

**San Miguel**  
**Pure Foods**

# 2009 annual report





SAN MIGUEL CORPORATION

*San Miguel*  
*Pure Foods*



*San Miguel Mills*



*San Miguel*  
*Pure Foods*  
Indonesia

# 2009 annual report



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## MESSAGE TO STOCKHOLDERS

# Excellent Strides Along

Fellow Stockholders,

Over the last few years, we have positioned ourselves strongly, putting together the right business strategies, strengthening our operating systems, and building on our capabilities. Today, we have started to reap the benefits of these initiatives, strengthening our leadership in the food industry with plenty of room to grow.

In 2009, San Miguel Pure Foods Company, Inc. posted a record-breaking performance against a climate of slower economic growth and sluggish markets. Your Company's revenues reached an all-time high of P75 billion, 6% higher than in 2008, while income from operations grew to P4.6 billion, up by 152% from P1.8 billion the previous year. As a result, net income surged eighteen-fold to P2.7 billion from only P149 million in 2008.

Improved efficiencies, lower raw material costs, better hedging positions on major raw material purchases, and effective cost management contributed to our strong performance. The Food Group's commodity businesses, namely, Poultry, Feeds, and Flour, were the key profit drivers. These businesses benefited from stable pricing, softening raw material prices, improved efficiencies, and effective cost management, delivering a robust performance for the entire Company.

Despite the slowdown in consumer spending, most of our brands maintained market leadership – a result of our continuous innovation to remain relevant and affordable to our consumers.

Our challenge now lies in executing our strategies in order to sustain the positive results we accomplished in 2009.

We are building the foundations on which San Miguel Pure Foods can grow and prosper. And this is largely what the previous years have been all about: instilling operating discipline, streamlining functions, restructuring the organization, pushing for greater efficiencies, and maximizing synergies in selling and logistics.

## Despite the slowdown in consumer spending, most of our brands maintained market leadership

In 2009, we engaged additional toll partners which increased our production capacity in poultry, feeds, hogs, and value-added meats operations in a cost-efficient manner.

Our internal restructuring and realignment programs optimized the sharing of resources and reduced operating costs. For instance, the integration of our sales and logistics groups to fully serve our value-added businesses strengthened synergies across the Group. Meanwhile, our shared services units, particularly in finance, research and development, and quality assurance provided highly efficient support functions that benefited our entire Food business. We are working to build a tighter, more cohesive organization with easier and more efficient ways of working collaboratively.

# Rough Roads

After a thorough review of our business model for meat retailing operations, we offered the franchise of Monterey meatshops in supermarkets to entrepreneurs, resulting in substantial savings and improved customer service for the Company.



We also continued to execute supply chain improvements, and productivity initiatives, achieving a 51% broiler capacity conversion to the Climate Controlled System, and a 10% conversion rate for our hog capacity. The System continues to improve yields and margins significantly.

Innovation is playing a vital role in shaping our growing portfolio of products. More than 80 new products were launched in 2009, spanning the commodity and value-added lines to foodservice. Among those that were well received in the market were the San Mig Coffee Pro-Health variants, a line of complete sugar free coffee mixes with unique functional ingredients that can boost one's health and wellness. Meanwhile, as an answer to the growing clamor for sugar-free products, Magnolia Ice Cream launched its No Sugar Added line.

To cater to the lower income segment, Purefoods-Hormel expanded its Ulam King line to include five new, tasteful variants, and three new formats.

We have made considerable inroads in our export market, reaching P1.1 billion in revenues for 2009. We are now present in the United States, Canada, Middle East, Oceania, Japan, China, and Africa, and we have started producing corned beef in Brazil for the North American market.

After navigating through the difficulties that characterized 2009, our employees have once again proven their resilience, owing to the culture of speed, determination, toughness, empowerment, and accountability that the Food Group continues to instill in the organization.

Indeed, with the many gains we have chalked up from our long-term growth initiatives, we believe we are taking excellent strides along rough roads. Moving forward, the Company will continue to transform the Food Group into a more efficient, dynamic organization—simplifying processes, optimizing synergies, strengthening operational efficiencies, and intensifying investments in research and development, technology, and people empowerment.

Leveraging our foundation of powerful brands and strategic programs, we again renew our commitment to deliver sustainable, dependable performance in the years ahead as we become a bigger and better San Miguel Pure Foods Company.





## FINANCIAL HIGHLIGHTS

(in Thousand Pesos, except Per Share data)

	2009	2008	2007
REVENUES	75,042,967	71,075,925	62,052,029
NET INCOME	2,658,467	148,686	182,093
Attributable to:			
Equity holders of the parent	2,596,963	77,194	30,591
Minority interests	61,504	71,492	151,502
STOCKHOLDERS' EQUITY	17,645,250	14,960,608	14,810,142
PER SHARE			
BASIC EARNINGS	18.39	0.55	0.22
STOCKHOLDERS' EQUITY*	124.93	105.92	104.86

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



## Commodity Businesses

### Feeds

High feed costs and the outbreak of hog-related diseases led to a significant contraction in the total hog industry in 2009. The backyard hog segment, which accounts for about 70% of the total hog industry, experienced the biggest contraction, thus affecting B-MEG's volumes.

Despite the contraction, however, B-MEG's operating income breached the P1 billion mark, attributable to its robust premium segment's strong performance last year. Likewise, the use of alternative raw materials, primarily cassava in hog diet, contributed substantially to the business' profitability.

### Poultry

It was a record year for Poultry as strong growth in volumes and favorable selling prices pushed revenues and income from operations to reach an all-time high, both growing by double digits from last year.

The Poultry business benefited from high prices owing to tight supply, the result of industry-wide factors such as high corn costs at the beginning of the year, further downsizing of a major player, competitors' poor breeder performance, and typhoon-inflicted damages on broiler farms.

Magnolia Chicken Stations delivered the biggest volume growth, with 107 chicken stations opening in 2009 alone.

Operational efficiencies improved with 51% of broiler capacity adapting to the Climate Controlled System, thereby raising yields and improving margins. This resulted in total savings of over P100 million for the Poultry business.



## Meats

Monterey has finally turned the corner from previous years' operating losses owing mainly to improved operational efficiencies and cost reduction initiatives.

Volumes grew by 16% amid an industry contraction as Monterey was able to take advantage of available supply due to capacity expansions in previous years. As such, Monterey was also able to increase its participation in the wet market channel which accounts for 13% of fresh meat sales.

Revenue growth of 15% to P7.3 billion is attributed to higher marketable hog weights and increased availability.

## Flour

2009 was a strong recovery year for Flour. The business finally experienced a respite from the record-high wheat prices in 2008, benefiting from a 32% decrease in wheat costs in 2009.

The Flour business' good timing of wheat and freight purchases, as well as the optimized use of cheaper alternative wheat sources, resulted in a strong profit growth as the business achieved a major turnaround in operating income versus 2008.

Volumes rose by 8% but downward adjustments in flour selling prices caused revenues to decline by 7%.





# Value-Added Businesses

## Refrigerated and Canned Meats

Weak consumer demand and capacity constraints due to Typhoon Ondoy adversely affected the performance of the Purefoods-Hormel Company, Inc.

Before the year ended, the typhoon struck and disrupted Purefoods-Hormel's Marikina plant operations, leading to its shutdown. About 32% of production capacity was affected by the plant's shutdown but was augmented by new tolling arrangements contracted several weeks before the Company's peak month. The shutdown resulted in a substantial impact on the business' operating income for the year. PHC's operating income fell 22% short versus last year as revenues declined by 2% to P11 billion.

The weak economy saw consumers trading down, causing a decline in PHC's volumes.

Notwithstanding this major challenge, PHC was able to retain its market leadership in the hotdogs, bacon, and ham categories. It also launched affordable and innovative products, further expanding its Ulam King line to include Lechon Paksiw, Mechado, Menudo, Palabok, and Spaghetti, and introduced three new formats: Ulam King Tocino, Bologna, and Skinless Longanisa. The breaded, battered, and fried (BBF) formats also welcomed a new addition, the Purefoods Porkchoplets.

Consumer-relevant advertising and promotions like the Tender Juicy Transformers' Back-to-School promo and the popular "Ikaw ang King" television commercial for Ulam King were instant hits with consumers.



## Dairy, Spreads and Oils

Magnolia, Inc. achieved a turnaround from previous years' losses, as favorable raw material prices coupled with improved plant operational efficiencies helped in bringing down variable costs. Notable business-building activities including several value-added below-the-line and above-the-line efforts created a very competitive stance for the Magnolia brands. Effective fixed cost management likewise contributed to a record-high operating income. Revenues increased by 10% from the previous year to reach P5.3 billion.

Significant improvements in volumes were noted for butter, margarine, cheese, milk, and cooking oil.





Similarly, ice cream started strong in 2009, with January to September volumes growing at 20% versus the same period last year. However, a disruption in tolling operations during the fourth quarter of the year affected the ice cream supply, resulting in a 10% year-on-year volume growth. A new Magnolia Ice Cream plant will begin full operations in May 2010, and will be able to produce up to five million gallons of ice cream a year.

The Ice Cream business also entered the U.S. and Canadian markets where they launched the San Miguel Gold Label.

World famous boxing champion Manny Pacquiao and his family became official endorsers of Magnolia Ice Cream and Magnolia Ready to Drink Milk, emphasizing the brand's heritage and affinity to the Filipino family.



## Coffee

Keeping a tight rein on fixed costs drove the Coffee business' operating income to register 120% higher than the previous year.

In line with health and wellness trends, San Miguel Super Coffeemix Company, Inc. launched the San Mig Coffee Pro-Health line, a line of sugar-free coffeemixes enriched with unique functional ingredients for added wellness and healthier lifestyle.

In an effort to boost penetration in tertiary outlets and reach the grass roots, a market stall distribution drive was implemented in major public markets in Metro Manila and nearby provinces.



## Foodservice

Great Food Solutions continued to gain ground in the foodservice industry, as it made headway in partnering with more foodservice giants like the Jollibee Group, Shakey's Pizza, 7-Eleven, and the Bistro Restaurant Group among many others.

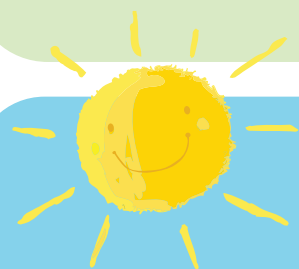
Providing effective business solutions to its institutional clients such as product customization and market insight sharing continues to be its core strength while sustaining the intensive technical, culinary, and food safety training of its front-liners.



# Regional Business

## Indonesia

San Miguel Pure Foods Indonesia's operating income increased by 19% in 2009 despite a weak consumer demand particularly during the first half of the year. Point-of-purchase promotions in the modern trade helped push sales volume to recover in the second semester. The business undertook a series of restructuring initiatives and operational efficiency programs, and focused on tightly managing costs, thus resulting in the Company's positive performance.



## BOARD OF DIRECTORS



Eduardo M. Cojuangco, Jr.  
Chairman



Ramon S. Ang  
Vice-Chairman



Francisco S. Alejo III  
President



Menardo R. Jimenez



Jose T. Pardo



Cancio C. Garcia



Romulo L. Neri



Jesusa Victoria H. Bautista



Mario C. Garcia



## OUR OPERATIONS COMMITTEE



- 1 **Francisco S. Alejo III**  
President  
San Miguel Pure Foods Company, Inc.
- 2 **Zenaida M. Postrado**  
Vice President and  
Division Chief Finance Officer  
San Miguel Pure Foods Company, Inc.
- 3 **Ma. Soledad E. Olives**  
Vice President and Manager  
Corporate Planning and  
Management Services Group

- 4 **Eliezer O. Capacio**  
Vice President and Manager  
Division Human Resources
- 5 **Elenita D. Go**  
Vice President and Manager  
Business Procurement Group
- 6 **Archie B. Gupalor**  
Vice President and General Manager  
San Miguel Integrated Sales
- 7 **Enrique A. Punsalang**  
Vice President and Manager  
Division Logistics Group

- 8 **Rita Imelda B. Palabyab**  
President and Agro-Industrial Cluster Manager  
San Miguel Foods, Inc.
- 9 **Norman C. Ramos**  
Vice President and General Manager  
San Miguel Foods, Inc. Feeds Business
- 10 **Leo A. Obviar**  
Vice President and General Manager  
Poultry and Meats Businesses





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

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

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

14 Reginald I. Baylosis  
Vice President and General Manager  
Magnolia, Inc. Dairy, Spreads  
and Oils Businesses

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

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

17 Ma. Melinda S. Rendor  
General Manager (OIC)  
Retailing Business Cluster

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

19 Rolando A. Cabredo  
Regional Cluster Head  
Indonesia and Vietnam  
International Businesses  
President  
PT San Miguel Pure Foods Indonesia

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

21 Tin Van Dinh  
General Manager  
San Miguel Pure Foods Vietnam Co. Ltd.

## OUR PRODUCT PORTFOLIO

### 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

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

### 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
- Maton Hog Feeds

##### Poultry Feeds

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

#### Gamefowl Feeds

- B-MEG Derby Ace

#### Aquatic Feeds

- B-MEG Super Premium Floating 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

### San Miguel Animal Health Care Veterinary Medicines

#### Antibacterial-Water Soluble

- Amoxicillin 20%
- Cephalexin 20%
- Chlorotetracycline 25%
- Cotrimoxazole 48%
- Doxycycline 20%
- Lincomycin + Spectinomycin

#### Supplement-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

#### First Pulse D



## FLOUR MILLING

### Hard Wheat Flour

- Emperor Premium Bread Flour
- Emperor Hard Wheat Flour
- Pacific 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 (Complete, Coarse & Fine)
- Fine Wheat Bran

### Customized Flour

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

### Premixes

#### Mix'n Bake

- Bread Mix
- Brownie Mix
- Cookie Mix
- Crinkle Mix
- Muffin Mix
- Pizza Mix
- Pretzel Mix

#### Mix'n Fry

- Batter Mix
- Pancake & Waffle Mix
- Yeast-Raised Doughnut Mix

#### Mix'n Steam

- Siopao Mix
- Puto Mix

### Bakery Ingredients

- Zuprim Bread Improver
- Bake Best Baking Powder

### Retail Premixes

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

### Services

- Product Customization
- Recipe Development
- Technical Training in Baking and Noodle Making





