig Coffee Instant 2-in-1 Coffeemix Sugar Free - Mild, Original & Strong blends

Super Coffeemix Manufacturing Limited
- Grandeur Flavored Coffee Blend – Original, Mocha, Hazelnut and Italian Original blends

FOODSERVICE

SERVICES

- Product Customization
- Menu & Recipe Development
- Packaging Development
- Food Safety Trainings and Consultancy
- Quality Assurance Services
- Food Laboratory Analysis
- Marketing Services and Promotional Tie-Ups

Branded Foodservice Products

VALUE-ADDED MEATS/POULTRY

- Primo D'ItaliaTM product line (Pepperoni, Italian Sausage, and Beef Toppings)
- SizzzlersTM product line (Breakfast Sausage Links, Breakfast Sausage Patties)
- Deli ReadyTM product line (Spiced Ham, Bologna, Cooked Salami, Ham Sausage, Roast Beef)
- Tender CutsTM product line (Marinated Ribs)
- SPAM Chub and Pre-Slices
- PurefoodsTM Foodservice product line (Corned Beef in Chubs, FS Bacon, FS Ham, FS Square Spiced Ham, FS Budget Patty, FS Sisig)
- Fast N' Easy TM Pork Meatballs, Chicken Meatballs, and Beef Meatballs

BUTTER, MARGARINE, CHEESE and OILS

- Magnolia Gold Butter
- Dairy Crème Margarine
- Baker's Best Margarine
- Buttercup Margarine
- Magnolia Non-Refrigerated Margarine
- Primex Shortening
- Magnolia Cheezee (block format)
- Magnolia Cheese Sauce
- Magnolia Real Mayonnaise

COMMISSARY PRODUCTS

- Cook Express - Heat N' Serve Entrees (Dinaldalem, Bistek Filipino, Bopis, Chicken Adobo, Lechon Paksiw, Beef Caldereta, Beef Salpicado, Kare kare, Korean Beef Stew, Sisig)
- Battered, Breaded, and Fried (Premium breaded chicken patty, Budget breaded chicken patty, Premium breaded fish patty, Budget breaded fish patty)
- Sauces and Dips (GFS Salsa, GFS herbed Tomato Base)
- Frozen RTE Snacks (Corndog, PF Corned Beef Pan de Sal, PF Meatloaf Pan de Sal)
- GFS Mozzarella

PT San Miguel Pure Foods Indonesia

REFRIGERATED MEATS

Bakso (Meat Balls)

- Farmhouse (Bakso Sapi, Bakso Ayam)
- Vida (Regular, Hemat)

Sausages

- Farmhouse (Sosis Sapi Goreng, Sosis Sapi, Beef Cocktail, Beef Frankfurter, Beef Wiener, Sosis Ayam Goreng, Sosis Ayam, Funkidz Chubbies)
- Fun Kidz Chubbies (Regular and Cheese)
- Gusto (Pork Breakfast Sausage, Pork Cabanosi, Pork Cocktail, Pork Hotdog)
- Purefoods Choice
- Vida (Sosis Sapi, Sosis Ayam, Sosis Goreng, Frank, Wiener, Vida Siap Makan)

Cold Cuts

- Farmhouse (Smoked Beef, Smoked Chicken, Beef Pepperoni, Chicken Roll, Garlic Salami, Corned Beef)
- Gusto (Streaky Bacon, Back Bacon, Cooked Ham, Gammon Ham, Smoked Ham)
- Purefoods Choice (Chicken Chunk, Kornet)

Burger

- Farmhouse (Burger Sapi, Burger Ayam)
- Purefoods Choice
- Vida (Burger Sapi, Burger Mini, Burger Hemat)

Value-Added

- Farmhouse FunKidz Nuggies
- Vida Naget Ayam

SERVICES

- Customization

Corporate Governance

The Board of Directors, management, employees, and shareholders of San Miguel Pure Foods Company, Inc. (SMPFC) adhere to good corporate governance as a vital component of sound business management.

Being a majority-owned subsidiary of San Miguel Corporation, SMPFC has adopted a Manual on Corporate Governance which is patterned after that of its parent company. The Company continues to review and strengthen its policies and procedures, giving due consideration to areas which, for the best interests of the Company and its stockholders, needs further improvement.

BOARD OF DIRECTORS

SMPFC's Board of Directors is primarily responsible for promoting the Company's long-term growth and success. The 9 Board members each elected by the stockholders during Annual General Stockholders' Meetings (AGSM) hold office for one year until successors are elected and qualified in accordance with the Company's amended by-laws.

Mr. Iñigo Zobel and Justice Cancio C. Garcia sit as independent directors in the Board in compliance with the legal requirement of having at least two independent directors or 20% of its board size, whichever is less, on the Board. The Company defines an independent director as a director having no business or relationship with the Company which would interfere with the exercise of his independent judgment in carrying out his responsibilities as a director. The independent directors are nominated and elected in accordance with the rules of the Securities and Exchange Commission (SEC). Pursuant to such rules, the independent directors issue a certification confirming their independence within 30 days from their election.

The Chairman of the Board is Mr. Eduardo M. Cojuangco, Jr. while Mr. Francisco S. Alejo III is the President. These positions are held by two separate individuals with their respective roles clearly defined to ensure independence, accountability and responsibility in the discharge of their duties. The Chairman and the President attended the last AGSM. The annual compensation of the President and the top four senior executives of the Company are set out in the Definitive Information Statement distributed to shareholders prior to the AGSM.

Board Performance

In 2008, the Board of SMPFC met twice, on May 9, 2008 and June 27, 2008. Set out below is the record of attendance of the directors in these meetings and in the 2008 AGSM.

	May 9	June 27	AGSM
Eduardo M. Cojuangco, Jr.	P	P	P
Ramon S. Ang	P	-	-
Francisco S. Alejo III	P	P	P
Leo S. Alvez	P	P	P
Jose T. Pardo	-	-	-
Mernado R. Jimenez	P	-	-
Iñigo Zobel *Resigned as Independent Director on March 19, 2009*	P	P	P
Ferdinand K. Constantino *Elected as Director on June 27, 2008 and resigned on March 19, 2009*	-	P	P

	May 9	June 27	AGSM
Cancio C. Garcia *Elected as Independent Director on June 27, 2008*	-	P	P
Jesusa Victoria Hernandez-Bautista *Elected as Director on March 19, 2009*	-	-	-
Romulo L. Neri *Elected as Independent Director on March 19, 2009*	-	-	-

P - Present

Board Committees

To ensure strict compliance with the principles of good corporate governance, the Board formed four committees.

Executive Committee. The Executive Committee was composed of four directors, which includes the Chairman of the Board and the President. The Committee is tasked to help and assist the officers of the Company in the management and direction of the affairs of the Company. The Board may delegate to the Executive Committee its powers, authority and duties, except as specifically limited by law.

Nominations Committee. The Nominations Committee was composed of three voting directors – Mr. Ferdinand K. Constantino, Mr. Francisco S. Alejo III and Mr. Jose T. Pardo, who sits as its Chairman, and one non-voting member, Mr. David S. Santos, San Miguel Corporation's Human Resources Head.

Among others, the Nominations Committee screens and shortlists candidates for Board directorship in accordance with the qualifications and disqualifications for directors set out in the Company's Manual on Corporate Governance, the amended articles of incorporation and amended by-laws of the Company and applicable laws, rules and regulations.

Executive Compensation Committee. Four directors comprised the Executive Compensation Committee, with Menardo R. Jimenez as the Chairman of the Committee. The Executive Compensation Committee advises the Board in the establishment of formal and transparent policies and practices on directors and executive remuneration, ensuring consistency with the Company's culture, strategy and control environment.

Audit Committee. The Audit Committee was composed of four members with two independent directors as members, Justice Cancio C. Garcia and Iñigo Zobel. Justice Garcia is the Chairman of the Committee.

The Audit Committee reviews and monitors, among others, the integrity of all financial reports and ensures their compliance with both the internal financial management manual and pertinent accounting standards, including regulatory requirements. It also performs oversight financial management functions and risk management, approves audit plans, directly interfaces with internal and external auditors, and elevates to international standards the accounting and auditing processes, practices, and methodologies of the Company.

The Audit Committee held five meetings in 2008. In these meetings, the Committee, among others, reviewed and approved the Company's 2007 Consolidated Audited Financial Statements, as well as the Company's unaudited financial statements for the first to the third quarters of the year.

The members of each board committee and their attendance in board committee meetings in 2008 are set out in the table below.

COMMITTEES

Name of Director	Executive[a]	Audit	Executive Compensation[a]	Nominations[a]
Eduardo M. Cojuangco, Jr.	C			
Ramon S. Ang	M			
Francisco S. Alejo III	M	M		
Iñigo Zobel	M	M(2/5)		
Cancio C. Garcia *Elected as Chairman and Member of the Audit Committee and as Member of the Executive Compensation Committee on June 27, 2008*		C (2/2)	M	
Leo S. Alvez		M (3/5)	M	
Menardo R. Jimenez		M (5/5)	C	
Ferdinand K. Constantino			M	M
Jose T. Pardo				C

M – Member
C – Chairman
[a] No meetings held in 2008

Board Remuneration

The amended by-laws of the Company provides that the members of the Board of Directors shall be entitled to a director's fee in the amount to be fixed by the stockholders at a regular or special meeting duly called for the purpose.

In 2008, each director received a per diem of Php 5,000.00 per attendance at Board meetings of the Company.

ACCOUNTABILITY AND AUDIT

The Audit Committee provides oversight to both external and internal auditors. The role and responsibilities of the Audit Committee are clearly defined in the Company's Manual on Corporate Governance.

External auditors – whose main function is to facilitate the environment of good corporate governance as reflected in the Company's financial records and reports – are selected and appointed upon the recommendation of the Audit Committee and rotated every five years or earlier, in accordance with SEC rules and regulations. In 2008, the principal accountants and external auditors of the Company is the accounting firm of Manabat Sanagustin & Co. (MSC). Representatives of MSC are expected to be present at the AGSM and will be available to respond to appropriate questions. They also have the opportunity to make a statement if they so desire. In instances when the external auditor suspects fraud or error during its conduct of audit, they are required to disclose and express their findings on the matter.

The Internal Audit Group, on the other hand, provides an independent objective assurance that key organizational and procedural controls of the Company are effective, appropriate, and complied with. The Internal Audit Group is also responsible for identifying and evaluating significant risk exposures of the Company and contributes to the improvement of risk management and control systems by assessing adequacy and effectiveness of controls covering the organization's governance, operations, and information systems.

Regular audits of the business of the Company, its subsidiaries, and support units are conducted according to an annual audit program approved by the Audit Committee. Special audits are also undertaken when and as necessary.

Audit fees for the services rendered by the external auditor to the Company amounted to P1 million each for the last two fiscal years. There were no tax and other fees paid in the last two years.

DISCLOSURE AND TRANSPARENCY

SMPFC adheres to full disclosure and transparency in its operations.

Ownership Structure

The top 20 shareholders of SMPFC, including the shareholdings of certain record and beneficial owners (who own more than 5% of its capital stock), its directors and key officers, are disclosed annually in its Definitive Information Statement distributed to shareholders prior to the AGSM.

Financial Reporting

The Company also provides regular updates on its operating performance and other financial information through the SEC and the Philippine Stock Exchange (PSE). In addition to submitting periodic reportorial requirements, the Company discloses major and market-sensitive information that affect the share price performance as necessary.

SMPFC's financial statements conform to Philippine Accounting Standards and Philippine Financial Reporting Standards, which are all in compliance with International Accounting Standards. Consolidated audited financial statements for the latest completed financial year are submitted to the SEC before the prescribed deadline and are distributed to the shareholders prior to the AGSM.

Quarterly financial results, on the other hand, are released and are duly disclosed to the SEC and PSE within the prescribed period.

In addition to compliance with structural reportorial requirements, the Company timely discloses market-sensitive information, such as joint ventures and acquisitions, sale and divestment of significant assets, that affect the share price performance.

Securities Dealing

The Company has adopted a policy which regulates the acquisition and disposal of Company shares by its directors, officers and employees, and the use and disclosure of price-sensitive information by such persons. Under the policy, directors, officers and employees who have knowledge or are in possession of material non-public information are prohibited from dealing in the Company's securities prior to disclosure of such information to the public. The policy likewise prescribes the periods before and after public disclosure of structured and non-structured reports during which trading in the Company's securities by persons who, by virtue of their functions and responsibilities, are considered to have knowledge or possession of material non-public information is not allowed.

SHAREHOLDER RIGHTS AND STAKEHOLDER RELATIONS

Shareholder Meeting

Stockholders are informed at least 15 business days before the scheduled date of the general meetings. The notice to stockholders also sets the date, time and place of the validation of proxies. The Notice to the 2008 AGSM was sent to the stockholders on June 5, 2008.

Voting rights and Voting Procedures

Each share in the name of the shareholder entitles such shareholder to one vote which may be exercised in person or by proxy at shareholder meetings, including the AGSM. Shareholders have the right to elect, remove, and replace directors as well as vote on certain corporate acts in accordance with the Corporation Code. Voting procedures on matters presented for approval of the stockholders in the AGSM are set out in the Definitive Information Statement.

Pre-emptive rights

Unless the same is denied in its articles of incorporation or an amendment thereto, stockholders have the right to subscribe to all issues of shares of the Company in proportion to their shareholdings.

Right to Information

Shareholders are provided, through the Investor Relations group, disclosures, announcements, and upon request, with periodic reports filed with the SEC.

Dividends

Holders of common shares are entitled to receive dividends as the Board of Directors may, in their sole discretion, declare from time to time. The Board of Directors, however, is required, subject to certain exceptions, to declare dividends when its retained earnings equal or exceeds its paid-up capital stock.

The Company did not declare dividends in 2008.

