

# COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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

SANTIAGO A. POLIDO
Contact Person

840-45-00
Company Telephone Number

1	2	3	1	SEC FORM 20-IS (Definitive)	0	5	1	3	
Month	Day	FORM TYPE				Month	Day		
Fiscal Year								Annual Meeting	

N/A
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Secondary License Type, If Applicable

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Dept Requiring this Doc	Amended Articles Number / Section
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Total Amount of Borrowings		
2,925	N/A	N/A
Total No. of Stockholders	Domestic	Foreign

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To be accomplished by SEC Personnel concerned

File Number	LCU

Document ID	Cashier

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## NOTICE OF REGULAR ANNUAL STOCKHOLDERS' MEETING

NOTICE is hereby given that the Regular Annual Stockholders' Meeting of **Alaska Milk Corporation** will be held at the **Mandarin Ballroom, Mandarin Oriental Manila, Makati Avenue, Makati City** on **Tuesday, 13 May 2008** at **9:00 A.M.**

The Agenda of the Meeting is as follows:

1. Call to Order
2. Proof of Notice of Meeting
3. Determination of Quorum
4. Approval of the Minutes of the Previous Stockholders' Meeting held on May 8, 2007
5. Report of the President
6. Approval of the Audited Financial Statements as of 31 December 2007
7. Election of Directors
8. Ratification of all Acts and Resolutions of the Board of Directors adopted in the ordinary course of business during the preceding year
9. Appointment of External Auditor
10. Approval of Amendment of Articles of Incorporation and By-Laws by Increasing the Number of Directors
11. Other Business Matters
12. Adjournment

Stockholders of record as of **7 March 2008** are entitled to notice of and vote at the Annual Meeting.

For the Board of Directors



SANTIAGO A. POLIDO  
Corporate Secretary

**SECURITIES AND EXCHANGE COMMISSION**  
**SEC FORM 20-IS**  
**INFORMATION STATEMENT PURSUANT TO SECTION 20**  
**OF THE SECURITIES REGULATION CODE**  
(Total No. of Pages = **99**)

1. (    ) Preliminary Information Statement  
(  ) Definitive Information Statement

2. Name of Registrant : **ALASKA MILK CORPORATION**
3. Country / Jurisdiction of Incorporation : Makati City, Philippines
4. SEC Identification Number : ASO 94-008745
5. BIR Tax Identification Code : 047-003-945-022V
6. Address of Principal Office : 6/F Corinthian Plaza, 121 Paseo de Roxas  
Makati City, 1220
7. Telephone Number : (632) 840-4500 or (632) 840-5921 to 39

8. Date, time and place of meeting of security holders:

**DATE** : **13 May 2008**  
**TIME** : **9:00 A.M.**  
**PLACE** : **Mandarin Oriental Manila**  
**Makati Avenue, Makati City**

9. Approximate date this Information is first to be sent to security holders: **April 18, 2008**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA:

a. Authorized Capital Stock                    ₱ 1,000,000,000.00

Common Shares                                1,000,000,000 (₱1.00 par value)

- b. Number of Shares Outstanding as of 7 March 2008

<u>Title of Each Class</u>	<u>Number of Shares Outstanding</u>
Common	950,926,144 shares (net of 15,368,734 Treasury)

11. Are any or all of registrant's securities listed on a Stock Exchange?

Yes                                 No

If so, disclose name of exchange : Philippine Stock Exchange

## PART I

### INFORMATION REQUIRED IN INFORMATION STATEMENT

#### A. GENERAL INFORMATION

##### **Item 1. Date, Time & Place of Meeting of Security Holders**

(a) <b>DATE</b>	:	May 13, 2008
<b>TIME</b>	:	9:00 A.M.
<b>PLACE</b>	:	Mandarin Oriental Manila Makati Avenue, Makati City, Philippines
<b>Mailing Address</b>	:	6/F Corinthian Plaza 121 Paseo de Roxas, Makati City

##### **Item 2. Dissenters' Right of Appraisal**

The appraisal right of a stockholder may be exercised only when a proposed corporate action would involve a substantial and fundamental change in the Corporation in the cases provided by law. The appraisal right is exercised by any stockholder who shall vote against the proposed corporate action involving a substantial and fundamental change in the Corporation, by making a written demand on the Corporation within thirty (30) days after the date on which the vote was taken for payment of the fair value of his shares: Provided, that failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented or effected, the Corporation shall pay to such stockholder, upon surrender of the certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the Corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the Corporation and third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the Corporation within thirty (30) days after such award is made: Provided, that no payment shall be made to any dissenting stockholder unless the Corporation has unrestricted retained earnings in its books to cover such payment: Provided, further, that upon payment by the Corporation of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the Corporation.

**There are no corporate matters or actions that may give rise to the exercise of the right of appraisal by a dissenting stockholder as provided in Title X of the Corporation Code.**

### Item 3. Interest of Certain Persons in Matters to be Acted Upon

No director, nominee for election as director, associate of the nominee or executive officer of the Company at any time since the beginning of the last fiscal year has had any substantial interest, direct or indirect, by security holdings or otherwise, in any of the matters to be acted upon in the meeting, other than election to office.

None of the incumbent directors has informed the Company in writing of an intention to oppose any action to be taken by the Company at the meeting.

## **B. CONTROL AND COMPENSATION INFORMATION**

### Item 4. Voting Securities and Principal Holders Thereof

- (a) Number of Shares Outstanding as of **7 March 2008**: **950,926,144 shares**  
(net of 15,368,734 Treasury)  
Number of Votes Entitled: **One (1) Vote per Share**
- (b) All stockholders of record as of **7 March 2008** are entitled to notice of and to vote at the Annual Stockholders' Meeting.
- (c) There are **950,926,144** shares entitled to vote. The stockholder may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one nominee as many votes as the number of directors to be elected, multiplied by the number of shares shall equal, or he may distribute them on the same principle among as many nominees as he or she shall see fit.

### Security Ownership of Certain Record and Beneficial Owners (as of 7 March 2008):

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship of Record Owner	No. of Shares Held	Percent Held
Common	Jadestone Investments LLC <sup>1</sup> 2180 Sand Hill Road, Suite 340, Menlo Park, CA 94025, USA (Stockholder)	N.A.	American	474,270,699 - record -	49.87%

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<sup>1</sup> Jadestone Investments LLC, a company owned by the Uytengsu Family, is a shareholder of Alaska Milk Corporation (AMC) and owns 49.87% of AMC's total issued and outstanding capital stock. The General Manager of Jadestone Investments LLC, Mr. Wilfred Steven Uytengsu, Jr., is concurrently the President and Chief Executive Officer of Alaska Milk Corporation. Shares owned by Jadestone Investments LLC are voted through its appointed proxy, Mr. Wilfred Steven Uytengsu, Jr.

<b>Title of Class</b>	<b>Name and Address of Record Owner and Relationship with Issuer</b>	<b>Name of Beneficial Owner and Relationship with Record Owner</b>	<b>Citizenship of Record Owner</b>	<b>No. of Shares Held</b>	<b>Percent Held</b>
Common	Campina Zuivel B.V. <sup>2</sup> Hogeweg 9, Zaltbommel The Netherlands 5301 LB (Stockholder)	N.A.	Dutch	71,202,144 - record -	7.49%
Common	PCD Nominee Corp. <sup>3</sup> G/F Makati Stock Exchange 6767 Ayala Avenue, Makati City - The Hongkong & Shanghai Banking Corp. Ltd <sup>4</sup> 33/F West Tower, Tektitte Bldg, Pasig City	Various Shareholders <sup>6</sup>	Foreign	93,015,000 - beneficial -	9.78%
Common	Standard Chartered Bank <sup>5</sup> 6756 Ayala Avenue Makati City	Various Shareholders <sup>6</sup>	Foreign	60,763,00 - beneficial -	6.39%

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<sup>2</sup> Campina Zuivel B.V. is a shareholder of Alaska Milk Corporation and owns 7.49% of AMC's total issued and outstanding capital stock. Campina Zuivel B.V. is one of Europe's leading dairy firms, producing a range of consumer and industrial products with Netherlands, Belgium and Germany as its main markets. Campina Zuivel B.V. has yet to appoint a representative / proxy for this year's Stockholders' Meeting. Campina Zuivel B.V. is not related to Alaska Milk Corporation.

<sup>3</sup> Registered owner of shares held by participants in the Philippine Central Depository, Inc. (PCD), a private company organized to implement an automated book entry system of handling securities in the Philippines. Shares lodged with the PCD are voted through its appointed proxy.

<sup>4</sup> The Hongkong & Shanghai Banking Corp. Ltd. (HSBC) is a participant of PCD. The clients, stockholders of Alaska Milk Corporation, of HSBC have the power to decide how the shareholdings are to be voted through its appointed proxy. HSBC is not related to Alaska Milk Corporation.

<sup>5</sup> Standard Chartered Bank is a participant of PCD. The clients, stockholders of Alaska Milk Corporation, of Standard Chartered Bank, have the power to decide how the shareholdings are to be voted through its appointed proxy. Standard Chartered Bank is not related to Alaska Milk Corporation.

<sup>6</sup> The Company has no record of beneficial owners of shares lodged with PCD. None of these stockholders has shares registered in their names equivalent to more than 5% of the voting securities of the Company.

<b>Title of Class</b>	<b>Name and Address of Record Owner and Relationship with Issuer</b>	<b>Name of Beneficial Owner and Relationship with Record Owner</b>	<b>Citizenship of Record Owner</b>	<b>No. of Shares Held</b>	<b>Percent Held</b>
Common	Citibank N.A. <sup>7</sup> 11/F Citibank Tower, 8741 Paseo de Roxas Makati City	Various Shareholders <sup>8</sup>	Foreign	50,019,944 - beneficial -	5.26%
Common	PCD Nominee Corp. G/F Makati Stock Exchange 6767 Ayala Avenue, Makati City	Various Shareholders <sup>8</sup>	Filipino	64,588,951 -beneficial-	6.79%
Common	Wilfred & Bonnie Uytengsu Foundation, Inc. <sup>9</sup> 6/F Corinthian Plaza, 121 Paseo de Roxas Makati City (Stockholder)	N.A.	Filipino	56,829,566 -record-	5.98%

The Hongkong & Shanghai Banking Corp. Ltd., Standard Chartered Bank and Citibank N.A. are custodian banks for various beneficial foreign shareholders, under PCD Nominee Corp., who exercise voting powers on Alaska Milk Corporation shares.

<sup>7</sup> Citibank N.A. is a participant of PCD. The clients, stockholders of Alaska Milk Corporation, of Citibank N.A. have the power to decide how the shareholdings are to be voted through its appointed proxy. Citibank N.A. is not related to Alaska Milk Corporation.

<sup>8</sup> The Company has no record of beneficial owners of shares lodged with PCD. None of these stockholders has shares registered in their names equivalent to more than 5% of the voting securities of the Company. PCD is not related to Alaska Milk Corporation.

<sup>9</sup> Wilfred & Bonnie Uytengsu Foundation, Inc., a non-stock and non-profit association, is a shareholder of Alaska Milk Corporation and owns 5.98% of AMC's total issued and outstanding capital stock. Shares owned by Wilfred and Bonnie Uytengsu Foundation, Inc. are voted through its appointed proxy, Mr. Wilfred Uytengsu, Sr.

## Security Ownership of Management

The following are the number of shares comprising the Company's capital stock (all of which are voting shares) owned of record by the directors, Chief Executive Officer and key officers of the Company as of March 7, 2008:

Title of Class	Name of Beneficial Owner	Amount & Nature of Beneficial Ownership	Citizenship	Percent Ownership
Common	Wilfred Uytengsu, Sr.	240,003 – r	Filipino	0.025%
Common	Wilfred Steven Uytengsu, Jr.	240,001 – r	Filipino	0.025%
Common	Michael R.B. Uytengsu	240,000 – r	American	0.025%
Common	Antonio H. Ozaeta	200,250 – r	Filipino	0.021%
Common	Jose R. Facundo	135,001 – r	Filipino	0.014%
Common	Grahame Tonkin	250 – r	Australian	*
Common	Roberto F. de Ocampo	250 – r	Filipino	*
Common	Juan B. Santos	1 – r	Filipino	*
Common	Ramon S. Esguerra	1 – r	Filipino	*
Common	Joselito J. Sarmiento Jr.	500,000 – r	Filipino	0.052%
Common	Maximo Y. Abad	279,500 – r	Filipino	0.029%
Common	Ma. Belen M. Fernando	116,500 – r	Filipino	0.012%
Common	Arnold L. Abad	111,000 – r	Filipino	0.012%
Common	Santiago A. Polido	100,000 – r	Filipino	0.011%
Common	Francisco T. Idian	50,000 – r	Filipino	0.005%
	<b>Total</b>	<b>2,212,757</b>		<b>0.233%</b>

\* less than 0.005%

## Voting Trust Holders of 5% or more

The Company knows of no persons holding more than 5% of common shares under a Voting Trust Agreement or any such similar agreement.

## Changes in Control

No change of control in the Company has occurred since the beginning of its last fiscal year. There are no existing arrangements that may henceforth result in a change in control of the Company.

## Item 5. Directors and Executive Officers

The names of the incumbent directors and key executive officers of the Company, including their respective ages, periods of service and directorships in other reporting companies held during the past five (5) years are as follows:

## **MEMBERS OF THE BOARD:**

### **Wilfred Uytensu, Sr. Chairman of the Board**

Mr. Uytensu, Filipino, 80 years old, is presently the Chairman of the Board of Alaska Milk Corporation. He founded General Milling Corporation (GMC) in the late 1950s and built it into one of the largest food companies in the Philippines of which he was a board member for almost 40 years until his retirement in early 1998. Mr. Uytensu also founded Holland Milk Products, Inc. (HOMPI) in the early seventies, the company which first manufactured Alaska Milk products in the Philippines. HOMPI was later merged under the consumer products division of GMC and was subsequently spun-off as AMC. Mr. Uytensu has been the Chairman of AMC since its incorporation in September 1994 and was the Company's Chief Executive Officer from 1994 to November 2007. Mr. Uytensu is the Chairman of the Company's Nomination Committee and is a member of the Company's Compensation and Remuneration Committee. He was a former board member of Universal Foods Corporation of Wisconsin, USA, Kuok Philippine Properties, Inc. and Mandarin Oriental Hotel, Manila.

### **Antonio H. Ozaeta Vice Chairman of the Board / Independent Director**

Mr. Ozaeta, Filipino, 75 years old, has been Vice Chairman of the Board of Directors of AMC since 1998. He has broad management experience in the fields of banking, finance and public utilities. He has been the President of Philippine Trust Company (PHILTRUST Bank) since October 1998. Mr. Ozaeta also served as President and Chief Executive Officer of Philippine Commercial International Bank (PCIBank) for twelve years and was the Chairman of the Board of Manila Electric Company (Meralco) for seven years. He is presently the Chairman of the Boards of Magellan Utilities Development Corporation, Magellan Capital Holding Corporation, Magellan Cogeneration, Inc., PCCI Finance Corporation, Ancel Holdings Corporation, PCCI Insurance Brokerage, Inc. and Philippine Commercial Capital, Inc. He also sits as a member of the boards of PHILTRUST Bank, Insular Life Assurance Co., Ltd and Insular Health Care, Inc., Prudential Guarantee & Assurances, Inc., Home Credit Mutual Building and Loan Association and is a member of the Board of Trustees of the University of Asia and the Pacific. Mr. Ozaeta was educated at the Ateneo de Manila University (BS Economics), De La Salle University (BSBA) and Harvard University (MBA). Mr. Ozaeta is the Chairman of AMC's Compensation and Remuneration Committee and is also a member of the Company's Nomination Committee.

### **Wilfred Steven Uytensu, Jr. Director / President and Chief Executive Officer**

Mr. Uytensu, Filipino, 46 years old, first served as Executive Vice President and Chief Financial Officer of AMC since its incorporation in 1994 and was appointed President of the Company in February 1998 and Chief Executive Officer in November 2007. He is also the President of GenOSI, Inc., the exclusive supplier of processed meats for the McDonald's chain of restaurants in the Philippines. Mr. Uytensu is also a member of the Board of Governors of

the Philippine Basketball Association and was the Past Chairman of the internationally recognized Young Presidents' Organization (YPO). Mr. Uytengsu was also Chief Finance Officer and Member of the Board of General Milling Corporation, a diversified industrial and consumer foods company, for over ten years. Mr. Uytengsu graduated from the University of Southern California, with emphasis in the School of Business' Entrepreneurship Program, in 1983. He was named the Philippines' 2007 Entrepreneur of the Year and Master Entrepreneur by Ernst & Young. Mr. Uytengsu has been a member of the Board of Directors of AMC since 1994 and is a member of the Company's Audit Committee and Compensation and Remuneration Committee.