## REFRIGERATED MEATS

### Hotdogs

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

### Sliced Hams

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

### Bacon

- Purefoods Honey Cured Bacon
- Purefoods Maple Flavored Bacon
- Purefoods Lean N Mean Bacon
- Vida Bacon
- Hormel Bacon

### Eezee Links

- Carne Norte
- Sisig
- Chinese Style Luncheon Meat

### Chubs

- Chicken Embutido
- Pork Embutido
- Liver Sausage

### Native and Specialty Lines

- Purefoods Pork Longanisa, Chicken Longanisa, Pork Tocino, Chicken Tocino, Pork Tapa
- Ulam King Tocino, Bologna, Smoked Longanisa, Skinless Longanisa
- Dry Pork Salami, Dry Beef Salami, Chorizo Filipino, Hormel Pepperoni, Purefoods Pepperoni

### Ready-to-Eat Convenience Line

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

### Battered, Breaded & Fried

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

### Burger Line

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

### Ready-to-Cook Line - Monterey

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





### Ready-to-Cook Line - Magnolia

- Magnolia Golden Crispy (Classic)
- Magnolia Korean BBQ Strips
- Magnolia Rotisserie Chicken (Honey Roast and Lemon, Pepper and Herb)

## 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 Chicon

### 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 Sauce
- Ulam King – Meaty Palabok Sauce

### 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

### BUTTER, MARGARINE & CHEESE

#### Butter

- Magnolia Gold (Salted, Unsalted) and Magnolia Gold Lite
- Magnolia Dairy Blend
- Magnolia Spreadable

#### Refrigerated Margarine

- Dari Crème (Classic, Buttermilk) and Dari Crème Lite
- 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 (Quezo de Bola, Edam) - Seasonal

### GEL-BASED SNACKS AND DESSERTS

- JellyYace Fruiteez
- JellyYace Bites
- JellyYace Stixx
- JellyYace Snackers
- JellyYace Market Stall Pack
- 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
- Magnolia Pure Oil



## ICE CREAM

### Bulk Ice Cream

- Magnolia Classic (Vanilla, Chocolate, Mocca, Strawberry, Ube, Mango)
- 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, Buttery Sweet Corn)
- Magnolia Chocolait Ice Cream
- Magnolia No Sugar Added (Vanilla, Chocolate)

### Frozen Novelties

- Magnolia Spinner (Chocolate, Vanilla)
- Magnolia Party Cups (Vanilla, Chocolate, Ube and Mango)

### Other Frozen Delights

- Magnolia Pop-a-Cup (Chocolate and Raspberry)
- Magnolia Rainbow Bar
- King's Cookie Monster

### Opportunistic Products

- Magnolia Limited Edition (Seasonal)
- King's Regular Tub (Chocolate, Vanilla and Neapolitan)

### San Miguel Gold Label (For Export)

- SMGL Mellorine - USA
- SMGL Frozen Dessert - Canada
- SMGL Ice Confectionery - Australia



**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: Original blend
- San Mig Coffee Pro-Health: Pro-Beauty, Pro-Fiber, Pro-Power, Pro-Slim

**Super Coffeemix Manufacturing Limited**

- Grandeur Flavored Coffee Blend – Original, Mocha, Hazelnut and Italian Original blends

**FOOD SERVICE (Great Food Solutions)****Branded Food Service Products****PROCESSED MEATS/POULTRY**

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

**BUTTER, MARGARINE, CHEESE and OILS in Institutional Sizes**

- 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





### SMMI FLOUR

- Basic Flour
- Premixed Flour

### SMPF COMMISSARY PRODUCTS

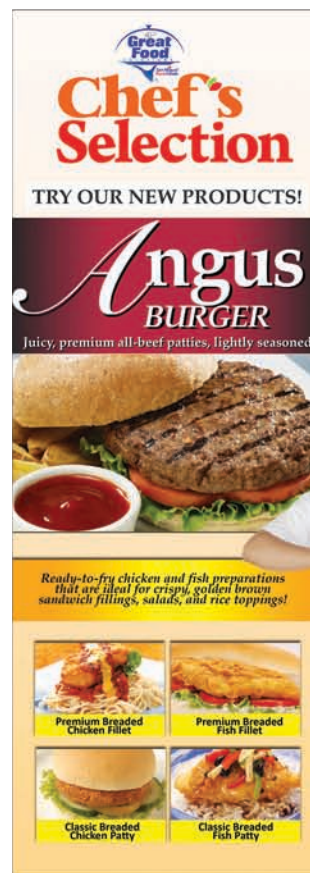
- Angus Beef Burger
- Cook Express - Heat N' Serve Entrees (Dinaldaem, Bistek Filipino, Bopis, Chicken Adobo, Lechon Paksiw, Beef Caldereta, Beef Salpicado, Kare kare, Korean Beef Stew, Sisig, Laing, Bicol Express, Gising gising)
- Battered, Breaded, and Fried (Premium breaded chicken fillet, Classic breaded chicken patty, Premium breaded fish fillet, Classic breaded fish patty, Mozzarella sticks, Calamari rings, Croquetas)
- Sauces and Dips (GFS Salsa, GFS Herbed Tomato Base)
- Frozen RTE Snacks (Corndog Balls, Purefoods Filled Pan de Sal, Mini filled Pan de Sal)

### GFS IMPORTED PRODUCT

- GFS Mozzarella Cheese

### SERVICES

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



## P.T. San Miguel Pure Foods Indonesia

### REFRIGERATED MEATS

#### Bakso (Meat Balls)

- Farmhouse (Beef, Chicken)
- Vida (Beef)
- Vida Hemat (Beef)
- Purefoods Choice (Beef)

#### Sausages

- Farmhouse (Beef Cocktail, Beef Frankfurter, Beef Wiener, Beef Sausage, Chicken Sausage, Jumbo Sausages, Hot & Spicy Sausage)
- Farmhouse FunKidz Chubbies (Regular, Cheese)
- Vida (Beef Franks, Beef Wiener, Beef Sausage, Chicken Sausage)
- Vida Hemat (Beef Sausage)
- Purefoods Choice (Beef Sausage)
- Gusto (Pork Breakfast Sausage, Pork Cabanosi, Pork Cocktail, Pork Hotdog)

#### Cold Cuts

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

#### Luncheon Burger

- Farmhouse (Beef, Chicken)
- Vida (Beef Burger, Mini-Burger)
- Vida Hemat (Beef)
- Purefoods Choice (Beef)

#### Chicken Nuggets

- Farmhouse FunKidz Nuggies
- Vida Naget Ayam

#### Service

- Customization



# CORPORATE GOVERNANCE

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

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

## BOARD OF DIRECTORS

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

Mr. Romulo L. Neri 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 the number of members of the Board, whichever is less.

An independent director is a director having no business or relationship with the Company that 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 the President is Mr. Francisco S. Alejo III. 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 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 2009, the Board of SMPFC met five times. Set out below is the record of attendance of the directors in these meetings and in the 2009 AGSM.

### Date of Meeting, All in Year 2009

Director’s Name	March 19	July 21	August 4	September 14	November 4
Eduardo M. Cojuangco, Jr.		P		P	P
Ramon S. Ang	P	P	P	P	P
Francisco S. Alejo III	P	P	P	P	P
Jose T. Pardo	P	P	P	P	P
Menardo R. Jimenez	P	P	P	P	P
Cancio C. Garcia	P		P	P	
Jesusa Victoria Hernandez-Bautista <i>Elected as Director on March 19, 2009.</i>	P	P	P		

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Director's Name	March 19	July 21	August 4	September 14	November 4
Romulo L. Neri <i>Elected as Independent Director on March 19, 2009.</i>	P	P	P	P	
Leo S. Alvez <i>Resigned as Director on November 4, 2009.</i>	P	P			
Mario C. Garcia <i>Elected as Director on November 4, 2009.</i>					P
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 is composed of four directors, which include 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 is composed of three voting directors headed by Justice Cancio C. Garcia and one non-voting member, Mr. David S. Santos, SMC'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.** The Executive Compensation Committee is composed of four directors, with Mr. 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 is composed of five members with two independent directors — Justice Cancio C. Garcia and Mr. Romulo L. Neri — as members. Justice Garcia is the Chairman of the Committee.

The Audit Committee reviews and monitors 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 four meetings in 2009. In these meetings, the Committee reviewed and approved the Company's 2008 Consolidated Audited Financial Statements, as well as the Company's unaudited financial statements for the first to the third quarters of 2009.



The members of each Board committee and their attendance in Board committee meetings in 2009 are set out in the table below.

Date of Meeting, All in Year 2009

<b>Executive Committee</b>				
Eduardo M. Cojuangco, Jr. – Chairman	<b>No Meeting Held</b>			
Ramon S. Ang				
Francisco S. Alejo III				
Jesusa Victoria Hernandez-Bautista				

<b>Audit Committee</b>	March 19	May 7	August 4	November 4
Cancio C. Garcia – Chairman	P	P	P	
Menardo R. Jimenez	P	P	P	P
Leo S. Alvez (resigned November 4)	P			
Romulo L. Neri (appointed July 21)				
Ferdinand K. Constantino – Non Director Member			P	P

<b>Executive Compensation Committee</b>				
Menardo R. Jimenez – Chairman	<b>No Meeting Held</b>			
Leo S. Alvez (resigned November 4)				
Ferdinand K. Constantino – Non Director Member				
Cancio C. Garcia				

<b>Nominations Committee</b>	March 19			November 4
Jose T. Pardo – Chairman	P			P
Francisco S. Alejo III	P			P
Cancio C. Garcia (appointed July 21)				
David S. Santos – Ex Oficio Member				

P – Present

## Board Remuneration

The amended by-laws of the Company provides that the members of the Board 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 such purpose.

In 2009, each director received a per diem of P10,000.00 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 less, in accordance with SEC rules and regulations.

In 2009, the principal accountant and external auditor of the Company was the accounting firm of Manabat Sanagustin & Co. (MSC). Representatives of MSC were expected to be present at the AGSM to respond to questions. They also had the opportunity to make a statement if they so desired.

In instances where 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 strictly followed. 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.

Fees for the services rendered by the external auditor to the Company for the last two fiscal years are as follows:

	(in millions, approximate)		
	Audit Fees	Tax Fees	All Other Fees
<b>2008</b>	1.00	-	-
<b>2009</b>	1.30	-	-

## 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 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 affects share price performance as necessary.

SMPFC's financial statements conform to Philippine Accounting Standards and Philippine Financial Reporting Standards, which are all in accordance 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 affects share price performance.

### **Securities Dealing**

The Company has adopted a policy that 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 the 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 2009 AGSM was sent to the stockholders around June 30, 2009.

### **Voting rights and Voting Procedures**

Each share in the name of the shareholder entitles such shareholder to one vote that 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 to 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 of SMC, disclosures, announcements, and upon request, periodic reports filed with the SEC.

### **Dividends**

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

The Company did not declare dividends in 2009.



## Shareholder and Investor Relations

SMPFC addresses the 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.

The Company holds joint investors' briefings with its parent, SMC.

## 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 Services Group and SMC'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 various training programs and seminars. The Company has also initiated activities centered on the safety, health, and welfare of its employees.

## CORPORATE SOCIAL RESPONSIBILITY (CSR)

Through the San Miguel Foundation, the Food Group pro-actively pursues its CSR activities, espousing its identified core value, *malasakit*, and living up to its commitment to nourish and nurture families worldwide.

For the year 2009, SMPFC has continued its educational programs such as the Scholarship Program, which has allowed four scholars to continue to tertiary education and graduate, and the Scholar's Conferences program, which has allowed four scholars to take part in an effective communication conference.

SMPFC also conducted five medical missions in five different areas, which benefitted 2,990 individuals, while its community clinics benefitted 3,300 patients.

Included in the Company's donation of office equipment were three brand new laptops for the DENR contacts of Monterey Foods Corporation in Cavite.

The year 2009 was very difficult for the country due to the two super typhoons that hit it, and in response to the disaster, the Company launched a disaster relief program. It held six more medical missions, which helped 6,000 evacuees. It pitched seven soup kitchens for 7,000 individuals and distributed 1,000 re-starter kits for affected school kids.

## 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 will 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.

## WEB SITE

Additional information on the Company may be viewed at [www.sanmiguelpurefoods.com](http://www.sanmiguelpurefoods.com).



**SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2009, 2008 and 2007**

## STATEMENT OF MANAGEMENT RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS




The management of **San Miguel Pure Foods Company, Inc.** is responsible for all information and representations contained in the consolidated financial statements which comprise the consolidated statements of financial position as at December 31, 2009 and 2008, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

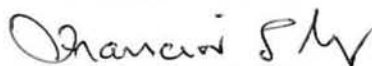
In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management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

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

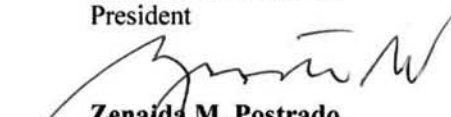
Manabat Sanagustin & Co., the independent auditors appointed by the stockholders, has examined the consolidated financial statements in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and the stockholders.



**Eduardo M. Cojuangco, Jr.**  
Chairman of the Board



**Francisco S. Alejo III**  
President



**Zenaida M. Postrado**  
Division Chief Finance Officer



**Manabat Sanagustin & Co., CPAs**

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Branches · Subic · Cebu · Bacolod · Iloilo

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 statements of financial position as at December 31, 2009 and 2008, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009, and notes, comprising a summary of significant accounting policies and other explanatory information.