Shareholder and Investor Relations

SMPFC addresses the numerous information requests of the investing community and keeps in touch with minority shareholders through timely disclosures to the PSE, AGSMs, website, emails and telephone calls.

EMPLOYEE RELATIONS

Each employee is provided with the house rules, policies, and guidelines to follow as an employee of SMPFC.

Through internal newsletters, weekly e-mail news briefs, and televised news segments facilitated by the SMPFC Corporate Planning and Management Staff Group and the parent company's Corporate Affairs Office, employees are updated on the material developments within the organization.

Career advancement and developments are also provided by the Company through numerous training programs and seminars. The Company has also initiated activities centered on the safety, health and welfare of its employees.

Corporate Social Responsibility

The Food Group carries out various social development programs, ranging from nutrition campaigns to health programs through the San Miguel Foundation.

The school-based supplemental feeding program, *Malusog na Katawan, Matalas na Isipan*, has been deployed to communities in which the Food Group operates and helped save children from malnutrition.

Thirty-two students from Mindanao were given scholarship grants by the Food Group through a special education-livelihood program initiated by Central Mindanao University and the Technical Education and Skills Authority or TESDA.

Close to 4,000 individuals were the beneficiaries of Food Group-sponsored medical missions and a specialized community clinic was opened for the residents of Sumilao, Bukidnon.

Sumilao was also the site of several livelihood projects, where residents were given seed capital for a broom making project.

Another significant initiative was the empowerment and leadership development of key barangay leaders from Cavite and Batangas, who underwent a Barangay Strengthening Seminar sponsored by the Food Group, in partnership with the DILG-Local Government Academy.

For the environment, coastal clean-ups were conducted by employee-volunteers.

In mid-2008, the Company heeded the call of disaster by donating P 6.7 million worth of products to victims of Typhoon Frank.

CODE OF ETHICS

The Company adheres to a group-wide Code of Ethics that sets out the fundamental standards of conduct and values consistent with the principles of good governance and business practices that shall guide and define the actions and decisions of the directors, officers and employees of the Company. It also observes the procedures established for the communication and investigation of concerns regarding the Company's accounting, internal accounting controls, auditing, and financial reporting matters under a group-wide whistle-blowing policy.

COMPLIANCE MONITORING

To insure adherence to corporate governance principles and best practices, the Chairman of the Board designated a Compliance Officer, Atty. Francis H. Jardeleza. The Compliance Officer is responsible for monitoring compliance by the Company with the provisions and requirements of good corporate governance, among others.

WEB SITE

Additional information on the Company may be viewed at www.sanmiguelpurefoods.com.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007
(With Comparative Figures for 2006)

San Miguel Pure Foods

The Securities and Exchange Commission
SEC Bldg. EDSA
Greenhills, Mandaluyong City

The Statement of Management's Responsibility

The management of **San Miguel Pure Foods Company, Inc.** is responsible for all information and representations contained in the financial statements for the years ended December 31, 2008 and 2007. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

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

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

(Out of the Country)
Eduardo M. Cojuangco, Jr.
Chairman of the Board

Francisco S. Alejo III
President

Zenaida M. Postrado
Vice President and Division Finance Officer

Manabat Sanagustin & Co.
Certified Public Accountants
9th Floor KPMG Center, 6787 Ayala Avenue
Makati City 1226, Metro Manila, Philippines

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PRC-BOA Registration No. 0003
SEC Accreditation No. 0004-FR-2
BSP Accredited

REPORT OF INDEPENDENT AUDITORS

The Stockholders and Board of Directors
San Miguel Pure Foods Company, Inc.
JMT Corporate Condominium
ADB Ave. Ortigas Center
Pasig City

We have audited the accompanying consolidated financial statements of San Miguel Pure Foods Company, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2008 and 2007, and the consolidated statements of income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended and a summary of significant accounting policies and other explanatory notes. The consolidated financial statements of San Miguel Pure Foods Company, Inc. and Subsidiaries, as of and for the year ended December 31, 2006, were audited by other auditors whose report dated March 8, 2007, expressed an unqualified opinion on those consolidated statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

KPMG

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of San Miguel Pure Foods Company, Inc. and Subsidiaries as of December 31, 2008 and 2007, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

MANABAT SANAGUSTIN & CO.

WILFREDO Z. PALAD
Partner
CPA License No. 0045177
SEC Accreditation No. 0027-AR-2
Tax Identification No. 106-197-186
BIR Accreditation No. 08-001987-6-2007
Issued July 10, 2007; Valid until July 9, 2010
PTR No. 1564068MB
Issued January 5, 2009 at Makati City

March 19, 2009
Makati City, Metro Manila

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	Note	2008	2007
		December 31	
ASSETS			
Current Assets			
Cash and cash equivalents	*6, 28, 29*	**P2,782,206**	P1,342,643
Trade and other receivables - net	*7, 28, 29*	**7,762,091**	7,530,107
Inventories - net	*8*	**11,804,788**	10,053,498
Biological assets	*9*	**2,932,421**	2,324,265
Derivative assets	*29*	**35,757**	437,960
Prepayments and other current assets		**814,808**	934,277
Total Current Assets		**26,132,071**	22,622,750
Noncurrent Assets			
Investment properties - net	*11*	**71,727**	56,366
Property, plant and equipment - net	*12*	**8,058,423**	8,251,252
Biological assets - net	*9*	**1,115,963**	880,271
Goodwill and other intangible assets - net	*13*	**326,600**	324,937
Deferred tax assets	*23*	**1,096,259**	940,991
Pension and other noncurrent assets	*24, 29*	**200,988**	267,935
Total Noncurrent Assets		**10,869,960**	10,721,752
		P37,002,031	P33,344,502
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Notes payable	*14, 28, 29* `	**P11,666,380**	P8,639,671
Trade payables and other current liabilities	*15, 28, 29*	**9,850,465**	9,099,111
Income tax payable		**208,860**	349,888
Total Current Liabilities		**21,725,705**	18,088,670
Noncurrent Liabilities			
Pension liability	*24*	**77,458**	92,608
Deferred tax liabilities	*23*	**238,260**	353,082
Total Noncurrent Liabilities		**315,718**	445,690
Stockholders' Equity	*16*		
Equity Attributable to Equity Holders of the Parent			
Capital stock		**1,454,510**	1,454,510
Additional paid-in capital		**5,821,288**	5,821,288
Revaluation surplus		**18,219**	18,219
Cumulative translation adjustments		**(70,416)**	(64,189)
Retained earnings		**5,584,315**	5,507,121
Treasury stock		**(182,094)**	(182,094)
		12,625,822	12,554,855
Minority Interests		**2,334,786**	2,255,287
Total Stockholders' Equity		**14,960,608**	14,810,142
		P37,002,031	P33,344,502

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(With Comparative Figures for 2006)
(Amounts in Thousands, Except Per Share Data)

	Note	**2008**	**2007**	**2006**
REVENUES	*17, 25*	**P71,075,925**	P62,052,029	P52,963,218
COST OF SALES	*18, 25, 31*	**60,819,761**	52,091,677	44,629,193
GROSS PROFIT		**10,256,164**	9,960,352	8,334,025
SELLING AND ADMINISTRATIVE EXPENSES	*19, 25*	**(8,413,553)**	(7,564,430)	(6,441,110)
INTEREST EXPENSE	*22*	**(774,597)**	(604,877)	(528,922)
INTEREST INCOME	*22*	**54,323**	84,407	83,150
EQUITY IN NET EARNINGS	*10*	**-**	-	37,348
OTHER INCOME (CHARGES) - Net	*22*	**(504,781)**	(777,154)	13,511
INCOME BEFORE INCOME TAX		**617,556**	1,098,298	1,498,002
INCOME TAX EXPENSE	*23*	**468,870**	916,205	494,458
NET INCOME		**P148,686**	P182,093	P1,003,544
ATTRIBUTABLE TO				
Equity holders of the Parent		**P77,194**	P30,591	P631,577
Minority interests		**71,492**	151,502	371,967
		P148,686	P182,093	P1,003,544
Basic and Diluted Earnings Per Share	*26*	**P0.55**	P0.22	P8.97

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(With Comparative Figures for 2006)
(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent							Minority Interests	Total Stockholders' Equity
	Capital Stock (Note 16)	Additional Paid-in Capital (Note 16)	Revaluation Surplus	Cumulative Translation Adjustments	Retained Earnings (Note 16)	Treasury Stock (Note 16)	Total		
At January 1, 2008	**P1,454,510**	**P5,821,288**	**P18,219**	**(P64,189)**	**P5,507,121**	**(P182,094)**	**P12,554,855**	**P2,255,287**	**P14,810,142**
Change in fair value of available-for-sale financial assets	**-**	**-**	**-**	**452**	**-**	**-**	**452**	**-**	**452**
Changes in fair value of cash flow hedges	**-**	**-**	**-**	**(10,945)**	**-**	**-**	**(10,945)**	**-**	**(10,945)**
Transferred to income and expenses and cost basis adjustment	**-**	**-**	**-**	**(251)**	**-**	**-**	**(251)**	**-**	**(251)**
Tax effect of items taken directly to or transferred from equity	**-**	**-**	**-**	**3,359**	**-**	**-**	**3,359**	**-**	**3,359**
Net effect of translation adjustments	**-**	**-**	**-**	**1,158**	**-**	**-**	**1,158**	**386**	**1,544**
Net income attributable to Equity holders of the Parent	**-**	**-**	**-**		**77,194**	**-**	**77,194**	**71,492**	**148,686**
Total income and expense for the year	**-**	**-**	**-**	**(6,227)**	**77,194**	**-**	**70,967**	**71,878**	**142,845**
Issuances/ additions (deductions)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,621**	**7,621**
At December 31, 2008	**P1,454,510**	**P5,821,288**	**P18,219**	**(P70,416)**	**P5,584,315**	**(P182,094)**	**P12,625,822**	**P2,334,786**	**P14,960,608**
At January 1, 2007	P745,859	P1,938,944	P18,219	(P33,937)	P5,476,530	(P182,094)	P7,963,521	P5,613,182	P13,576,703
Change in fair value of available-for-sale financial assets	-	-	-	2,894	-	-	2,894	-	2,894
Changes in fair value of cash flow hedges	-	-	-	(6,291)	-	-	(6,291)	-	(6,291)
Transferred to income and expenses and cost basis adjustment	-	-	-	6,367	-	-	6,367	-	6,367
Tax effect of items taken directly to or transferred from equity	-	-	-	(27)	-	-	(27)	-	(27)
Net effect of translation adjustments	-	-	-	(33,195)	-	-	(33,195)	-	(33,195)
Net income attributable to Equity holders of the Parent	-	-	-		30,591	-	30,591	151,502	182,093
Total income and expense for the year	-	-	-	(30,252)	30,591	-	339	151,502	151,841
Issuances/additions (deductions)	708,651	3,882,344	-	-	-	-	4,590,995	(3,509,397)	1,081,598
At December 31, 2007	P1,454,510	P5,821,288	P18,219	(P64,189)	P5,507,121	(P182,094)	P12,554,855	P2,255,287	P14,810,142

	Equity Attributable to Equity Holders of the Parent								Minority Interests	Total Stockholders' Equity
	Capital Stock (Note 16)	Additional Paid-in Capital (Note 16)	Deposit for Future Stock Subscription (Note 16)	Revaluation Surplus	Cumulative Translation Adjustments	Retained Earnings (Note 16)	Treasury Stock (Note 16)	Total		
At January 1, 2006	P607,065	P1,227,738	P850,000	P18,219	(P37,946)	P4,844,953	(P182,094)	P7,327,935	P5,220,799	P 12,548,734
Change in fair value of available-for-sale financial assets	-	-	-	-	787	-	-	787	-	787
Changes in fair value of cash flow hedges	-	-	-	-	(157,042)	-	-	(157,042)	-	(157,042)
Transferred to income and expenses and cost basis adjustment	-	-	-	-	156,878	-	-	156,878	-	156,878
Tax effect of items taken directly to or transferred from equity	-	-	-	-	58	-	-	58	-	58
Net effect of translation adjustments	-	-	-	-	3,328	-	-	3,328		3,328
Net income attributable to Equity holders of the Parent	-	-	-	-	-	631,577	-	631,577	371,967	1,003,544
Total income and expense for the year	-	-	-	-	4,009	631,577	-	635,586	371,967	1,007,553
Issuances/additions (deductions)	138,794	711,206	(850,000)	-	-	-	-	-	20,416	20,416
At December 31, 2006	P745,859	P1,938,944	P -	P18,219	(P33,937)	P5,476,530	(P182,094)	P7,963,521	P5,613,182	P13,576,703

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(With Comparative Figures for 2006)
(Amounts in Thousands)