**Michael R.B. Uytengsu**  
**Director**

Mr. Uytengsu, American, 40 years old, has been a member of the Company's Board of Directors since 1998. He began his career as an investment banker with Salomon Brothers' Project Finance Group in New York and later transferred to Salomon Brothers' Corporate Finance Department in Hong Kong. Mr. Uytengsu is currently the President of Brookstone Holdings, Inc., a privately held company based in the United States with interests in food manufacturing and real estate. He obtained his Bachelor's Degree in Business from the University of Southern California.

**Jose R. Facundo**  
**Independent Director**

Mr. Facundo, Filipino, 70 years old, has an extensive career in banking. He served as a Member of the Board and Executive Committee and as President of BPI Capital Corporation and was also a Member of the Board and Executive Committee of the Bank of the Philippine Islands (BPI). Prior to BPI's merger with CityTrust Banking Corp., Mr. Facundo served as President and CEO of CityTrust and was a member of its board and executive committees. Mr. Facundo was also a Senior Managing Director of Ayala Corporation and was a Senior Officer of Citibank Manila. He also served as Chairman and board member of the Philippine Clearing House. Mr. Facundo serves as an Adviser and Director to the Board of Security Bank Corporation and is a member of the Board of Siemens Philippines, Inc. He has been a board member of AMC since 1994 and is a member of the Company's Audit Committee.

**Grahame Tonkin**  
**Independent Director**

Mr. Tonkin, Australian, 62 years old, began to serve as a board member of AMC in 1998. He is currently a non-executive director of Food and Beverage Australia Ltd. Mr. Tonkin was the Executive Director of Food South Australia from December 2004 to May 2007 and was formerly the Managing Director of Tarac Australia Pty. Ltd. and prior to this, Chief Executive Officer of the Australian Dairy Corporation for six years. He also spent eight years with Inchape, a British marketing and services company, where he served as Chief Executive for its wine and spirits business in the Asia Pacific Region and was actively involved in Inchape's joint venture operations in Hong Kong, Taiwan, Thailand, Singapore and Malaysia. Mr.

Tonkin is a qualified accountant, Fellow CPA, Fellow Chartered Secretary and Fellow of the Australian Institute of Management and Associate of the Australian Institute of Directors.

**Dr. Roberto F. de Ocampo**  
**Independent Director**

Dr. de Ocampo, Filipino, 62 years old, is the immediate past President of the Asian Institute of Management (AIM), one of Asia's leading international business and management graduate schools based in the Philippines. He is currently a member of the AIM Board of Trustees and is Chairman of the Board of Advisors of the RFO Center for Public Finance and Regional Economic Cooperation (recently designated as an ADB Regional Knowledge Hub). He served as Secretary of Finance of the Republic of the Philippines from 1994 to 1998 during the presidency of Fidel V. Ramos, and was previously Chairman and Chief Executive Officer of the Development Bank of the Philippines during the presidency of Corazon C. Aquino. Dr. de Ocampo graduated from De La Salle College and Ateneo University in Manila, received an MBA from the University of Michigan, holds a post-graduate diploma from the London School of Economics, and has four doctorate degrees (Honoris Causa). He is the recipient of many international awards including Finance Minister of the Year, Philippine Legion of Honor, ADFIAP Man of the Year, Chevalier of the Legion of Honor of France, Ten Outstanding Young Men Award (TOYM), several Who's Who Awards and the 2006 Asian HRD Award for Outstanding Contribution to Society. He is also a member / Advisory Board member of a number of important global institutions including The Conference Board, the Trilateral Commission, the BOAO Forum for Asia and the Emerging Markets Forum. Dr. de Ocampo has been a board member of AMC since 1999 and is the Chairman of the Company's Audit Committee.

**Juan B. Santos**  
**Independent Director**

Mr. Santos, Filipino, 69 years old, was the Chairman and President of Nestle Philippines, Inc. (NPI) from 1987 until his retirement in March 2003. Prior to his appointment as President of NPI, Mr. Santos was the CEO of the Nestle Group of Companies in Thailand and was the CEO of Nestle Singapore Pte. Ltd., on a concurrent capacity as President of NPI, from 1989 to 1995. In 1982, he was given the Agora Award for Marketing Management by the Philippine Marketing Association and was awarded Management of the Year by the Management Association of the Philippines in 1994. He served as Secretary of Trade and Industry of the Republic of the Philippines in 2005. Mr. Santos was a director of San Miguel Corporation, PLDT, Manila Electric Company, Malayan Insurance Company, Inc., Equitable Savings Bank, Inc., PCI Leasing and Finance, Inc., Inter-Milling Holdings Limited and PT Indofood Sukses Makmur Tbk. and was the Chairman of the Advisory Board of Equitable PCIBank. He also served as Chairman of the Ramon Magsaysay Award Foundation, Philippine Business for the Environment and the Foundation for Rural Electrification for Economic Development and was an active member of the Board of Trustees of the Philippine Business for Social Progress. Mr. Santos is currently a director of Great Pacific Life Assurance Corporation. He is also a consultant to Marsman Drysdale Group of Companies and a member of the Board of Trustees of St. Lukes Medical Center. Mr. Santos obtained his degree of Bachelor of Science in

Business Administration from the Ateneo de Manila University and post-graduate studies at the Thunderbird Graduate School of Management in Arizona, USA. He also completed an Advanced Management Course at IMD in Lausanne, Switzerland. Mr. Santos was elected director of AMC in May 2007.

**Atty. Ramon S. Esguerra**  
**Director**

Atty. Ramon S. Esguerra, Filipino, 54 years old, began to serve in AMC's Board in 2003. Atty. Esguerra is the Managing Partner of Esguerra & Blanco Law Offices, a law firm that he founded with seven (7) other lawyers with known experience and expertise in various areas of Philippine law. Atty. Esguerra's fields of specialization are on Intellectual Property, Real Estate, Settlement of Estates and Estate Planning, Judicial and Quasi-Judicial Litigation. Atty. Esguerra also served in the Philippine's Department of Justice, as Undersecretary in charge of the National Prosecution Service, National Bureau of Investigation, Bureau of Immigration and Witness Protection Security and Benefit Program. Atty. Esguerra is currently the Vice-Chancellor for External Affairs of the Alpha Phi Beta Chancery, Inc., the immediate past President of the Licensing Executives Society of the Philippines, a Trustee of the Intellectual Property Association, Inc., a member of the International Trademark Association of the Philippines and the Asian Patent Attorneys Association, and a member of the Rotary Club, Makati Central. Atty. Esguerra is also an active member of the Integrated Bar of the Philippines and a Professional Lecturer on Criminal Law and Remedial Law at the University of the Philippines College of Law. Atty. Esguerra is a graduate of the University of the Philippines College of Law and graduated at the top five of his class and was hailed Chancellor, Order of the Purple Feather, of the U.P. College of Law Honor Society. Atty. Esguerra is a member of AMC's Nomination Committee.

**EXECUTIVE OFFICERS:**

**Joselito J. Sarmiento, Jr.**  
**Senior Vice President and Chief Financial Officer**

Mr. Sarmiento, Filipino, 52 years old, was promoted to Senior Vice President and Chief Financial Officer in 2007. Previously, he was Vice President for Finance and Treasurer (1998 to 2007) and Vice President for Corporate Planning and Assistant Corporate Secretary (1994 to 1998). Prior to AMC, Mr. Sarmiento served as Vice President – Corporate Planning of GMC for 18 years, which involved him in the operations of GMC's milk division before it was spun-off as AMC. Mr. Sarmiento obtained his Bachelor's Degree in Accountancy, "Summa Cum Laude" from De La Salle College and his Masters Degree in Business Management, with "Distinction", from the Asian Institute of Management. He ranked 9<sup>th</sup> place in the 1975 CPA Board Examination.

**Arnold L. Abad**  
**Vice President – Accounting and Comptroller**

Mr. Abad, Filipino, 50 years old, was appointed as the Company's Comptroller and Vice President for Accounting in 2004. He has extensive experience in the fields of accounting and auditing. Mr. Abad began his professional career in 1978 as an Auditor at SyCip Gorres Velayo & Co. Subsequently, he joined First Holdings International Inc. where he served as its Accounting Manager from 1982 – 1987. In 1988, he moved to GMC as a Senior Audit Manager and was later promoted as Director of Internal Audit. Mr. Abad resigned from GMC in 1998 and joined AMC as Comptroller and Director for Accounting. A Certified Public Accountant, Mr. Abad was a consistent Dean's Lister at the De La Salle University where he obtained his degree in BS Accounting.

**Maximo Y. Abad**  
**Vice President – Engineering**

Engr. Abad, Filipino, 82 years old, joined AMC as Vice President for Engineering in 1998. He is responsible for overseeing the civil works construction, machinery and electrical installations of AMC's manufacturing facilities in San Pedro, Laguna. Prior to joining AMC, he was Vice President for Engineering of GMC for 17 years, managing all engineering requirements of the company, including those of its milk division. Engr. Abad obtained his Bachelor of Science Degree in Mechanical Engineering from the Cebu Institute of Technology and is a Licensed Professional Mechanical Engineer.

**Ma. Belen M. Fernando**  
**Vice President – Marketing**

Ms. Fernando, Filipino, 47 years old, is the Company's Vice President for Marketing starting in 2004. She first handled the Alaska Milk business when she was hired by GMC in 1992 as Group Product Manager. Prior to joining AMC, she worked with CFC-URD, Bristol Myers/Mead Johnson and Johnson & Johnson. Ms. Fernando is currently the Chairperson of the Philippine Association of National Advertisers Foundation (PANAF), Board of Trustees of the Ads Standards Council (ASC) and Board of Trustees of the Ad Foundation of the Philippines. She has served as two-term President of PANA and as the 2007 Vice-Chairperson of the Advertising Board of the Philippines (AdBoard). Ms. Fernando graduated with honors from the Ateneo de Manila University with a Bachelor of Arts Degree in Economics. She completed her academic units for an MBA program from the Ateneo Graduate School of Business. She is actively involved in education of marketing students as lecturer, speaker and mentor in various educational organizations.

**Franciso T. Idian**  
**Vice President - Sales**

Mr. Idian, Filipino, 48 years old, joined AMC in January 2005 as Sales Director and was promoted to Vice President for Sales in 2007. Mr. Idian has extensive experience in customer business development having worked with Procter & Gamble for 21 years. The last position

he held in Procter & Gamble was Associate Director for Global Retail Account and Capability Team Leader, for the Asean, Australasia and Indian market. Prior to joining AMC, he was the Sales Director for Master Foods Corporation. Mr. Idian graduated Cum Laude from the Union College with a degree in Bachelor of Science in Business Administration, Major in Accounting.

**Santiago A. Polido**

**Vice President – Corporate Affairs & Corporate Secretary**

Mr. Polido, Filipino, 59 years old, joined the Company in 1998 as Head of Corporate Affairs and was promoted to Vice President in 2007. Prior to joining AMC, he was the Vice President for Corporate Services and Corporate Secretary of the Philippine Associated Smelting and Refining Company (PASAR). While in PASAR, he also held several senior management positions which involved administrative and human resource duties as well as various corporate services responsibilities. Prior to joining PASAR, he handled corporate legal work at Sycip Salazar Luna Feliciano & Manalo Law Offices. Mr. Polido obtained his degree in A.B. Economics and Bachelor of Laws degree from the University of the Philippines.

**Aaron D. Fulton**

**Director - Operations**

Mr. Fulton, New Zealander, 37 years old, was appointed as Director for Operations in May 2007. Prior to joining AMC in January 2007, Mr. Fulton was the Operations Manager for Fonterra, specializing in the relationship management between Fonterra and its consumer arm – Fonterra Brands. He brings with him 19 years of experience in the dairy industry, 14 years of which was in the area of production and operations management. The remaining years were in Supply Chain Management and Customer Service Management. Mr. Fulton graduated with a Masters Degree in Technology Management from Waikato University in 2004. He also has a Post Graduate Diploma in Management Studies and a Diploma in Dairy Technology.

**Thomas Nilsson**

**Director – UHT Operations**

Mr. Nilsson, Swedish, 53 years old, joined AMC as Director for UHT Operations in August 2007. Prior to joining AMC, Mr. Nilsson worked for Tetra Pak for 21 years and has extensive international experience. He was the Technical Director for Tetra Pak Philippines from 1999 to 2006. Mr. Nilsson obtained his degree in Mechanical Engineering from Pauli College in Sweden.

The directors are elected at each annual stockholders' meeting by stockholders entitled to vote in accordance with the Company's By-Laws. Each director holds office until the next annual election and until his successor is duly elected, unless he resigns from office, is incapacitated and is unable to carry out his duties as director, or is removed prior to such election.

In compliance with the Manual on Corporate Governance, the Nomination Committee reviewed the nominations and qualifications of the incumbent independent directors who will be nominated for re-election to the Board of Directors during the scheduled annual meeting of stockholders. In approving the nominations for re-election of independent directors, the Nomination Committee took into consideration the Guidelines on the Nomination of Independent Directors prescribed in SRC Rule 38, as amended.

The following are the nominees for members of the Board of Directors for 2008:

Wilfred Uytengsu, Sr.	Antonio H. Ozaeta	Wilfred Steven Uytengsu, Jr.
Dr. Roberto F. de Ocampo	Ramon S. Esguerra	Jose R. Facundo
Grahame Tonkin	Michael R.B. Uytengsu	Juan B. Santos

The nominees for election as independent directors of the Board of Directors for 2008 are as follows:

<b>Nominees for Independent Director (a)</b>	<b>Person Recommending Nomination (b)</b>	<b>Relation of (a) and (b)</b>
Antonio H. Ozaeta Dr. Roberto F. de Ocampo Jose R. Facundo Grahame Tonkin Juan B. Santos	Ms. Shirley R. Arguelles & Ms. Marinela M. San Juan	None

The nominees have served as directors of the Company for more than five years except for Mr. Juan B. Santos, who has served as director for one year.

The Company has adopted the SRC Rule 38 (Requirements on Nomination and Election of Independent Directors) and compliance herewith has been made. All nominees for independent director possess all the qualifications and none of the disqualifications prescribed under SRC Rule 38. The certifications of the candidates for independent directors, certifying that they possess all the qualifications and none of the disqualifications provided for in the Securities Regulation Code and its Implementing Rules and Regulations are attached hereto as Annexes "C", "D", "E", "F" and "G".

None of the directors resigned or declined to stand for re-election to the Board of Directors since the date of the last annual meeting of security holders because of any disagreement with the Company on any matter relating to the Company's operations, policies or practices.

### **Significant Employees**

The Company has no employee who is not an executive officer but is expected to make a significant contribution to the business.

## Family Relationships

The Company's Chairman, Mr. Wilfred Uytengsu, Sr. is the father of Messrs. Wilfred Steven Uytengsu, Jr., who is the President and Chief Executive Officer of AMC, and Michael R.B. Uytengsu, who is a member of the Board of Directors. Other than the foregoing, there are no other directors, executive officers, or persons nominated for such positions that have any family relationships up to the fourth civil degree of consanguinity or affinity with any other director or executive officer of the Company.

## Certain Relationships and Related Transactions

The Company leases certain parcels of land from the Alaska Milk Corporation Retirement Plan (AMCRP). Both Messrs. Wilfred Uytengsu, Sr. and Wilfred Steven Uytengsu, Jr. are Trustees of the AMCRP. The lease rates are based on market values.

The Company also leases an office / warehouse space in Cebu City from Wentworth Development Corporation (WDC), a company majority owned by the Uytengsu Family. The rental fee is based on market rates.

The Company charges GenOSI<sup>10</sup> and WDC for their share in the expenses incurred by directors and officers common to these companies.

## Involvement in Certain Legal Proceedings

The directors and executive officers of the Company have not been involved in any legal proceedings for the past five (5) years and up to the date of this SEC Form 20-IS, which are material to the assessment of the ability or integrity of any director or executive officer of the Company.