*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*

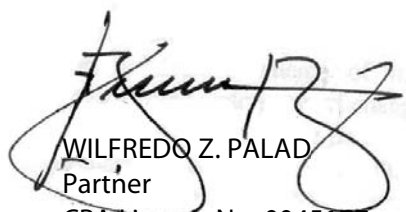
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

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, 2009 and 2008, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

**MANABAT SANAGUSTIN & CO., CPAs**  
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. 2092723MB

Issued January 7, 2010 at Makati City

February 12, 2010

Makati City, Metro Manila

**SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Amounts in Thousands)

		December 31	
	Note	2009	2008
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	6, 28, 29	P3,950,346	P2,782,206
Trade and other receivables - net	4, 7, 25, 28, 29	9,023,953	7,762,091
Inventories - net	4, 8, 25	11,804,099	11,804,788
Biological assets	9	2,524,510	2,932,421
Derivative assets	28, 29	47,070	35,757
Prepaid expenses and other current assets		1,245,674	814,808
<b>Total Current Assets</b>		<b>28,595,652</b>	<b>26,132,071</b>
<b>Noncurrent Assets</b>			
Investment properties - net	4, 11	108,065	71,727
Property, plant and equipment - net	4, 12, 25	8,294,593	8,058,423
Biological assets - net	4, 9	1,285,125	1,115,963
Goodwill and other intangible assets - net	4, 13	338,354	326,600
Deferred tax assets	4, 23	1,219,676	1,096,259
Retirement and other noncurrent assets	4, 12, 24, 28, 29	334,408	200,988
<b>Total Noncurrent Assets</b>		<b>11,580,221</b>	<b>10,869,960</b>
		<b>P40,175,873</b>	<b>P37,002,031</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Notes payable	14, 28, 29	P8,816,090	P11,666,380
Trade payables and other current liabilities	15, 28, 29	12,667,086	9,850,465
Income tax payable		466,920	208,860
<b>Total Current Liabilities</b>		<b>21,950,096</b>	<b>21,725,705</b>
<b>Noncurrent Liabilities</b>			
Deferred tax liabilities	23	399,040	238,260
Retirement liability	24	181,487	77,458
<b>Total Noncurrent Liabilities</b>		<b>580,527</b>	<b>315,718</b>
<b>Equity</b>	16		
<b>Equity Attributable to Equity Holders of the Parent Company</b>			
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		(48,278)	(70,416)
Retained earnings		8,181,278	5,584,315
Treasury stock		(182,094)	(182,094)
		<b>15,244,923</b>	<b>12,625,822</b>
<b>Non-controlling Interests</b>		<b>2,400,327</b>	<b>2,334,786</b>
<b>Total Equity</b>		<b>17,645,250</b>	<b>14,960,608</b>
		<b>P40,175,873</b>	<b>P37,002,031</b>

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, 2009, 2008 AND 2007**  
(Amounts in Thousands, Except Per Share Data)

	<i>Note</i>	<b>2009</b>	2008	2007
<b>REVENUES</b>	17, 25	<b>P75,042,967</b>	P71,075,925	P62,052,029
<b>COST OF SALES</b>	18, 25, 31	<b>61,684,667</b>	60,609,663	51,845,187
<b>GROSS PROFIT</b>		<b>13,358,300</b>	10,466,262	10,206,842
<b>SELLING AND</b>				
<b>ADMINISTRATIVE EXPENSES</b>	19, 25	<b>(8,720,676)</b>	(8,623,651)	(7,810,920)
<b>INTEREST EXPENSE AND</b>				
<b>OTHER FINANCING CHARGES</b>	14, 22	<b>(751,042)</b>	(830,914)	(667,972)
<b>INTEREST INCOME</b>	6, 22	<b>69,141</b>	54,323	84,407
<b>GAIN (LOSS) ON SALE OF</b>				
<b>PROPERTY AND EQUIPMENT</b>		<b>(24,663)</b>	2,815	(18,010)
<b>OTHER CHARGES - Net</b>	22	<b>(88,968)</b>	(451,279)	(696,049)
<b>INCOME BEFORE INCOME TAX</b>		<b>3,842,092</b>	617,556	1,098,298
<b>INCOME TAX EXPENSE</b>	23	<b>1,183,625</b>	468,870	916,205
<b>NET INCOME</b>		<b>P2,658,467</b>	P148,686	P182,093
<b>Attributable to:</b>				
Equity holders of the Parent Company		<b>P2,596,963</b>	P77,194	P30,591
Non-controlling interests		<b>61,504</b>	71,492	151,502
		<b>P2,658,467</b>	P148,686	P182,093
<b>Basic and Diluted Earnings Per</b>				
<b>Share Attributable to Equity</b>				
<b>Holders of the Parent Company</b>	26	<b>P18.39</b>	P0.55	P0.22

See Notes to the Consolidated Financial Statements.

**SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**  
(Amounts in Thousands)

	<i>Note</i>	<b>2009</b>	2008	2007
<b>NET INCOME</b>		<b>P2,658,467</b>	P148,686	P182,093
<b>EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS</b>		<b>16,147</b>	1,544	(44,260)
<b>NET GAIN (LOSS) ON CASH FLOW HEDGES</b>	29	<b>11,196</b>	(11,196)	75
<b>INCOME TAX BENEFIT (EXPENSE)</b>	29	<b>(3,359)</b>	3,359	(26)
<b>NET GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>		<b>2,434</b>	502	3,216
<b>INCOME TAX EXPENSE</b>		<b>(243)</b>	(50)	(322)
<b>OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX</b>		<b>26,175</b>	(5,841)	(41,317)
<b>TOTAL COMPREHENSIVE INCOME - NET OF TAX</b>		<b>P2,684,642</b>	P142,845	P140,776
<b>Comprehensive Income Attributable to:</b>				
Equity holders of the Parent Company		<b>P2,619,101</b>	P70,967	P339
Non-controlling interests		<b>65,541</b>	71,878	140,437
		<b>P2,684,642</b>	P142,845	P140,776

See Notes to the Consolidated Financial Statements.

**SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**  
(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent Company								Non- controlling Interests	Total Equity
	Cumulative Translation Adjustments					Retained Earnings (Note 16)	Treasury Stock (Note 16)	Total		
	Capital Stock (Note 16)	Additional Paid-in Capital (Note 16)	Revaluation Surplus	Translation Reserve	Hedging Reserve					
<b>At January 1, 2009</b>	<b>P1,454,510</b>	<b>P5,821,288</b>	<b>P18,219</b>	<b>(P66,657)</b>	<b>(P7,837)</b>	<b>P4,078</b>	<b>P5,584,315</b>	<b>(P182,094)</b>	<b>P2,334,786</b>	<b>P14,960,608</b>
Foreign currency translation differences	-	-	-	12,110	-	-	-	-	4,037	16,147
Changes in the fair value of cash flow hedges, net of tax	-	-	-	-	7,837	-	-	-	-	7,837
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	2,191	-	-	-	2,191
Total other comprehensive income	-	-	-	12,110	7,837	2,191	-	-	4,037	26,175
Net income for the year	-	-	-	-	-	-	2,596,963	-	61,504	2,658,467
Total comprehensive income for the year	-	-	-	12,110	7,837	2,191	2,596,963	-	65,541	2,684,642
<b>At December 31, 2009</b>	<b>P1,454,510</b>	<b>P5,821,288</b>	<b>P18,219</b>	<b>(P54,547)</b>	<b>P -</b>	<b>P6,269</b>	<b>P8,181,278</b>	<b>(P182,094)</b>	<b>P2,400,327</b>	<b>P17,645,250</b>
At January 1, 2008	P1,454,510	P5,821,288	P18,219	(P67,815)	P -	P3,626	P5,507,121	(P182,094)	P2,255,287	P14,810,142
Foreign currency translation differences	-	-	-	1,158	-	-	-	-	386	1,544
Changes in the fair value of cash flow hedges, net of tax	-	-	-	-	(7,837)	-	-	-	-	(7,837)
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	452	-	-	-	452
Total other comprehensive income	-	-	-	1,158	(7,837)	452	-	-	386	(5,841)
Net income for the year	-	-	-	-	-	-	77,194	-	71,492	148,686
Total comprehensive income for the year	-	-	-	1,158	(7,837)	452	77,194	-	70,967	142,845
Addition in non-controlling interests	-	-	-	-	-	-	-	-	7,621	7,621
At December 31, 2008	P1,454,510	P5,821,288	P18,219	(P66,657)	(P7,837)	P4,078	P5,584,315	(P182,094)	P2,334,786	P14,960,608
Forward										

Forward



	Equity Attributable to Equity Holders of the Parent Company								Non-controlling Interests	Total Equity	
	Capital Stock (Note 16)	Additional Paid-in Capital (Note 16)	Cumulative Translation Adjustments								
			Revaluation Surplus	Translation Reserve	Hedging Reserve	Fair Value Reserve	Retained Earnings (Note 16)	Treasury Stock (Note 16)			Total
At January 1, 2007	P745,859	P1,938,944	P18,219	(P34,620)	(P49)	P732	P5,476,530	(P182,094)	P7,963,521	P5,613,182	P13,576,703
Foreign currency translation differences	-	-	-	(33,195)	-	-	-	-	(33,195)	(11,065)	(44,260)
Changes in the fair value of cash flow hedges, net of tax	-	-	-	-	49	-	-	-	49	-	49
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	2,894	-	-	2,894	-	2,894
Total other comprehensive income	-	-	-	(33,195)	49	2,894	-	-	(30,252)	(11,065)	(41,317)
Net income for the year	-	-	-	-	-	-	30,591	-	30,591	151,502	182,093
Total comprehensive income for the year	-	-	-	(33,195)	49	2,894	30,591	-	339	140,437	140,776
Issuance of capital stock	708,651	3,882,344	-	-	-	-	-	-	4,590,995	-	4,590,995
Reduction in non-controlling interests	-	-	-	-	-	-	-	-	-	(3,498,332)	(3,498,332)
At December 31, 2007	P1,454,510	P5,821,288	P18,219	(P67,815)	P	P3,626	P5,507,121	(P182,094)	P12,554,855	P2,255,287	P14,810,142

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, 2009, 2008 AND 2007**  
(Amounts in Thousands)

	<i>Note</i>	<b>2009</b>	2008	2007
<b>CASH FLOWS FROM</b>				
<b>OPERATING ACTIVITIES</b>				
Income before income tax		<b>P3,842,092</b>	P617,556	P1,098,298
Adjustments for:				
Depreciation and amortization	20	<b>1,704,508</b>	1,553,510	1,458,292
Interest expense	14, 22	<b>751,042</b>	830,914	667,972
Other charges net of loss (gain) on derivative transactions	22	<b>114,935</b>	733,126	1,074,263
One-time recognition of negative goodwill		-	-	(115,697)
Interest income	6, 22	<b>(69,141)</b>	(54,323)	(84,407)
Decline in value of investments	13	-	16,783	928
Impairment loss on investment properties	11	<b>3,114</b>	5,359	-
Impairment loss on land and other noncurrent assets	22	<b>53,873</b>	-	-
Loss (gain) on sale of property and equipment		<b>24,663</b>	(2,815)	18,010
Operating income before working capital changes		<b>6,425,086</b>	3,700,110	4,117,659
Allowance for impairment losses on receivables and inventory losses		<b>193,192</b>	115,039	156,815
Decrease (increase) in:				
Trade and other receivables		<b>(1,349,470)</b>	(114,304)	(1,343,433)
Inventories		<b>(26,575)</b>	(1,996,485)	(974,401)
Biological assets		<b>407,911</b>	(608,156)	(411,060)
Prepaid expenses and other current assets		<b>(430,237)</b>	108,713	(235,729)
Increase in trade payables and other current liabilities		<b>1,706,284</b>	179,884	1,008,474
Cash generated from operations		<b>6,926,191</b>	1,384,801	2,318,325
Interest paid		<b>(569,452)</b>	(629,043)	(623,825)
Income taxes paid (including final tax)		<b>(872,252)</b>	(878,758)	(616,340)
Interest received		<b>51,720</b>	45,639	71,081
Net cash flows provided by (used in) operating activities		<b>5,536,207</b>	(77,361)	1,149,241

Forward

	<b>Note</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisitions of property, plant and equipment	12	<b>(P651,422)</b>	(P593,908)	(P931,601)
Decrease (increase) in:				
Biological assets - net		<b>(1,023,292)</b>	(972,614)	(648,327)
Other noncurrent assets		<b>117,352</b>	45,407	(85,072)
Proceeds from sale of property and equipment		<b>39,127</b>	11,330	3,221
Transfer of cash from a new subsidiary		-	-	336,721
Cash received from merger transaction	10	<b>458</b>	-	-
Net cash flows used in investing activities		<b>(1,517,777)</b>	(1,509,785)	(1,325,058)
<b>CASH FLOW FROM A FINANCING ACTIVITY</b>				
Net availments (payments) of notes payable		<b>(2,850,290)</b>	3,026,709	(613,821)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>1,168,140</b>	1,439,563	(789,638)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>2,782,206</b>	1,342,643	2,132,281
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>P3,950,346</b>	P2,782,206	P1,342,643

See Notes to the Consolidated Financial Statements.

**SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Amounts in Thousands, Unless Otherwise Indicated)

## 1. Reporting Entity

San Miguel Pure Foods Company, Inc. ("SMPFC" or the "Company") was incorporated in the Philippines. The consolidated financial statements of the Company as at and for the year ended December 31, 2009 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 (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, 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 Ave., Ortigas Center, Pasig City.

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

The consolidated financial statements as at and for the year ended December 31, 2009 were authorized for issue by the Board of Directors (BOD) on February 12, 2010.

## 2. Basis of Preparation

### Basis of Measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for the following:

- derivative financial instruments are measured at fair value;
- available-for-sale (AFS) financial assets are measured at fair value;
- defined benefit asset is measured as the net total of the plan assets, less unrecognized actuarial gains and the present value of the defined benefit obligation; and
- agricultural produce are measured at fair value less estimated costs to sell at the point of harvest.

### Functional and Presentation Currency

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

### Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS), and 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 as of December 31, 2009 and 2008:

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

\* Incorporated in April 2004 and has not yet started commercial operations.

\*\* Incorporated in February 2007 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 subsidiaries are included in the consolidated financial statements from the date when the Group obtains control and continue to be consolidated until the date when such 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 unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented in the consolidated financial statements separately from the equity holders of the Parent Company.

Non-controlling interests represent the interests not held by the Group in PF-Hormel, Monterey, PTSMPFI and SMSCCI in 2009 and 2008.

### 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 or revised standards, amendments to standards, and interpretations as part of PFRS. Accordingly, the Group changed its accounting policies in the following areas:

#### *Adopted effective 2009*

- PFRS 8, *Operating Segments*, introduces the “management approach” to segment reporting.