	Note	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P617,556**	P1,098,298	P1,498,002
Adjustments for:				
Depreciation and amortization	*20*	**1,553,510**	1,458,292	1,303,233
Interest expense	*22*	**774,597**	604,877	528,922
Other charges (income) net of loss on derivative transactions	*22*	**733,126**	1,074,263	(136,254)
One-time recognition of negative goodwill		**-**	(115,697)	-
Interest income	*22*	**(54,323)**	(84,407)	(83,150)
Decline in value of investments	*13*	**16,783**	928	-
Impairment loss on investment properties	*11*	**5,359**	-	-
Loss (gain) on sale of property and equipment		**(2,815)**	18,010	(6,711)
Equity in net earnings		**-**	-	(37,348)
Operating income before working capital changes		**3,643,793**	4,054,564	3,066,694
Allowance for impairment losses on receivables and inventory losses		**115,039**	156,815	114,909
Decrease (increase) in:				
Trade and other receivables		**(114,304)**	(1,343,433)	(66,587)
Inventories		**(1,996,485)**	(974,401)	82,379
Biological assets - current		**(608,156)**	(411,060)	(13,701)
Prepayments and other current assets		**108,713**	(235,729)	(226,955)
Increase in trade payables and other current liabilities		**179,884**	1,008,474	1,010,215
Cash generated from operations		**1,328,484**	2,255,230	3,966,954
Interest paid		**(572,726)**	(560,730)	(546,549)
Income taxes paid (including final tax)		**(878,758)**	(616,340)	(510,828)
Interest received		**45,639**	71,081	83,148
Net cash flows provided by (used in) operating activities		**(77,361)**	1,149,241	2,992,725
CASH FLOWS FROM INVESTING ACTIVITIES				
Deductions from (additions to) property, plant and equipment	*12*	**(593,908)**	(931,601)	(1,107,643)
Decrease (increase) in:				
Biological assets - noncurrent		**(972,614)**	(648,327)	(603,726)
Other noncurrent assets		**45,407**	(85,072)	(120,703)
Proceeds from sale of property and equipment		**11,330**	3,221	12,362
Transfer of cash from new subsidiary	*10*	**-**	336,721	-
Net cash flows used in investing activities		**(1,509,785)**	(1,325,058)	(1,819,710)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net availments (payments) of notes payable		**3,026,709**	(613,821)	(436,912)
Increase in minority interests		**-**	-	19,788
Payment of long-term installment payable		**-**	-	(7,533)
Net cash flows provided by (used in) financing activities		**3,026,709**	(613,821)	(424,657)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**1,439,563**	(789,638)	748,358
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,342,643**	2,132,281	1,383,923
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P2,782,206**	P1,342,643	P2,132,281

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(With Comparative Figures for 2006)
(Amounts in Thousands, Unless Otherwise Indicated)

1. Corporate Information

San Miguel Pure Foods Company, Inc. (the "Company") is incorporated in the Philippines. The consolidated financial statements of the Company as at and for the year ended December 31, 2008 comprise the financial statements of the Company and its Subsidiaries (collectively referred to as the "Group"). The Company is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed in the Philippine Stock Exchange, Inc. (PSE). The Group is involved in poultry operations, livestock farming and processing and selling of meat products, processing and marketing of refrigerated and canned meat products, manufacturing and marketing of feeds and flour products, cooking oils, breadfill, snacks, noodles, desserts and dairy-based products, and importation and marketing of coffee and coffee-related products. The registered office address of the Company is JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City.

San Miguel Corporation (SMC) is the ultimate parent company of the Group.

The consolidated financial statements of the Group as at and for the year ended December 31, 2008 were authorized for issue by the Board of Directors (BOD) on March 19, 2009.

2. Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale (AFS) investments which have been measured at fair value and agricultural produce which has been measured at fair market value less point-of-sale costs.

The consolidated financial statements are presented in Philippine peso, which is the Group's functional currency and all values are rounded to the nearest thousand (P000), except when otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS), including Philippine interpretations from International Financial Reporting Interpretation Committee (IFRIC), issued by the Financial Reporting Standards Council (FRSC).

Basis of Consolidation
The consolidated financial statements include the accounts of the Company and the following subsidiaries:

	Country of Incorporation	Percentage of Ownership 2008	2007
San Miguel Foods, Inc. (SMFI)	Philippines	100.00	100.00
San Miguel Mills, Inc. (SMMI)*	Philippines	100.00	100.00
Magnolia, Inc. and subsidiary (Magnolia)	Philippines	100.00	100.00
Monterey Foods Corporation (Monterey)**	Philippines	97.68	95.95
PT San Miguel Pure Foods Indonesia Ltd. (PTSMPFI)	Indonesia	75.00	75.00
San Miguel Super Coffeemix Co., Inc. (SMSCCI)	Philippines	70.00	70.00
The Purefoods-Hormel Company, Inc. (PF-Hormel)	Philippines	60.00	60.00
RealSnacks Mfg. Corp. (RealSnacks)***	Philippines	100.00	100.00

** Consolidated with SMFI in 2007.*
*** Consolidated effective January 1, 2007. Increase in ownership effective October 2008.*
**** Incorporated in April 2004 and has not yet started commercial operations*

A subsidiary is an entity controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date control ceases.

The consolidated financial statements are prepared for the same reporting period as the Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup and unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented in the consolidated balance sheets, separately from equity attributable to equity holders of the Parent Company.

Minority interests represent the interests not held by the Company in PF-Hormel, Monterey, PTSMPFI and SMSCCI in 2008 and 2007 and are presented separately in the consolidated statements of income and within the stockholders' equity in the consolidated balance sheets.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in the consolidated financial statements.

Adoption of New Standards, Amendments to Standards and Interpretations
The FRSC approved the adoption of new standards, amendments to standards, and interpretations as part of PFRS.

Amendments to Standards and Interpretations Adopted in 2008
Starting January 1, 2008, the Group adopted the following amended PAS and Philippine Interpretations from IFRIC:

- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions:* This interpretation addresses how to apply PFRS 2, *Share-based Payment*, to share-based payment arrangements involving an entity's own equity instruments and share-based payment arrangements involving equity instruments of the parent company, where a parent company grants rights to its equity instruments to the employees of its subsidiary or a subsidiary grants rights to equity instruments of its parent company to its employees.

- Philippine Interpretation IFRIC 14, *PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction:* This interpretation provides general guidance on how to assess the limit in PAS 19, *Employee Benefits*, on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement.

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement,* and PFRS 7, *Financial Instruments: Disclosures:* These standards permit an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition, out of the trading category in certain circumstances. The amendments also permit an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that otherwise would have met the definition of loans and receivables, if the entity has the intention and ability to hold that financial asset for the foreseeable future.

The adoption of these foregoing amendments to PAS and Philippine Interpretations from IFRIC did not have a material effect on the consolidated financial statements, however, the amendments to standards gave rise to additional disclosures (Note 28).

New Standards, Revisions and Amendments to Standards, and Interpretations Not Yet Adopted
The following are the new standards, revisions and amendments to standards, and interpretations which are not yet effective for the year ended December 31, 2008, and have not been applied in preparing these consolidated financial statements:

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes:* This interpretation, which will become mandatory for the Group's 2009 financial statements, addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation:* This interpretation, which will become effective for financial years beginning on or after October 1, 2008, applies to all entities using net investment hedging for investments in foreign operations and clarifies that net investment hedging can be applied only when the net assets of the foreign operation are included in the financial statements of the entity. The requirements in the interpretation do not apply to other forms of hedge accounting under PAS 39 and cannot be applied by analogy. IFRIC 16 provides guidance on the following issues: a) nature of the hedged risk and the amount of the hedged item for which a hedging relationship may be designated; b) where the hedging instrument can be held and assessing hedge effectiveness; and c) disposal of a foreign operation.

- PFRS 8, *Operating Segments:* This will be effective beginning January 1, 2009 and will replace PAS 14, *Segment Reporting*. This standard introduces the "management approach" to segment reporting and will require a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently, the Group presents segment information by business and geographical segments (Note 5).

- Revised PAS 1, *Presentation of Financial Statements:* This will be effective for financial periods beginning on or after January 1, 2009. The standard has been revised to introduce the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income.

- Revised PAS 23, *Borrowing Costs:* This will be effective for financial periods beginning on or after January 1, 2009. The standard removes the option to expense borrowing costs and requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

- Amendments to PAS 32, *Financial Instruments: Disclosures and Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation:* These amendments will be effective for financial periods beginning on or after January 1, 2009. The standard has been amended to require puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met.

- Amendment to PFRS 2, *Share-based Payment - Vesting Conditions and Cancellations:* This will be effective for financial periods beginning on or after January 1, 2009. The standard has been amended to clarify the definition of vesting conditions, introduce the concept of non-vesting conditions, require non-vesting conditions to be reflected in grant-date fair value and provide the accounting treatment for non-vesting conditions and cancellations.

- Amended PFRS 1, *First Time Adoption of Philippine Financial Reporting Standards* and PAS 27, *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate:* These amendments become effective for financial periods beginning on or after January 1, 2009. The amendments to PFRS 1 allow a first-time adopter, at its date of transition to IFRS in its separate financial statements, to use deemed cost to account for an investment in a subsidiary, jointly controlled entity or associate. The amendments to PAS 27 remove the definition of "cost method" currently set out in PAS 27, and instead require all dividend from a subsidiary, jointly controlled entity or associate to be recognized as income in the separate financial statements of the investor when the right to receive the dividend is established.

- *Improvements to PFRS 2008,* discusses 35 amendments and is divided into two parts: a) Part I includes 24 amendments that result in accounting changes for presentation, recognition or measurement purposes; and b) Part II includes 11 terminology or editorial amendments that the International Accounting Standards Board expects to have either no or only minimal effects on accounting. These amendments are generally effective for financial periods beginning on or after January 1, 2009.

- Revised PFRS 3, *Business Combinations:* This incorporates the following changes that are likely to be relevant to the Group's operations:

    - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.

    - Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.

- Transaction costs, other than share and debt issue costs, will be expensed as incurred.

- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.

- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised PFRS 3 will become mandatory for the Group's 2010 consolidated financial statements.

- Amended PAS 27, *Consolidated and Separate Financial Statement:* This amendment requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Group losses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss. The amendments to PAS 27 will become mandatory for the Group's 2010 consolidated financial statements.

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items:* These amendments become effective for financial periods beginning on or after July 1, 2009. The standard has been amended to provide for the following: a) new application guidance to clarify the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedge relationship; and b) additional application guidance on qualifying items; assessing hedge effectiveness; and designation of financial items as hedged items.

- Philippine Interpretation IFRIC-17, *Distributions of Non-cash Assets to Owners:* This interpretation becomes effective for financial periods beginning on or after July 1, 2009. This interpretation provides guidance on the accounting for non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. It also applies to distributions in which the owners may elect to receive either the non-cash asset or a cash alternative. The liability for the dividend payable is measured at the fair value of the assets to be distributed.

The Group will assess the impact of the new standards, revisions and amendments to standards, and interpretations upon adoption.

<u>Cash and Cash Equivalents</u>
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 and are subject to an insignificant risk of change in value.

<u>Financial Assets and Liabilities</u>
Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated 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 fair value of the consideration given or received is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rate of interest for similar instruments with similar maturities. The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction costs.

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

Determination of Fair Value. The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotation (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 the other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 Profit) in the consolidated 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 consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'day 1' profit amount.

Financial Assets
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. Gains or losses on investments held for trading are recognized in the consolidated 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 performances 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.

Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

The Group accounts for its derivative transactions (including embedded derivatives) under this category with fair value changes being reported directly to profit or loss, except when the derivative is treated as an effective accounting hedge, in which the fair value change is deferred in equity under "Cumulative translation adjustments" account.

Included in this category are the Group's derivative financial instruments with positive fair values that are not accounted for under hedge accounting (Note 29).

The carrying values of financial assets under this category amounted to P35.8 million and P438.0 million as of December 31, 2008 and 2007, respectively (Note 29).

Loans and Receivables. Loans and receivables are non-derivative 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 or financial asset at FVPL. Loans and receivables are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest method.

The Group's cash and cash equivalents and trade and other receivables are included in this category (Notes 6 and 7).

The carrying values of financial assets under this category amounted to P10,544.3 million and P8,872.8 million as of December 31, 2008 and 2007, respectively (Note 29).

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and classified as AFS investments. 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 consolidated statements of income when the HTM investments are derecognized or impaired, as well as through the amortization process.

The Group has no investments classified as held-to-maturity as of December 31, 2008 and 2007.

AFS Investments. AFS investments are non-derivative financial assets that are designated in this category or are not classified in any of the other categories. Subsequent to initial recognition, AFS investments are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are reported in the stockholders' equity section of the consolidated 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 consolidated statements of income. Interest earned on holding AFS investments are recognized in the consolidated statements of income using effective interest rate.

The Group's investments in shares of stocks included under "Pension and other noncurrent assets" are classified under this category (Note 29).

The carrying values of financial assets under this category amounted to P11.4 million and P11.3 million as of December 31, 2008 and 2007, respectively (Note 29).

Financial Liabilities

Financial Liability 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 Group elects to designate a financial liability under this category.

Included in this category are the Group's derivative financial instruments with negative fair values that are not accounted for under cash flow hedge accounting (Note 29).

The carrying values of financial liabilities under this category amounted to P144.2 million and P0.03 million as of December 31, 2008 and 2007, respectively (Note 29).

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

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

Included in this category are the Group's notes payable and trade payables and other current liabilities (Notes 14, 15 and 29).

The carrying values of financial liabilities under this category amounted to P21,372.6 million and P17,738.7 million as of December 31, 2008 and 2007, respectively (Note 29).

Derivative Financial Instruments and Hedging

Freestanding Derivatives

For the purpose of hedge accounting, hedges are classified as either: a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk); b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or c) hedges of a net investment in foreign operations.

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

Fair Value Hedge. Derivatives classified as fair value hedges are carried at fair value with corresponding change in fair value recognized in the consolidated statements of income. The carrying amount of the hedged asset or liability is also adjusted for changes in fair value attributable to the hedged item and the gain or loss associated with that remeasurement is also recognized in the consolidated statements of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued and the adjustment to the carrying amount of a hedged financial instrument is amortized immediately.

As of December 31, 2008 and 2007, the Group has no outstanding derivatives accounted for as fair value hedges.

Cash Flow Hedge. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are included in the consolidated statements of changes in stockholders' equity under "Cumulative translation adjustments" account. The ineffective portion is immediately recognized in the consolidated statements of income.

If the hedged cash flow results in the recognition of an asset or a liability, all gains and losses previously recognized directly in stockholders' equity are transferred from stockholders' equity and included in the initial measurement of the cost or carrying value of the asset or liability. Otherwise, for all other cash flow hedges, gains and losses initially recognized in stockholders' equity are transferred from stockholders' equity to net income in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affect the consolidated statements of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. In this case, the cumulative gain or loss on the hedging instrument that has been reported directly in stockholders' equity is retained in stockholders' equity until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in stockholders' equity is recognized in the consolidated statements of income.