## Item 6. Compensation of Directors and Executive Officers

Below is a summary of compensation received by the five highest-paid executive officers and the Company's key executives and officers as a group:

Name	Designation	2006		TOTAL
		Salary	Bonus	
Wilfred Uytengsu, Sr.	Chairman & CEO			
Wilfred Steven Uytengsu, Jr.	President & COO			
Maximo Y. Abad	VP – Engineering			
Joselito J. Sarmiento, Jr.	VP – Finance			
Francisco T. Idian	Director – Sales			
<b>Sub-Total</b>		<b>37,017,560.61</b>	<b>4,307,057.74</b>	<b>41,324,618.35</b>
Other Officers		14,319,132.40	1,513,759.37	15,832,891.77
<b>TOTAL</b>		<b>51,336,693.01</b>	<b>5,820,817.11</b>	<b>57,157,510.12</b>

<sup>10</sup> GenOSI, Inc. is a partnership between the Uytengsu Family and OSI of Chicago and is the exclusive supplier of processed meats to the McDonald's chain of restaurant in the Philippines. Mr. Wilfred Steven Uytengsu, Jr. is the President of GenOSI.

		<b>2007</b>		
Wilfred Uytengsu, Sr.	Chairman			
Wilfred Steven Uytengsu, Jr.	President & CEO			
Joselito J. Sarmiento, Jr.	SVP & CFO			
Maximo Y. Abad	VP – Engineering			
Francisco T. Idian	VP – Sales			
<b>Sub-Total</b>		<b>40,642,172.79</b>	<b>10,373,364.76</b>	<b>51,015,537.55</b>
Other Officers		17,255,231.49	4,161,852.50	21,417,083.99
<b>TOTAL</b>		<b>57,897,404.28</b>	<b>14,535,217.26</b>	<b>72,432,621.54</b>
		<b>2008 (Estimates Only)</b>		
Wilfred Uytengsu, Sr.	Chairman			
Wilfred Steven Uytengsu, Jr.	President & CEO			
Joselito J. Sarmiento, Jr.	SVP & CFO			
Maximo Y. Abad	VP – Engineering			
Francisco T. Idian	VP – Sales			
<b>Sub-Total</b>		<b>43,048,013.67</b>	<b>9,421,200.00</b>	<b>52,469,213.67</b>
Other Officers		19,037,489.74	3,694,620.00	22,732,109.74
<b>TOTAL</b>		<b>62,085,503.41</b>	<b>13,115,820.00</b>	<b>75,201,323.41</b>

There are no special employment contracts between the Company and any named executive officer. Eligible officers are covered under the Company's Retirement Plan. The normal and early retirement benefits shall be a lump sum amount equal to one month salary based on final monthly salary, for every year of credited services.

The directors of the Company are given a per diem of ₱5,000.00 per meeting. In addition, they are entitled to a profit sharing, which is based on the Company's operating income. Aside from the aforementioned, there are no other arrangements under which any director of the Company is compensated, whether directly or indirectly.

#### **Executive Employee Stock Option Plan (EESOP)**

Under the Company's EESOP, AMC grant stock options to certain key employees of the Company in consideration of the employee's work performance, position, salary and length of service with the Company. The EESOP does not cover the Chairman of the Board, President and Chief Executive Officer (CEO) or any of the members of the Board of Directors.

The EESOP is administered by a Committee of three (3) members composed of the Chairman, the President and CEO and one other director of the Board. Subject to the provisions of the EESOP, the Committee shall recommend to the Board of Directors employees who are eligible for the option grant, the times when such options are to be granted, the effectivity dates and the number of shares to be allocated to each participant at any given time.

Shares covered by any one grant under the EESOP shall be offered for subscription for a period of three (3) years from and after the effectivity date of each grant as may be determined by the Committee formed to administer the EESOP. The number of shares that may be

subscribed to by a participant for each subscription shall not be less than ten thousand (10,000) shares. Each grant that may be determined by the Committee under the EESOP shall be subject to the following Vesting Period(s):

- (a) 1/3 of the total number of shares under the grant shall be available for exercise upon effectivity of the grant;
- (b) 1/3 of the total number of shares under the grant shall be subject to a Vesting Period of one (1) year from and after the effectivity of the grant;
- (c) 1/3 of the total number of shares under the grant shall be subject to a Vesting Period of two (2) years from and after the effectivity of the grant.

At any time after the applicable Vesting Period and before the lapse of the three-year duration of any one grant, a participant of the grant may, subject to the provisions of the EESOP and the rules promulgated by the Committee, subscribe to such number of shares as he/she may be allowed to subscribe to as of the Exercise Date. When a participant decides to exercise his privilege under the EESOP, he/she shall do so by means of notice in writing to the Company, together with full payment of the Subscription Price, specifying his/her decision to exercise his/her privilege, the number of shares he/she desires to subscribe to, subject to the provisions of the EESOP and the subscription price. Thereafter, the Company and the participant shall execute a Contract of Subscription with principal terms and conditions on issuance, consideration, and non-transferability of rights.

Under the grant, a total of 8,640,000 shares were made available for exercise of the option by the key employees. Out of the 8,640,000 share options granted, 4,850,000 were subscribed, 1,820,000 share options have lapsed, while options to subscribe 1,970,000 shares remain unexercised. Out of the 4,850,000 shares subscribed, 2,355,000 shares were subscribed at a subscription price of ₱1.94 per share, 710,000 shares were subscribed at a subscription price of ₱2.72 per share, 1,515,000 shares were subscribed at a subscription price of ₱3.18 per share while 270,000 shares were subscribed at a subscription price of ₱3.528 per share.

#### **Item 7. Independent Public Accountants**

- (a) SyCip Gorres Velayo & Co. (SGV) is the Company's principal accountant and is being recommended once again for election, approval, and ratification for the current fiscal year.
- (b) SGV was the Company's principal accountant for the previous fiscal year.
- (c) Representatives of the Company's principal accountant, SGV, are expected to be present at the stockholders' meeting and they will have the opportunity to make a statement if they desire to do so. SGV's representatives are likewise expected to be available at the said meeting to respond to appropriate questions.

- (d) The Company has maintained SGV as its principal accountant to audit the financial statements for the last fiscal year. SGV has not expressed any intention to resign as the Company's principal accountant nor has it indicated any hesitance to accept re-election after the completion of their last audit.
- (e) As of December 31, 2007, SGV has been the Company's external auditors for the last nine (9) years. Pursuant to the General Requirements of SRC Rule 68.1 (Qualifications and Reports of Independent Auditors), the Company has engaged SGV & Co. as external auditor of the Company, and Ms. Melinda Gonzales-Manto has been Partner In-charge effective audit year 2007, replacing Mr. Joel M. Sebastian who was SGV & Co.'s Partner In-charge for audit years 2002 to 2006.

### **External Audit Fees and Services**

Alaska Milk Corporation paid its external auditors the following fees in the past two (2) years:

	<b>Audit &amp; Audit-related Fees</b>	<b>Tax Fees *</b>	<b>Other Fees **</b>
2007	₱ 896,000	₱ 120,000	₱ 71,416
2006	₱ 559,644	-	₱ 83,064

*\* Fees paid for business tax advisory services*

*\*\* Fees paid for services rendered related to the Company's adoption and implementation of Philippine Accounting Standards*

The Company's Audit Committee recommends for approval of the Board the appointment of the external auditor. The stockholders then approve and ratify the appointment of the external auditor.

The audit plans for 2007 and 2006, including services of the external auditor, have been approved by the Company's Audit Committee last November 9, 2007 and November 10, 2006, respectively.

### **Item 8. Compensation Plans**

There are no matters or actions to be taken up in the meeting with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

## **C. ISSUANCE AND EXCHANGE OF SECURITIES**

### **Item 9. Authorization or Issuance of Securities Other than for Exchange**

There are no matters or actions to be taken up in the meeting with respect to the authorization or issuance of any securities other than for exchange for outstanding securities of the Company.

## **Item 10. Modification or Exchange of Securities**

There are no matters or actions to be taken up in the meeting with respect to the modification of any class of the Company's securities or the issuance of authorization for issuance of one class of the Company's securities in exchange for outstanding securities of another class.

## **Item 11. Financial and Other Information**

Management's Discussion and Analysis (MD&A) of Operations and Financial Condition, Market Price of Shares and Dividends and other data related to the Company's financial information are attached hereto as Annex "A". The Schedules required under Part IV(c) of Rule 68 will be included in the Annual Report (SEC Form 17-A).

## **Item 12. Mergers, Consolidations, Acquisitions and Similar Matters**

There are no matters or actions to be taken up in the meeting with respect to merger, consolidation, acquisition by, sale or liquidation of the Company.

## **Item 13. Acquisition or Disposition of Property**

There are no matters or actions to be taken up in the meeting with respect to acquisition or disposition of any property by the Company

## **Item 14. Restatement of Accounts**

### *Changes in Accounting Policies*

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amended PAS, new PFRS and Philippine Interpretations from IFRIC starting January 1, 2007. The adoption of these amended and new standards and interpretations did not have any effect on the Company's financial performance or position, except for additional disclosures in the financial statements. The principal effects of the changes are as follows:

- *PFRS 7, Financial Instruments: Disclosures, and the complementary amendment to PAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after January 1, 2007)*

PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces PAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under PFRS. The amendment to PAS 1 introduces new disclosures about the level of an entity's capital and how it manages capital

The Company adopted the amendment to the transition provisions of PFRS, as approved by the Financial Reporting Standards Council, which gives transitory relief with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments. Accordingly, the Company does not need to present comparative information for the disclosures required under PFRS 7. The amendment to PAS 1 resulted in additional disclosures, which are included throughout the Company's financial statements.

#### Future Changes in Accounting Policies

The Company has not applied the following PFRS and Philippine Interpretations which are not yet effective for the year ended December 31, 2007:

- *PFRS 8, Operating Segments (effective for annual periods beginning on or after January 1, 2009)*

This PFRS adopts a management approach to reporting segment information. PFRS 8, will replace PAS 14, *Segment Reporting*, and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the SEC for purposes of issuing any class of instruments in a public market. The Company assessed that the adoption of this standard will have no significant impact on its financial statements.

- *PAS 23, Borrowing Costs (effective for annual periods beginning on or after January 1, 2009)*

The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, this change in accounting for borrowing costs shall be accounted for prospectively. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expenses. The Company does not expect that the adoption of this standard will have a significant impact on its financial statements.

- *Philippine Interpretation IFRIC 11, IFRS 2, Group and Treasury Share Transactions*

This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Company does not expect this interpretation to have significant impact on its financial statements.

- *Philippine Interpretation IFRIC 12, Service Concession Arrangement*

This Interpretation will become effective January 1, 2008. This Interpretation covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remain in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. This Interpretation will have not impact on the financial statements as no such arrangement currently exists.

- *Philippine Interpretation IFRIC 13, Customer Loyalty Programmes*

This Interpretation will become effective January 1, 2009. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transactions in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company expects that this interpretation will have no impact on the Company's financial statements as no such schemes currently exist.

- *Philippine Interpretation IFRIC 14, PAS 19, Limit on Defined Benefit Asset, Minimum Funding Requirement and Other Interaction*

This Interpretation will become effective for annual periods beginning on or after January 1, 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. The Company is currently assessing the impact of the interpretation on the financial statements.

- *Revised PAS 1, Presentation of Financial Statements*

This Interpretation will become effective for annual periods beginning on or after January 1, 2009. The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income, which presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The revision also includes changes in titles of some of the financial statements to reflect their function more clearly, although not mandatory for use in the financial statements. The Company is currently assessing the impact of the interpretation on the financial statements.

## **D. OTHER MATTERS**

### **Item 15. Action with Respect to Reports**

The following are included in the agenda of the Annual Stockholders' Meeting for the approval of the stockholders:

- Minutes of the Annual Meeting of the Stockholder held on May 8, 2007 which reflect the actions taken during such meeting like: i) election of members of the Board of Directors for the year 2007 – 2008; ii) approval of the Annual Report and Audited Financial Statements for the year ended December 31, 2006; iii) approval and ratification of the Acts of the Board of Directors and Management; and iv) confirmation of the appointment of SGV & Co. as the Company’s external auditor.
- Annual Report and Audited Financial Statements of the Company for the year ended December 31, 2007;
- Acts/Resolutions of the Board of Directors

The following are the acts/resolutions of the Board of Directors since the last annual meeting held on 8 May 2007:

1. Board Resolution dated 8 May 2007: a) The election of Wilfred Uytensu and Antonio H. Ozaeta as Chairman of the Board & CEO and Vice-Chairman of the Board, respectively; b) election of Roberto F. de Ocampo, W. Steven Uytensu, Jr. and Jose R. Facundo to the Audit Committee; c) election of Antonio H. Ozaeta, Wilfred Uytensu and W. Steven Uytensu, Jr. to the Compensation and Remuneration Committee; d) election of Wilfred Uytensu, Antonio H. Ozaeta and Ramon S. Esguerra to the Nomination Committee; e) election of the following officers of the Company: W. Steven Uytensu, Jr. as President and COO, Joselito J. Sarmiento, Jr. as Senior Vice President and Chief Financial Officer, Maximo Y. Abad as Vice President – Engineering, Arnold L. Abad as Vice President – Accounting & Comptroller, Ma. Belen M. Fernando as Vice President – Marketing, Francisco T. Idian as Vice President for Sales, Santiago A. Polido as Corporate Secretary & Vice President for Corporate Affairs, Aaron D. Fulton as Director for Operations, Alfredo B. Javier as Assistant Vice President for Audit and Anselma G. Cabantan as Assistant Vice President for Information Systems; f) the declaration of a P0.05 regular cash dividend payable on June 29, 2007 to all stockholders of record as of June 4, 2007; g) declaration of a special cash dividend of P0.25 per share, payable as follows: P0.025 per share on June 29, 2007 to all stockholders of record as of June 4, 2007, P0.075 per share on September 28, 2007 to all stockholders of record as of September 4, 2007, P0.075 per share on December 28, 2007 to all stockholders of record as of December 3, 2007 and P0.075 per share on March 28, 2008 to all stockholders of record as of March 4, 2008; h) appropriation of P95 million of the Company’s retained earnings for capital investment projects; i) approval of the purchase by the Company of the Alpine, Liberty and Krem-Top Trademarks from Societe des Produits Nestle S. A. (“SPN”) and the grant of license by Nestle and Nestec S. A. to the Company for the import, manufacture, distribution and sale in the Philippines of liquid milk products using the Carnation and Milkmaid Trademark; and j) approval of the recommendation of the Compensation and Remuneration Committee to grant 24

additional managers option to subscribe to a total of 1,110,000 AMC common shares at the price of P3.528 per share under the EESOP.

2. Board Resolution dated 13 November 2007: a) Acceptance of decision of Mr. Wilfred Uytengsu to step down as Chief Executive Officer of Alaska Milk Corporation effective 13 November 2007; and b) appointment of Wilfred Steven Uytengsu, Jr. as President and Chief Executive Officer of the Company effective 13 November 2007.
3. Board Resolution dated 12 February 2008: a) Approval of 2008 Budget; and b) appropriation of P380 million of the Company's retained earnings for capital investment projects.

Minutes of the 2007 Annual Stockholders' Meeting and resolutions of the Board of Directors since the date of the 2007 Annual Stockholders' Meeting will be available for examination during office hours at the office of the Corporate Secretary.

**Item 16. Matters not Required to be Submitted**

All matters or actions to be taken up in the meeting will require the vote of the security holders.

**Item 17. Amendment of Charter By-laws or Other Documents**

On March 11, 2008, the Board of Directors approved the recommendation to amend Article Sixth of the Articles of Incorporation and Section I, Article IV of the By-Laws of Alaska Milk Corporation, by increasing the number of Directors from nine (9) to ten (10). The amendment of the Company's Articles of Incorporation and By-Laws will increase the depth and quality of the composition of the Company's Board of Directors. The amended Articles of Incorporation and By-Laws will read as follows:

**I. ARTICLE SIXTH OF THE ARTICLES OF INCORPORATION**

X X X

**“SIXTH.** The number of directors of the Corporation shall be ten (10) and that the names, nationalities and residences of the directors of the Corporation who are to serve until their successors are duly elected and qualified as provided by the By-Laws are as follows, to wit:

<u>Name</u>	<u>Nationality</u>	<u>Residence</u>
Wilfred Uytengsu	Filipino	Ipil Road, Forbes Park Makati, Metro Manila

George K. Young	Filipino	10th Street corner Gilmore Avenue New Manila, Quezon City
W. Steven Uytengsu	American	Ritz Towers Condominium Ayala Avenue, Makati Metro Manila
George U. Young, Jr.	Filipino	Pacific Plaza Condominium Ayala Avenue, Makati Metro Manila
Alejandro Z. Barin	Filipino	No. 57 Scout Rallos Quezon City”

X X X

**SECTION I, ARTICLE IV OF THE BY-LAWS**

X X X

**“ ARTICLE IV  
Directors**

**Section 1.** The Board – The corporate powers, business and property of the Corporation shall be exercised, conducted and controlled by the Board of ten (10) Directors elected annually at the regular meeting of the stockholders and by officers elected by said Board.