Starting January 1, 2009, the Group determined and presented operating segments based on the information internally provided to the BOD. Previously, operating segments were determined and presented in accordance with PAS 14, *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows:

- Comparative segment information have been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on basic and diluted earnings per share (EPS).
- An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the BOD to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.
- Segment results that are reported to the BOD include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of corporate assets (primarily the Company's headquarters), certain head office expenses, and deferred tax assets and liabilities.
- Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.
- Revised PAS 1, *Presentation of Financial Statements (2007)*, introduces 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 statement of income and all non-owner changes in equity in a single statement), or in a statement of income and a separate statement of comprehensive income.

The Group applied Revised PAS 1, which became effective as of January 1, 2009. The Group presented in the consolidated statements of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statements of comprehensive income.

Comparative information have been re-presented so that it is also in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on basic and diluted EPS.

- Revised PAS 23, *Borrowing Costs*, 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.

Prior to this revised standard, the Group already capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*, require disclosures relating to fair value measurements using a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values and provide more direction on the form of quantitative disclosures about fair value measurements and require information to be disclosed in a tabular format unless another format is more appropriate. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk.

Effective January 1, 2009, the said new required disclosures have been included in Note 29 to the consolidated financial statements. Also, as allowed by the amendments, in the first year of application, comparative information is not required to be disclosed.

- *Embedded Derivatives* - Amendments to Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives* and PAS 39, *Financial Instruments: Recognition and Measurement*, clarify that on reclassification of a financial asset out of the "at fair value through profit or loss" category, all embedded derivatives have to be assessed and, if necessary, separately accounted for in the consolidated financial statements. The amendments are effective for annual periods ending on or after June 30, 2008.
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* 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. The interpretation takes effect for annual periods beginning on or after July 1, 2008.
- Philippine Interpretation IFRIC 16, *Hedges of a Net investment in a Foreign Operation*, 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. The interpretation is effective for annual periods beginning on or after October 1, 2008.
- Amendments to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*, became effective for financial years beginning on or after January 1, 2009. The standards have 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*, became effective for financial years beginning on or after January 1, 2009. The standard has been amended to clarify the definition of vesting conditions (which are service conditions and performance conditions only), 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.
- Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* and PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, became effective for financial years beginning on or after January 1, 2009. The amendments to PFRS 1 allow a first-time adopter, at its date of transition to PFRS 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* - various standards (except as related to PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*), 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 improvements are effective for annual periods beginning on or after January 1, 2009.
- *Improvements to PFRS 2009* - Amendment to PAS 18, *Revenue, Determining whether an entity is acting as a principal or as an agent*. The appendix accompanying PAS 18 is amended to specify that an entity acts as a principal when it is exposed to the significant risks and rewards associated with the sale of goods or rendering of services. The amendments also include in the appendix to PAS 18 a number of indicators for consideration in assessing whether an entity is acting as a principal or as an agent. As this is an amendment to an appendix, there is no related effective date and therefore is applicable immediately.

The adoption of these foregoing new or revised standards, amendments to standards and Philippine Interpretations of IFRIC did not have a material effect on the consolidated financial statements.

#### *New or Revised Standards and Amendments to Standards and Interpretations Not Yet Adopted*

The Group will adopt the following new or revised standards, amendments to standards and interpretations on the respective effective dates:

- Revised PFRS 3, *Business Combinations (2008)*, effective for annual periods beginning on or after July 1, 2009, 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 recognized 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 recognized in profit or loss.
  - Any non-controlling 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, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively.

- Revised PAS 27, *Consolidated and Separate Financial Statements (2008)*, effective for annual periods beginning on or after July 1, 2009, 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 Company loses 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. Revised 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*, 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. The amendments are effective for annual periods beginning on or after July 1, 2009. Amendments to PAS 39 will become mandatory for the Group's 2010 consolidated financial statements.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*, 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 interpretation is effective for annual periods beginning on or after July 1, 2009.
- Revised PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, restructures the format of PFRS 1 without changing the standard's technical content. The revised version moves the exemptions and exceptions contained in the main body of PFRS to different appendices, and also removes PFRS 1 transitional provisions that are no longer considered relevant. The revised standard is effective for annual periods beginning on or after July 1, 2009.
- *Improvements to PFRS 2008* - Amendments to PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in paragraphs 6 to 8 of PFRS 5 are met; this applies regardless of the entity retaining an interest (other than control) in the subsidiary; and disclosures for discontinued operations are required by the parent company when a subsidiary meets the definition of a discontinued operation. The amendments are effective for annual periods beginning on or after July 1, 2009.
- Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Additional Exemptions for First-time Adopters*, provide additional optional exemptions for first-time adopters of PFRS that will permit entities not to reassess the determination of whether an arrangement contains a lease if the same assessment as that required by Philippine Interpretation IFRIC 4 was made under previous GAAP; and allow entities in the oil and gas industry to use their previous GAAP carrying amounts as deemed cost at the date of transition for oil and gas assets. The amendments are effective for annual periods beginning on or after January 1, 2010.
- Amendments to PFRS 2, *Share-based Payment: Group Cash-settled Share-based Payment Transactions*, clarify the scope of PFRS 2, that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and regardless of whether the transaction is equity-settled or cash-settled; and the interaction of PFRS 2 and other standards, that in PFRS 2, a "group" has the same meaning as in PAS 27, *Consolidated and Separate Financial Statements*, that is, it includes only a parent and its subsidiaries. The amendments are effective for annual periods beginning on or after January 1, 2010.
- *Improvements to PFRS 2009*, include 15 amendments to 12 standards. Some of these amendments may have significant implications for current practice, in particular the amendments to PAS 17, *Leases* may affect the classification of leases of land and buildings, particularly in jurisdictions in which such leases often are for a long period of time. The improvements are generally effective for annual periods beginning on or after January 1, 2010.
- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after February 1, 2010.
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39 paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010.
- Revised PAS 24, *Related Party Disclosures (2009)*, amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011.
- *Prepayments of a Minimum Funding Requirement* (Amendments to Philippine Interpretation IFRIC 14: PAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011.



- PFRS 9, *Financial Instruments*, is the first standard issued as part of a wider project to replace PAS 39. PFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial asset. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard is effective for annual periods beginning on or after January 1, 2013.

The Group will assess the impact of the new or revised standards, amendments to standards and interpretations on the consolidated financial statements upon adoption.

#### Financial Assets and Liabilities

*Date of Recognition.* The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position 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 is done using settlement date accounting.

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

Subsequent to initial recognition, the Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS financial assets, FVPL financial assets, and loans and receivables. The Group classifies its financial liabilities as either FVPL financial liabilities or other liabilities. 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 and financial liabilities 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 reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flows method, 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 are 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, financial assets designated upon initial recognition as at FVPL and those classified under this category through the fair value option. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition as at FVPL or reclassified under this category through fair value option, 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 and liabilities 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 recognized.

The Group carries financial assets at FVPL using their fair values. Fair value changes and realized gains and losses are recognized as part of consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in the consolidated statements of comprehensive income. Any interest earned shall be recognized as part of "Interest income" in the consolidated statements of income. Any dividend income from equity securities classified as FVPL shall be recognized in the consolidated statements of income when the right of payment has been established.

The Group's derivative assets are classified under this category.

The carrying values of financial assets under this category amounted to P47.1 million and P35.8 million as of December 31, 2009 and 2008, respectively (Note 29).

*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities 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.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables shall be recognized as part of "Interest income" in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" in the consolidated statements of income. Gains or losses are recognized in the consolidated statements of income when loans and receivables are derecognized or impaired, as well as through the amortization process.

Cash includes cash on hand and in banks which are stated at face value. 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.

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 P12,974.3 million and P10,544.3 million as of December 31, 2009 and 2008, 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 financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Any interest earned on the HTM investments shall be recognized as part of "Interest income" in the consolidated statements of income on an accrual basis. 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.

As of December 31, 2009 and 2008, the Group has no investments accounted for under this category.

*AFS Financial Assets.* AFS financial assets are non-derivative financial assets that are either designated in this category or are not classified under any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are carried at fair value in the consolidated statements of financial position. The effective yield component of AFS debt securities is reported as part of "Interest income" in the consolidated statements of income. Any interest earned on AFS debt securities shall be recognized as part of "Interest income" in the consolidated statements of income on an accrual basis. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right of payment has been established. Any unrealized gains or losses for the period arising from the fair valuation of AFS financial assets are reported as part of other comprehensive income, while the accumulated unrealized gains or losses are reported as a separate component of the Group's equity. When

individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in the consolidated statements of income.

The Group's investments in shares of stock included under "Retirement and other noncurrent assets" are classified under this category.

The carrying values of financial assets under this category amounted to P13.8 million and P11.4 million as of December 31, 2009 and 2008, respectively (Note 29).

#### Financial Liabilities

*Financial Liabilities at FVPL.* Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes as part of consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in the consolidated statements of comprehensive income. Any interest expense incurred shall be recognized as part of "Interest expense" in the consolidated statements of income.

The carrying values of financial liabilities under this category amounted to P13.4 million and P144.2 million as of December 31, 2009 and 2008, respectively (Notes 15 and 29).

*Other Financial Liabilities.* This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

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 P21,469.8 million and P21,372.6 million as of December 31, 2009 and 2008, respectively (Note 29).

#### Debt Issue Costs

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest rate method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are charged against current operations.

#### 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.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through the consolidated statements of income over the remaining term of maturity. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged items cease to be adjusted for changes in its fair value attributable to the risk being hedged.

The Group discontinues fair value hedge accounting if the hedging instrument expires, is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

As of December 31, 2009 and 2008, 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 recognized in the consolidated statements of comprehensive income. 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 as part of other comprehensive income are transferred from 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 equity are transferred from 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. The cumulative gain or loss on the hedging instrument that has been reported as part of other comprehensive income is retained in 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 equity is recognized in the consolidated statements of income.

As of December 31, 2009, the Group has no outstanding commodity options accounted for as cash flow hedge.

As of December 31, 2008, the Group has outstanding commodity options accounted for as cash flow hedge.

*Net Investment Hedge.* As of December 31, 2009 and 2008, 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, nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

*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 reporting date whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

*Assets Carried at Amortized Cost.* For assets carried at amortized cost such as loans and receivables, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or individually or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets pooled according to their credit risk characteristics and collectively assesses the group 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 the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, 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). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed for the risk groups based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in the consolidated statements of income. 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.

*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 equity to the consolidated statements of income. Reversals in respect of equity instruments classified as AFS are not recognized in profit or loss. 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.

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument, for which its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows from the asset discounted using its historical effective rate of return on the asset.

Classification of Financial Instruments Between Debt and Equity

From the perspective of the issuer, a financial instrument is classified as a debt instrument if it provides for a contractual obligation to:

- deliver cash or another financial asset 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 statements of financial position 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 at gross in the consolidated statements of financial position.

Inventories

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

Costs incurred in bringing each inventory to its present location and condition 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 using the 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 costs to sell 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

#### Interest in Joint Venture

The Group recognizes its interest in the joint venture using proportionate consolidation. The Group combines its share in each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The joint venture is proportionately consolidated until the date when the Group ceases to have joint control over the joint venture.

#### Investment Properties

Investment properties consist of 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.

Investment property is derecognized either 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 statements of income in the period of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of the owner's occupation or commencement of an operating lease to another party. Transfers are made from investment property 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.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation 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 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 is 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, residual values and depreciation method are reviewed and adjusted, if appropriate, periodically to ensure that such periods and method of depreciation 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 assets are retained in the accounts until they are no longer in use and no further depreciation is credited or charged to current operations.

An item of property, plant and equipment is derecognized when either it has been disposed of 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 the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of income in the period of retirement or disposal.

#### Business Combinations

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 non-controlling interests.

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 Group, 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.

#### Goodwill

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 acquiree's identifiable assets, liabilities and contingent liabilities. Subsequently, goodwill is measured at cost less any accumulated impairment in value.



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 an operating segment determined in accordance with PFRS 8, *Operating Segments*.

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. An impairment loss with respect to goodwill is not reversed.

When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

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.

#### 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. Subsequently, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. 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 amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting 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 recognized in the consolidated statements of income when the asset is derecognized.

#### Impairment of Other Non-financial Assets

The carrying values of investments and advances, property, plant and equipment, investment properties, biological assets, other intangible assets with definite useful lives, and idle assets, included under retirement and other noncurrent 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 the asset 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 between knowledgeable, willing parties, less costs of disposal. 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 and amortization, 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 and amortization 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 obligation (legal or constructive) as a result of a 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 reporting date and adjusted to reflect the current best estimate.

#### Share Capital

##### *Common Shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

##### *Treasury Shares*

Own equity instruments which are reacquired are carried at cost and are deducted from equity. No gain or loss is recognized 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 from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. 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 estimated costs to sell at the point of harvest. Fair value is based on the relevant market price at point of harvest.

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

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

*Gain or Loss on Sale of Investments in Shares of Stock.* Gain or loss is recognized if the Group disposes of its investment in a subsidiary or joint venture. Gain or loss is computed as the difference between the proceeds of the disposed investments and its carrying amount, including the carrying amount of goodwill, if any.

*Rent.* Revenue from investment properties is recognized on a straight-line basis over the lease term or based on the terms of the lease, as applicable. Rent income is included as part of other income.

#### Cost and Expense Recognition

Cost and expenses are recognized in the consolidated statements of income upon receipt of goods, utilization of services or at the date they are 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. Associated costs such as maintenance and insurance are expensed as incurred.

#### Borrowing Costs

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 costs incurred on an individual project are carried forward when their 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 costs 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 reporting 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.

Foreign currency gains and losses are reported on a net basis.

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 rate of exchange ruling at the reporting 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 comprehensive income.

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 reporting date.

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



- 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 - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO 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 reporting 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 reporting 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 reporting date.

Income tax relating to items recognized directly in equity is recognized in the consolidated statements of comprehensive income 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 statements of financial position.

#### Related Parties

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. 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.

#### Basic and Diluted Earnings Per Share (EPS)

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.

Operating Segments

The Group's operating segments 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 operating segments is presented in Note 5 to the consolidated financial statements.

Contingencies

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.

Subsequent Events

Post year-end events that provide additional information about the Group's position at reporting 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.