As of December 31, 2008, the Group has outstanding commodity options designated as effective cash flow hedges. As of December 31, 2007, the Group has no outstanding derivatives designated as effective cash flow hedges.

Net Investment Hedge. As of December 31, 2008 and 2007, the Group has no hedge of a net investment in a foreign operation.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss during the year incurred.

Embedded Derivatives

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group becomes a party to the contract.

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

Derecognition of Financial Assets and Liabilities

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

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

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

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

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

Assets Carried at Amortized Cost. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of 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) 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 either directly or through the use of an allowance account. The amount of loss shall be recognized in the consolidated statements of income.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated 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 of an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or of 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 Financial Assets. If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of income, is transferred from consolidated statements of changes in stockholders' equity to the consolidated statements of income. Reversals in respect of equity instruments classified as AFS are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income.

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial assets to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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 consolidated balance sheets.

Inventories
Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each inventory to its present location and conditions are accounted for as follows:

Finished goods and goods in process	-	cost includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; costs are determined on a moving average method;
Raw materials, feeds, feed ingredients, factory supplies and others	-	at cost using the moving average method

Net realizable value of finished goods and goods in process is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Net realizable value of raw materials, feeds, feed ingredients, factory supplies and others is the current replacement cost.

Biological Assets and Agricultural Produce
The Group's biological assets include breeding, growing poultry livestock, hogs and cattle and goods in process which are grouped according to their physical state, transformation capacity (breeding, growing or laying), as well as their particular stage in the production process.

Growing hogs, cattle and poultry livestock and goods in process are carried at accumulated costs while breeding stocks are carried at accumulated costs, net of amortization and any impairment in value. The costs and expenses incurred up to the start of the productive stage are accumulated and amortized over the estimated productive lives of the breeding stocks. The Group uses this method of valuation since fair value cannot be measured reliably. The Group's biological assets have no active market and no active market for similar assets prior to point of harvest are available in the Philippine poultry and hog industries. Further, the existing sector benchmarks are determined to be irrelevant and the estimates (i.e., revenues due to highly volatile prices, input costs, efficiency values, production) necessary to compute for the present value of expected net cash flows comprise a wide range of data which will not result to a reliable basis for determining the fair value.

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

The Group's agricultural produce, which consists of grown broilers and marketable hogs and cattle harvested from the Group's biological assets, are measured at their fair value less estimated point-of-sale costs at the point of harvest. The fair value of grown broilers is based on the quoted prices for harvested mature grown broilers in the market at the time of harvest. For marketable hogs and cattle, the fair value is based on the quoted prices in the market at any given time.

The Group in general, does not carry any inventory of agricultural produce at any given time as these are either sold as live broilers, hogs and cattle or transferred to the different poultry or meat processing plants and immediately transformed into processed or dressed chicken and carcass.

Amortization is computed using straight-line method over the following estimated productive lives of breeding stocks:

	Number of Years
Hogs - sow	3 years or 6 births, whichever is shorter
Hogs - boar	2.5 - 3 years
Cattle	2.5 - 3 years
Poultry breeding stock	40 - 44 weeks

Investment in an Associate
The Group's investment in its associate is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in associate is carried in the consolidated balance sheets at cost plus post-acquisition changes in the Group's share in net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. The consolidated statements of income reflect the share in the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share in any changes and discloses this, when applicable, in the consolidated statements of changes in stockholders' equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

An investment in an associate is accounted for using the equity method from the date when it becomes an associate. On acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with PFRS 3, *Business Combinations*. Consequently:

a. Goodwill relating to an associate is included in the carrying amount of investment. However, amortization of that goodwill is not permitted and is therefore not included in the determination of the Group's share in the associate's profit or loss.

b. Any excess of the Group's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share in the associate's profit or loss in the period in which the investment is acquired.

The Group discontinues applying the equity method when its investment in an associate is reduced to zero. Additional losses are provided only to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the investee that the Group has guaranteed or otherwise committed. If the investee subsequently reports profits, the Group resumes applying the equity method only after its share of the profits equals the share of net losses not recognized during the period the equity method was suspended.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

<u>Interest in Joint Venture</u>
A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

The Group discontinues the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, a jointly controlled entity (Note 10).

<u>Investment Properties</u>
Investment properties represent land and buildings held to earn rentals and/or for capital appreciation. Buildings are measured at cost less accumulated depreciation and any impairment in value. The carrying amount of buildings includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Depreciation on buildings is computed using the straight-line method over 20 to 40 years.

An investment property is derecognized when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains and losses on the retirement and disposal of investment property are recognized in the consolidated statement of income in the period of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of the Group's occupation or commencement of development with a view to sale.

<u>Property, Plant and Equipment</u>
Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and any impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises of its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation and interest incurred during the construction period on funds borrowed to finance the construction of the projects. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Construction in progress represents structures under construction and is stated at cost. This includes the costs of construction, property and equipment and other direct costs. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

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

	Number of Years
Land improvements	5 - 10
Buildings and improvements	5 - 50
Machinery and equipment	5 - 20
Office furniture and equipment	3 - 5
Transportation equipment	5
Factory furniture, equipment and others	3 - 5

The remaining useful lives and depreciation and amortization method are reviewed periodically to ensure that such periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

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

Fully depreciated and amortized 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.

An item of property, plant and equipment is derecognized upon disposal or when it is permanently withdrawn from use and 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 consolidated statement of income in the year the asset is derecognized.

<u>Business Combinations and Goodwill</u>

Business combinations are accounted for using the purchase method of accounting. The cost of acquisition is the aggregate of the fair values, at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer, in exchange for control over the net assets of the acquired company, plus any directly attributable costs. The identifiable assets, liabilities and contingent liabilities that satisfy certain recognition criteria have to be measured initially at their fair values at acquisition date, irrespective of the extent of any minority interests.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with PAS 14, *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Negative goodwill which is not in excess of the fair values of acquired identifiable nonmonetary assets of subsidiaries and associates is charged directly to income.

Transfers of assets between commonly controlled entities are accounted for under historical cost accounting.

When a business combination involves more than one exchange transaction (occurs in stages), each exchange transaction is treated separately by the acquirer, using the cost of the transaction and fair value information at the date of each exchange transaction, to determine the amount of goodwill associated with that transaction. Any adjustment to fair values relating to the previously held interest is a revaluation and is accounted for as such.

When subsidiaries are sold, the difference between the selling price and the net assets plus goodwill is recognized in the consolidated statements of income.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is charged against profits in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method used for an intangible asset with a finite useful life is reviewed at least at each balance sheet date. 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 treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income in the expense category consistent with the function of the intangible asset.

Amortization of computer software and licenses is computed using the straight-line method over the estimated useful life of 2 to 8 years.

Trademarks and formulas and recipes with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortized. 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 or losses arising from disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are derecognized in the consolidated statements of income when the asset is derecognized.

Impairment of Non-financial Assets with Definite Useful Life

The carrying values of property, plant and equipment and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of property, plant and equipment and other long-lived assets is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less costs 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 current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses of continuing operations are recognized in the consolidated 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 profit or loss. 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.

Provisions

Provisions are recognized when the Group has (a) a present (legal or constructive) obligation as a result of past event; (b) it is probable, i.e., more likely than not, that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are 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 Group 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. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Treasury Shares

Own equity instruments which are reacquired are carried at cost and are deducted from equity. No gain or loss is recognized on profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue Recognition

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

Sales. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably, which is normally upon delivery.

Agricultural Produce. Revenue from initial recognition of agricultural produce is measured at fair value less cost to sell at point of harvest. Fair value is based on the relevant market price at point of harvest.

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

Dividend. Income is recognized when the right to receive the payment is established.

Cost and Expense Recognition

Cost and expenses are recognized as incurred.

Share-based Transactions

Under SMC's Employee Stock Purchase Plan (ESPP), employees of the Group receive remuneration in the form of share-based payments transactions, whereby the employees render services as consideration for equity instruments of SMC. Such transactions are handled centrally by SMC.

Share-based transactions in which SMC grants option rights to its equity instruments direct to the Group's employees are accounted for as equity-settled transactions. SMC charges the Group for the costs related to such transactions with its employees. The amount is charged to operations by the Group.

The cost of ESPP is measured by reference to the market price at the time of the grant less subscription price. The cumulative expense recognized for share-based transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and SMC's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Operating Leases

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

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

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.

The carrying value of development cost is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Retirement Costs

The Company and majority of its subsidiaries have separate funded, noncontributory retirement plans, administered by the respective trustees, covering their respective permanent employees. Retirement costs are actuarially determined using the projected unit credit method. This method reflects service rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement cost includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains and losses, and effect of any curtailments or settlements. Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to the plan, past service cost is recognized immediately as an expense. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceed the greater of 10% of present value of the defined benefit obligation or the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The transitional liability as of January 1, 2005, the date of adoption of PAS 19, *Employee Benefits,* is recognized as an expense over five years from date of adoption.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the resulting 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 refunds 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 and Translations
The consolidated financial statements are presented in Philippine peso, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange at balance sheet date. All differences are taken to the consolidated statements of income. Nonmonetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates as at the dates of the initial transactions. Nonmonetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of PTSMPFI is the Indonesian rupiah. As at the reporting date, the assets and liabilities of this subsidiary are translated into the presentation currency of the Company at the prevailing rate of exchange at the balance sheet date and its income and expense accounts are translated at the monthly weighted average exchange rates for the year. The resulting translation differences are included in the consolidated statements of changes in stockholders' equity under "Cumulative translation adjustments" account.

On disposal of a foreign subsidiary, the accumulated exchange differences are recognized in the consolidated statements of income as a component of the gain or loss on disposal.

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

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

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

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

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

- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of income.

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

Value-added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the 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 tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheets.

<u>Related Parties</u>
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. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

<u>Basic and Diluted Earnings Per Share (EPS)</u>
Basic and diluted EPS is computed by dividing the net income for the period attributable to equity holders of the Company by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustments for any stock dividends declared.

<u>Business Segments</u>
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business and geographical segments is presented in Note 5.

<u>Contingencies</u>
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

<u>Events After the Balance Sheet Date</u>
Post-year end events that provide additional information about the Group's position at balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post-year end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes.

<u>Judgments</u>
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Operating Leases. The Group has entered into various lease agreement as a lessee. The Group has determined that the lessor retains all significant risks and rewards of ownership of these properties which are leased out on operating lease.

Rent expense charged to operations amounted to P662.5 million, P597.0 million and P548.6 million in 2008, 2007 and 2006, respectively (Notes 18 and 19).

Functional Currency. The Company and other Subsidiaries determined that their functional currency is the Philippine peso. PTSMPFI's functional currency is Indonesian rupiah. Functional currency is the currency of the primary economic environment in which the Group operates.

Contingencies. The Group currently has several tax assessments and legal claims. The Group's estimate of the probable costs for the assessments and claims and assessment of the resolution of these claims have been developed in consultation with in-house as well as outside counsel handling the prosecution and defense of these cases and is based on an analysis of potential results. The Group currently does not believe that these tax assessments and legal claims will have a material adverse effect on the consolidated financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 31).

Estimates
The estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances of the date of the Group's consolidated financial statements. Actual results could differ from those estimates.

Allowance for Impairment Losses on Trade and Other Receivables. Provisions are made for specific and groups of accounts where objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience, and historical loss experience.

The allowance for impairment losses on trade and other receivables amounted to P610.9 million and P649.6 million as of December 31, 2008 and 2007, respectively. The carrying value of trade and other receivables amounted to P7,762.1 million and P7,530.1 million as of December 31, 2008 and 2007, respectively (Note 7).

Allowance for Inventory Losses. The Group provides an allowance for inventory losses whenever net realizable value of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after balance sheet date to the extent that such events confirm conditions existing at balance sheet date. The allowance account is reviewed periodically to reflect the accurate valuation in the financial records.

The allowance for inventory losses amounted to P143.67 million and P135.50 million as of December 31, 2008 and 2007, respectively. The carrying value of inventories as of December 31, 2008 and 2007 amounted to P11,804.8 million and P10,053.5 million, respectively (Note 8).

Estimated Useful Lives of Investment Properties, Property, Plant and Equipment and Noncurrent Biological Assets. The Group estimates the useful lives of investment properties, property, plant and equipment and noncurrent biological assets based on the period over which the assets are expected to be available for use. The estimated useful lives of the assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of the assets is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the assets would increase recorded cost of sales and operating expenses and decrease noncurrent assets.

Accumulated depreciation and amortization of investment properties, property, plant and equipment and noncurrent biological assets amounted to P9,224.3 million and P8,025.8 million as of December 31, 2008 and 2007, respectively. Investment properties, property, plant and equipment and noncurrent biological assets, net of accumulated depreciation and amortization, amounted to P9,246.1 million and P9,187.9 million as of December 31, 2008 and 2007, respectively (Notes 9, 11 and 12).

Estimated Useful Lives of Intangible Assets with Finite Lives. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

Intangible assets with finite useful life amounted to P65.7 million and P47.2 million as of December 31, 2008 and 2007, respectively (Note 13).

Realizability of Deferred Tax Assets. The Group 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 asset to be utilized.

Deferred tax assets amounted to P1,096.3 million and P941.0 million as of December 31, 2008 and 2007, respectively (Note 23).

Impairment of Other Non-financial Assets. Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed on investments and advances, property, plant and equipment, investment properties, biological assets and other intangible assets with definite useful lives when certain impairment indicators are present. For intangible assets with indefinite useful lives, impairment testing is performed on an annual basis. Determining the net recoverable value of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse impact on the results of operations.