Any stockholder may be elected Director, provided however, that no person shall qualify or be eligible for nomination or election to the Board of Directors if he or she is engaged in any business which competes with or is antagonistic to that of the Corporation. Without limiting the generality of the foregoing, a person shall be deemed engaged:

(a) If he or she is an officer, manager or controlling person of, or the owner (either of record or beneficially) of 10% or more of any outstanding class of shares of any corporation (other than one in which the corporation owns at least 30% of the capital stock) engaged in a business which the Board, by at least two-thirds (2/3) vote, determines to be competitive or antagonistic to that of the Corporation; or

(b) If he or she is an officer, manager or controlling person of, or the owner (either of record or beneficially) of 10% or more of any outstanding class of shares of any other corporation or entity engaged in any line of business of the Corporation, when in the judgment of the Board, by at least two-thirds (2/3) vote, the laws against combinations in restraint of trade shall be violated by such person's membership in the Board of Directors; or

(c) If the Board in the exercise of its judgment in good faith, determines by at least two-thirds (2/3) vote that he or she is the nominee of any person set forth in (a) or (b).

In determining whether or not a person is a controlling person, beneficial owner, or the nominee of another, the Board may take into account such factors as business and family relationships.

For the proper implementation of the provision, all nominations for election of Directors by the stockholders shall be submitted in writing to the Board of Directors at least five (5) days before the date of the regular meeting."

X X X

### **Item 18. Other Proposed Action**

There are no matters or actions to be taken up in the meeting with respect to any other matter.

### **Item 19. Voting Procedures**

#### **(a) Vote required for approval or election**

A majority vote (i.e. 50% plus 1) is required for approval or election, except where the Corporation Code requires a two-thirds majority vote. The stockholder may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of shares held, or he may distribute them on the same principle among as many nominees as he shall see fit.

#### **(b) Methods by which votes will be counted**

Amendment of Article 6 of the Articles of Incorporation and Section 1 of Article 4 of the Company's By-Laws, increasing the number of directors, requires the vote of stockholders owning 2/3 of the outstanding stock of the corporation. For the election of Directors, the nine (9) nominees receiving the most number of votes will be elected to the Board of Directors. Cumulative voting will apply. For all other matters to be taken up, majority vote of the outstanding capital stock, present and represented at the meeting where the quorum is existing and sufficient. Cumulative voting will apply.

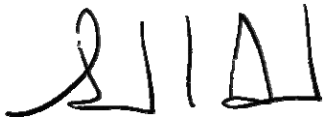
Mr. Antonio Galvez, representing the Company's stock transfer agent, Securities Transfer Services, Inc., Ms. Melinda Gonzales-Manto, representing the Company's external auditor, SGV & Company, and Atty. Santiago A. Polido, the Company's Corporate Secretary are tasked to validate the ballots and count votes manually based on the number of votes present and proxies submitted.

**SIGNATURES**

After reasonable inquiry and to the best of our knowledge and belief, we certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on April 02, 2008.

ALASKA MILK CORPORATION

By:

  
ARNOLD L. ABAD  
Vice President for Accounting

  
SANTIAGO A. POLIDO  
Corporate Secretary & Corporate Information Officer

## ANNEX “A”

### FINANCIAL AND OTHER INFORMATION

#### **Audited Financial Statements**

The Company’s Audited Financial Statements as of December 31, 2007 are attached hereto as “Annex B”.

#### **Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

There were no disagreements with the Company’s principal accountants as to any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

#### **Attendance of Accountants at the Meeting**

Representatives of the Company’s external auditors, SyCip Gorres Velayo & Co., for the fiscal year 2007 are expected to be present at the Annual Stockholders’ Meeting scheduled on May 13, 2008. Said accountants will be given the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions on the Company’s financial statements.

#### **Business and General Information**

Alaska Milk Corporation (AMC) was incorporated in September 26, 1994, but operations began as early as 1972, through a company called Holland Milk Products, Inc. (HOMPI). HOMPI was a partnership between a Dutch dairy company, Holland Canned Milk International B.V., and General Milling Corporation (GMC), an industrial foods company with interests in flour, feeds and soy bean milling which was founded by current AMC Chairman Mr. Wilfred Uytensu, Sr.

HOMPI initially manufactured liquid canned milk (evaporated and sweetened condensed milk) and UHT ready-to-drink milk in the 1970s and later expanded to powdered filled milk in the 1980s. Alaska milk products were initially distributed nationwide through a third party distributor, Alaska Trading Co., Inc. (ATCI).

HOMPI’s operations were subsequently merged with GMC and operated as its milk product division. With the rapid growth of the milk business, the milk division was later spun off as a separate and independent entity and incorporated as Alaska Milk Corporation in September 1994. In January 1995, AMC shares were listed in the Philippine Stock Exchange (PSE). As GMC was primarily focused in industrial foods, GMC eventually divested its interest in AMC in 1998, with the Uytensu family, together with strategic partners retaining majority ownership in AMC.

With the continued growth of the milk business and realizing the importance of distribution in further expanding markets, AMC absorbed all of the selling and distribution operations of ATCI. The Company has since reorganized its own selling and distribution network and it was at this time that AMC was chosen by Nabisco International and Quaker Oats, Inc. to be its exclusive distributor of Nabisco and Quaker Oats products, respectively, in the Philippines. However, both exclusive distribution agreements were terminated in 2001 following the worldwide acquisition by Philip Morris and Pepsi Co. of Nabisco International and Quaker Oats, Inc., respectively. The disengagement, in turn, put greater focus on the selling and distribution of the core Alaska milk products, which generated higher margins for the Company.

AMC offers a wide range of milk products beyond the traditional canned evaporated filled and sweetened condensed filled milk, powdered filled milk and plain and chocolate-flavored UHT milk in Tetra briks. In 2003, the Company introduced an evaporated creamer to complete a *value line* of liquid canned milk, and repackaged the *classic line* of evaporated and sweetened condensed filled milk in UHT Tetra briks to offer greater convenience to consumers. A UHT-processed All-Purpose Cream was likewise launched in the market in July 2003 as part of efforts to expand into other categories within the dairy industry.

In line with the Company's strategy to broaden its revenue base through a portfolio of leading brands, Alaska Milk Corporation signed in May 2005 an agreement with Kellogg's Asia Marketing Inc. to exclusively distribute Kellogg's line of ready-to-eat cereals in the Philippines.

The Company has further strengthened its core business by acquiring / licensing the liquid canned milk business of Nestle in 2007. Today, AMC has a dominant position in the liquid milk category, accounting for about 80% of the market.

### **Plan of Operations**

For 2008, Alaska Milk Corporation will continue to focus on growing its core milk business by expanding to other categories within the domestic milk market, either through new product development or through strategic alliances (i.e. licensing agreements, joint ventures, etc.) or business acquisitions. The Company will likewise focus heavily on intensifying the sales and distribution of its existing and newly acquired product lines. The deployment of regional / area distributors to cover downline retail accounts will help expand the Company's penetration levels and develop relationships with new customer accounts.

The Company does not foresee the need to raise additional funds externally to meet its working capital requirements and planned capital expenditure for 2008. Likewise, the Company does not expect any significant change in the number of employees in the next twelve (12) months.

## **Management's Discussion of Financial Condition and Result of Operations**

### **2007 vs. 2006**

#### **Results of Operations**

Although performance varied from segment to segment, domestic consumption of milk products recovered in 2007 attendant to an improving economy. Both the Evaporated and Condensed Milk Categories registered low-single digit contractions compared to the market's double-digit declines a year ago. The Powdered Milk Category, on the other hand, staged a mild recovery during the year, underpinned by the growth of the Filled Milk segment.

Through aggressive sales and marketing programs aimed at driving milk consumption, Alaska Milk Corporation capped the year with unparalleled revenues of ₱9.08 billion, up 53% from ₱5.92 billion in 2006. The robust revenue growth stemmed from higher sales volumes realized across the Company's core product lines combined with favorable selling prices.

Sales volume of the Company's liquid canned milk business surged year-on-year driven by the robust off-take of the Alaska brands as well as the additional sales volume generated from the acquired and licensed Nestle liquid canned milk brands.

Extensive sales and distribution drives for the Alaska line of liquid canned milk coupled with innovative marketing efforts bolstered consumption especially during the seasonally strong second quarter (summer months) and fourth quarter (Christmas Holiday) of the year. To address the various needs of a highly segmented market, specific campaigns were mounted as competition from lower-priced brands continued to challenge Alaska's market leadership. Combined with closer management of trade outlets, Alaska Evaporada and Alaska Condensada kept a firm hold of the economy market, with improved presence in Mindanao.

Sales volume of the Company's traditional liquid milk products, Alaska Evaporated Filled Milk and Alaska Sweetened Condensed Filled Milk, likewise registered growth rates on the back of aggressive marketing and sales activities. Concentrated area marketing efforts in key cities of the country were implemented to reinforce the brand's taste and heritage, especially among mothers and housewives.

The acquisition of the Alpine and Liberty brands and licensing of the Carnation and Milkmaid brands have widened Alaska Milk Corporation's portfolio and revenue base. These brands bring with it a loyal customer following both in retail and food service accounts. In 2007, these brands contributed nearly ₱2 billion in additional revenues to the Company.

Improvements in product availability and brand-building efforts resulted in volume growth and market share gains for the powdered milk business. Trade inventory levels significantly improved going into the second semester with the completion and commissioning of the Company's new Instant Filled Milk Powder Processing Plant, which enabled us to meet increased demand. The re-launch of Alaska Powdered Filled Milk in July renewed consumer interest for the product. This was supported by a new communication campaign that

capitalizes on the brand's nutritional value and equity on sport. Sales and marketing efforts in modern trade channels likewise bolstered trade movement and consumption activity for the brand.

Our portfolio of UHT products also performed considerably well in 2007 as sales volumes posted strong double-digit growth rates year-on-year, notwithstanding minimal and selective advertising support.

The Company's line of ready-to-drink UHT flavored milk, Alaska Choco and Alaska Yamoo!, continued to enjoy strong patronage among the young market. In order to sustain brand awareness, sampling programs in selected supermarkets and primary schools in key areas of GMA, Cebu and Davao were carried out during the year.

Our UHT white milk line, Alaska Fresh and Alaska Slim, also achieved double-digit growth rate in sales volume as a result of the brand's greater presence in modern trade outlets. Pricing also gave Alaska a strong competitive advantage.

Alaska Crema All-Purpose Cream continued to perform strongly in the market as consumer off-take remained brisk. Vibrant pack changes and demand-creation activities helped push volumes higher and brought about market share gains.

Our distribution tie-up for the Kellogg's line of ready-to-eat cereals in the Philippines brought in good results during the year. Sales volume of Kellogg's for the year grew nearly 10% versus year-ago levels, outperforming the category's low single-digit growth rate. Market share likewise improved on the back of increased distribution levels and marketing synergies.

The year 2007 saw inflationary pressures arising from cost increases for many of the Company's major ingredients and packaging materials. Global prices of skimmed milk powder (SMP), a major component, steadily rose to an all-time high of US\$5,000 per metric ton brought about by strong demand amid weak dairy production output. Upward pressure on SMP prices was evident as early as January 2007 and as such, we actively pursued hedging positions for our SMP requirements through forward-buying arrangements.

To partly ease the effect of the sharp increases in the cost of production inputs, selling price adjustments were taken in 2007. While this helped alleviate margin pressures, it was certainly not enough to cover the full extent of the cost increases.

The combination of higher sales volume and higher SMP prices pushed cost of sales 53% higher to ₱6.69 billion from ₱4.38 billion in 2006. This pushed up gross profit for the year by 55% to ₱2.39 billion from ₱1.54 billion the previous year. Operating expenses rose 40% to ₱1.44 billion from ₱1.03 billion on the back of higher advertising, selling and distribution costs as well as heightened trade support and marketing efforts in support of volume growth. Altogether, these put operating income for the year at ₱950 million, 85% higher than last year's operating income of ₱514 million. Operating margin likewise inched up to 10.5% from 8.7% in 2006.

Including net interest income and gains from foreign exchange transactions, net income for the year grew by 66% to ₱667 million or 7.3% of net sales from ₱402 million or 6.8% of net sales in 2006. This year's net income is equivalent to an earnings per share (EPS) of ₱0.69, ₱0.27 per share higher than 2006's EPS of ₱0.42. Return on equity was 17.9% compared to 12.1% in 2006.

### **Financial Condition**

The Company's total assets as of December 2007 amounted to ₱7.13 billion, ₱2.0 billion higher than 2006. This was primarily due to the acquisition of Nestle's liquid canned milk business as well as an increase in working capital requirements.

Accounts receivable increased by ₱256 million to ₱821 million resulting from higher sales. Inventories of ₱2.68 billion were higher by ₱1.75 billion compared to 2006 mainly due to the additional finished goods, raw and packaging materials relative to the business acquisition as well as higher C&F cost of skimmed milk powder.

Total liabilities amounted to ₱3.39 billion largely due to availments of short-term loans for the Company's working capital requirements, increase in payables attendant to the growth in sales volume and higher cost of imported raw materials.

Stockholders' equity, on the other hand, amounted to ₱3.73 billion from ₱3.34 billion in 2006. The increase of ₱394 million is a result of 2007's net income of ₱667 million, net of cash dividends declared amounting to ₱285 million.

The Company's current ratio was 1.10:1.00 as of December 31, 2007 compared to 2.10:1.00 in December 2006, while debt-to-equity ratio was 0.91:1.00 in 2007 compared to the previous year's 0.54:1.00.

The Company does not anticipate any cash flow or liquidity problems.

### **Commitment for Capital Expenditure**

Alaska Milk Corporation spent ₱318 million for project and capital expenditure in 2007 primarily for the expansion of the Company's manufacturing facilities and construction of a warehouse facility.

For 2008, AMC has planned capital expenditure of about ₱230 million, largely for maintenance and upgrade of existing manufacturing facilities.

### **Trends or Events that will Impact on Net Sales or Income from Operations**

Global supply of skimmed milk powder (SMP) is forecast to remain tight. The key factors that fueled the sharp price increase in 2007 (i.e. dry weather conditions in Australia, low buffer stocks in Europe, a depreciating US Dollar and stable demand) are expected to prevail through 2008. However, following such a sharp spike in 2007, current trends indicate that prices of

SMP appear to be in a correction phase. In addition, there is concern that demand in certain countries may be falling as higher dairy prices are finally finding their way to consumers. SMP prices are currently trading around US\$4,000 per metric ton. As SMP constitutes a substantial portion of the Company's costs, this trend will impact on the Company's operating margins in 2008, notwithstanding the Company's efforts to manage the effects of higher SMP prices by hedging part of its SMP requirements for the year.

### Key Performance Indicators (KPI)

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

KPI	Definition	2007	2006
Operating Margin	<p>The operating margin is the percentage of the Company's earnings before interest and tax (EBIT) or operating income to net sales for a given period. This KPI measures the return obtained for every peso of revenue earned, after all cost of sales and operating expenses are deducted.</p> <p>Formula: <math display="block">\frac{\text{Operating Income}}{\text{Net Sales}}</math></p>	10.5%	8.7%
Return on Sales	<p>The return on sales is the percentage of the Company's net income after tax to net sales for a given period. This KPI provides a measure of return for every peso of revenue earned, after all other operating expenses and non-operating expenses, including provision for income taxes, are deducted.</p> <p>Formula: <math display="block">\frac{\text{Net Income}}{\text{Net Sales}}</math></p>	7.3%	6.8%
Return on Equity	<p>The return on equity is the percentage of the Company's net income to stockholders' equity. This KPI is a measure of the shareholders' return for every peso of invested equity</p> <p>Formula: <math display="block">\frac{\text{Net Income}}{\text{Total Stockholders' Equity}}</math></p>	17.9%	12.1%

KPI	Definition	2007	2006
Debt to Equity Ratio	<p>Debt to equity ratio is the ratio of debt to total stockholders' equity. This KPI is a measure of the Company's use of leverage and solvency position.</p> <p>Formula: <math display="block">\frac{\text{Total Liabilities}}{\text{Total Stockholders' Equity}}</math></p>	0.91:1.00	0.54:1.00
EBITDA	<p>EBITDA is computed by adding back depreciation and amortization expenses (both non-cash expenses) to earnings before interest and income tax. This KPI is a measure of the Company's ability to generate cash from operations.</p>	₱1.199 B	₱632.6 M

There are no events anticipated or planned that will trigger any direct or contingent financial obligation that is material to the company.