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#### 4. Significant Accounting Judgments, Estimates and Assumptions

The Group's consolidated financial statements prepared in accordance with PFRS requires management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes, at the reporting date. However, uncertainty about these estimates and assumptions could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments

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 agreements 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 under operating lease arrangements.

Rent expense charged to operations amounted to P659.3 million, P662.5 million and P597.0 million in 2009, 2008 and 2007, respectively (Notes 18, 19 and 27).

*Contingencies.* The Group currently has several tax assessments and legal claims. The Group's estimate of the probable costs for resolution of these assessments and claims has 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 financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 31).

Estimates

The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the 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 on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, 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 amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded selling and administrative expenses and decrease current assets.

The allowance for impairment losses on trade and other receivables amounted to P633.9 million and P610.9 million as of December 31, 2009 and 2008, respectively. The carrying value of trade and other receivables amounted to P9,024.0 million and P7,762.1 million as of December 31, 2009 and 2008, 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 the reporting date to the extent that such events confirm conditions existing at the reporting date. The allowance account is reviewed periodically to reflect the accurate valuation in the financial records.

The allowance for inventory losses amounted to P150.0 million and P143.7 million as of December 31, 2009 and 2008, respectively. The carrying value of inventories as of December 31, 2009 and 2008 amounted to P11,804.1 million and P11,804.8 million, respectively (Note 8).

*Estimated Useful Lives of Investment Properties and Property, Plant and Equipment.* The Group estimates the useful lives of investment properties and property, plant and equipment 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 investment properties and property, plant and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance 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 investment properties and property, plant and equipment would increase recorded cost of sales and operating expenses and decrease noncurrent assets.

Accumulated depreciation and impairment losses of investment properties and property, plant and equipment amounted to P7,683.4 million and P7,233.3 million as of December 31, 2009 and 2008, respectively. Investment properties and property, plant and equipment, net of accumulated depreciation and impairment losses, amounted to P8,402.7 million and P8,130.2 million as of December 31, 2009 and 2008, respectively (Notes 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 P77.4 million and P65.7 million as of December 31, 2009 and 2008, respectively (Note 13).

*Realizability of Deferred Tax Assets.* The Group reviews its deferred tax assets at each reporting 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. The Group's assessment on the recognition of deferred tax assets on deductible temporary difference and carry forward benefits of MCIT and NOLCO is based on the projected taxable income in the subsequent periods.

Deferred tax assets amounted to P1,219.7 million and P1,096.3 million as of December 31, 2009 and 2008, 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, other intangible assets with definite useful lives and idle assets when events or changes in circumstances indicate that the carrying value may not be recoverable. 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 financial performance.

The aggregate amount of noncurrent biological assets, investment properties, property, plant and equipment, goodwill and other intangible assets, and idle assets amounted to P10,207.2 million and P9,572.7 million as of December 31, 2009 and 2008, respectively (Notes 9, 11, 12 and 13).

*Present Value of Defined Benefit Obligation.* The present value of the retirement obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 24 to the consolidated financial statements and include discount rate, expected return on plan assets and salary increase rate. 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.

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

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

Other key assumptions for retirement obligations are based in part on current market conditions.

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

The Group has a net cumulative unrecognized actuarial gain (loss) amounting to P119.5 million and (P219.7 million) as of December 31, 2009 and 2008, respectively (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 reporting date. Costs to sell are estimated based on most recent transaction and are deducted from the fair value in order to measure agricultural produce at point of harvest.

Unrealized gain (loss) on fair value adjustments included in the cost of inventories as of December 31, 2009 and 2008 amounted to P62.7 million and (P2.0 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, 2009 and 2008.



## 5. Segment Information

### Operating Segments

The operating segment is determined as the reporting format as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products produced and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group has three reportable segments, namely, Agro-Industrial, Value-Added Meats and Milling. Management identified and grouped the operating units in its operating segments with the objective of transforming the Group into a more rationalized and focused organization. The structure aims to boost efficiencies across the Group and raise effectiveness in defining and meeting the needs of consumers in innovative ways.

The Agro-Industrial segment includes the integrated Feeds, Poultry and Basic Meats operations. These businesses are involved in poultry and feeds production and selling, and in livestock farming, processing and selling of basic meat products.

The Value-Added Meats segment is engaged in the processing and marketing of refrigerated and canned meat products.

The Milling segment is into manufacturing and marketing of flour products, premixes, and flour-based products.

The non-reportable operating segments of the Group include dairy-based products, breadfill, desserts, cooking oil, importation and marketing of coffee and coffee-related products and processed meats operation of a foreign subsidiary.

The Group does not have a single external customer, sales revenue generated from which amounted to 10% or more of the total revenue of the Group.

### 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 operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transfers are eliminated in consolidation.

## Operating Segments

Financial information about reportable segments follow:

	Agro-Industrial			Value-Added Meats			Milling			Total Reportable Segments			Others			Eliminations			Consolidated		
	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007
<i>(In Millions)</i>																					
<b>Revenue</b>																					
External	<b>P49,069</b>	P44,981	P39,099	<b>P11,234</b>	P11,566	P10,440	<b>P7,482</b>	P8,199	P6,133	<b>P67,785</b>	P64,746	P55,672	<b>P7,258</b>	P6,330	P6,380	<b>P -</b>	P -	P -	<b>P75,043</b>	P71,076	P62,052
Inter-segment	<b>711</b>	379	471	<b>47</b>	1	8	<b>447</b>	485	24	<b>1,205</b>	865	503	<b>233</b>	370	550	<b>(1,438)</b>	(1,235)	(1,053)	<b>-</b>	-	-
<b>Total revenue</b>	<b>P49,780</b>	P45,360	P39,570	<b>P11,281</b>	P11,567	P10,448	<b>P7,929</b>	P8,684	P6,157	<b>P68,990</b>	P65,611	P56,175	<b>P7,491</b>	P6,700	P6,930	<b>(P1,438)</b>	(P1,235)	(P1,053)	<b>P75,043</b>	P71,076	P62,052
<b>Result</b>																					
Segment operating result*	<b>P3,085</b>	P1,601	P1,491	<b>P489</b>	P626	P554	<b>P752</b>	(P36)	P558	<b>P4,326</b>	P2,191	P2,603	<b>P333</b>	(P266)	P94	<b>(P118)</b>	(P1)	P10	<b>P4,541</b>	P1,924	P2,707
Interest expense and financing charges	<b>(428)</b>	(492)	(322)	<b>(188)</b>	(142)	(130)	<b>(88)</b>	(113)	(64)	<b>(704)</b>	(747)	(516)	<b>(47)</b>	(84)	(152)	<b>-</b>	-	-	<b>(751)</b>	(831)	(668)
Interest income	<b>37</b>	26	49	<b>5</b>	5	6	<b>6</b>	4	15	<b>48</b>	35	70	<b>21</b>	19	14	<b>-</b>	-	-	<b>69</b>	54	84
Gain (loss) on sale of property and equipment	<b>4</b>	6	1	<b>7</b>	2	-	<b>(19)</b>	-	1	<b>(8)</b>	8	2	<b>(10)</b>	3	(20)	<b>(7)</b>	(8)	-	<b>(25)</b>	3	(18)
Other income (charges) - net	<b>2</b>	(86)	(67)	<b>(93)</b>	(183)	159	<b>83</b>	(166)	148	<b>(8)</b>	(435)	240	<b>16</b>	762	2,413	<b>-</b>	(859)	(3,660)	<b>8</b>	(532)	(1,007)
Income tax benefit (expense)	<b>(720)</b>	(525)	(418)	<b>(74)</b>	(85)	(169)	<b>(220)</b>	111	(230)	<b>(1,014)</b>	(499)	(817)	<b>(166)</b>	20	(111)	<b>(4)</b>	10	12	<b>(1,184)</b>	(469)	(916)
<b>Net income</b>	<b>P1,980</b>	P530	P734	<b>P146</b>	P223	P420	<b>P514</b>	(P200)	P428	<b>P2,640</b>	P553	P1,582	<b>P147</b>	P454	P2,238	<b>(P129)</b>	(P858)	(P3,638)	<b>P2,658</b>	P149	P182
<b>Other Information</b>																					
Segment assets	<b>P21,588</b>	P18,493	P16,857	<b>P9,376</b>	P9,277	P7,935	<b>P3,505</b>	P4,658	P4,091	<b>P34,469</b>	P32,428	P28,883	<b>P10,053</b>	P4,760	P5,409	<b>(P5,904)</b>	(P1,609)	(P2,213)	<b>P38,618</b>	P35,579	P32,079
Goodwill and other intangible assets	<b>4</b>	3	11	<b>285</b>	153	123	<b>-</b>	-	1	<b>289</b>	156	135	<b>1,367</b>	1,367	1,384	<b>(1,318)</b>	(1,196)	(1,194)	<b>338</b>	327	325
Deferred tax assets	<b>-</b>	-	-	<b>-</b>	-	-	<b>-</b>	-	-	<b>-</b>	-	-	<b>-</b>	-	-	<b>-</b>	-	-	<b>1,220</b>	1,096	941
<b>Consolidated total assets</b>																			<b>P40,176</b>	P37,002	P33,345
Segment liabilities	<b>P9,075</b>	P6,746	P6,560	<b>P1,339</b>	P1,535	P1,264	<b>P785</b>	P845	P735	<b>P11,199</b>	P9,126	P8,559	<b>P7,470</b>	P2,331	P2,895	<b>(P5,820)</b>	(P1,529)	(P2,263)	<b>P12,849</b>	P9,928	P9,191
Notes payable	<b>-</b>	-	-	<b>-</b>	-	-	<b>-</b>	-	-	<b>-</b>	-	-	<b>-</b>	-	-	<b>-</b>	-	-	<b>8,816</b>	11,666	8,640
Income tax payable	<b>-</b>	-	-	<b>-</b>	-	-	<b>-</b>	-	-	<b>-</b>	-	-	<b>-</b>	-	-	<b>-</b>	-	-	<b>467</b>	209	350
Deferred tax liabilities	<b>-</b>	-	-	<b>-</b>	-	-	<b>-</b>	-	-	<b>-</b>	-	-	<b>-</b>	-	-	<b>-</b>	-	-	<b>399</b>	238	353
<b>Consolidated total liabilities</b>																			<b>P22,531</b>	P22,041	P18,534
Capital expenditures	<b>P266</b>	P259	P384	<b>P210</b>	P170	P232	<b>P57</b>	P87	P192	<b>P533</b>	P516	P808	<b>P118</b>	P78	P124	<b>P -</b>	P -	P -	<b>P651</b>	P594	P932
Depreciation and amortization	<b>1,124</b>	1,034	947	<b>286</b>	241	227	<b>143</b>	133	129	<b>1,553</b>	1,408	1,303	<b>152</b>	146	155	<b>-</b>	-	-	<b>1,705</b>	1,554	1,458
Impairment losses	<b>-</b>	-	-	<b>46</b>	-	-	<b>8</b>	-	-	<b>54</b>	-	-	<b>3</b>	5	-	<b>-</b>	-	-	<b>57</b>	5	-

\* Including realized mark-to-market gains (losses) on commodity derivatives presented as part of "Other Charges - Net" in the consolidated statements of income.

## 6. Cash and Cash Equivalents

This account consists of:

	2009	2008
Cash on hand and in banks	<b>P3,240,212</b>	P2,479,006
Short-term placements	<b>710,134</b>	303,200
	<b>P3,950,346</b>	P2,782,206

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	2009	2008
Trade receivables	25	<b>P7,323,462</b>	P5,619,084
Amounts owed by related parties	25	<b>254,376</b>	2,042,497
Other receivables		<b>2,080,017</b>	711,397
		<b>9,657,855</b>	8,372,978
Less allowance for impairment losses		<b>633,902</b>	610,887
		<b>P9,023,953</b>	P7,762,091

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

Other receivables include P1,038 million claims from insurers mainly representing the value of certain inventories and property, plant and equipment damaged by a typhoon.

The movements in the allowance for impairment losses follow:

	2009	2008
Balance at beginning of year	<b>P610,887</b>	P649,621
Charge for the year	<b>113,762</b>	39,640
Write off of amounts	<b>(84,771)</b>	(56,392)
Reversal of unused amounts	<b>(5,976)</b>	(21,982)
Balance at end of year	<b>P633,902</b>	P610,887

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

	Gross Amount	
	2009	2008
Current	<b>P6,211,094</b>	P5,378,262
Past due 1-30 days	<b>1,058,538</b>	1,262,791
Past due 31-60 days	<b>100,653</b>	170,991
Past due 61-90 days	<b>545,023</b>	127,116
Past due over 90 days	<b>1,742,547</b>	1,433,818
	<b>P9,657,855</b>	P8,372,978

**8. Inventories**

This account consists of:

	2009	2008
Finished goods and goods in process - at net realizable value	<b>P3,081,429</b>	P3,053,769
Raw materials, feeds and feed ingredients - at net realizable value	<b>8,572,674</b>	8,399,003
Factory supplies and others - at cost	<b>72,450</b>	61,670
Materials in transit - at cost	<b>77,546</b>	290,346
Total inventories at lower of cost and net realizable value	<b>P11,804,099</b>	P11,804,788

The cost of finished goods and goods in process amounted to P3,168.3 million and P3,125.6 million as of December 31, 2009 and 2008, respectively. The cost of raw materials, feeds and feed ingredients amounted to P8,635.8 million and P8,470.8 million as of December 31, 2009 and 2008, respectively.

Finished goods and goods in process include net unrealized gain of P62.7 million and net unrealized loss of P2.0 million on fair valuation of agricultural produce as of December 31, 2009 and 2008, respectively. The fair value of agricultural produce less costs to sell, which formed part of finished goods inventory, amounted to P287.0 million and P556.8 million as of December 31, 2009 and 2008, respectively, with corresponding costs at point of harvest amounting to P224.3 million and P558.8 million, respectively.