The aggregate amount of investment properties, property, plant and equipment, noncurrent biological assets and goodwill and intangible assets amounted to P9,572.7 million and P9,512.8 million as of December 31, 2008 and 2007, respectively (Notes 9, 11, 12 and 13).

Pension Cost and Other Retirement Benefits. The determination of the Group's obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 24 to the consolidated financial statements and include discount rate, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

Pension liability amounted to P77.5 million and P92.6 million as of December 31, 2008 and 2007, respectively. There was no pension asset as of December 31, 2008. Pension asset as of December 31, 2007 amounted to P20.2 million (Note 24).

Fair Value of Agricultural Produce. The Group determines the fair value of its agricultural produce based on most recent market transaction price provided that there has been no significant change in economic circumstances between the date of transactions and balance sheet date. Point-of-sale costs is estimated based on most recent transaction and is deducted from the fair value in order to measure agricultural produce at point of harvest.

Unrealized fair value adjustments included in the cost of inventories as of December 31, 2008 and 2007 amounted to (P2.0) million and P51.7 million, respectively (Note 8).

Financial Assets and Liabilities. The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates). However, the amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in fair value of these financial assets and liabilities would affect net income and equity.

The fair values of financial assets and liabilities are presented in Note 29.

Asset Retirement Obligation. Determining asset retirement obligation requires estimation of the cost of dismantling property and equipment and other costs of restoring the leased properties to their original condition. The Group determined that there are no significant asset retirement obligations as of December 31, 2008 and 2007.

5. Business and Geographical Segments

Business Segments
For management purposes, the Group has the following major business units: (a) meat and poultry; (b) feeds and flour; and (c) dairy and others. These are also the basis of the Group in reporting its primary segment information.

The meats and poultry segment includes, among others, the integrated poultry operations, livestock farming and selling of meat products mainly pork and cattle and the processing and marketing of refrigerated and canned meat products.

The feeds and flour segment is involved in the manufacturing and marketing of flour, premixes and other flour-based products such as snack foods and instant noodles, and feeds products.

The Group's dairy and other activities consist of manufacturing and marketing of breadfill, desserts, dairy-based products, cooking oils, condiments and importation and marketing of certain coffee and coffee-related food products.

Geographical Segments
The significant operations of the Group are in the Philippines, classified between Luzon and the Visayas and Mindanao (VisMin) areas. The Group also has operations in Indonesia.

Segment Assets and Liabilities
Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories, biological assets and property, plant and equipment, net of allowances and accumulated depreciation and amortization. Segment liabilities include all operating liabilities and consist principally of wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred income taxes.

Inter-segment Transactions
Segment revenues, expenses and performance include sales and purchases between business segments and between geographical segments. Such sales and purchases are eliminated in consolidation.

Financial information about business and geographical segments follow:

Business Segments

	Meat and Poultry			Feeds and Flour			Dairy and Others			Total			Eliminations			Consolidated		
	2008	2007	2006	**2008**	2007	2006	**2008**	2007	2006	**2008**	2007	2006	**2008**	2007	2006	**2008**	2007	2006
									(In Millions)									
Revenue																		
External	**P36,932**	P30,956	P23,182	**P24,732**	P20,577	P20,005	**P9,412**	P10,519	P9,776	**P71,076**	P62,052	P52,963	**P -**	P -	P -	**P71,076**	P62,052	P52,963
Inter-segment	**3,223**	4,449	3,579	**4,175**	2,936	180	**919**	1,362	765	**8,317**	8,747	4,524	**(8,317)**	(8,747)	(4,524)	**-**	-	-
Total revenue	**P40,155**	P35,405	P26,761	**P28,907**	P23,513	P20,185	**P10,331**	P11,881	P10,541	**P79,393**	P70,799	P57,487	**(P8,317)**	(P8,747)	(P4,524)	**P71,076**	P62,052	P52,963
Result																		
Segment result	**P1,535**	P1,292	P1,230	**P565**	P1,006	P740	**(P256)**	P88	(P75)	**P1,844**	P2,386	P1,895	**(P1)**	P10	(P2)	**P1,843**	P2,396	P1,893
Interest expense – net	**(444)**	(298)	(178)	**(218)**	(98)	(137)	**(58)**	(125)	(131)	**(720)**	(521)	(446)	**-**	-	-	**(720)**	(521)	(446)
Equity in net earnings	**-**	-	-	**-**	-	-	**4**	(1,167)	637	**4**	(1,167)	637	**(4)**	1,167	(600)	**-**	-	37
Other income (charges) - net	**(273)**	153	(4)	**(114)**	344	78	**749**	2,386	(60)	**362**	2,883	14	**(867)**	(3,660)	-	**(505)**	(777)	14
Income tax benefit (expense)	**(377)**	(397)	(310)	**(122)**	(420)	(214)	**20**	(111)	29	**(479)**	(928)	(495)	**10**	12	1	**(469)**	(916)	(494)
Net income	**P441**	P750	P738	**P111**	P832	P467	**P459**	P1,071	P400	**P1,011**	P2,653	P1,605	**(P862)**	(P2,471)	(P601)	**P149**	P182	P1,004
Other Information																		
Segment assets	**P21,466**	P18,427	P14,008	**P10,962**	P10,456	P9,421	**P4,760**	P5,409	P5,672	**P37,188**	P34,292	P29,101	**(P1,609)**	(P2,213)	(P2,530)	**P35,579**	P32,079	P26,571
Investments and advances	**-**	-	-	**-**	-	-	**15,278**	14,907	9,955	**15,278**	14,907	9,955	**(15,278)**	(14,907)	(9,295)	**-**	-	660
Goodwill and other intangible assets	**154**	128	133	**2**	7	12	**1,367**	1,384	134	**1,523**	1,519	279	**(1,196)**	(1,194)	61	**327**	325	340
Deferred tax assets	**475**	454	113	**260**	132	123	**301**	295	344	**1,036**	881	580	**60**	60	61	**1,096**	941	641
Consolidated total assets	**P22,095**	P19,009	P14,254	**P11,224**	P10,595	P9,556	**P21,706**	P21,995	P16,105	**P55,025**	P51,599	P39,915	**(P18,023)**	(P18,254)	(P11,703)	**P37,002**	P33,345	P28,212
Segment liabilities	**P5,502**	P5,239	P4,183	**P3,624**	P3,320	P3,192	**P2,331**	P2,895	P2,333	**P11,457**	P11,454	P9,708	**(P1,529)**	(P2,263)	(P2,478)	**P9,928**	P9,191	P7,230
Notes payable	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**11,666**	8,640	7,027
Income tax payable	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**209**	350	135
Deferred tax liabilities	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**238**	353	243
Consolidated total liabilities																**P22,041**	P18,534	P14,635
Property, plant and equipment - net	**P4,963**	P4,473	P3,731	**P2,183**	P2,765	P2,747	**P870**	P962	P1,084	**P8,016**	P8,200	P7,562	**P42**	P51	P52	**P8,058**	P8,251	P7,614
Capital expenditures	**415**	559	508	**101**	249	383	**78**	124	217	**594**	932	1,108	**-**	-	-	**594**	932	1,108
Depreciation and amortization	**1,173**	1,069	942	**235**	234	236	**146**	155	125	**1,554**	1,458	1,303	**-**	-	-	**1,554**	1,458	1,303
Non-cash items other than depreciation and amortization of property, plant and equipment	**248**	(185)	(31)	**102**	(363)	(87)	**153**	88	(14)	**503**	(460)	(132)	**-**	-	-	**503**	(460)	(132)

Geographical Segments (by customer domicile):

	Net Sales			Segment Assets		Capital Expenditures	
	2008	2007	2006	**2008**	2007	**2008**	2007
				(In Millions)			
Philippines							
LUZON	**P50,091**	P43,480	P38,962	**P30,367**	P28,851	**P576**	P920
VISMIN	**20,251**	17,897	13,367	**6,290**	4,153	**9**	-
Indonesia and others	**734**	675	634	**345**	341	**9**	12
	P71,076	P62,052	P52,963	**P37,002**	P33,345	**P594**	P932

6. Cash and Cash Equivalents

This account consists of:

	2008	2007
Cash on hand and in banks	**P2,479,006**	P1,259,403
Short-term placements	**303,200**	83,240
	P2,782,206	P1,342,643

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

7. Trade and Other Receivables

This account consists of:

	Note	**2008**	2007
Trade receivables		**P5,619,084**	P5,524,966
Amounts owed by related parties	*25*	**2,042,497**	1,937,859
Other receivables		**711,397**	716,903
		8,372,978	8,179,728
Less allowance for impairment losses		**610,887**	649,621
		P7,762,091	P7,530,107

Trade receivables are non-interest bearing and are generally on 30 days term.

The movements in the allowance for impairment losses follow:

	Note	**2008**	2007
Balance at beginning of year		**P649,621**	P462,011
Monterey balance as of January 1, 2007	*10*	**-**	194,307
Charge for the year		**39,640**	66,417
Write off of amounts		**(56,392)**	(73,099)
Reversal of unused amounts		**(21,982)**	(15)
Balance at end of year		**P610,887**	P649,621

As at December 31, the aging of receivables are as follows:

	Carrying Amount	
	2008	2007
Current	**P5,378,262**	P5,062,290
Past due 1-30 days	**1,262,791**	1,327,658
Past due 31-60 days	**170,991**	212,176
Past due 61-90 days	**124,417**	162,506
Past due Over 90 days	**825,630**	765,477
	P7,762,091	P7,530,107

8. Inventories

This account consists of:

	2008	2007
Finished goods and goods in process - at net realizable value	**P3,053,769**	P2,529,046
Raw materials, feeds and feed ingredients - at net realizable value	**8,399,003**	6,377,446
Factory supplies and others - at cost in 2008 and net realizable value in 2007	**61,670**	102,004
Materials in transit - at cost	**290,346**	1,045,002
Total inventories at lower of cost and net realizable value	**P11,804,788**	P10,053,498

The cost of finished goods and goods in process amounted to P3,125.6 million in 2008 and P2,530.6 million in 2007. The cost of raw materials, feeds and feed ingredients amounted to P8,470.8 million and P6,510.4 million as of December 31, 2008 and 2007, respectively. The cost of factory supplies and others amounted to P103.0 million as of December 31, 2007.

Finished goods and goods in process include net unrealized loss of P2.0 million and unrealized gain of P51.7 million on fair valuation of agricultural produce as of December 31, 2008 and 2007, respectively. The fair value of agricultural produce less point-of-sale-costs, which formed part of finished goods inventory, amounted to P556.8 million and P319.0 million as of December 31, 2008 and 2007, respectively, with corresponding costs at point-of-harvest amounting to P558.8 million and P267.3 million, respectively.

9. Biological Assets

This account consists of:

	2008	2007
Current:		
Growing stocks	**P2,707,025**	P2,165,068
Goods in process	**225,396**	159,197
Total Current	**2,932,421**	2,324,265
Noncurrent:		
Breeding stocks - net	**1,115,963**	880,271
	P4,048,384	P3,204,536

The amortization of breeding stocks charged to operations amounted to P736.9 million and P660.9 million in 2008 and 2007, respectively (Note 20).

Growing stocks pertain to growing broilers, hogs and cattle and goods in process pertain to hatching eggs and carcass.

The movements in biological assets, including the effects of foreign exchange adjustments are as follows:

	Note	2008	2007
Gross:			
Balance at beginning of year		**P4,458,681**	P1,785,783
Monterey balance as of January 1, 2007	10	**-**	1,601,541
Increase (decrease) due to:			
Purchases		**11,732,401**	10,083,942
Production		**33,539,845**	5,776,929
Mortality		**(31,314)**	(30,535)
Sales		**(67,296)**	(207,430)
Harvest		**(43,592,866)**	(14,551,549)
Balance at end of the year		**6,039,451**	4,458,681
Accumulated amortization:			
Balance at beginning of year		**1,254,145**	609,715
Monterey balance as of January 1, 2007	10	**-**	8,303
Additions		**736,922**	660,919
Disposals		**-**	(24,792)
Balance at end of the year		**1,991,067**	1,254,145
Net book value		**P4,048,384**	P3,204,536

The Group harvested approximately 322.9 million and 298.2 million kilograms of grown broilers, in 2008 and 2007, respectively, and 0.53 million and 0.57 million heads of marketable hogs and cattle in 2008 and 2007, respectively.

10. Investments and Advances

Investments in Subsidiaries

The following are the developments relating to the Company's investments in subsidiaries in 2008 and 2007:

a) In July and September 2008, respectively, the Company paid as deposit for future stock subscription, the amounts of P400 million for Magnolia shares of stocks and P450 million for Monterey shares of stocks. Both Magnolia and Monterey have applied for increase in authorized capital stock with SEC, approvals of which are still pending. Magnolia and Monterey will issue an equivalent 283.7 million and 22.5 million shares of stock, respectively, to the Company out of their respective unissued shares and from the proposed increase in authorized capital stock.

   The Company's total payment of P850 million was presented as investments and advances in the Parent Company balance sheet as of December 31, 2008.

b) In March 2007, SMMI's application for increase in authorized capital stock from P0.25 million (2,500 shares) to P2,000 million (20,000,000 shares) was approved by the SEC. SMMI subsequently issued 16.4 million shares to SMFI, then 100% owner of SMMI, in consideration for the transfer of the net assets of SMFI's Flour division valued at P1,645.5 million. The exchange is by virtue of a Deed of Assignment between SMMI and SMFI executed in December 2005.

   In January 2008, SMFI executed a Deed of Assignment assigning its 16.4 million shares in SMMI to the Company effective December 28, 2007. The assignment is in accordance with SMFI's property dividend declaration of its SMMI shares in favor of the Company, as approved by SMFI's BOD in June 2007.