There are no material off-balance sheet transactions, arrangements, obligations and other relationships created in 2007.

### **Material Changes (+/- 5% or more) in the Financial Statements**

#### **Income Statement Items (2007 vs. 2006)**

##### ***Sales – 53% increase from ₱5.92 billion to ₱9.08 billion***

Increase due to the higher sales volume across the Company's core businesses (liquid canned milk, powdered milk and UHT ready-to-drink / UHT ready-to-use products) combined with higher selling prices. Also contributing to the higher growth rate is the incremental revenues generated from the acquired and licensed liquid canned milk brands.

##### ***Cost of Sales – 53% increase from ₱4.38 billion to ₱6.69 billion***

Increase in cost of sales attendant to the increase in sales volume as well as higher cost of production inputs.

##### ***Operating Expense – 40% increase from ₱1.03 billion to ₱1.44 billion***

Increase due primarily to higher advertising, trade support and consumer promotions in support of volume growth as well as higher sales-volume related delivery expenses. In addition, higher personnel cost and depreciation charges pushed operating expenses higher year-on-year.

***Interest Income –72% decrease from ₱96.30 million to ₱26.59 million***

Decrease in interest income is due to the decline in the Company's average cash balance as a result of the acquisition of Nestle's liquid canned milk business and higher working capital requirements. Latter is due to the upsurge in the cost of raw and packaging materials and higher sales volume. Plant expansion investments contributed to the drop in average cash balance.

***Interest Expense on Short-Term Loans – increase of ₱5.60 million***

Interest from peso-denominated short-term loans availed in 2007 for working capital requirements as a result of the drop in the Company's cash balance.

***Foreign Exchange Gain - 136% increase from a loss of ₱46.60 million to a gain of ₱16.62 million***

Increase due to the restatement of the Company's US Dollar-denominated liabilities which was favorably affected by the appreciation of the Philippine Peso vis-à-vis the US Dollar.

***Rental Income – 5% increase from ₱2.44 million to ₱2.55 million***

Increase in rental income earned from a leased condominium property.

***Gain on Disposal of Equipment – 78% increase from ₱0.86 million to ₱1.54 million***

Increase due to the disposal of idle Company machinery / equipment.

***Other Income (Expense) – 77% decrease from – ₱0.80 million to ₱0.18 million***

Decrease due to lower dividend income received in 2007 versus 2006.

***Provision for Income Tax – 96% increase from ₱165.66 million to ₱324.68 million***

Increase due to higher taxable income.

**Balance Sheet Items (End-2007 vs. End-2006)**

***Cash and Cash Equivalents – 61% decrease from ₱352.23 million to ₱136.34 million***

Decrease due to higher working capital requirement on account of the substantial increase in the cost of primary raw and packaging materials as well as the acquisition of Nestle's liquid canned milk business.

***Short-term Investments – decrease of ₱1.838 billion***

Decrease due to the acquisition of Nestle’s liquid canned milk business as well as higher working capital requirement.

***Trade and Other Receivables – 45% increase from ₱565.30 million to ₱821.45 million***

Increase mainly due to the higher trade receivables on account of higher sales.

***Inventories – 188% increase from ₱928.51 million to ₱2.677 billion***

Increase due to the additional finished goods, raw and packaging material required relative to the acquisition of Nestle’s liquid canned milk business as well as higher C&F cost of skimmed milk powder.

***Prepaid Expenses and Other Current Assets – 33% increase from ₱70.01 million to ₱93.41 million***

Increase due to the advance payments made for import-related expenses as well as higher input taxes.

***Property, Plant & Equipment – 17% increase from ₱1.03 billion to ₱1.21 billion***

Increase due to the acquisition of machineries / equipment and construction in-progress costs incurred relative to the expansion of the Company’s manufacturing facilities.

***Investment Properties – 6% decrease from ₱41.42 million to ₱39.08 million***

Decrease primarily due to the recognition of depreciation expense for 2007.

***Deferred Tax Assets – 14% increase from ₱190.12 million to ₱216.85 million***

Increase due to the higher accrued expenses for outside services and other sales-related expenses incurred for which the related withholding taxes have not yet been remitted by the Company to the Bureau of Internal Revenue.

***Other Non-Current Assets – 12% increase from ₱59.78 million to ₱67.15 million***

Increase due to the higher input VAT related to Company’s purchase of capital equipment which will be utilized as a reduction of output VAT over a period of 60 months.

***Bank Loans – increase of ₱800.0 million***

Increase due to the availment of short-term peso-denominated loans for the Company’s working capital requirements.

***Trade and Other Payables – 46% increase from ₱927.32 million to ₱1.352 billion***

Increase due to higher purchases of local raw materials as well as expenses incurred and accruals made for importation charges and other sales-related expenses on account of the increase in sales.

***Acceptances Payable – 48% increase from ₱735.87 million to ₱1.091 billion***

Increase due to the additional purchases of raw and packaging materials relative to the increase in sales volume as well as the higher cost of imported raw materials

***Dividends Payable – 49% increase from ₱48.94 million to ₱72.73 million***

Increase due to the higher cash dividend declaration for 2007 of ₱0.30 per share from ₱0.20 per share in 2006.

***Additional Paid-in Capital – 11% increase from ₱91.89 million to ₱101.78 million***

Increase due to the additional shares issued relative to the Company's stock option plan for key executives / employees which have a higher exercise price vis-à-vis par value.

***Retained Earnings (Appropriated) – 11% increase from ₱850 million to ₱945 million***

Increase due to the additional appropriation of ₱95 million of the Company's retained earnings for various capital investments.

***Retained Earnings (Unappropriated) – 20% increase from ₱1.466 billion to ₱1.753 billion***

Increase due to net income generated in 2007 of ₱667 million net of appropriation of ₱95 million for various capital investment and cash dividend declaration of ₱285 million.

**2006 vs. 2005**

**Results of Operations**

In a year characterized by robust sales volume growth, increased brand awareness and improvements in distribution levels, Alaska Milk Corporation delivered another year of strong financial results.

Higher sales volume across the Company's core product categories lifted full year revenues to P5.92 billion, 9% higher compared to the P5.41 billion in revenues earned in 2005.

Despite the domestic milk market's contraction, sales volume of Alaska's liquid canned milk business posted strong double-digit growth rates year-on-year, largely driven by the economy

brands. Concerted efforts in expanding distribution levels and intensified marketing and sales programs bolstered consumption activity especially during high demand seasons.

In 2006, aggressive brand efforts were carried out to refresh the image and create excitement around Alaska's line of liquid canned milk products. The market saw a new look on our traditional evaporated and sweetened condensed filled milk products, supported by a new thematic campaign that capitalizes on the brands' taste, nutritional value and heritage. The "drink milk whenever you can, even when you're eating" campaign was geared at driving milk usage in consumers' in-home food preparation.

In response to the continued price sensitivity of milk consumers and growing preference toward lower-priced brands, our "Value Line" of evaporated and sweetened condensed creamers were relaunched early in 2006. A price rollback for the Alaska Evaporada was likewise implemented as a strategic move to promote the brand's value-for-money positioning. Alaska Evaporada and Alaska Condensada fortified their hold of the economy market, with market share gains versus year-ago.

Notwithstanding the double-digit contraction of the Powdered Milk Market, sales volume of Alaska Powdered Filled Milk continued to expand steadily, posting a high single-digit growth rate during the year. Intensive focus on distribution and improvements in service level to customers helped grow volumes year-on-year. Volume growth, however, were constrained by stock availability during the third quarter of the year resulting from quality issues on skimmed milk powder deliveries. Nonetheless, market share of Alaska in the category was stable.

The installation of a new Instant Filled Milk Powder Processing Plant consisting of a recombined milk processing plant, spray-drying equipment, filling and packaging lines are presently being completed at San Pedro, Laguna. Scheduled for commercial run in April 2007, this investment will allow the Company to expand its market presence in the powdered milk category.

Alaska Crema All-Purpose Cream continued to sustain its growth momentum in 2006. Sales volume grew more than 50% versus year-ago levels on account of the brand's strong shelf off-take. Efforts to increase consumer awareness, through innovative events and lifestyle marketing initiatives, were pursued in an effort to maximize the full potential of Alaska Crema.

Reflective of overall market conditions, the ready-to-drink UHT segment slowed down as the market contracted in the face of consumer preference for lower-priced variants. Nonetheless, newly launched Alaska Yamoo! enjoyed strong patronage among the young market while our licensed brand, Hershey's Chocolate Milk Drink, performed strongly in the premium-priced chocolate milk segment. Increased product availability and penetration of new outlets mainly fueled both brands' performance in 2006, with volumes posting strong double-digit growth rates.

Alaska Fresh and Alaska Slim, our UHT white milk line, also achieved volume growth in 2006 largely due to the improvement in supply conditions in trade outlets as well as better customer management.

Our distribution tie-up for the Kellogg's line of ready-to-eat cereals in the Philippines has provided Alaska an avenue to broaden its revenue base in related consumer products. We are challenged to further expand and improve Kellogg's presence in the market by utilizing the capabilities of our own network of sales and distribution channels.

Forward-buying arrangements made early in the year cushioned the volatility in skimmed milk powder prices through most of the second half of 2006. In addition, the appreciation of the Philippine Peso against the US Dollar provided some relief not only on the landed cost of milk powder but on other foreign-currency denominated cost inputs as well. Foregoing more than offset the uptick in price of oil-based products. Combined with improvements in production efficiencies, cost of sales during the year went up by 7% to P4.38 billion from P4.11 billion in 2005. This pushed up gross profit for the year by 18% to P1.54 billion, from P1.30 billion the previous year. Heightened trade activities and consumer related promotions in support of volume growth resulted in an 8% increase in operating expenses, from P954 million a year ago to P1.03 billion. Altogether, these put operating income for the year at P514 million, 48% higher than last year's operating income of P347 million. Correspondingly, operating margin expanded to 8.7% from 6.4% in 2005.

Interest income earned during the year stood at P96 million, higher than the P70 million in interest income earned in 2005 largely due to the higher cash balance as well as higher yields realized on the Company's short-term investments.

Including foreign exchange losses, net income for the year grew by 34% to P402 million or 6.8% of net sales from P301 million or 5.6% of net sales in 2005. This year's net income is equivalent to an earnings per share (EPS) of P0.42, 25% higher than the 2005's EPS of P0.33. Return on equity was 12.1%.

### **Material Changes (+/- 5% or more) in the Financial Statements**

#### **Income Statement Items – 2006 versus 2005**

##### ***Sales – 9% increase from ₱5.41 billion to ₱5.92 billion***

Increase due to the higher sales volume across the Company's core businesses – liquid canned milk, powdered milk and UHT ready-to-drink / UHT ready-to-use products. Also contributing to the growth in net sales was the incremental revenues generated from the distribution of Kellogg's line of ready-to-eat cereals.

##### ***Cost of Sales – 7% increase from ₱4.11 billion to ₱4.38 billion***

Increase largely due to the higher sales volume.

***Operating Expense – 8% increase from ₱954 million to ₱1.027 billion***

Increase due primarily to higher trade support and consumer promotions in support of volume growth as well as higher sales-volume related delivery expenses. In addition, higher personnel cost and depreciation charges pushed operating expenses higher year-on-year.

***Interest Income – 37% increase from ₱70 million to ₱96 million***

Increase due to the higher average cash balance coupled with the higher average yield realized on the Company's short-term investments.

***Foreign Exchange Loss – 100% increase from ₱23.2 million to ₱46.6 million***

Increase due to the restatement of the Company's US Dollar-denominated cash and cash equivalents which were unfavorably affected by the steep appreciation of the Philippine Peso vis-à-vis the US Dollar.

***Rental Income – 71% increase from ₱1.4 million to ₱2.4 million***

Increase due to a full-year rental income earned from a condominium property acquired in late 2005.

***Gain on Disposal of Equipment – 35% increase from ₱0.64 million to ₱0.86 million***

Increase due to the disposal of idle Company machinery / equipment.

***Other Income (Expense) – 244% increase from – ₱0.23 million to ₱0.80 million***

Increase due to dividend income received from the PBA Properties, Inc.

***Provision for Income Tax – 73% increase from ₱96 million to ₱166 million***

Increase due to higher taxable income as well as the higher corporate income tax rate, from the 2005 average of 32.5% to 35% in 2006.

**Balance Sheet Items – End-2006 versus End-2005**

***Cash and Cash Equivalents – 77% decrease from ₱1.562 billion to ₱352 million; Short-term Investments – increase of ₱1.838 billion; Investments Available-for-Sale – decrease of ₱222.1 million; Investments Held-to-Maturity – decrease of ₱100 million***

In 2005, the Company adopted PAS 39 which categorizes Financial Assets such as cash placements and investments as “Investments Held-for-Trading”, “Held-to-Maturity Investments”, “Loans Receivable” and “Available-for-Sale Investments”.

Investments available-for-sale amounting to ₱222.1 million, consisting of US Dollar denominated mutual funds and common trust funds, were terminated in 2006. In addition, investments held-to-maturity amounting to ₱100 million matured in May 2006. These terminated and matured financial instruments were reinvested in short-term investments. In addition, cash previously invested in short-term deposits were reinvested in short-term investments with interest rates ranging from 4.30% to 5.50%. Net change of the foregoing is an increase of ₱1.838 billion in short-term investments and a decrease of ₱1.21 billion in total cash and cash equivalents versus 2005 levels.

***Inventories – 24% increase from ₱750.3 million to ₱928.1 million***

Increase due largely to the inventory build-up of skimmed milk powder going into 2007 coupled with higher C&F cost.

***Property, Plant & Equipment – 27% increase from ₱815 million to ₱1.032 billion***

Increase due to the acquisition of machineries / equipment and other costs incurred relative to the construction of the Company's new Instant Filled Milk Powder Processing Plant.

***Deferred Tax Assets – 10% increase from ₱172.6 million to ₱190.1 million***

Increase due to the higher accrued expenses for outside services and other sales-related expenses incurred for which the related withholding taxes have not yet been remitted by the Company to the Bureau of Internal Revenue.

***Other Non-Current Assets – 80% increase from ₱33.2 million to ₱59.8 million***

Increase due to the deferment of input VAT on the Company's purchase of capital equipment.

***Trade and Other Payables – 39% increase from ₱574.7 million to ₱800.5 million***

Increase due to higher expenses incurred and accruals made for outside services and other sales-related expenses on account of the higher sales volume as well as longer credit terms extended by the Company's suppliers.

***Acceptances Payable – 71% increase from ₱431.2 million to ₱735.9 million***

Increase due to the higher importation of imported raw materials during the fourth quarter of 2006 as well as the installment payment terms for the acquired machinery and equipment relative to the construction of the Company's new Milk Powder Plant.

***Income Tax Payable – 141% increase from ₱32.2 million to ₱77.5 million***

Increase due to the higher taxable income as well as the impact of the 3-percentage point increase in corporate income tax rate, from 32% to 35%, effective 1 November 2005.

***Dividends Payable – 50% decrease from ₱97.4 million to ₱48.9 million***

Decrease due to the lower cash dividend declaration for 2006 of ₱0.20 per share from ₱0.30 per share in 2005 as well as unpaid dividends in 2005.

***Cumulative Translation Adjustment – increase of ₱8.9 million***

Increase due to no outstanding designation of currency hedges for the foreign exchange exposure associated with the Company's US Dollar denominated purchase requirements for inventories, machinery and equipment.

***Retained Earnings (Appropriated) – 21% increase from ₱700 million to ₱850 million***

Increase due to the additional appropriation of ₱150 million of the Company's retained earnings for various capital investment.