**9. Biological Assets**

This account consists of:

	2009	2008
Current:		
Growing stocks	<b>P2,309,139</b>	P2,707,025
Goods in process	<b>215,371</b>	225,396
Total Current	<b>2,524,510</b>	2,932,421
Noncurrent:		
Breeding stocks - net	<b>1,285,125</b>	1,115,963
	<b>P3,809,635</b>	P4,048,384

The amortization of breeding stocks charged to operations amounted to P854.1 million and P736.9 million in 2009 and 2008, 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:

	2009	2008
Balance at beginning of year	<b>P4,048,384</b>	P3,204,536
Increase (decrease) due to:		
Purchases	<b>13,390,005</b>	11,732,401
Production	<b>9,061,227</b>	33,539,845
Mortality	<b>(533,373)</b>	(31,314)
Sales	<b>(5,345,293)</b>	(67,296)
Harvest	<b>(15,957,185)</b>	(43,592,866)
Amortization during the year	<b>(854,130)</b>	(736,922)
Balance at end of the year	<b>P3,809,635</b>	P4,048,384



The Group harvested approximately 348.1 million and 322.9 million kilograms of grown broilers in 2009 and 2008, respectively, and 0.68 million and 0.53 million heads of marketable hogs and cattle in 2009 and 2008, respectively.

## 10. Investments and Advances

### Investments in Subsidiaries

The following are the developments relating to the Company's investments in subsidiaries in 2009 and 2008:

- a) In April 2009, Monterey, a majority-owned subsidiary of SMPFC, acquired the subscription rights of certain individuals in Highbreed Livestock Corporation (HLC), a Philippine company engaged in livestock farming, processing, selling meat products (mainly pork and beef) and leasing of properties. As such, HLC became a subsidiary of Monterey and was consolidated into SMPFC through Monterey. On June 22, 2009, the respective BOD and stockholders of Monterey and HLC approved the merger of HLC into Monterey, with Monterey as the surviving corporation. The consideration of the assignment of the subscription, net of the effect of the merger, amounted to P6.25 million. The SEC approved the merger on October 22, 2009. The Bureau of Internal Revenue (BIR) confirmed the tax-free merger of HLC into Monterey in its Certification No. S40-052-2009 dated December 18, 2009.

The fair value of the identifiable assets and liabilities of HLC at acquisition date are as follows:

	<i>Note</i>	
Cash and cash equivalents		<b>P458</b>
Trade and other receivables - net		<b>14,983</b>
Prepaid expenses and other current assets		<b>13,139</b>
Property, plant and equipment - net	12	<b>925,854</b>
Deferred tax assets		<b>18,647</b>
Trade payables and other current liabilities		<b>(966,831)</b>
Net assets transferred		<b>P6,250</b>

- b) In July and September 2008, respectively, the Company paid as deposits for future stock subscription, the amounts of P400 million for 283,687,943 Magnolia shares of stock and P450 million for 22,500,000 Monterey shares of stock. In February 2009, Magnolia's application for increase in authorized capital stock was approved by SEC. Following SEC's approval, Magnolia issued the said 283,687,943 shares to SMPFC out of its unissued shares and increase in authorized capital stock. As of February 12, 2010, Monterey's application for the increase in its authorized capital stock is pending filing with SEC.

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

- c) 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 16,457,310 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 16,457,310 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, subject to the necessary approvals, and as approved by SMFI's BOD in June 2007.

As of February 12, 2010, 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.

Investments in 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. Application with the SEC for the dissolution of PNTI, through the shortening of its corporate term, which was approved by the BOD and stockholders of PNTI in August 2005, will be filed by the Company following the receipt on February 4, 2010 of the tax clearance from the BIR and the completion of other SEC requirements necessary for such filing.

**11. Investment Properties**

The movements in investment properties follow:

	Land and Land Improvements	Buildings and Improvements	Total
<b>Cost:</b>			
Balance at January 1, 2008	P54,827	P2,865	P57,692
Additions	20,861	-	20,861
Balance at December 31, 2008	75,688	2,865	78,553
Additions	39,593	-	39,593
Balance at December 31, 2009	115,281	2,865	118,146
<b>Accumulated depreciation:</b>			
Balance at January 1, 2008	-	1,326	1,326
Additions	-	141	141
Balance at December 31, 2008	-	1,467	1,467
Additions	-	141	141
Balance at December 31, 2009	-	1,608	1,608
<b>Accumulated impairment losses:</b>			
Balance at January 1, 2008	-	-	-
Additions	5,359	-	5,359
Balance at December 31, 2008	5,359	-	5,359
Additions	3,114	-	3,114
Balance at December 31, 2009	8,473	-	8,473
<b>Net book value:</b>			
<b>Balance at December 31, 2009</b>	<b>P106,808</b>	<b>P1,257</b>	<b>P108,065</b>
Balance at December 31, 2008	P70,329	P1,398	P71,727

The fair value of investment properties as of December 31, 2009 and 2008 amounted to P280.9 million and P279.1 million, respectively, determined based on valuations performed either by independent appraisers or by the credit management group of the Company.

## 12. Property, Plant and Equipment

This account consists of:

	Note	Land and Land Improvements	Buildings and Improvements	Machinery Equipment, Furniture and Others	Transportation Equipment	Construction in Progress	Total
<b>Cost:</b>							
Balance at January 1, 2008		P1,474,063	P3,872,021	P7,801,106	P514,201	P1,360,207	P15,021,598
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
HLC balance	10a	751,188	102,210	35	-	97,914	951,347
Additions		715	2,108	209,984	13,015	425,600	651,422
Disposals		-	(126,944)	(225,864)	(58,997)	-	(411,805)
Transfers, reclassifications and others		89,517	361,311	(228,462)	10,914	(763,601)	(530,321)
Exchange differential		3,159	2,691	13,183	2,462	925	22,420
Balance at December 31, 2009		2,340,923	4,391,727	8,117,005	473,597	644,665	15,967,917
<b>Accumulated depreciation and impairment losses:</b>							
Balance at January 1, 2008		233,907	1,485,568	4,607,183	443,688	-	6,770,346
Additions		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
HLC balance	10a	10,612	14,873	8	-	-	25,493
Additions		23,914	183,601	543,099	23,911	-	774,525
Impairment loss	22	45,863	-	-	-	-	45,863
Disposals		-	(90,065)	(206,860)	(51,090)	-	(348,015)
Transfers, reclassification and others		(2,960)	131	(59,740)	52	-	(62,517)
Exchange differential		-	1,230	7,984	2,330	-	11,544
Balance at December 31, 2009		328,767	1,761,563	5,153,422	429,572	-	7,673,324
<b>Net Book Value:</b>							
<b>Balance at December 31, 2009</b>		<b>P2,012,156</b>	<b>P2,630,164</b>	<b>P2,963,583</b>	<b>P44,025</b>	<b>P644,665</b>	<b>P8,294,593</b>
Balance at December 31, 2008		P1,245,006	P2,398,558	P3,479,198	P51,834	P883,827	P8,058,423

Depreciation charged to operations amounted to P774.5 million in 2009, P703.7 million in 2008 and P687.8 million in 2007 (Note 20). These amounts include annual amortizations of capitalized interest amounting to P2.6 million, P3.8 million and P5.4 million in 2009, 2008 and 2007, respectively. Unamortized balance of capitalized interest as of December 31, 2009, 2008 and 2007 amounted to P26.9 million, P29.5 million and P33.3 million, respectively. No interest was capitalized in 2009 and 2008.

Transfers, reclassification and others in 2009 include certain property, plant and equipment that were damaged by typhoon amounting to P215.8 million (Note 7). In addition, certain machinery and equipment with a book value of P189.1 million and considered as idle assets, were reclassified to other noncurrent assets following the change in management's intention on its branded business (Note 22).

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 among 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.

The cost of farm improvements, buildings, machinery and equipment and construction in progress incurred for Monterey's hog farm expansion project situated in Sumilao amounted to P676.4 million and P481.4 million in 2009 and 2008, respectively.

### 13. Goodwill and Other Intangible Assets

This account consists of:

	2009	2008
Goodwill	<b>P170,792</b>	P170,792
Trademarks	<b>32,558</b>	32,558
Formulas and recipes	<b>57,591</b>	57,591
Computer software and licenses - net	<b>77,413</b>	65,659
	<b>P338,354</b>	P326,600

The movement in goodwill is shown below:

	2009	2008
Balance at beginning of year		
Goodwill from acquisitions of PTSMPFI and Magnolia	<b>P170,792</b>	P187,575
Impairment loss	-	(16,783)
Balance at end of year	<b>P170,792</b>	P170,792

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:

	2009	2008
Cost:		
Balance at beginning of year	<b>P134,806</b>	P100,589
Additions/reclassifications during the year	<b>26,370</b>	34,217
Balance at end of year	<b>161,176</b>	134,806
Accumulated amortization:		
Balance at beginning of year	<b>69,147</b>	53,376
Additions/reclassifications during the year	<b>14,616</b>	15,771
Balance at end of year	<b>83,763</b>	69,147
Net book value	<b>P77,413</b>	P65,659

### 14. Notes Payable

Notes payable mainly represents unsecured peso and foreign currency-denominated amounts payable to local and foreign banks. Interest rates for peso-denominated loans range from 3.10% to 6.79% and 7.25% to 8.75% in 2009 and 2008, respectively. Interest rate for foreign currency-denominated loan is 12.08% and 15.77% in 2009 and 2008, respectively.



## 15. Trade Payables and Other Current Liabilities

This account consists of:

	Note	2009	2008
Trade payables		<b>P3,472,303</b>	P4,114,563
Amounts owed to related parties	25	<b>2,732,207</b>	1,607,446
Acceptances payable		<b>18,950</b>	43,968
Accrued expenses and other payables		<b>6,443,626</b>	4,084,488
		<b>P12,667,086</b>	P9,850,465

The accrued expenses and other payables account consists of freight payable, contract growers/breeders' fees, guarantee deposits, derivative liabilities, accrued interest payable, expenses payable, tax-related and payroll-related accruals.

Derivative liabilities included under "Accrued expenses and other payables" amounted to P13.4 million and P144.2 million as of December 31, 2009 and 2008, respectively (Note 29).

## 16. Equity

The Parent Company's capital stock, at P10 par value, consists of the following number of shares as of December 31, 2009 and 2008:

	Class "A"	Class "B"	Total
<b>Authorized shares</b>	95,128,000	50,872,000	<b>146,000,000</b>
<b>Issued shares</b>	95,049,129	50,401,979	<b>145,451,108</b>

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 2009 and in 2008, are carried at cost.

Issued and outstanding shares include 86,708,547 shares, listing application for which will be re-filed with the PSE upon completion of certain PSE requirements.

The Parent Company's retained earnings as of December 31, 2009 and 2008 is restricted in the amount of P182.1 million representing the cost of shares held in treasury.

The Group's unappropriated retained earnings include the Company's accumulated equity in net earnings of subsidiaries amounting to P3,355.4 million, P847.6 million and P1,700.9 million in 2009, 2008 and 2007, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

## 17. Revenues

Revenue account consists of sales of goods and fair valuation adjustments on agricultural produce. Total sales of goods amounted to P74,979.9 million, P71,077.9 million and P62,000.3 million for the years ended December 31, 2009, 2008 and 2007, respectively. The aggregate fair value less estimated costs to sell of agricultural produce harvested during the year, determined at point of harvest, amounted to P25,826.8 million, P23,527.0 million and P22,534.4 million for the years ended December 31, 2009, 2008 and 2007, respectively.

**18. Cost of Sales**

This account consists of:

	<b>Note</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Inventories used		<b>P55,100,325</b>	P54,050,525	P45,300,631
Freight, trucking and handling		<b>1,911,469</b>	1,626,949	1,398,375
Depreciation and amortization	20	<b>1,482,653</b>	1,315,729	1,230,983
Communication, light and water		<b>866,722</b>	922,063	1,086,623
Personnel expenses	21	<b>862,438</b>	1,002,888	1,259,764
Repairs and maintenance		<b>336,721</b>	326,397	396,135
Rentals	27	<b>171,108</b>	190,396	209,475
Others		<b>953,231</b>	1,174,716	963,201
		<b>P61,684,667</b>	P60,609,663	P51,845,187

**19. Selling and Administrative Expenses**

This account consists of:

	<b>Note</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Personnel expenses	21	<b>P1,853,815</b>	P1,830,162	P1,462,353
Freight, trucking and handling		<b>1,781,191</b>	1,831,557	1,640,260
Advertising and promotions		<b>1,401,340</b>	1,482,056	1,260,131
Contracted services		<b>1,251,772</b>	1,134,313	863,951
Rentals	27	<b>488,197</b>	472,116	387,476
Taxes and licenses		<b>242,131</b>	194,513	183,193
Professional fees		<b>235,588</b>	159,847	290,822
Depreciation and amortization	20	<b>221,855</b>	237,781	227,309
Supplies		<b>205,391</b>	185,968	181,313
Communication, light and water		<b>185,459</b>	151,164	168,364
Travel and transportation		<b>143,087</b>	193,335	175,686
Repairs and maintenance		<b>111,475</b>	109,773	115,357
Others		<b>599,375</b>	641,066	854,705
		<b>P8,720,676</b>	P8,623,651	P7,810,920

**20. Depreciation and Amortization**

Depreciation and amortization are distributed as follows:

	<b>Note</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Cost of sales:				
Property, plant and equipment	12	<b>P607,857</b>	P551,438	P528,359
Biological assets	9	<b>854,130</b>	736,922	660,919
Others		<b>20,666</b>	27,369	41,705
		<b>1,482,653</b>	1,315,729	1,230,983
Selling and administrative expenses:				
Property, plant and equipment	12	<b>166,668</b>	152,215	159,482
Others		<b>55,187</b>	85,566	67,827
		<b>221,855</b>	237,781	227,309
		<b>P1,704,508</b>	P1,553,510	P1,458,292

Others include amortization of containers, computer software and licenses, small tools and equipment and investment properties amounting to P75.9 million, P112.9 million and P109.5 million in 2009, 2008 and 2007, respectively.