   As of March 19, 2009, the declaration of the SMFI's shares in SMMI as property dividend in favor of the Company is still pending issuance of a certificate of filing of property dividend declaration by SEC.

c) In December 2006, the respective Board of Directors (BOD) of SMC and the Company approved the transfer in favor of the Company of SMC's remaining interest in SMFI, Magnolia and Monterey at their respective book values totaling P4.6 billion as of September 30, 2006. In exchange, the Company agreed to issue equivalent shares totaling 70.9 million valued at the latest traded price of its shares of stock as of the same date. SMC and the Company agreed for the transfer to take effect January 1, 2007, subject to the necessary approvals. Monterey became a majority-owned subsidiary of the Company effective said date.

In September 2007, the Company's application for the approval of the transaction was approved by the SEC. Following SEC's approval, the Company issued 70.9 million shares to SMC in November 2007 out of its unissued shares and increase in authorized capital stock (Note 16).

In February 2008, the Bureau of Internal Revenue confirmed the tax-free exchange between SMC and the Company.

Investments in Associate and Joint Venture

In 2007, the Company provided full allowance for the impairment in value of its investment in Philippine Nutrition Technologies, Inc. (PNTI), a joint venture between the Company and the Great Wall Group of Taiwan. As of March 19, 2009, application for the dissolution of PNTI is yet to be filed with the SEC, pending the issuance of clearance by the Bureau of Internal Revenue.

The Company has no outstanding investment in associate and joint venture as of December 31, 2008 and 2007. Equity in net earnings amounting to P37.3 million as of December 31, 2006 pertains to the 37.36% investment in Monterey, then an associate, carried under the equity method.

11. Investment Properties

The movements in investment properties follow:

	Note	**2008**	2007
Cost:			
Balance at beginning of year		**P57,692**	P47,074
Monterey balance as of January 1, 2007	*10*	**-**	5,251
Additions		**20,861**	5,367
Balance at end of year		**78,553**	57,692
Accumulated depreciation:			
Balance at beginning of year		**1,326**	1,185
Depreciation during the year		**141**	141
Impairment loss		**5,359**	-
Balance at end of year		**6,826**	1,326
Net book value		**P71,727**	P56,366

The fair value of investment properties as of December 31, 2008 and 2007 amounted to P279.1 million and P254.0 million, respectively, determined based on valuations performed by the credit management group of the Company.

12. Property, Plant and Equipment

This account consists of:

	Land and Land Improvements	Buildings and Improvements	Machinery Equipment, Furniture and Others	Transportation Equipment	Construction in Progress	Total
Cost						
Balance at January 1, 2007	P1,310,626	P3,242,441	P7,561,228	P490,722	P767,026	P13,372,043
Property, plant and equipment of Monterey (Note 10)	136,287	423,469	181,916	59,746	158,182	959,600
Additions	3,072	2,248	66,153	1,970	858,158	931,601
Disposals	-	(30,189)	(51,060)	(38,722)	-	(119,971)
Transfers, reclassifications and others	24,078	234,052	42,869	485	(423,159)	(121,675)
Balance at December 31, 2007	1,474,063	3,872,021	7,801,106	514,201	1,360,207	15,021,598
Additions	16,402	24,830	41,690	1,649	509,337	593,908
Disposals	-	(9,826)	(23,003)	(23,837)	(550)	(57,216)
Transfers, reclassifications and others	5,879	163,326	528,336	14,190	(985,167)	(273,436)
Balance at December 31, 2008	1,496,344	4,050,351	8,348,129	506,203	883,827	15,284,854
Accumulated depreciation						
Balance at January 1, 2007	164,107	1,094,958	4,090,401	408,682	-	5,758,148
Accumulated depreciation of Monterey (Note 10)	51,255	230,154	128,567	39,694	-	449,670
Depreciation for the year	18,545	173,167	454,176	41,953	-	687,841
Disposals	-	(10,556)	(50,870)	(37,314)	-	(98,740)
Transfers, reclassifications and others	-	(2,155)	(15,091)	(9,327)	-	(26,573)
Balance at December 31, 2007	233,907	1,485,568	4,607,183	443,688	-	6,770,346
Depreciation for the year	17,431	170,975	481,389	33,858	-	703,653
Disposals	-	(3,687)	(21,906)	(23,108)	-	(48,701)
Transfers, reclassification and others	-	(1,005)	(197,222)	-	-	(198,227)
Exchange differential	-	(58)	(513)	(69)	-	(640)
Balance at December 31, 2008	251,338	1,651,793	4,868,931	454,369	-	7,226,431
Net Book Value						
Balance at December 31, 2008	**P1,245,006**	**P2,398,558**	**P3,479,198**	**P51,834**	**P883,827**	**P8,058,423**
Balance at December 31, 2007	P1,240,156	P2,386,453	P3,193,923	P70,513	P1,360,207	P8,251,252

Depreciation and amortization charged to operations amounted to P703.7 million in 2008, P687.8 million in 2007 and P579.9 million in 2006 (see Note 20). These amounts include annual amortizations of capitalized interest amounting to P3.8 million, P5.4 million and P5.2 million, respectively. Unamortized balance of capitalized interest as of December 31, 2008, 2007 and 2006 amounted to P29.5 million, P33.3 million and P38.8 million, respectively.

Land and land improvements include a 144-hectare property in Sumilao, Bukidnon, acquired by SMFI in 2002, which later became the subject of a petition for revocation of conversion order filed by MAPALAD, a group of Sumilao farmers, with the Department of Agrarian Reform (DAR), and appealed to the Office of the President (OP). Total acquisition and development costs included in the account as of December 31, 2008 amounted to P37.4 million.

To settle the land dispute, a Memorandum of Agreement (MOA) was executed between SMFI, MAPALAD, OP and DAR on March 29, 2008. The MOA provided for the release of a 50-hectare portion of the property to qualified farmer-beneficiaries, and the transfer of additional 94 hectares outside of the property to be negotiated with other Sumilao landowners. Under the MOA, SMFI shall retain ownership and title to the remaining portion of the property for the completion and pursuit of the hog farm expansion. Implementation of the MOA provisions is ongoing.

Construction in progress includes the cost of farm improvements, buildings and machinery and equipment totaling P481.4 million incurred for Monterey's hog farm expansion project situated in Sumilao.

No borrowing cost was capitalized in 2008 and 2007.

13. Goodwill and Other Intangible Assets

This account consists of:

	2008	2007
Goodwill	**P170,792**	P187,575
Trademark	**32,558**	32,558
Formulas and recipes	**57,591**	57,591
Computer software and licenses - net	**65,659**	47,213
	P326,600	P324,937

The movement in goodwill is shown below:

	2008	2007
Balance at beginning of year		
- Goodwill from acquisitions of PTSMPFI and Magnolia	**P187,575**	P187,575
Impairment loss	**(16,783)**	-
Balance at end of year	**P170,792**	P187,575

Magnolia reduced the carrying value of its investment in Sugarland Corporation, a 100% subsidiary, in the amount of P16.8 million following the latter's shutdown of its tolling operations in February 2008.

The movements in computer software and licenses are shown below:

	Note	2008	2007
Cost:			
Balance at beginning of year		**P100,589**	P84,536
Monterey balance as of January 1, 2007	*10*	**-**	17,429
Addition/reclassifications during the year		**34,217**	(1,376)
Balance at end of year		**134,806**	100,589
Accumulated amortization:			
Balance at beginning of year		**53,376**	22,731
Monterey balance as of January 1, 2007	*10*	**-**	16,182
Amortization for the year		**15,771**	16,166
Reclassifications during the year		**-**	(1,703)
Balance at end of year		**69,147**	53,376
Net book value		**P65,659**	P47,213

14. Notes Payable

Notes payable consists of short-term unsecured peso-denominated loans obtained from local banks. Interests range from 4.3% to 8.8% in 2008 and 3.0% to 9.1% in 2007.

15. Trade Payables and Other Current Liabilities

This account consists of:

	Note	2008	2007
Trade payables		**P4,114,563**	P3,469,024
Amounts owed to other related parties	*25*	**1,607,446**	1,653,141
Acceptance payable		**43,968**	14,176
Accrued expenses and other payables		**4,084,488**	3,962,770
		P9,850,465	P9,099,111

The accrued expenses and other payables account consists of freight payable, guarantee deposits, derivative liabilities, accrued interest payable, expenses payable, tax related and payroll related accruals.

16. Stockholders' Equity

The Parent Company's capital stock, at P10 par value, consists of the following number of shares:

	Class A	Class B
Authorized shares as of January 1, 2007	50,628,000	33,372,000
Increase in authorized capital stock - September 2007	44,500,000	17,500,000
Authorized shares as of December 31, 2008 and 2007	**95,128,000**	**50,872,000**
Issued shares as of January 1, 2007	47,569,527	27,016,503
Shares issued in November 2007	47,479,602	23,385,476
Issued shares as of December 31, 2008 and 2007	**95,049,129**	**50,401,979**

Class A and Class B shares are identical in all respects, except that Class A shares are transferable only to Philippine nationals and shall at all times be not less than 60% of the voting capital stock.

Treasury shares, totaling 385,456 Class "A" shares and 3,822,302 Class "B" shares in 2008 and in 2007, are carried at cost.

In December 2006 and January 2007, the Company's BOD and stockholders, respectively, approved the increase in the authorized capital stock of the Company from 84 million to 146 million shares to partly cover the issuance of shares to SMC in exchange for the latter's remaining interests in SMFI, Magnolia and Monterey. In September 2007, the Company's applications for: 1) the denial of pre-emptive rights to the issuance of shares to SMC; 2) the increase in the Company's authorized capital stock; and 3) the confirmation of valuation of the shares of SMC in SMFI, Magnolia and Monterey given by way of payment for the additional shares in the Company were approved by the SEC.

In November 2007, the Company issued 70.9 million shares to SMC which resulted in the increase in SMC's ownership of the Parent Company from 99.83% to 99.92%.

In December 2007, the Company filed with PSE the listing of SMC's subscribed shares totaling 84.7 million.

The retained earnings account is restricted for dividend declaration to the extent of the cost of treasury shares of P182.1 million as of December 31, 2008 and 2007.

The balance of retained earnings includes the Company's accumulated equity in undistributed net earnings of the consolidated subsidiaries accounted for under the equity method amounting to P847.6 million and P1,700.9 million as of December 31, 2008 and 2007, respectively. These amounts are also not available for dividend distribution until declared as dividends by the subsidiaries.

17. Revenues

Revenue account consists of sales of goods and fair valuation adjustments on agricultural produce. Total invoiced sales amounted to P71,077.9 million, P62,000.3 million and P52,948.2 million for the years ended December 31, 2008, 2007 and 2006, respectively. The aggregate fair value less estimated point-of-sale costs of agricultural produce harvested during the year, determined at point of harvest, amounted to P23,527.0 million, P22,534.4 million and P15,929.9 million for the years ended December 31, 2008, 2007 and 2006, respectively.

18. Cost of Sales

This account consists of:

	Note	**2008**	2007	2006
Inventories used		**P54,189,492**	P45,345,871	P39,190,940
Freight, trucking and handling		**1,626,949**	1,398,375	777,141
Depreciation and amortization	*20*	**1,315,729**	1,230,983	1,094,379
Personnel expenses	*21*	**1,002,888**	1,259,764	1,110,958
Communications, light and water		**922,063**	1,086,623	888,275
Repairs and maintenance		**326,397**	396,135	331,323
Rentals	*27*	**190,396**	209,475	259,008
Others		**1,245,847**	1,164,451	977,169
		P60,819,761	P52,091,677	P44,629,193

19. Selling and Administrative Expenses

This account consists of:

	Note	2008	2007	2006
Freight, trucking and handling		**P1,831,557**	P1,640,260	P1,261,116
Personnel expenses	*21*	**1,830,162**	1,462,353	1,322,855
Advertising and promotions		**1,482,056**	1,260,131	1,043,686
Contracted services		**924,215**	617,461	439,034
Rentals	*27*	**472,116**	387,476	289,573
Repairs and maintenance		**290,170**	242,266	161,562
Depreciation and amortization	*20*	**237,781**	227,309	208,854
Taxes and licenses		**194,513**	183,193	150,128
Travel and transportation		**193,335**	175,686	130,671
Professional fees		**159,847**	290,822	109,086
Communication, light and water		**151,164**	168,364	173,961
Others		**646,637**	909,109	1,150,584
		P8,413,553	P7,564,430	P6,441,110

20. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	2008	2007	2006
Cost of sales:			
Property, plant and equipment	**P551,438**	P528,359	P460,539
Biological assets	**736,922**	660,919	609,715
Others	**27,369**	41,705	24,125
	1,315,729	1,230,983	1,094,379
Selling and administrative expenses:			
Property, plant and equipment	**152,215**	159,482	119,367
Deferred containers and others	**85,566**	67,827	89,487
	237,781	227,309	208,854
	P1,553,510	P1,458,292	P1,303,233

Depreciation and amortization include depreciation and amortization of idle properties, deferred containers and others amounting to P112.9 million, P109.5 million and P113.6 million in 2008, 2007 and 2006, respectively.

21. Personnel Expenses

This account consists of:

	Note	2008	2007	2006
Salaries and allowances		**P1,661,083**	P1,869,934	P1,723,750
Pension cost	*24*	**145,506**	126,717	172,886
Retirement cost and other employee benefits		**1,026,461**	725,466	537,177
		P2,833,050	P2,722,117	P2,433,813

The above amounts are distributed as follows:

	2008	2007	2006
Cost of sales	**P1,002,888**	P1,259,764	P1,110,958
Selling and administrative expenses	**1,830,162**	1,462,353	1,322,855
	P2,833,050	P2,722,117	P2,433,813

22. Interest Expense, Interest Income and Other Income (Charges)

These accounts consist of:

	Note	2008	2007	2006
Interest expense:				
Short-term loans		**(P774,597)**	(P604,877)	(P528,922)
Interest income:				
Money market placements		**P27,479**	P35,860	P61,385
Cash in banks		**26,844**	48,547	21,765
		P54,323	P84,407	P83,150
Other income (charges):				
Gain (loss) on derivatives		**(P388,327)**	P616,956	P220,372
Research and development costs		**(170)**	(16,199)	(99,374)
Foreign exchange gains (losses) - net	28	**5,943**	(54,298)	(18,318)
Dividend income		**55**	168	56
Others - net		**(122,282)**	(1,323,781)	(89,225)
		(P504,781)	(P777,154)	P13,511

Research and development costs consist of various expenses related to expansion projects of the Group.