***Treasury Stock – 24% increase from ₱26.8 million to ₱33.3 million***

Increase due to the reacquisition of 2.17 million shares of the Company's issued common stock under its Share Buy-Back Program.

**Market Price of and Dividends on the Registrant's Common Equity**

**(1) Market Information**

AMC shares are traded in the Philippine Stock Exchange (PSE). As of March 7, 2008, there are 966,294,878 shares listed with the Exchange. The following are the high and low price per share for each quarter for the last three (3) fiscal years:

Quarter	2005		2006		2007	
	High	Low	High	Low	High	Low
1 <sup>st</sup>	4.20	2.80	3.80	3.40	4.10	3.40
2 <sup>nd</sup>	3.70	3.10	3.65	3.00	5.90	3.85
3 <sup>rd</sup>	3.60	3.05	3.20	2.85	6.30	5.00
4 <sup>th</sup>	3.70	3.40	3.90	3.25	5.40	4.80

As of March 7, 2008, the high and low prices for AMC shares were ₱5.40 and ₱4.90, respectively.

**(2) Dividends**

A ₱0.05 per share regular cash dividend and a ₱0.25 per share special cash dividend were declared last May 8, 2007. The total ₱0.30 per share cash dividend was paid quarterly at a rate of ₱0.075 per share for each quarter, beginning June 2007 to March 2008.

The amount of dividends that the Company can declare is dictated by the balance of retained earnings it has on its books, the availability of cash and whether or not such retained earnings are intended for future corporate investments.

### (3) Holders

As of March 7, 2008, there are a total of 2,925 holders of common stock of AMC. Following is the list of the top twenty (20) shareholders as of the same date:

<b>Title of Class</b>	<b>Name of Shareholder</b>	<b>Number of Shares Held</b>	<b>Percentage to Total Shares Outstanding</b>
Common	Jadestone Investments LLC	474,270,699	49.87%
Common	PCD Nominee Corp. (Foreign)	207,134,444	21.78%
Common	Campina Melkunie B.V.	71,202,144	7.49%
Common	PCD Nominee Corp. (Filipino)	64,588,951	6.79%
Common	Wilfred & Bonnie Uytengsu Foundation	56,829,566	5.98%
Common	GF / GMC Group Retirement Plan	11,774,298	1.24%
Common	Uytengsu Foundation, Inc.	6,142,508	0.65%
Common	Central Marketing Corporation	5,287,534	0.56%
Common	Mary Ellen Mae U. Kokseng	2,461,614	0.26%
Common	Chester U. Kokseng	2,461,614	0.26%
Common	Henry C. Uytengsu, Jr.	2,431,011	0.26%
Common	Earl U. Kokseng	2,239,328	0.24%
Common	Raymond U. Kokseng	1,351,014	0.14%
Common	Edward U. Kokseng	1,351,014	0.14%
Common	Connie U. Kokseng	1,021,282	0.11%
Common	Meliton Qua	933,213	0.10%
Common	Cecilia Qua	933,213	0.10%
Common	Pua Yok Bing	750,000	0.08%
Common	Wentworth Uytengsu Memorial Fund	611,694	0.06%
Common	Ma. Asuncion Qua	603,413	0.06%
<b>TOTAL</b>		<b>914,378,554</b>	<b>96.16%</b>

### (4) Recent Sale of Unregistered Securities

As of March 7, 2008, a total of four million eight hundred fifty thousand (4,850,000) shares were issued by AMC to key employees and officers under the Company's Executive Employee Stock Option Plan (EESOP). The shares were not registered under the Code since said securities is limited in character in that the right / option to purchase the shares of stocks are limited to the Company's key employees and officers and the small amount involved does not require the registration of such. The exemption to register these shares was confirmed in writing by the Securities and Exchange Commission in its resolution dated June 12, 2002.

#### **(5) Discussion on Compliance with Leading Practice on Corporate Governance**

The Company has adopted the SEC Corporate Governance Self Rating Form to evaluate the level of compliance of the Company with its Manual on Corporate Governance. In addition, the Compliance Officer reviews on a periodic basis the level of compliance of its directors, officers and employees with the leading practices and principles on good corporate governance as embodied in the Company's Manual. To date, the Company has substantially complied with the provisions of its Manual on Corporate Governance.

#### **UNDERTAKING**

**The Company, on written request, will provide without charge a copy of the Company's annual report on SEC Form 17-A. Such written request should be directed to the Office of the Corporate Affairs, 6/F Corinthian Plaza, 121 Paseo de Roxas, Makati City, Philippines.**

**STATEMENT OF MANAGEMENT’S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**


The management of Alaska Milk Corporation is responsible for all information and representations contained in the balance sheets as of December 31, 2007 and 2006 and the related statements of income, changes in stockholders’ equity and cash flows for each of the three years in the period ended December 31, 2007. 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.

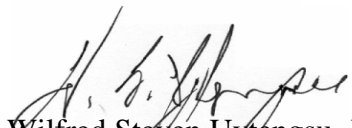
In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management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


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

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

Signed under oath by the following:

  
Wilfred Uytengsu, Sr.  
Chairman of the Board


  
Wilfred Steven Uytengsu, Jr.  
President & Chief Executive Officer

  
Arnold L. Abad  
Vice President – Accounting & Controller

SUBSCRIBED AND SWORN to before me this MAR 19 2008, 2008 at Makati City, affiants exhibiting to me their Community Tax Certificates as follows:

<u>NAMES</u>	<u>Community Tax Certificate No.</u>	<u>Date of Issue</u>	<u>Place of Issue</u>
Wilfred Uytengsu, Sr.	19297945	01/29/08	Makati City
Wilfred Steven Uytengsu, Jr.	19297944	01/29/08	Makati City
Arnold L. Abad	19497348	01/23/08	Makati City

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Page No. 05  
Book No. XXII  
Series of 2008

  
MARIA REGINA A. RUIZ  
Notary Public  
Until December 31, 2008  
7/F 121 Pasco de Roxas St., Legaspi Vill., Makati City  
Roll No. 44107/Aopt. No. M-294 (2007-2008)  
PTR No. 6302108/01-08-07/Makati City  
IBP No. 700968/01-05-07/Makati City

**ALASKA MILK CORPORATION**

Financial Statements  
December 31, 2007 and 2006  
And Years Ended December 31, 2007, 2006 and 2005  
and  
Independent Auditors’ Report

## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
Alaska Milk Corporation  
6th Floor, Corinthian Plaza  
Paseo de Roxas, Makati City

We have audited the accompanying financial statements of Alaska Milk Corporation, which comprise the balance sheets as at December 31, 2007 and 2006, and the statements of income, statements of changes in stockholders' equity and statements of cash flows for each of the three years in the period ended December 31, 2007, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 auditor's 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 auditor considers 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 financial statements present fairly, in all material respects, the financial position of Alaska Milk Corporation as of December 31, 2007 and 2006, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2007 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Melinda Gonzales-Manto  
Partner  
CPA Certificate No. 26497  
SEC Accreditation No. 0085-AR-1  
Tax Identification No. 123-305-056  
PTR No. 00017602, January 3, 2008, Makati City

March 10, 2008



**ALASKA MILK CORPORATION**  
**BALANCE SHEETS**

	December 31	
	2007	2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 5, 27 and 28)	<b>₱136,339,726</b>	₱352,227,556
Short-term investments (Notes 6, 27 and 28)	–	1,838,537,764
Trade and other receivables - net (Notes 3, 7, 27 and 28)	<b>821,446,973</b>	565,295,144
Available-for-sale investments (Notes 3, 8, 27 and 28)	<b>2,556,403</b>	2,556,403
Inventories (Notes 3 and 9)	<b>2,677,295,690</b>	928,510,483
Prepaid expenses and other current assets (Notes 28 and 31)	<b>93,413,953</b>	70,013,161
Total Current Assets	<b>3,731,052,745</b>	3,757,140,511
<b>Noncurrent Assets</b>		
Property, plant and equipment - net (Notes 3 and 10)	<b>1,210,652,066</b>	1,032,268,770
Investment properties - net (Notes 3 and 11)	<b>39,084,269</b>	41,421,447
Intangible assets - net (Notes 3 and 12)	<b>1,806,015,506</b>	–
Deferred tax assets - net (Notes 3 and 22)	<b>216,851,546</b>	190,122,018
Net pension assets (Notes 3 and 21)	<b>55,152,705</b>	47,459,400
Other noncurrent assets (Notes 28 and 31)	<b>67,152,655</b>	59,775,298
Total Noncurrent Assets	<b>3,394,908,747</b>	1,371,046,933
	<b>₱7,125,961,492</b>	₱5,128,187,444
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Bank loans (Notes 13, 27 and 28)	<b>₱800,000,000</b>	₱–
Trade and other payables (Notes 14, 27 and 28)	<b>1,351,893,613</b>	927,320,577
Acceptances payable (Notes 27 and 28)	<b>1,090,992,888</b>	735,870,973
Income tax payable	<b>77,802,627</b>	77,466,731
Dividends payable (Notes 16, 27 and 28)	<b>72,727,192</b>	48,937,138
Total Current Liabilities	<b>3,393,416,320</b>	1,789,595,419
<b>Stockholders' Equity</b> (Note 27)		
Capital stock (Notes 15 and 23)	<b>966,204,878</b>	964,099,878
Additional paid-in capital (Note 10)	<b>101,779,626</b>	91,888,714
Retained earnings (Note 16):		
Appropriated for various capital investment projects and share buy-back program	<b>945,000,000</b>	850,000,000
Unappropriated	<b>1,752,849,376</b>	1,465,892,141
Treasury stock (Notes 10 and 15)	<b>(33,288,708)</b>	(33,288,708)
Total Stockholders' Equity	<b>3,732,545,172</b>	3,338,592,025
	<b>₱7,125,961,492</b>	₱5,128,187,444

*See accompanying Notes to Financial Statements.*



**ALASKA MILK CORPORATION**  
**STATEMENTS OF INCOME**

	<b>Years Ended December 31</b>		
	<b>2007</b>	2006	2005
<b>NET SALES</b>	<b>₱9,081,801,116</b>	₱5,920,865,000	₱5,409,669,268
<b>COST OF SALES</b> (Notes 9, 17 and 31)	<b>6,694,637,711</b>	4,379,197,068	4,107,699,445
<b>GROSS PROFIT</b>	<b>2,387,163,405</b>	1,541,667,932	1,301,969,823
Operating expenses (Note 18)	<b>(1,437,278,424)</b>	(1,027,219,898)	(954,012,064)
Interest income from short-term investments and deposits (Notes 5 and 6)	<b>26,588,786</b>	96,295,555	70,174,601
Foreign exchange gain (loss) - net (Note 28)	<b>16,615,622</b>	(46,596,873)	(23,253,531)
Interest expense on bank loans (Note 13)	<b>(5,595,854)</b>	-	-
Rent income (Notes 3 and 26)	<b>2,549,271</b>	2,436,249	1,427,433
Gain on disposal of property and equipment	<b>1,535,724</b>	862,411	636,650
Dividend income and others (Note 8)	<b>185,100</b>	801,260	232,891
<b>INCOME BEFORE INCOME TAX</b>	<b>991,763,630</b>	568,246,636	397,175,803
<b>PROVISION FOR (BENEFIT FROM)</b> <b>INCOME TAX</b> (Note 22)			
Current	<b>351,408,076</b>	187,988,468	108,795,591
Deferred	<b>(26,729,528)</b>	(22,324,625)	(12,940,532)
	<b>324,678,548</b>	165,663,843	95,855,059
<b>NET INCOME</b>	<b>₱667,085,082</b>	₱402,582,793	₱301,320,744
<b>Earnings Per Share</b> (Note 24)			
Basic	<b>₱0.6909</b>	₱0.4181	₱0.3339
Diluted	<b>₱0.6903</b>	₱0.4179	₱0.3333

*See accompanying Notes to Financial Statements*



**ALASKA MILK CORPORATION**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

	Capital Stock (Notes 15, 23)	Additional Paid-in Capital (Note 10)	Cumulative Translation Adjustment	Retained Earnings (Note 16)		Treasury Stock (Notes 10 and 15)	Total	
				Appropriated	Unappropriated			
				Capital Investment Projects	Share Buy-Back Program			
Balance at December 31, 2006, as previously reported	P964,099,878	P91,888,714	P-	P650,000,000	P200,000,000	P1,465,465,230	(P33,288,708)	P3,338,165,114
Inventory adjustment (Note 9)	-	-	-	-	-	426,911	-	426,911
Balance at December 31, 2006, as restated	964,099,878	91,888,714	-	650,000,000	200,000,000	1,465,892,141	(33,288,708)	3,338,592,025
Net income	-	-	-	-	-	667,085,082	-	667,085,082
Total income for the year	-	-	-	-	-	667,085,082	-	4,005,677,107
Issuance of capital stock	2,105,000	9,890,912	-	-	-	-	-	11,995,912
Appropriations during the year	-	-	-	95,000,000	-	(95,000,000)	-	-
Cash dividends - P0.30 a share	-	-	-	-	-	(285,127,847)	-	(285,127,847)
Balance at December 31, 2007	P966,204,878	P101,779,626	P-	P745,000,000	P200,000,000	P1,752,849,376	(P33,288,708)	P3,732,545,172
Balance at December 31, 2005, as previously reported	P963,939,878	P90,707,839	(P8,954,585)	P500,000,000	P200,000,000	P1,403,062,664	(P26,778,708)	P3,121,977,088
Inventory adjustment (Note 9)	-	-	-	-	-	426,911	-	426,911
Balance at December 31, 2005, as restated	963,939,878	90,707,839	(8,954,585)	P500,000,000	P200,000,000	1,403,489,575	(26,778,708)	3,122,403,999
Additions during the year	-	-	(30,614,720)	-	-	-	-	(30,614,720)
Realized during the year	-	-	39,569,305	-	-	-	-	39,569,305
Net income	-	-	-	-	-	402,582,793	-	402,582,793
Total income for the year	-	-	-	-	-	402,582,793	-	3,533,941,377
Issuance of capital stock	160,000	1,180,875	-	-	-	-	-	1,340,875
Acquisition of treasury stock	-	-	-	-	-	-	(6,510,000)	(6,510,000)
Appropriations during the year	-	-	-	150,000,000	-	(150,000,000)	-	-
Cash dividends - P0.20 a share	-	-	-	-	-	(190,180,227)	-	(190,180,227)
Balance at December 31, 2006, as restated	P964,099,878	P91,888,714	P-	P650,000,000	P200,000,000	P1,465,892,141	(P33,288,708)	P3,338,592,025
Balance at December 31, 2004	P963,319,878	P1,927,461	P6,453,173	P250,000,000	P200,000,000	P1,624,432,570	(P143,785,401)	P2,902,347,681
Additions during the year	-	-	(24,589,730)	-	-	-	-	(24,589,730)
Realized during the year	-	-	8,768,958	-	-	-	-	8,768,958
Effect of change in enacted tax rates	-	-	413,014	-	-	-	-	413,014
Total expense charged to equity	-	-	(15,407,758)	-	-	-	-	(15,407,758)
Net income, as previously reported	-	-	-	-	-	300,893,833	-	300,893,833
Inventory adjustment (Note 9)	-	-	-	-	-	426,911	-	426,911
Total income (expense) for the year, as restated	-	-	(15,407,758)	-	-	301,320,744	-	285,912,986
Issuance of capital stock	620,000	2,787,071	-	-	-	-	-	3,407,071
Issuance of treasury stock	-	85,993,307	-	-	-	-	117,006,693	203,000,000
Appropriations during the year	-	-	-	250,000,000	-	(250,000,000)	-	-
Cash dividends - P0.30 a share	-	-	-	-	-	(272,263,739)	-	(272,263,739)
Balance at December 31, 2005	P963,939,878	P90,707,839	(P8,954,585)	P500,000,000	P200,000,000	P1,403,489,575	(P26,778,708)	P3,122,403,999

See accompanying Notes to Financial Statements.