## 21. Personnel Expenses

This account consists of:

	<i>Note</i>	<b>2009</b>	2008	2007
Salaries and allowances		<b>P1,396,610</b>	P1,661,083	P1,869,934
Retirement costs	24	<b>238,627</b>	145,506	126,717
Other employee benefits		<b>1,081,016</b>	1,026,461	725,466
		<b>P2,716,253</b>	P2,833,050	P2,722,117

The above amounts are distributed as follows:

	<i>Note</i>	<b>2009</b>	2008	2007
Cost of sales	18	<b>P862,438</b>	P1,002,888	P1,259,764
Selling and administrative expenses	19	<b>1,853,815</b>	1,830,162	1,462,353
		<b>P2,716,253</b>	P2,833,050	P2,722,117

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

These accounts consist of:

	<i>Note</i>	<b>2009</b>	2008	2007
<b>Interest expense and other financing charges:</b>				
Short-term loans	14	<b>P701,726</b>	P774,597	P604,877
Other financing charges		<b>49,316</b>	56,317	63,095
		<b>P751,042</b>	P830,914	P667,972
<b>Interest income:</b>				
Money market placements		<b>P35,017</b>	P27,479	P35,860
Cash in banks		<b>34,124</b>	26,844	48,547
		<b>P69,141</b>	P54,323	P84,407
<b>Other income (charges):</b>				
Gain (loss) on derivatives		<b>P54,477</b>	(P388,327)	P616,956
Dividend income		<b>118</b>	55	168
Foreign exchange gains (losses) - net	28	<b>(978)</b>	5,943	(54,298)
Impairment loss		<b>(53,873)</b>	-	-
Research and development costs		-	(170)	(16,199)
Others - net		<b>(88,712)</b>	(68,780)	(1,242,676)
		<b>(P88,968)</b>	(P451,279)	(P696,049)

In 2009, the Group recognized provisions for impairment loss on land and idle assets (included under "Retirement and other noncurrent assets") amounting to P45.9 million and P8.0 million, respectively, computed as the difference between the carrying amount of the assets and their fair value based on reports by qualified property appraisers, less costs to sell.

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's net assets amounting to P1,330 million in 2007 was presented as part of "Other charges - net" in the consolidated statements of income.

**23. Income Taxes**

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

	2009	2008
Deferred tax assets:		
NOLCO	<b>P452,793</b>	P276,907
Allowance for impairment losses on receivables and inventory losses	<b>230,837</b>	223,127
Unrealized mark-to-market loss	<b>168,433</b>	165,565
Unamortized past service cost	<b>116,537</b>	85,698
MCIT	<b>76,266</b>	85,360
Others	<b>174,810</b>	259,602
	<b>P1,219,676</b>	P1,096,259
Deferred tax liabilities:		
Unrealized mark-to-market gain	<b>P184,585</b>	P128,233
Accelerated depreciation	<b>51,426</b>	56,344
Others	<b>163,029</b>	53,683
	<b>P399,040</b>	P238,260

- b. As of December 31, 2009, 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
2007	December 31, 2010	P22,608	P20,189
2008	December 31, 2011	527,971	22,297
2009	December 31, 2012	958,730	33,780
		<b>P1,509,309</b>	<b>P76,266</b>

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

	2009	2008	2007
Current:			
Corporate income tax	<b>P1,112,770</b>	P729,248	P831,418
Final tax withheld on interest income	<b>17,542</b>	8,482	13,455
	<b>1,130,312</b>	737,730	844,873
Deferred	<b>53,313</b>	(268,860)	71,332
	<b>P1,183,625</b>	P468,870	P916,205

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

	2009	2008	2007
Statutory income tax rate	<b>30.00%</b>	35.00%	35.00%
Additions to (reductions in) income tax resulting from the tax effects of:			
Interest income subjected to final tax	<b>(0.13)</b>	(8.80)	(2.68)
Unused NOLCO and MCIT	<b>1.10</b>	25.98	3.10
Others - net	<b>(0.16)</b>	0.58	48.00
Effect of change in tax rate	-	23.16	-
Effective income tax rates	<b>30.81%</b>	75.92%	83.42%

## 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, 2009. Valuations are obtained on a periodic basis.

Retirement costs charged by the Parent Company to operations amounted to P4.2 million, P7.3 million and P1.0 million in 2009, 2008 and 2007, respectively, while those charged by the subsidiaries amounted to P234.4 million, P138.2 million and P125.7 million in 2009, 2008 and 2007, 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 costs recognized in the consolidated statements of income in 2009, 2008 and 2007 and the amounts recognized in the consolidated statements of financial position as of December 31, 2009 and 2008 are as follows:

### a. Retirement costs

	2009	2008	2007
Current service cost	<b>P131,158</b>	P96,730	P91,054
Interest cost	<b>262,237</b>	137,847	130,585
Expected return on plan assets	<b>(197,554)</b>	(161,894)	(164,120)
Net actuarial gain (loss)	<b>(2,695)</b>	7,535	4,356
Past service cost	<b>192</b>	193	210
Effect of curtailment	<b>(19,806)</b>	-	-
Effect of asset limit	-	-	(690)
Amortization of transitional liability	<b>65,095</b>	65,095	65,322
Net retirement costs	<b>P238,627</b>	P145,506	P126,717
Actual return (loss) on plan assets	<b>P329,582</b>	(P103,770)	P205,329

The retirement costs are recognized in the following line items in the consolidated statements of income:

	Note	2009	2008	2007
Cost of sales		<b>P16,724</b>	P32,010	P31,207
Selling and administrative expenses		<b>221,903</b>	113,496	95,510
	21	<b>P238,627</b>	P145,506	P126,717

### b. Retirement asset

	2009	2008
Fair value of net plan assets	<b>P94,058</b>	P -
Present value of defined benefit obligation	<b>(44,432)</b>	-
Unrecognized actuarial gains	<b>(43,364)</b>	-
	<b>P6,262</b>	P -

### c. Retirement liability

	2009	2008
Present value of defined benefit obligation	<b>P2,335,856</b>	P2,759,339
Fair value of net plan assets	<b>(2,229,645)</b>	(2,396,143)
Unrecognized:		
Past service costs	<b>(856)</b>	(951)
Net actuarial gains (losses)	<b>76,132</b>	(219,692)
Net transitional liability	-	(65,095)
	<b>P181,487</b>	P77,458



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

	2009	2008
Balance at beginning of year	<b>P2,759,339</b>	P1,810,951
Interest cost	<b>262,237</b>	137,730
Current service cost	<b>131,158</b>	96,598
Transfer from other plans	<b>51,036</b>	898,516
Benefits paid	<b>(562,069)</b>	(155,401)
Actuarial (gains) losses	<b>(230,864)</b>	9,888
Transfer to other plans	<b>(36,134)</b>	(38,943)
Effect of curtailment	<b>5,585</b>	-
Balance at end of year	<b>P2,380,288</b>	P2,759,339

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

	2009	2008
Balance at beginning of year	<b>P2,396,143</b>	P1,649,977
Expected return	<b>197,554</b>	161,894
Contributions by employer	<b>145,145</b>	145,764
Transfer from other plans	<b>51,036</b>	898,516
Benefits paid	<b>(562,069)</b>	(155,401)
Transfer to other plans	<b>(36,134)</b>	(38,943)
Actuarial gains (losses)	<b>132,028</b>	(265,664)
Balance at end of year	<b>P2,323,703</b>	P2,396,143

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

	2009	2008
Stock trading portfolio	<b>22%</b>	13%
Fixed income portfolio	<b>78%</b>	87%

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:

	2009	2008
Discount rate	<b>8.28% to 10%</b>	8.85% to 12%
Expected return on plan assets	<b>10%</b>	9%
Salary increase rate	<b>8%</b>	6% to 8%

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

	2009	2008	2007	2006
Present value of defined benefit obligation	<b>P2,380,288</b>	P2,759,339	P1,810,951	P1,596,744
Fair value of net plan assets	<b>2,323,703</b>	2,396,143	1,649,977	1,489,585
Deficit in the plan	<b>56,585</b>	363,196	160,974	107,159
Experience adjustments on plan liabilities	<b>(230,864)</b>	9,888	173,538	141,002
Experience adjustments on plan assets	<b>132,028</b>	(265,664)	39,413	194,020

The Group expects to contribute about P187.7 million to its defined benefit plans in 2010.

## 25. Related Party Disclosures

Transactions with related parties are made at normal market prices. For the periods ended December 31, 2009 and 2008, the Group did not provide 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.

Transactions with related parties and the related balances include the following:

Name of Company	Relationship*	Nature of Transactions	2009	2008
SMC	Parent Company	Sales	<b>P2,187,330</b>	P7,437,073
		Purchases	<b>292,327</b>	561,929
		Trade and other receivables	<b>88,122</b>	1,906,940
		Trade payables and other current liabilities	<b>1,778,448</b>	704,221
SMC Shipping and Lighterage Corporation	Affiliate	Sales	<b>135</b>	-
		Purchases	<b>240,927</b>	204,298
		Trade and other receivables	<b>14,380</b>	17,925
		Trade payables and other current liabilities	<b>409,074</b>	534,820
San Miguel Rengo Packaging Corporation	Affiliate	Purchases	<b>81,651</b>	193,022
		Trade and other receivables	<b>245</b>	-
		Trade payables and other current liabilities	<b>16,650</b>	54,798
		Sales	<b>2,083</b>	5,702
San Miguel Yamamura Packaging Corporation	Affiliate	Purchases	<b>102,095</b>	117,632
		Trade and other receivables	<b>8,117</b>	18,480
		Trade payables and other current liabilities	<b>61,730</b>	86,848
		Trade and other receivables	<b>41,186</b>	42,990
San Miguel International, Ltd. and subsidiaries	Affiliate	Trade payables and other current liabilities	<b>9</b>	3,612
		Purchases	<b>49</b>	12,044
		Trade and other receivables	<b>585</b>	204
		Trade payables and other current liabilities	<b>241</b>	190
SMC Stock Transfer Service Corporation	Affiliate	Sales	<b>54</b>	-
		Trade and other receivables	<b>86</b>	147
Ginebra San Miguel, Inc. and subsidiaries	Affiliate	Sales	<b>1,314</b>	2,110
		Purchases	<b>472,815</b>	553
		Trade and other receivables	<b>68,739</b>	19,148
		Trade payables and other current liabilities	<b>62,612</b>	11,168
San Miguel Properties, Inc.	Affiliate	Sales	<b>51</b>	-
		Purchases	-	957
		Trade and other receivables	<b>230</b>	1,312
		Noncurrent receivables	-	291
		Trade payables and other current liabilities	<b>395</b>	691
SMITS, Inc. and a subsidiary	Affiliate	Sales	<b>116</b>	251
		Purchases	<b>18,347</b>	57,675
		Trade and other receivables	<b>854</b>	1,040
		Trade payables and other current liabilities	<b>121,126</b>	88,617
SDI	Affiliate	Purchases	<b>12,533</b>	6,883
		Trade and other receivables	<b>530</b>	-
		Trade payables and other current liabilities	-	89,287

Forward

Name of Company	Relationship*	Nature of Transactions	2009	2008
ArchEn Technologies, Inc.	Affiliate	Sales	<b>P28</b>	P -
		Purchases	<b>1,005</b>	1,601
		Trade and other receivables	<b>94</b>	122
		Trade payables and other current liabilities	<b>7,806</b>	2,288
San Miguel Yamamura Asia Corporation	Affiliate	Purchases	<b>32,962</b>	30,240
		Trade and other receivables	-	479
		Trade payables and other current liabilities	<b>5,534</b>	4,126
San Miguel Brewery Inc.	Affiliate	Sales	<b>2,748</b>	7,859
		Purchases	<b>716,471</b>	3,241
		Trade and other receivables	<b>23,943</b>	20,857
		Trade payables and other current liabilities	<b>250,097</b>	19,955
San Miguel Beverages, Inc.	Affiliate	Sales	<b>4,755</b>	4,322
		Purchases	<b>83,213</b>	1,363
		Trade and other receivables	<b>7,145</b>	12,618
		Trade payables and other current liabilities	<b>5,492</b>	2,875
SM Bulk Water Company, Inc.	Affiliate	Trade payables and other current liabilities	<b>36</b>	93
San Miguel Distribution Co., Inc.	Affiliate	Sales	<b>7</b>	-
		Purchases	<b>4,349</b>	4,294
		Trade and other receivables	<b>28</b>	209
		Trade payables and other current liabilities	<b>20</b>	3,169
Beer World Inc.	Affiliate	Trade payables and other current liabilities	<b>31</b>	-
Mindanao Corrugated Fibreboard, Inc.	Affiliate	Purchases	<b>16,146</b>	-
		Trade payables and other current liabilities	<b>11,523</b>	-
Pacific Central Properties, Inc.	Affiliate	Trade payables and other current liabilities	<b>545</b>	-
Philippine Breweries Corporation	Affiliate	Trade payables and other current liabilities	<b>839</b>	678

\* Affiliates refer to companies owned by SMC.

On May 1, 2009, the transfer of the receivables, inventories and fixed assets of SMC's Centralized Key Accounts Group (CKAG) to SMFI was completed, for a total consideration of P2,352.5 million. CKAG was a unit of SMC engaged in the business of selling and distributing various products of some companies within the SMC Group, including SMPFC's subsidiaries, to modern trade customers.

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.

The compensation of the key management personnel of the Group, by benefit type, follows:

	2009	2008	2007
Short-term employee benefits	<b>P52,878</b>	P44,053	P28,892
Retirement costs	<b>22,417</b>	13,267	2,609
	<b>P75,295</b>	P57,320	P31,501

Several key management personnel of the Group were employees of SMC in 2008 and 2007.

The compensation of key management personnel, which were charged by SMC to the Group as management fee, amounted to P6.4 million, P26.7 million and P62.1 million in 2009, 2008 and 2007, respectively.

## 26. Basic and Diluted Earnings Per Share

Basic EPS is computed as follows:

	2009	2008	2007
Net income attributable to equity holders of the Parent Company (a)	<b>P2,596,963</b>	P77,194	P30,591
Common shares issued and outstanding	<b>141,243,350</b>	141,243,350	70,378,272
Add weighted average number of shares issued during the year	-	-	70,865,078
Weighted average number of shares (b)	<b>141,243,350</b>	141,243,350	141,243,350
Basic EPS (a/b)	<b>P18.39</b>	P0.55	P0.22

The Group does not have diluted earnings per share for the years ended December 31, 2009, 2008 and 2007.

## 27. Operating Lease Agreements

The Group entered into various operating lease agreements. These non-cancellable 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:

	2009	2008
Within one year	<b>P34,460</b>	P109,234
After one year but not more than five years	<b>109,122</b>	174,688
After more than five years	<b>409,280</b>	406,798
	<b>P552,862</b>	P690,720

Rent expense charged to operations amounted to P659.3 million, P662.5 million and P597.0 million in 2009, 2008, and 2007, respectively (Notes 18 and 19).