In 2007, subsequent to the Company's majority acquisition of Monterey, this subsidiary aligned its business systems with the Company's other subsidiaries. In the course of such alignment, certain asset accounts consisting of trade receivables, inventories, and biological assets were adjusted to reflect their net realizable values. Other related accounts such as trade payables, deferred tax assets and liabilities were likewise adjusted. The impact of the reduction in Monterey net assets amounting to P1,330 million in 2007 was presented as part of Other income (charges) - net.

23. Income Taxes

a. The components of the Group's deferred tax assets and liabilities as at December 31 are as follows:

	2008	2007
Deferred tax assets:		
Net operating loss carry over (NOLCO)	**P276,907**	P145,655
Allowance for impairment losses on receivables and inventory losses	**223,127**	198,351
Unrealized mark-to-market loss	**165,565**	43,541
Unamortized past service cost and others	**85,698**	84,885
Minimum corporate income tax (MCIT)	**85,360**	77,757
Others	**259,602**	390,802
	P1,096,259	P940,991
Deferred tax liabilities:		
Unrealized mark-to-market gain	**P128,233**	P205,333
Accelerated depreciation	**56,344**	75,914
Others	**53,683**	71,835
	P238,260	P353,082

b. As of December 31, 2008, the NOLCO and MCIT that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefit Up To	NOLCO	MCIT
2006	December 31, 2009	P122,489	P34,628
2007	December 31, 2010	82,916	30,064
2008	December 31, 2011	717,617	20,668
		P923,022	P85,360

NOLCO and MCIT incurred in 2005 amounting to P446 million and P12 million, respectively, expired in 2008. The corresponding deferred tax assets were reversed accordingly.

c. The components of the income tax expense (benefit) consist of:

	2008	2007	2006
Current:			
Corporate income tax	**P729,248**	P831,418	P516,051
Final tax withheld on interest income	**8,482**	13,455	16,775
	737,730	844,873	532,826
Deferred	**(268,860)**	71,332	(38,368)
	P468,870	P916,205	P494,458

d. The reconciliations between the statutory income tax rate on income before income tax and minority interests and the Group's effective income tax rates follow:

	2008	2007	2006
Statutory income tax rate	**35.00%**	35.00%	35.00%
Additions to (reductions in) income tax resulting from the tax effects of:			
Interest income subjected to final tax	**(8.80)**	(2.68)	(1.94)
Unused NOLCO and MCIT	**25.98**	3.10	-
Equity in net earnings	**-**	-	(0.87)
Others - net	**.58**	48.00	0.82
Effect of change in tax rate	**23.16**	-	-
Effective income tax rates	**75.92%**	83.42%	33.01%

24. Retirement Plans

The Company and majority of its subsidiaries have funded, noncontributory retirement plans covering all of their permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2008. Valuations are obtained on a periodic basis.

Retirement costs charged by the Parent Company to operations amounted to P7.3 million, P1.0 million and P2.8 million in 2008, 2007 and 2006, respectively, while those charged by the subsidiaries amounted to P138.2 million, P125.7 million and P170.1 million in 2008, 2007 and 2006, respectively. The Group's annual contribution to the retirement plans consists of payments covering the current service cost and amortization of past service liability.

The components of retirement cost recognized in the consolidated statements of income in 2008, 2007 and 2006 and the amounts recognized in the consolidated balance sheets as of December 31, 2008 and 2007 are as follows:

a. Retirement cost

	2008	2007	2006
Current service cost	**P96,730**	P91,054	P73,520
Interest cost	**137,847**	130,585	163,712
Expected return on plan assets	**(161,894)**	(164,120)	(125,646)
Net actuarial gain (loss) during the year	**7,535**	4,356	(4,938)
Past service cost	**193**	210	226
Effect of asset limit	**-**	(690)	690
Amortization of transitional liability	**65,095**	65,322	65,322
Net retirement cost	**P145,506**	P126,717	P172,886
Actual return (loss) on plan assets	**(P123,544)**	P205,329	P319,667

b. Pension asset

	2008	2007
Defined benefit obligation	**P -**	P384,512
Fair value of plan assets	**-**	(438,593)
Unrecognized:		
Actuarial gains	**-**	50,425
Net transition liability	**-**	(16,546)
Amount not recognized as asset due to limit	**-**	-
Pension asset	**P -**	(P20,202)

c. Pension liability

	2008	2007
Defined benefit obligation	**P2,759,339**	P1,426,438
Fair value of plan assets	**(2,376,263)**	(1,211,385)
Unrecognized:		
Past service costs	**(951)**	(1,134)
Net actuarial gains (losses)	**(239,572)**	(7,213)
Net transition liability	**(65,095)**	(114,098)
Pension liability	**P77,458**	P92,608

The movements in the present value of the defined benefit obligation are as follows:

	2008	2007
Balance at beginning of year	**P1,810,951**	P1,596,744
Interest cost	**137,730**	130,585
Current service cost	**96,598**	87,963
Transfer from other plans	**898,516**	300,455
Benefits paid	**(155,401)**	(312,841)
Actuarial losses	**9,888**	173,538
Transfer to other plans	**(38,943)**	(165,493)
Balance at end of year	**P2,759,339**	P1,810,951

The movements in the fair value of the plan assets are as follows:

	2008	2007
Balance at beginning of year	**P1,649,977**	P1,489,585
Expected return	**161,894**	164,120
Contributions during the year	**145,764**	94,075
Transfer from other plan	**898,516**	341,118
Benefits paid	**(155,401)**	(312,841)
Transfer to other plans	**(38,943)**	(165,493)
Actuarial gains (losses)	**(285,544)**	39,413
Balance at end of year	**P2,376,263**	P1,649,977

The Group expects to contribute about P145.5 million to its defined benefit pension plan in 2009.

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

	2008	2007
Stock trading portfolio	**13%**	28%
Fixed income portfolio	**87%**	72%

The overall expected rate of return is determined based on historical performance of investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	2008	2007
Discount rate	**8.85% to 12%**	7.14% to 10%
Expected return on plan assets	**9%**	10%
Salary increase rate	**6% to 8%**	6% to 8%

The historical information for the current and previous three annual periods are as follows:

	2008	2007	2006	2005
Defined benefit obligation	**P2,759,339**	P1,810,951	P1,596,744	P1,494,360
Plan assets	**2,376,263**	1,649,977	1,489,585	1,220,490
Deficit	**383,076**	160,974	107,159	273,870
Experience adjustments on plan liabilities	**9,888**	173,538	141,002	(55,549)
Experience adjustments on plan assets	**(285,544)**	39,413	194,020	39,485

25. Related Party Disclosures

Transactions with related parties are made at normal market prices. For the periods ended December 31, 2008, 2007 and 2006, the Group did not make any allowance for impairment losses relating to amounts owed by related parties. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

On December 28, 2004, SMC and Monterey executed a Trademark Licensing Agreement with PF-Hormel to license the Monterey and Gannado trademarks for a period of 20 years renewable for the same period for a royalty based on net sales revenue. The royalty fee will apply only for as long as SMC and any of its subsidiaries own at least 51% of PF-Hormel. In the event that the ownership of SMC and any of its subsidiaries is less than 51%, the parties will negotiate and agree on the royalty fee on the respective licenses of the Monterey and Gannado trademarks.

Other significant transactions with related parties and the related balances are as follows:

Name of Company	Relationship*	Nature of Transactions	**2008**	2007
SMC	Parent Company	Sales	**P7,437,073**	P7,260,151
		Purchases	**561,929**	1,507,653
		Trade and other receivables	**1,906,940**	1,882,528
		Trade payables and other current liabilities	**704,221**	932,528
SMC Shipping and Lighterage Corporation	Affiliate	Purchases	**204,298**	46,656
		Trade and other receivables	**17,925**	686
		Trade payables and other current liabilities	**534,820**	402,494

Forward

Name of Company	Relationship*	Nature of Transactions	2008	2007
San Miguel Rengo Packaging Corporation	Affiliate	Purchases	**P193,022**	P233,850
		Trade payables and other current liabilities	**54,798**	50,583
San Miguel Yamamura Packaging Corporation (formerly San Miguel Packaging Specialists, Inc.)	Affiliate	Sales	**5,702**	-
		Purchases	**117,632**	175,577
		Trade and other receivables	**18,480**	252
		Trade payables and other current liabilities	**86,848**	83,763
San Miguel International, Ltd.	Affiliate	Trade and other receivables	**42,990**	27,710
		Trade payables and other current liabilities	**3,612**	3,612
Anchor Insurance Brokerage Corporation	Affiliate	Purchases	**12,044**	1,623
		Trade and other receivables	**204**	-
		Trade payables and other current liabilities	**190**	400
SMC Stock Transfer Service Corporation	Affiliate	Trade and other receivables	**147**	73
Ginebra San Miguel, Inc.	Affiliate	Sales	**2,110**	806
		Purchases	**553**	-
		Trade and other receivables	**19,148**	21,131
		Trade payables and other current liabilities	**11,168**	8,564
San Miguel Properties, Inc.	Affiliate	Purchases	**957**	108
		Trade and other receivables	**1,312**	6
		Noncurrent receivables	**291**	5,142
		Trade payables and other current liabilities	**691**	344
SMITS, Inc.	Affiliate	Sales	**251**	1,570
		Purchases	**57,675**	8,383
		Trade and other receivables	**1,040**	90
		Trade payables and other current liabilities	**88,617**	55,191
Star Dari Inc.	Affiliate	Purchases	**6,883**	50,576
		Trade payables and other current liabilities	**89,287**	83,210
ArchEn Technologies, Inc.	Affiliate	Purchases	**1,601**	-
		Trade and other receivables	**122**	-
		Trade payables and other current liabilities	**2,288**	5,774
San Miguel Yamamura Asia Corporation	Affiliate	Purchases	**30,240**	23,113
		Trade and other receivables	**479**	-
		Trade payables and other current liabilities	**4,126**	5,063
San Miguel Brewery, Inc.	Affiliate	Sales	**7,859**	127
		Purchases	**3,241**	456
		Trade and other receivables	**20,857**	2,141
		Trade payables and other current liabilities	**19,955**	16,253
San Miguel Beverage, Inc.	Affiliate	Sales	**4,322**	112
		Purchases	**1,363**	-
		Trade and other receivables	**12,618**	3,147
		Trade payables and other current liabilities	**2,875**	-

Forward

Name of Company	Relationship*	Nature of Transactions	2008	2007
SM Bulk Water Company, Inc.	Affiliate	Trade payables and other current liabilities	**P93**	P995
SM Logistics Asia	Affiliate	Purchases	**-**	843
		Trade and other receivables	**-**	57
San Miguel Distribution Co., Inc.	Affiliate	Purchases	**4,294**	2,818
		Trade and other receivables	**209**	-
		Trade payables and other current liabilities	**3,169**	4,365
Philippine Breweries Corporation	Affiliate	Trade payables and other current liabilities	**678**	-

** Affiliates refer to companies owned by SMC.*

Several key management personnel of the Group were employees of SMC. The compensation of these key management personnel, which were charged by SMC to the Group as management fee, amounted to P26.7 million, P62.1 million and P58.7 million in 2008, 2007 and 2006, respectively.

The compensation of the key management personnel, who are employees of the Group, for the years ended December 31 are as follows:

	2008	2007	2006
Short-term employee benefits	**P44,053**	P28,892	P28,341
Pension benefits	**13,267**	2,609	2,897
	P57,320	P31,501	P31,238

26. Basic and Diluted Earnings Per Share

Basic EPS is computed as follows:

	2008	2007	2006
Net income attributable to equity holders of the Parent (a)	**P77,194**	P30,591	P631,577
Common shares issued	**141,243,350**	70,378,272	56,498,838
Add weighted average number of shares issued during the year	**-**	70,865,078	13,879,434
Weighted average number of shares (b)	**141,243,350**	141,243,350	70,378,272
Basic EPS (a/b)	**P0.55**	P0.22	P8.97

The Group does not have diluted earnings per share for the years ended December 31, 2008, 2007 and 2006.

27. Operating Lease Agreements

The Group entered into various operating lease agreements. These non-cancelable leases will expire in various years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions. The minimum future rental payables under these operating leases as of December 31 are as follows:

	2008	2007
Within one year	**P116,388**	P110,692
After one year but not more than five years	**178,387**	129,452
After more than five years	**34,517**	72,748
	P329,292	P312,892

Rent expense charged to operations amounted to P662.5 million, P597.0 million and P548.6 million in 2008, 2007, and 2006, respectively (Notes 18 and 19).

28. Financial Risk Management Objectives and Policies

Objectives and Policies
The Group's principal financial instruments include non-derivative instruments such as cash and cash equivalents, investments and short-term loans. The main purpose of these financial instruments is to raise financing for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions such as commodity options. The Group uses derivatives to manage its exposures to foreign exchange and commodity price risks arising from the Group's operations.

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risk - interest rate risk, foreign currency risk and commodity price risk. The BOD has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's accounting policies in relation to derivatives are set out in Note 3.

Interest Rate Risk
The Group's exposure to changes in interest rates relates primarily to the Group's notes payable (Note 14).