**ALASKA MILK CORPORATION**  
**STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱991,763,630</b>	₱568,246,636	₱397,175,803
Adjustments for:			
Depreciation and amortization (Note 20)	<b>249,121,904</b>	118,130,134	112,256,934
Interest income from short-term investments and deposits (Notes 5 and 6)	<b>(26,588,786)</b>	(96,295,555)	(70,174,601)
Unrealized foreign exchange loss (gain)	<b>(8,847,104)</b>	11,672,484	6,393,905
Provision for pension (Note 21)	<b>5,720,695</b>	13,629,300	13,120,300
Interest expense on bank loans (Note 13)	<b>5,595,854</b>	–	–
Gain on disposal of property and equipment	<b>(1,535,724)</b>	(862,411)	(636,650)
Dividend income (Note 8)	<b>(185,100)</b>	(801,260)	(171,890)
Income before working capital changes	<b>1,215,045,369</b>	613,719,328	457,963,801
Decrease (increase) in:			
Trade and other receivables	<b>(269,774,839)</b>	(116,846,544)	(40,466,899)
Inventories	<b>(1,748,785,207)</b>	(177,725,056)	205,665,517
Prepaid expenses and other current assets	<b>(23,400,792)</b>	(2,032,782)	(44,552,394)
Increase (decrease) in:			
Trade and other payables	<b>422,267,411</b>	353,638,974	(38,318,801)
Acceptances payable	<b>366,131,856</b>	310,061,231	(144,783,161)
Cash generated from (used for) operations	<b>(38,516,202)</b>	980,815,151	395,508,063
Income tax paid	<b>(351,072,180)</b>	(142,683,785)	(178,177,315)
Net cash provided by (used in) operating activities	<b>(389,588,382)</b>	838,131,366	217,330,748
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to:			
Property, plant and equipment (Note 10)	<b>(318,314,055)</b>	(345,702,803)	(29,116,409)
Investment properties (Note 11)	–	(428,811)	–
Decrease (increase) in:			
Intangible assets	<b>(1,914,253,973)</b>	–	–
Short-term investments (Note 6)	<b>1,838,537,764</b>	(1,852,435,168)	–
Other noncurrent assets	<b>(20,791,357)</b>	(39,995,332)	(53,142,328)
Investments available-for-sale	–	222,072,578	(222,089,608)
Investments held-to-maturity	–	100,000,000	–
Interest received	<b>40,211,796</b>	88,640,060	68,758,653
Proceeds from disposal of property and equipment	<b>2,920,224</b>	13,200,082	907,967
Dividend received	<b>185,100</b>	801,260	171,890
Net cash used in investing activities	<b>(371,504,501)</b>	(1,813,848,134)	(234,509,835)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from bank loans (Note 13)	<b>800,000,000</b>	–	–
Payment of dividends	<b>(261,337,793)</b>	(238,666,291)	(243,336,157)
Proceeds from issuance of capital stock (Notes 15 and 23)	<b>11,995,912</b>	1,340,875	2,834,032
Interest paid	<b>(3,290,229)</b>	–	–
Acquisition of treasury shares (Note 15)	–	(6,510,000)	–
Net cash provided by (used in) financing activities	<b>547,367,890</b>	(243,835,416)	(240,502,125)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
	<b>(2,162,837)</b>	9,630,734	(28,501,808)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>			
	<b>(215,887,830)</b>	(1,209,921,450)	(286,183,020)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
	<b>352,227,556</b>	1,562,149,006	1,848,332,026
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)</b>			
	<b>₱136,339,726</b>	₱352,227,556	₱1,562,149,006

See accompanying Notes to Financial Statements.



# ALASKA MILK CORPORATION

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## NOTES TO FINANCIAL STATEMENTS

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### 1. Corporate Information

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

The financial statements of the Company were authorized for issue by the Board of Directors (BOD) on March 10, 2008.

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### 2. Basis of Preparation

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

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

#### Statement of Compliance

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

#### Changes in Accounting Policies and Disclosures

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

- PFRS 7, *Financial Instruments: Disclosures*, requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under PFRS. The adoption of this standard resulted in the inclusion of additional disclosures in the financial statements (see Notes 7, 27 and 28).



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

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

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

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

#### Future Changes in Accounting Policies

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

- PFRS 8, *Operating Segments*, becomes effective for financial years beginning on or after January 1, 2009 and will replace PAS 14, *Segment Reporting*. It adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheets and statements of income and companies will need to provide explanation and reconciliation of the differences. The Company assessed that the adoption of this standard will have no significant impact on the financial statements.



- Amendment to PAS 23, *Borrowing Costs*, becomes effective for financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Company is currently assessing the impact of the interpretation on the financial statements.
- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*, becomes effective for annual periods beginning on or after March 1, 2007. This requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Company does not expect this interpretation to have significant impact on its financial statements.
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, becomes effective for annual periods beginning on or after January 1, 2008. This interpretation covers contractual arrangements arising from entities providing public-to-private service concession arrangements if control of the assets remains in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. The Company expects that this interpretation will have no impact on the financial statements as no such arrangement currently exists.
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, becomes effective for annual periods beginning on or after July 1, 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transactions in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company expects that this interpretation will have no impact on the Company's financial statements as no such schemes currently exist.
- Philippine Interpretation IFRIC 14, *PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, becomes effective for annual periods beginning on or after January 1, 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. The Company is currently assessing the impact of the interpretation on the financial statements.
- Revised PAS 1, *Presentation of Financial Statements*, becomes effective for financial years beginning on or after January 1, 2009. The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income, which presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The revision also includes changes in titles of some of the financial statements to reflect their function more clearly, although not mandatory for use in the financial statements. The Company is currently assessing the impact of the revised standard on its financial statements when it adopts the standard on January 1, 2009.



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### 3. Summary of Significant Accounting Judgments, Estimates and Assumptions

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

#### Judgments

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

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

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

Rent income amounted to ₱2.5 million, ₱2.4 million and ₱1.4 million for the years ended December 31, 2007, 2006 and 2005, respectively (see Note 26).

Rent expense amounted to ₱45.7 million, ₱45.7 million and ₱32.0 million for the years ended December 31, 2007, 2006 and 2005, respectively (see Notes 25 and 26).

#### Estimates and Assumptions

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

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



Trade and other receivables, net of allowance for doubtful accounts, amounted to ₱821.4 million and ₱565.3 million as of December 31, 2007 and 2006, respectively (see Note 7).

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

The carrying value of AFS investments amounted to ₱2.6 million as of December 31, 2007 and 2006 (see Note 8).

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

The carrying value of inventories amounted to ₱2,677.3 million and ₱928.5 million as of December 31, 2007 and 2006, respectively (see Note 9). The provision for the excess of cost over the net realizable value of inventories amounted to ₱7.5 million in 2007, 2006 and 2005. The amount is included under “Cost of sales - raw materials and inventories used” (see Note 17).

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

Property, plant and equipment, net of accumulated depreciation and amortization, amounted to ₱1,210.7 million and ₱1,032.3 million as of December 31, 2007 and 2006, respectively (see Note 10). Investment properties, net of accumulated depreciation, amounted to ₱39.1 million and ₱41.4 million as of December 31, 2007 and 2006, respectively (see Note 11). Intangible assets with finite useful lives, net of accumulated amortization, amounted to ₱1,529.6 million as of December 31, 2007 (see Note 12).



*Estimated Useful Lives of Intangible Assets with Indefinite Useful Life.* Intangible assets are regarded to have an indefinite useful life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Company.

The carrying amounts of trademarks with indefinite useful lives amounted to ₱276.4 million as of December 31, 2007 (see Note 12).

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

The carrying amount of trademarks as of December 31, 2007 amounted to ₱276.4 million (see Note 12).

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

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

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

No impairment loss was recognized in 2007, 2006 and 2005. The aggregate carrying value of property, plant and equipment, investment properties and intangible assets with finite useful lives amounted to ₱2,779.4 million and ₱1,073.7 million as of December 31, 2007 and 2006, respectively (see Notes 10, 11 and 12).

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

Deferred tax assets amounted to ₱239.3 million and ₱206.7 million as of December 31, 2007 and 2006, respectively (see Note 22).



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

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

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

Other key assumptions for pension costs are based in part on current market conditions. Additional information is disclosed in Note 21.

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

Net pension assets amounted to ₱55.2 million and ₱47.5 million as of December 31, 2007 and 2006, respectively (see Note 21).

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

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

Any changes in the option pricing model used and the inputs to that model, such as weighted average share price, historical daily volatility, expected daily volatility, dividend yield, risk-free interest rate risk and any other inputs to the model, including the method used and any other assumptions may materially affect the Company's value of equity-settled share options granted. A discussion of share-based payments is disclosed in Note 23.



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

The fair values of the financial assets and liabilities as of December 31, 2007 and 2006 are disclosed in Note 28.

*Contingencies.* The estimate of the probable costs for the resolution of possible claims has been developed in consultation with outside legal counsel handling the Company's defense in these matters and is based upon an analysis of potential results (see Note 31). Management and its legal counsel believe that the Company has substantial legal and factual bases for its position and is of the opinion that losses arising from these legal claims, if any, will not have a material adverse impact on the financial statements. There was no provision for contingencies in 2007, 2006 and 2005.

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#### **4. Summary of Significant Accounting Policies**

##### Cash and Cash Equivalents

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

##### Short-term Investments

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

##### Financial Assets and Financial Liabilities

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

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

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



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

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

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

#### Financial Assets

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

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instrument or a financial guarantee contract. Gains and losses on investments held for trading are recognized in the statements of income.

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

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

The Company has no financial assets at FVPL as of December 31, 2007 and 2006.



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

Classified under this category are the Company's cash and cash equivalents, short-term investments, trade and other receivables and receivable from Manila Electric Company (Meralco) (see Notes 5, 6, 7, 28 and 31).

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

The Company has no financial assets classified as HTM investments as of December 31, 2007 and 2006.

*AFS Financial Assets.* AFS financial assets are nonderivative financial assets that are designated in this category or are not classified in any of the other categories. The Company designates assets as AFS financial assets when they have the intention to sell those assets when the need arises. Subsequent to initial recognition, AFS financial assets are carried at fair value in the balance sheets. Changes in the fair value of such assets are reported as revaluation reserve for AFS financial assets in the stockholders' equity section of the balance sheets until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in stockholders' equity is transferred to the statements of income. Interest earned on holding AFS financial assets are recognized in the statements of income using the effective interest rate. Assets under this category are classified as current assets if the expected realization of the investment is within 12 months from balance sheet date and as noncurrent assets if maturity is more than a year from balance sheet date.

The Company's investment in unlisted shares of stock is classified under this category (see Note 8).

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



### Financial Liabilities

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

Included in this category are the Company's derivative financial instruments (see Notes 14 and 28).

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

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

This category includes bank loans, trade and other payables, acceptances payable and dividends payable (see Notes 13, 14 and 28).

### Derivative Financial Instruments and Hedging

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

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



### Derecognition of Financial Assets and Liabilities

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

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

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

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

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

### Impairment of Financial Assets

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

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

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



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

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

*Assets Carried at Cost.* If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

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

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

#### Offsetting Financial Instruments

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



Inventories

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

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

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

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

Property, Plant and Equipment

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

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

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

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

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

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



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

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

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

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

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

#### Investment Properties

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

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

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

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

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



### Intangible Assets

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

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

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

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

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

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

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

### Impairment of Nonfinancial Assets with Definite Useful Lives

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs to sell and value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The net selling price is the amount obtainable from the sale of the asset in an arm's-length transaction less cost to sell. In assessing value in use, the estimated



future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflow, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses of continuing operations are recognized in the statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of income as gain or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### Treasury Stock

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

#### Revenue

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

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

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

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

#### Operating Lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.



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

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

*Company as Lessor.* Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating lease. Lease income from operating leases is recognized as income in the statements of income on a straight-line basis over the lease term.

#### Share-based Payment Transactions

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

The cost of equity-settled transactions, for awards granted after November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined using an appropriate pricing model, further details of which are disclosed in Note 23.

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

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

In accordance with PFRS 2, *Share-based Payment*, options granted after November 7, 2002 that had not vested on January 1, 2005 have been recognized in the 2005 statement of income.



The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 24).

#### Pension Benefits

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

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

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

#### Foreign Currency Transactions

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



## Taxes

*Current Tax.* Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at balance sheet date.

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

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilized except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at balance sheet date.

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

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

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

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



### Provisions

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

### Contingencies

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

### Events After Balance Sheet Date

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

### Earnings Per Share (EPS)

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

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

### Segment Reporting

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

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## 5. Cash and Cash Equivalents

This account consists of:

	2007	2006
Cash on hand and in banks	<b>₱42,539,726</b>	₱114,384,403
Short-term deposits	<b>93,800,000</b>	237,843,153
	<b>₱136,339,726</b>	₱352,227,556

Cash in banks earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. Interest income earned from cash and cash equivalents amounted to ₱1.3 million, ₱1.4 million and ₱1.6 million in 2007, 2006 and 2005, respectively.



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## 6. Short-term Investments

The balance of this account in 2006 consists of investments in time deposits with interest rates ranging from 4.30% to 5.50%. Interest income earned from short-term investments amounted to ₱25.3 million, ₱94.9 million and ₱68.6 million in 2007, 2006 and 2005, respectively.

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## 7. Trade and Other Receivables

This account consists of:

	2007	2006
Trade	<b>₱860,806,898</b>	₱603,375,317
Advances to suppliers	<b>23,542,939</b>	29,931,937
Others (see Note 25)	<b>36,590,871</b>	34,975,506
	<b>920,940,708</b>	668,282,760
Less allowance for doubtful accounts (see Note 27)	<b>99,493,735</b>	102,987,616
	<b>₱821,446,973</b>	₱565,295,144

Terms and conditions of the above financial assets are as follows:

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

The movements in the allowance for doubtful accounts are as follows:

	Trade	Others	Total
At January 1, 2006	₱97,361,400	₱5,626,216	₱102,987,616
Charge for the year	-	-	-
At December 31, 2006	97,361,400	5,626,216	₱102,987,616
Amount written off	(3,493,881)	-	(3,493,881)
At December 31, 2007	₱93,867,519	₱5,626,216	₱99,493,735

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## 8. Available-for-Sale Investments

The balance of this account as of December 31, 2007 and 2006 consists of investments in unlisted shares of stock. These shares are unquoted and there are no reliable sources of fair market values. Consequently, the investments are stated at cost. The dividend income earned from these investments amounted to ₱0.2 million, ₱0.8 million and ₱0.2 million in 2007, 2006 and 2005, respectively.



## 9. Inventories

This account consists of:

	2007	2006
At cost:		
Finished goods	<b>₱484,326,594</b>	₱184,488,309
Goods in transit	<b>777,913,808</b>	250,098,131
At net realizable value:		
Raw and packaging materials	<b>1,329,775,583</b>	419,430,037
Spare parts, supplies and others	<b>85,279,705</b>	74,494,006
	<b>₱2,677,295,690</b>	₱928,510,483

The cost of raw and packaging materials amounted to ₱1,352.4 million and ₱437.8 million as of December 31, 2007 and 2006, respectively. The cost of spare parts, supplies and others amounted to ₱105.7 million and ₱92.4 million as of December 31, 2007 and 2006, respectively.

In 2007, the Company noted spare parts inventories amounting to ₱0.4 million pertaining to 2005 issuances that were still unused as of December 31, 2007. Accordingly, the amount was reflected as an adjustment to the 2005 statement of income and to beginning retained earnings of 2006 and 2007, as shown in the statements of changes in stockholders' equity.