## 28. Financial Risk Management Objectives and Policies

### Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- interest rate risk
- foreign currency risk
- commodity price risk
- liquidity risk
- credit risk

This note presents information about the Group's exposure to each of the foregoing risks, the Group's objectives, policies and processes for measuring and managing these risks, and the Group's management of capital.

The Group's principal non-trade related financial instruments include cash and cash equivalents, AFS financial assets, short-term loans and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The Group's trade-related financial assets and liabilities such as trade and other receivables and accounts payable and accrued expenses arise directly from and are used to facilitate its daily operations.

The Group's outstanding derivative instruments such as commodity options are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to commodity price risks arising from the Group's operations.

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 financial 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 Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

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

#### Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. 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 significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The Group's risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using non-derivative instruments such as foreign currency forwards to manage its foreign currency risk exposure.

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

	2009		2008	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
<b>Assets:</b>				
Cash and cash equivalents	<b>US\$1,157</b>	<b>P53,453</b>	US\$1,127	P53,556
Accounts receivable (included under "Trade and other receivables - net" account in the consolidated statements of financial position)	<b>2,724</b>	<b>125,849</b>	3,049	144,889
<b>Total</b>	<b>3,881</b>	<b>179,302</b>	4,176	198,445
<b>Liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position):</b>				
Acceptances payable	<b>410</b>	<b>18,942</b>	925	43,956
Trade payables	<b>1,478</b>	<b>68,284</b>	1,340	63,677
<b>Total</b>	<b>1,888</b>	<b>87,226</b>	2,265	107,633
<b>Net foreign currency-denominated assets</b>	<b>US\$1,993</b>	<b>P92,076</b>	US\$1,911	P90,812



The Group reported net foreign exchange gains (losses) amounting to (P1.0 million), P5.9 million and (P54.3 million) in 2009, 2008 and 2007, respectively, with the translation of its foreign currency-denominated assets and liabilities. These resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Peso to US Dollar
December 31, 2009	46.20
December 31, 2008	47.52
December 31, 2007	41.28

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 equity (due to translation of results and financial position of foreign operations) as of December 31, 2009 and 2008.

## 2009

	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	(P1,157)	(P810)	P1,157	P810
Trade and other receivables	(2,724)	(1,907)	2,724	1,907
	(3,881)	(2,717)	3,881	2,717
Trade payables and other current liabilities	1,888	1,322	(1,888)	(1,322)
	(P1,993)	(P1,395)	P1,993	P1,395

## 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)
	(P1,911)	(P1,243)	P1,911	P1,243

## Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in market prices. 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 wheat and fuel oil.

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group's objectives to manage its liquidity risk are as follows: 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 assets and liabilities based on contractual undiscounted payments as of December 31, 2009 and 2008.

**2009**

	Carrying amount	Contractual cash flow	Less than 1 year
<b>Financial Assets</b>			
Cash and cash equivalents	<b>P3,950,346</b>	<b>P3,950,346</b>	<b>P3,950,346</b>
Trade and other receivables - net	<b>9,023,953</b>	<b>9,023,953</b>	<b>9,023,953</b>
Derivative assets	<b>47,070</b>	<b>47,070</b>	<b>47,070</b>
AFS financial assets (included under "Retirement and other noncurrent assets" account in the consolidated statements of financial position)	<b>13,761</b>	<b>13,761</b>	<b>13,761</b>
<b>Financial Liabilities</b>			
Notes payable including accrued interest	<b>8,841,254</b>	<b>8,858,334</b>	<b>8,858,334</b>
Trade payables and other current liabilities	<b>12,628,560</b>	<b>12,628,560</b>	<b>12,628,560</b>
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	<b>13,362</b>	<b>13,362</b>	<b>13,362</b>

**2008**

	Carrying amount	Contractual cash flow	Less than 1 year
<b>Financial Assets</b>			
Cash and cash equivalents	P2,782,206	P2,782,206	P2,782,206
Trade and other receivables - net	7,762,091	7,762,091	7,762,091
Derivative assets	35,757	35,757	35,757
AFS financial assets (included under "Retirement and other noncurrent assets" account in the consolidated statements of financial position)	11,426	11,426	11,426
<b>Financial Liabilities</b>			
Notes payable including accrued interest	11,749,174	11,784,993	11,784,993
Trade payables and other current liabilities	9,623,458	9,623,458	9,623,458
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	144,213	144,213	144,213

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. Thus, the Group has established detailed credit policies under which each new customer is reviewed individually for creditworthiness before standard payment and delivery terms and conditions are implemented. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The Group also manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures. Goods are subject to retention of title clauses so that in the event of default, the Group would have a secured claim. Where appropriate, the Group obtains collateral or arranges master netting agreements.

The Group recognizes provision for uncollectible accounts and impairment losses, based on specific and collective impairment tests, when objective evidence of impairment has been identified either on an individual account or on a portfolio level.

Financial information on the Group's maximum exposure to credit risk as of December 31, 2009 and 2008, without considering the effects of collaterals and other risk mitigation techniques, are presented below.

	<b>Note</b>	<b>2009</b>	<b>2008</b>
Cash and cash equivalents	6	<b>P3,950,346</b>	P2,782,206
Trade and other receivables - net	7	<b>9,023,953</b>	7,762,091
Derivative assets	29	<b>47,070</b>	35,757
AFS financial assets	29	<b>13,761</b>	11,426
		<b>P13,035,130</b>	P10,591,480

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 contracts 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.

The Group manages its capital structure and makes adjustments, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock and cumulative translation adjustments are excluded from capital for purposes of capital management.

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 monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally imposed capital requirements.

## 29. Financial Assets and Liabilities

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of December 31, 2009 and 2008:

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	<b>P3,950,346</b>	<b>P3,950,346</b>	P2,782,206	P2,782,206
Trade and other receivables - net	<b>9,023,953</b>	<b>9,023,953</b>	7,762,091	7,762,091
Derivative assets	<b>47,070</b>	<b>47,070</b>	35,757	35,757
AFS financial assets (included under "Retirement and other noncurrent assets" account in the consolidated statements of financial position)	<b>13,761</b>	<b>13,761</b>	11,426	11,426
Financial liabilities:				
Notes payable	<b>8,816,090</b>	<b>8,816,090</b>	11,666,380	11,666,380
Trade payables and other current liabilities	<b>12,653,724</b>	<b>12,653,724</b>	9,706,252	9,706,252
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	<b>13,362</b>	<b>13,362</b>	144,213	144,213

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 amounts of cash and receivables approximate their respective fair values primarily due to the relatively short-term maturity of these financial instruments.

*Derivatives.* The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

*AFS Financial Assets.* The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates. Unquoted equity securities and derivative instruments linked to unquoted stocks are carried at cost less impairment.

*Notes Payable and Trade Payables and Other Current Liabilities.* The carrying amounts of notes payable and trade payables and other current liabilities approximate their respective fair values 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 wheat and fuel oil.

The Group's freestanding and embedded derivative financial instruments are accounted for as hedges or transactions not designated as hedges.

#### Derivative Instruments Accounted for as Hedges

*Cash Flow Hedge.* The Group had options in 2008 entered into on its behalf by SMC, designated as hedge of forecasted purchases of fuel oil requirements for 2009. These options were 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 net unrealized fair value change (after tax) reported as part of other comprehensive income and the amount charged to profit and loss on these call and put options as of December 31, 2008 amounted to P7.8 million and (P0.2 million), respectively.

As of December 31, 2009, the Group has no outstanding options designated as hedge on the purchase of commodity. However, the amount charged to profit and loss for 2009 amounted to P7.6 million.

These option contracts are being used to hedge the commodity price risk of the Group's commitments. There were no ineffective portions in this hedge.

#### 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. Changes in fair value of these instruments are accounted for directly in the 2009 and 2008 consolidated statements of income. Details are as follows:

*Freestanding Derivatives.* Freestanding derivatives consist of various commodity options entered into by SMC on behalf of the Group.

The Group had bought and sold options to hedge fuel oil requirements in 2009. These options were exercised at various calculation dates in 2009 with specified quantities on each calculation date. As of December 31, 2009, the Group has no outstanding commodity option for the purchase of fuel oil. 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.

The Group also had outstanding bought and sold wheat options with various maturities in 2009 and 2010. As of December 31, 2009 and 2008, the notional quantity allocated to the Group is 59,874 and 34,292 metric tons, respectively. The net negative fair value of these options as of December 31, 2009 and 2008 amounted to P5.8 million and P93.9 million, respectively.

*Embedded Derivatives.* The Group's embedded derivatives include currency forwards embedded in non-financial contracts. As of December 31, 2009 and 2008, the total outstanding notional amount of such embedded currency forwards amounted to US\$28.6 million and US\$23.4 million, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. As of December 31, 2009 and 2008, the net positive fair value of these embedded currency forwards amounted to P39.5 million and P21.1 million, respectively.

For the years ended December 31, 2009 and 2008, the Group recognized mark-to-market gains (losses) from freestanding and embedded derivatives amounting to P54.5 million and (P388.3 million), respectively.

#### Fair Value Changes on Derivatives

The net movements in fair value changes of all derivative instruments for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Balance at beginning of year	(P108,456)	P437,927
Net changes in fair value of derivatives:		
Designated as accounting hedges	3,645	(10,945)
Not designated as accounting hedges	55,267	(472,066)
	(49,544)	(45,084)
Less fair value of settled instruments	(83,252)	63,372
Balance at end of year	P33,708	(P108,456)



*Hedge Effectiveness Results.* The Group has no outstanding derivatives designated as hedges as of December 31, 2009.

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

**Fair value hierarchy**

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

**2009**

	Level 1	Level 2	Total
<b>Financial Assets</b>			
Derivative assets	<b>P4,863</b>	<b>P42,207</b>	<b>P47,070</b>
AFS financial assets	-	<b>13,761</b>	<b>13,761</b>
<b>Financial Liabilities</b>			
Derivative liabilities	<b>10,698</b>	<b>2,664</b>	<b>13,362</b>

As of December 31, 2009, the Group has no financial instruments valued based on Level 3. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

### 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 and included in "Selling and Administrative Expenses" amounted to P6.3 million, P5.5 million and P6.1 million in 2009, 2008 and 2007, 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 2009, 2008 and 2007 amounted to P3,137.9 million, P2,663.8 million, and P2,876.9 million, 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, 2009 and 2008 amounted to P9,516.0 million and P9,640.9 million, respectively.

*d. Registration with the Board of Investments (BOI)*

Certain operations of consolidated subsidiaries are registered with the BOI as pioneer and non-pioneer activities. As registered enterprises, these consolidated subsidiaries are subject to some requirements and are entitled to certain tax and non-tax incentives which are considered in the computation of the provision for income tax.

Monterey

Monterey's Sumilao Hog Project (Sumilao Project) was registered with the BOI under Registration No. 2008-192, in accordance with the provisions of the Omnibus Investment Code of 1987 on a pioneer status as New Producer of Hogs on July 30, 2008. As a BOI-registrant, the Sumilao Project is entitled to incentives which included, among others, income tax holiday (ITH) for a period of six (6) years, extendable under certain conditions to eight (8) years, from February 2009 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

SMFI

SMFI was registered with the BOI on a non-pioneer status as a New Producer of Animal Feeds for its Mariveles, Bataan plant and as a New Producer of Chicken (Dressed) for its Orion, Bataan farm in August 2006 and July 2007, respectively.

Under the terms of SMFI's BOI registration and subject to certain requirements as provided in the Omnibus Code of 1987, SMFI is entitled to incentives which included, among others, ITH for a period of four (4) years from January 2007 for Animal Feeds and from October 2007 for Dressed Chicken (can be extended to maximum of 8 years provided certain conditions are met).

PF-Hormel

The existing registration of PF-Hormel with the BOI was made on May 18, 2006 in accordance with the provisions of the Omnibus Investments Code of 1987 as a new producer of processed meat products on a non-pioneer status. Under the terms of this new registration, PF-Hormel is entitled to certain tax incentives, including income tax holiday (ITH) for four (4) years from July 2007, or from the actual start of commercial operations, which ever comes first, but in no case earlier than the date of registration.

PF-Hormel's new registered activity with the BOI commenced commercial operations in July 2007 and began to avail tax incentives since then.

## 32. Subsequent Events

On February 2, 2010, the Company's BOD approved, among others, the following corporate actions, subject to the necessary approvals of the Company's stockholders, as necessary, and of the SEC:

- De-classification of SMPFC's common shares and increase in SMPFC's authorized capital stock by P1,000 million or 100,000,000 shares at P10.00 par value.
- Declaration of 18% stock dividend based on the issued and outstanding shares to be taken out of the proposed increase in authorized capital stock.

- Potential issuance of up to 75,000,000 new SMPFC shares to SMC or third parties.

The BOD also approved on the same date the proposal of SMPFC management to a) purchase food-related brands and intellectual property rights from SMC at a purchase price of P3,200 million, and b) acquire, through SMPFIL, a British Virgin Islands company and a wholly-owned subsidiary of SMPFC, SMC's 51% interest, through San Miguel Foods and Beverage International Limited, in San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited) at book value. SMPFI Limited owns 100% of San Miguel Pure Foods Vietnam (SMPFVN).

The unaudited financial information relative to the acquisition of SMPFVN as of December 31, 2009 follows:

Cash and cash equivalents	P107,589
Trade and other receivables - net	126,532
Inventories - net	540,857
Prepaid expenses and other current assets	23,647
Property, plant and equipment - net	1,162,875
Intangible assets	71,518
Other noncurrent assets	14,508
Trade payables and other current liabilities	(543,070)
Other noncurrent liabilities	(2,848)
Net assets	P1,501,608



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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**

2F SMC Head Office Complex  
40 San Miguel Avenue, Mandaluyong City  
1550 Metro Manila, Philippines

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Fax: (632) 632-3535

E-mail address: [smc\\_stsc@smg.sanmiguel.com.ph](mailto:smc_stsc@smg.sanmiguel.com.ph)

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CUSTOMER CARE

For inquiries, orders, suggestions on our products and services, please write or call:

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San Miguel Properties Center  
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# 2009

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