The Group follows a prudent policy to ensure that its exposure to fluctuations of interest rates is kept within acceptable limits. The Group does not have short-term loans and long-term installment payables with variable interest rates.

Foreign Currency Risk
The Group's exposure to foreign currency risk results from its business transactions denominated in foreign currency. It is the Group's policy to ensure that capabilities exist to active but conservative management of its foreign currency exposure.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their Philippine peso equivalents are as follows:

	2008		2007	
	U.S. Dollar	**Peso Equivalent**	U.S. Dollar	Peso Equivalent
Assets:				
Cash and cash equivalents	**US$1,127**	**P53,556**	US$1,478	P61,012
Accounts receivable (included under "Trade and other receivables - net" account in the consolidated balance sheets)	**3,049**	**144,889**	977	40,331
Total	**4,176**	**198,445**	2,455	101,343
Liabilities (included under "Trade payables and other current liabilities" account in the consolidated balance sheets):				
Acceptances payable	**925**	**43,956**	343	14,159
Trade payables	**1,340**	**63,677**	3,779	155,998
Total	**2,265**	**107,633**	4,122	170,157
Net foreign currency-denominated assets (liabilities)	**US$1,911**	**P90,812**	(US$1,667)	(P68,814)

With the translation of these foreign currency-denominated assets and liabilities, the Group reported net foreign exchange gains of P5.9 million in 2008 and losses of P54.3 million in 2007 (Note 22).

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities) and the Group's stockholders' equity (due to translation of results and financial position of foreign operations) as of December 31, 2008 and 2007.

2008

	P1 decrease in the US dollar exchange rate		P1 increase in the US dollar exchange rate	
	Effect on Income before Income Tax	**Effect on Equity (net of tax)**	**Effect on Income before Income Tax**	**Effect on Equity (net of tax)**
Cash and cash equivalents	**(P1,127)**	**(P733)**	**P1,127**	**P733**
Trade and other receivables	**(3,049)**	**(1,982)**	**3,049**	**1,982**
	(4,176)	**(2,715)**	**4,176**	**2,715**
Trade payables and other current liabilities	**2,265**	**1,472**	**(2,265)**	**(1,472)**
	2,265	**1,472**	**(2,265)**	**(1,472)**
	(P1,911)	**(P1,243)**	**P1,911**	**P1,243**

2007

	P1 decrease in the US dollar exchange rate		P1 increase in the US dollar exchange rate	
	Effect on Income before Income Tax	**Effect on Equity (net of tax)**	**Effect on Income before Income Tax**	**Effect on Equity (net of tax)**
Cash and cash equivalents	(P1,478)	(P961)	P1,478	P961
Trade and other receivables	(977)	(635)	977	635
	(2,455)	(1,596)	2,455	1,596
Trade payables and other current liabilities	4,122	2,679	(4,122)	(2,679)
	4,122	2,679	(4,122)	(2,679)
	P1,667	P1,083	(P1,667)	(P1,083)

Commodity Price Risk

The Group, through SMC, enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show mark-to-market losses; however, any loss in the mark-to-market positions is offset by the resulting lower physical raw material cost.

The Group uses commodity futures and options to manage the Group's exposures to volatility of prices of certain commodities such as soybean meal, wheat and fuel oil.

Liquidity Risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstances.

The Group's objective to manage its liquidity profile are: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments as of December 31, 2008 and 2007.

2008

Non-derivative financial liabilities	Carrying Amount	Contractual cash flow	Less than 1 year
Notes payable including accrued interest	**P11,749,174**	**P11,784,993**	**P11,784,993**
Trade payables and other current liabilities	**9,623,458**	**9,623,458**	**9,623,458**

2007

Non-derivative financial liabilities	Carrying Amount	Contractual cash flow	Less than 1 year
Notes payable including accrued interest	P8,700,446	P8.790,641	P8,790,641
Trade payables and other current liabilities	9,038,304	9,038,304	9,038,304

Credit Risk
Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. It is the Group's policy to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales of products are made to customers with appropriate credit history and has an internal mechanism designed to monitor the granting of credit and management of credit exposures. The Group has made provisions, where necessary, for potential losses on credits extended. Where appropriate, the Group obtains collateral or arranges master netting agreements.

With respect to credit risk arising from the other financial assets of the Group, which comprise of cash and cash equivalents and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments, net of the value of collaterals, if any. Financial information on the Group's maximum exposure to credit risk as of December 31, 2008 and 2007, without considering the effects of collaterals and other risk mitigation techniques is presented below.

	Note	**2008**	2007
Cash and cash equivalents		**P2,782,206**	P1,342,643
Trade and other receivables - net		**7,762,091**	7,530,107
Derivative assets		**35,757**	437,960
Available-for-sale investments	*29*	**11,426**	11,321
		P10,591,480	P9,322,031

The Group has no significant concentration of credit risk with any counterparty.

Financial and Other Risks Relating to Livestock
The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling price of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces of supply and demand, and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below.

The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.

The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.

The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contacts to secure the supply of raw materials at reasonable price.

Capital Management
The primary objective of the Group'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.

Management uses debt-to-equity ratio to monitor and review, on a regular basis, the Group's capital, defined as Total Stockholders' Equity as shown in the consolidated balance sheets.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business operation and industry.

The Group is not subject to externally imposed capital requirements.

29. Financial Assets and Liabilities

Fair Value of Financial Instruments
The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of December 31, 2008 and 2007:

	2008		2007	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	**P2,782,206**	**P2,782,206**	P1,342,643	P1,342,643
Trade and other receivables - net	**7,762,091**	**7,762,091**	7,530,107	7,530,107
Derivative assets	**35,757**	**35,757**	437,960	437,960
Available-for-sale investments (included under "Pension and other noncurrent assets" account in the consolidated balance sheets)	**11,426**	**11,426**	11,321	11,321
Financial liabilities:				
Notes payable	**11,666,380**	**11,666,380**	8,639,671	8,639,671
Trade payables and other current liabilities	**9,706,252**	**9,706,252**	9,099,078	9,099,078
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated balance sheets)	**144,213**	**144,213**	33	33

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents and Trade and Other Receivables. The carrying amount of cash and cash equivalents and receivables approximates fair value primarily due to the relatively short-term maturity of these financial instruments. In the case of long-term receivables, the fair value is based on the present value of expected future cash flows using the applicable discount rates.

Derivatives. The fair values of embedded currency forwards are calculated by reference to current forward exchange rates. In the case of freestanding commodity derivatives, fair values are determined based on prices obtained from the market and counterparties. Fair values are also based on standard valuation models.

Available-for-Sale Investments. The fair values of publicly traded instruments and similar investments are estimated based on the quoted market prices. For all other instruments with no quoted market prices, a reasonable estimate of fair value has been calculated based on the expected cash flows or the underlying net asset base for each investment.

Notes Payable and Trade Payables and Other Current Liabilities. The carrying amount of notes payable and trade payables and other current liabilities approximates fair value due to the relatively short-term maturity of these financial instruments.

Derivative Financial Instruments
The Group, through SMC, enters into various commodity derivative contracts to manage its exposure on commodity price risk. The portfolio is a mixture of instruments including futures and options covering the Group's requirements on soybean meal, wheat and fuel oil.

The Group's freestanding and embedded derivative financial instruments are accounted for as hedges or transactions not designated as hedges. The tables below set out the information about the Group's derivative financial instruments and their fair values as of December 31, 2008 and 2007:

	December 31, 2008			
	Notional Quantity (In Metric Tons)	Notional Amount	Derivative Assets	Derivative Liabilities
Derivative instruments designated as hedges:				
Cash flow hedges - Commodity options	571	US$ -	P -	P9,922
Derivative instruments not designated as hedges:				
Freestanding - Commodity options	36,006	-		119,626
Embedded - Currency forwards	-	23,414	35,757	14,665
Net	36,577	US$23,414	P35,757	P144,213

	December 31, 2007			
	Notional Quantity (In Metric Tons)	Notional Amount	Derivative Assets	Derivative Liabilities
Derivative instruments not designated as hedges:				
Freestanding - Commodity options	187,788	US$ -	P195,572	P -
Embedded - Currency forwards	-	55,804	242,388	33
Net	187,788	US$55,804	P437,960	P33

Derivative Instruments Accounted for as Hedges
Cash Flow Hedge. The Group has outstanding options that have been entered into on its behalf by SMC to hedge fuel oil requirements in 2009. These options can be exercised at various calculation dates in 2009 with specified quantities on each calculation date. As of December 31, 2008, the notional quantity allocated to the Group is 571 metric tons. The negative fair value of these options amounted to P9.9 million.

As of December 31, 2007, the Group has no outstanding options designated as hedge on the purchase of commodity.

Other Derivative Instruments Not Designated as Hedges
The Group enters into certain derivatives as economic hedges of certain underlying exposures. Such derivatives, which include freestanding commodity options and embedded currency forwards are not designated as accounting hedges. The gains or losses on these instruments are accounted for directly in the consolidated statements of income.

Freestanding Derivatives. Freestanding derivatives consist of various commodity options entered into by the Group.

The Group has outstanding bought and sold options to hedge fuel oil requirements in 2009. These options can be exercised at various calculation dates in 2009 with specified quantities on each calculation date. As of December 31, 2008, the notional quantity allocated to the Group is 1,714 metric tons. The negative fair value of these options amounted to P25.8 million. As of December 31, 2007, the Group has no outstanding commodity option for the purchase of fuel oil.

The Group also has outstanding sold and purchased wheat options with various maturities in 2008 and 2009. As of December 31, 2008 and 2007, the notional quantity allocated to the Group is 34,292 and 153,496 metric tons, respectively. The net negative fair value of these options as of December 31, 2008 amounted to P93.9 million while the net positive fair value as of December 31, 2007 was P132.0 million.

In 2007, the Group also has outstanding structured soybean meal option with a notional quantity of 45,723 metric tons. These options were early exercised in 2007. As of December 31, 2007, the net positive fair value of these options amounted to P63.6 million. The Group has no outstanding commodity options for the purchase of soybean meal as of December 31, 2008.

Embedded Derivatives. The Group's embedded derivatives include currency forwards embedded in non-financial contracts. As of December 31, 2008 and 2007, the total outstanding notional amount of such embedded currency forwards amounted to US$23.4 and US$55.8 million, respectively. These non-financial contracts consist mainly of foreign-currency denominated purchase orders, sales agreements and capital expenditures. As of December 31, 2008 and 2007, the net positive fair value of these embedded currency forwards amounted to P21.1 and P242.4 million, respectively.

Fair Value Changes on Derivatives
The net movements in fair value changes of all derivative instruments for the years ended December 31 are as follows:

	2008	2007
Balance at beginning of year	**P437,927**	P148,885
Net changes in fair value of derivatives:		
Designated as accounting hedges	**(10,945)**	7,761
Not designated as accounting hedges	**(472,066)**	617,171
	(45,084)	773,817
Less fair value of settled instruments	**63,372**	335,890
Balance at end of year	**(P108,456)**	P437,927

Hedge Effectiveness Results. As of December 31, 2008, the effective fair value changes on the Group's cash flow hedges that were deferred in equity, net of tax, amounted to P7.8 million.

The Group has no outstanding derivatives designated as hedges as of December 31, 2007.

Cumulative Translation Adjustments
The net movement in the cumulative translation adjustments pertaining to cash flow hedges for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Balance at beginning of year	**P -**	(P49)
Changes in fair value of cash flow hedges	**10,945**	(6,291)
Transferred to income and expenses and cost basis adjustment	**251**	6,367
Tax effects of items transferred from equity	**(3,359)**	(27)
Balance at end of year	**(P7,837)**	P -

30. Employee Stock Purchase Plan

SMC offers shares of stocks to employees of SMC and its subsidiaries under the Employee's Stock Purchase Plan (ESPP). Under the ESPP, all permanent Philippine-based employees of SMC and its subsidiaries who have been employed for a continuous period of one year prior to the subscription period will be allowed to subscribe at a price equal to the weighted average of the daily closing market prices for three months prior to the offer period less 15% discount. A participating employee may acquire at least 100 shares of stocks through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to SMC until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from exercise date.

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions.

Expenses for share-based payments, charged to operations under "administrative expenses" account, amounted to P5.5 million, P6.1 million and P7.8 million in 2008, 2007 and 2006, respectively.

31. Other Matters

a. *Toll Agreements*
The significant subsidiaries are into toll processing with various contract growers, breeders, contractors and processing plant operators (collectively referred to as "the Parties"). The terms of the agreements, among others, include the following:

- The Parties have the qualifications to provide the contracted services and have the necessary manpower, facilities and equipment to perform the services contracted.
- Tolling fees paid to the Parties are based on the agreed rate per acceptable output or processed product. The fees are normally subject to review in cases of changes in costs, volume and other factors.
- The periods of the agreement vary. Negotiations for the renewal of any agreement generally commence six months before expiry date.

Total tolling expenses in 2008, 2007 and 2006 amounted to P2.7 billion, P2.9 billion, and P2.2 billion, respectively.

b. *Contingencies*

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject of settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the Group's consolidated financial statements.

c. *Commitments*

The outstanding capital and purchase commitments as of December 31, 2008 and 2007 amounted to P19.5 billion and P22.4 billion, respectively.

d. *Foreign Exchange Rates*

For purposes of translating the Group's foreign currency-denominated monetary assets and liabilities, the exchange rates used were P47.52 to US$1, P41.28 to US$1 and P49.03 to US$1 as of December 31, 2008, 2007 and 2006, respectively.

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SHAREHOLDER SERVICES AND ASSISTANCE

The SMC Stock Transfer Service Corporation serves as the Company's stock transfer agent and registrar.

For inquiries regarding dividend payments, change of address and account status, lost or damaged stock certificate, please write or call:

SMC STOCK TRANSFER SERVICE CORPORATION

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