## 10. Property, Plant and Equipment

This account consists of:

	December 31, 2006	Additions	Disposals/ Retirement	Transfers	December 31, 2007
<b>Cost</b>					
Land and land improvements	₱28,255,484	₱5,431,110	₱-	₱9,909,715	<b>₱43,596,309</b>
Buildings and leasehold improvements	295,056,244	12,348,243		20,611,760	<b>328,016,247</b>
Machinery and equipment	1,062,523,852	103,612,386	(5,950,875)	284,976,278	<b>1,445,161,641</b>
Transportation equipment	85,049,010	20,874,628	(17,121,624)	-	<b>88,802,014</b>
Office furniture, fixtures and other equipment	90,565,230	16,102,658	-	-	<b>106,667,888</b>
	1,561,449,820	158,369,025	(23,072,499)	315,497,753	<b>2,012,244,099</b>
<b>Accumulated Depreciation and Amortization</b>					
Land improvements	9,525,406	1,768,779	-	-	<b>11,294,185</b>
Buildings and leasehold improvements	67,400,001	17,505,914	-	-	<b>84,905,915</b>
Machinery and equipment	627,155,957	99,838,787	(5,950,873)	-	<b>721,043,871</b>
Transportation equipment	67,064,836	14,135,494	(15,737,126)	-	<b>65,463,204</b>
Office furniture, fixtures and other equipment	84,334,684	5,297,285	-	-	<b>89,631,969</b>
	855,480,884	138,546,259	(21,687,999)	-	<b>972,339,144</b>
	705,968,936	19,822,766	(1,384,500)	315,497,753	<b>1,039,904,955</b>
Construction in-progress	42,238,913	156,162,861	-	(31,436,832)	<b>166,964,942</b>
Machinery in-transit	3,125,000	3,782,169	-	(3,125,000)	<b>3,782,169</b>
Machinery and equipment under installation	280,935,921	-	-	(280,935,921)	-
	<b>₱1,032,268,770</b>	<b>₱179,767,796</b>	<b>(₱1,384,500)</b>	<b>₱-</b>	<b>₱1,210,652,066</b>



	December 31, 2005	Additions	Disposals/ Retirement	Transfers	December 31, 2006
<b>Cost</b>					
Land and land improvements	₱27,766,581	₱-	₱-	₱488,903	₱28,255,484
Buildings and leasehold improvements	287,124,943	5,498,507	-	2,432,794	295,056,244
Machinery and equipment	1,069,626,575	5,330,073	(12,432,796)	-	1,062,523,852
Transportation equipment	84,127,432	8,255,183	(7,333,605)	-	85,049,010
Office furniture, fixtures and other equipment	87,626,810	2,938,420	-	-	90,565,230
	1,556,272,341	22,022,183	(19,766,401)	2,921,697	1,561,449,820
<b>Accumulated Depreciation and Amortization</b>					
Land improvements	8,186,672	1,338,734	-	-	9,525,406
Buildings and leasehold improvements	50,963,706	16,436,295	-	-	67,400,001
Machinery and equipment	551,154,994	77,347,849	(1,346,886)	-	627,155,957
Transportation equipment	58,165,249	14,981,431	(6,081,844)	-	67,064,836
Office furniture, fixtures and other equipment	78,646,037	5,688,647	-	-	84,334,684
	747,116,658	115,792,956	(7,428,730)	-	855,480,884
	809,155,683	(93,770,773)	(12,337,671)	2,921,697	705,968,936
Construction in-progress	5,540,911	39,619,699	-	(2,921,697)	42,238,913
Machinery in-transit	-	3,125,000	-	-	3,125,000
Machinery and equipment under installation	-	280,935,921	-	-	280,935,921
	₱814,696,594	₱229,909,847	(₱12,337,671)	₱-	₱1,032,268,770

On November 29, 2005, the BOD approved the acquisition of a condominium property from SCM-Bond Holdings, Inc. for a total consideration of ₱203 million, equivalent to 58 million treasury shares at ₱3.52 a share. On December 7, 2005, the contracting parties entered into a Deed of Absolute Sale. The excess of the consideration of ₱203 million over the cost of the treasury shares of ₱117 million was recorded under “Additional paid-in capital” account, shown under the stockholders’ equity section in the 2005 balance sheet and statement of changes in stockholders’ equity.

In 2006, the Company entered into a contract with a foreign third party for the supply of a complete Instant Filled Milk Powder Processing Plant (the Anhydro Plant 2 Project) consisting of a spray drying equipment and a recombined milk processing plant especially designed for the production of instant filled milk powder for a total contract price of US\$5.1 million or ₱248 million. The equipment’s commercial production run started on May 21, 2007.

The costs incurred for the construction and other incidental expenses related to the equipment were included in “Construction in-progress” and “Machinery and equipment under installation” accounts as of December 31, 2006. The costs were reclassified to the relevant asset accounts upon completion in 2007.



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## 11. Investment Properties

The details of this account follow:

	2007	2006
<b>Cost</b>		
Balance at beginning of year	<b>₱46,743,567</b>	₱46,314,756
Additions	–	428,811
Balance at end of year	<b>46,743,567</b>	46,743,567
<b>Accumulated Depreciation</b>		
Balance at beginning of year	<b>5,322,120</b>	2,984,942
Additions	<b>2,337,178</b>	2,337,178
Balance at end of year	<b>7,659,298</b>	5,322,120
<b>Net Book Value</b>	<b>₱39,084,269</b>	₱41,421,447

A certain condominium property is being leased out to a third party (see Note 26).

In 2007 and 2006, management evaluated the fair value of these properties by reference to current market prices for similar properties in the same location and condition and determined that there is no significant change from the latest market price of ₱45 million, as determined by an independent appraiser in 2005.

Rent income generated from the investment properties is disclosed in Note 26.

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## 12. Intangible Assets

In 2007, this account consists of license brands and computer software license with finite useful life amounting to ₱1,637.8 million and trademarks with indefinite useful life amounting to ₱276.4 million. The amortization and accumulated amortization for the license brands during the year amounted to ₱108.2 million (see Note 20).

The relief-from-royalty-method was adopted in valuing the trademarks using discount rate of 11.17%. The royalty rate applicable was 5%.

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## 13. Bank Loans

The balance of the account in 2007 consists of peso-denominated short-term loans with annual fixed interest rates ranging from 5.25% to 5.87%. The interest expense, recorded under “Interest expense on bank loans” account in the 2007 statement of income, amounted to ₱5.6 million.



#### 14. Trade and Other Payables

This account consists of:

	2007	2006
Trade	<b>₱534,766,888</b>	₱464,125,337
Accruals for:		
Selling and marketing expenses	<b>538,285,419</b>	295,033,335
Employee-related expenses (see Note 19)	<b>106,571,850</b>	74,308,436
Importation charges, royalty and other expenses	<b>121,782,153</b>	43,559,710
Payable to government agencies	<b>24,311,235</b>	27,109,721
Derivative liabilities (see Note 28)	<b>2,025,720</b>	-
Others	<b>24,150,348</b>	23,184,038
	<b>₱1,351,893,613</b>	₱927,320,577

The terms and conditions of the above liabilities follow:

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

Derivative liabilities arise from forward contracts (see Note 28).

#### 15. Capital Stock

The composition of the Company's capital stock is as follows:

	Number of Shares		
	2007	2006	2005
Par value - ₱1			
Authorized	<b>1,000,000,000</b>	1,000,000,000	1,000,000,000
Issued:			
Balance at beginning of year	<b>964,099,878</b>	963,939,878	963,319,878
Issuance (see Note 23)	<b>2,105,000</b>	160,000	620,000
Balance at end of year	<b>966,204,878</b>	964,099,878	963,939,878
Treasury stock:			
Balance at beginning of year	<b>15,368,734</b>	13,198,734	70,869,188
Acquisition (issuance)	-	2,170,000	(57,670,454)
Balance at end of year	<b>15,368,734</b>	15,368,734	13,198,734



The issuance of capital stock pertains to shares issued under the Company's EESOP. The issuance of treasury shares in 2005 relates to the acquisition of a condominium property (see Note 10).

As of December 31, 2007 and 2006, the cost of shares held in treasury amounted to ₱33.3 million, or an average price of ₱2.17 a share.

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## 16. Retained Earnings

Cash dividends declared amounted to ₱285.1 million, ₱190.2 million and ₱272.3 million in 2007, 2006 and 2005, respectively.

On May 8, 2007, the BOD approved additional appropriations of ₱95.0 million, out of the Company's retained earnings for various capital investment projects.

Similar appropriations were made on May 23, 2006 and May 10, 2005 amounting to ₱150.0 million and ₱250.0 million, respectively.

On February 12, 2008, additional appropriations were approved amounting to ₱380.0 million.

Consequently, the retained earnings account is restricted for the payment of dividends to the extent of ₱978.3 million and ₱883.3 million as of December 31, 2007 and 2006, respectively, representing appropriations of ₱945.0 million in 2007 and ₱850.0 million in 2006 and the cost of treasury stock amounting to ₱33.3 million in both years.

As of December 31, 2007 and 2006, the Company's retained earnings is in excess of 100% of its paid-up capital. The Company intends to use the excess retained earnings for future dividend declaration and business expansion.

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## 17. Cost of Sales

This account consists of:

	2007	2006	2005
Raw materials and inventories used (see Note 9)	<b>₱5,987,397,061</b>	₱3,751,609,620	₱3,546,522,859
Personnel expenses (see Note 19)	<b>245,824,408</b>	225,219,122	200,049,687
Utilities	<b>203,502,196</b>	181,029,916	143,214,987
Depreciation and amortization (see Note 20)	<b>110,572,454</b>	85,895,342	85,789,544
Repairs, maintenance and others (see Notes 25 and 26)	<b>147,341,592</b>	135,443,068	132,122,368
	<b>₱6,694,637,711</b>	₱4,379,197,068	₱4,107,699,445



## 18. Operating Expenses

This account consists of:

	2007	2006	2005
Selling and marketing	<b>₱910,970,663</b>	₱675,192,368	₱638,102,132
Personnel expenses (see Note 19)	<b>248,981,552</b>	198,977,688	174,302,539
Depreciation and amortization (see Note 20)	<b>138,549,450</b>	32,234,792	26,467,390
Rent (see Notes 25 and 26)	<b>35,684,324</b>	30,515,021	27,738,939
Taxes and licenses	<b>21,050,944</b>	16,038,981	14,627,079
Transportation and travel	<b>18,306,699</b>	18,199,265	16,031,110
Utilities	<b>8,917,644</b>	8,311,617	8,613,990
Communication	<b>8,167,391</b>	7,437,368	5,130,718
Entertainment, amusement and recreation	<b>2,253,907</b>	2,541,305	1,854,986
Others	<b>44,395,850</b>	37,771,493	41,143,181
	<b>₱1,437,278,424</b>	₱1,027,219,898	₱954,012,064

## 19. Personnel Expenses

Personnel expenses consist of:

	2007	2006	2005
Salaries, wages and employee benefits (see Note 25)	<b>₱480,904,393</b>	₱404,982,320	₱356,384,499
Pension expense (see Notes 21 and 25)	<b>5,720,695</b>	13,629,300	13,120,300
Trainings and others (see Note 14)	<b>8,180,872</b>	5,585,190	4,847,427
	<b>₱494,805,960</b>	₱424,196,810	₱374,352,226

## 20. Depreciation and Amortization

This account is distributed as follows:

	2007	2006	2005
Property, plant and equipment (see Note 10):			
Cost of sales	<b>₱110,572,454</b>	₱85,895,342	₱85,789,544
Operating expenses	<b>27,973,805</b>	29,897,614	25,185,343
Investment properties -			
Operating expenses (see Note 11)	<b>2,337,178</b>	2,337,178	1,282,047
Intangible assets -			
Operating expense (see Note 12)	<b>108,238,467</b>	-	-
	<b>₱249,121,904</b>	₱118,130,134	₱112,256,934



## 21. Pension Plan

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

The following tables summarize the components of net pension expense recognized in the statements of income and the funded status and amounts recognized in the balance sheets for the pension plan:

### Net Pension Expense

	2007	2006	2005
Current service cost	<b>₱16,743,681</b>	₱15,648,300	₱13,236,400
Interest cost on benefit obligation	<b>23,961,427</b>	30,179,500	28,246,200
Expected return on plan assets	<b>(34,984,413)</b>	(32,198,500)	(28,362,300)
Net benefit expense	<b>₱5,720,695</b>	₱13,629,300	₱13,120,300

### Net Pension Assets

	2007	2006	2005
Defined benefit obligation	<b>₱372,739,549</b>	₱342,306,100	₱279,960,400
Fair value of plan assets	<b>(414,273,710)</b>	(388,715,700)	(321,699,000)
	<b>(41,534,161)</b>	(46,409,600)	(41,738,600)
Unrecognized net actuarial losses	<b>(13,618,544)</b>	(1,049,800)	(5,936,100)
Net pension assets	<b>(₱55,152,705)</b>	(₱47,459,400)	(₱47,674,700)

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

	2007	2006	2005
Defined benefit obligation, January 1	<b>₱342,306,100</b>	₱279,960,400	₱242,479,400
Interest cost on benefit obligation	<b>23,961,427</b>	30,179,500	28,246,200
Current service cost	<b>16,743,681</b>	15,648,300	13,236,400
Actuarial loss on obligations	-	22,719,700	10,186,800
Actual benefits paid	<b>(10,271,659)</b>	(6,201,800)	(14,188,400)
Defined benefit obligation, December 31	<b>₱372,739,549</b>	₱342,306,100	₱279,960,400



The changes in the fair value of plan assets are as follow:

	2007	2006	2005
Fair value of plan assets, January 1	<b>₱388,715,700</b>	₱321,699,000	₱284,009,900
Expected return on plan assets	<b>34,984,413</b>	32,198,500	28,362,300
Actuarial gain (loss) on plan assets	<b>(12,568,744)</b>	27,606,000	10,101,200
Contributions	<b>13,414,000</b>	13,414,000	13,414,000
Actual benefits paid	<b>(10,271,659)</b>	(6,201,800)	(14,188,400)
Fair value of plan assets, December 31	<b>₱414,273,710</b>	₱388,715,700	₱321,699,000
Actual return on plan assets	<b>₱35,162,231</b>	₱28,873,477	₱32,391,503

The plan assets consist of the following:

	2007	2006	2005
Cash in banks	<b>₱826,452</b>	₱13,853,698	₱40,289,492
Investments held for trading	<b>112,696,201</b>	69,491,488	24,616,763
Receivables	<b>5,683,724</b>	10,291,406	7,098,593
Investment properties	<b>295,067,333</b>	295,079,108	249,694,152
	<b>₱414,273,710</b>	₱388,715,700	₱321,699,000

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

The principal assumptions used in determining pension obligations of the Company's plan are shown below:

	2007	2006	2005
Discount rate	<b>7%</b>	7%	11%
Expected rate of return on plan assets	<b>9%</b>	9%	10%
Salary increase rate	<b>7%</b>	7%	9%

The amounts of experience adjustments are as follows:

	2007	2006
Gain on experience adjustments on:		
Pension obligation	<b>₱-</b>	₱25,706,300
Plan assets	<b>12,568,744</b>	27,606,000

The Company expects to contribute ₱4.0 million to the fund in 2008. The expected benefit payments in 2008 amounts to ₱4.0 million.



## 22. Income Tax

The components of the Company's net deferred tax assets are as follows:

	2007	2006
Deferred tax assets:		
Accrued expenses	<b>₱158,404,414</b>	₱108,030,555
Unamortized portion of past service costs	<b>36,534,829</b>	43,696,618
Allowance for:		
Doubtful accounts	<b>29,848,121</b>	36,045,665
Inventory obsolescence	<b>12,914,804</b>	12,839,263
Share-based payment	<b>1,097,096</b>	1,261,772
Deferred interest income	<b>452,215</b>	773,566
Unrealized foreign exchange loss	-	4,085,369
	<b>239,251,479</b>	206,732,808
Deferred tax liabilities:		
Pension asset	<b>(19,303,447)</b>	(16,610,790)
Unrealized foreign exchange gain	<b>(3,096,486)</b>	-
	<b>(22,399,933)</b>	(16,610,790)
	<b>₱216,851,546</b>	₱190,122,018

Accrued expenses mainly represent accruals for outside services and other expenses for which the related withholding taxes have not yet been remitted by the Company to the Bureau of Internal Revenue.

The reconciliation of net income before income tax computed at the statutory income tax rates to provision for income tax as shown in the statements of income is as follows:

	2007	2006	2005
Provision for income tax computed at statutory income tax rates	<b>₱347,117,271</b>	₱198,886,323	₱129,082,136
Income tax effects of:			
Income tax holiday	<b>(21,148,481)</b>	-	-
Interest income subjected to final tax	<b>(9,306,075)</b>	(33,703,444)	(22,806,745)
Amortization of trademarks	<b>(6,449,870)</b>	-	-
Nondeductible interest expense	<b>1,958,549</b>	-	-
Dividend income exempt from tax	<b>(64,785)</b>	(280,441)	(55,864)
Change in enacted tax rates and others	<b>12,571,939</b>	761,405	(10,364,468)
Provision for income tax	<b>₱324,678,548</b>	₱165,663,843	₱95,855,059

On May 24, 2005, the President signed into law Republic Act No. 9337 (the Act), which took effect on November 1, 2005. The Act introduced changes in regular corporate income tax rate for domestic corporations, and resident and non-resident foreign corporations from 32% to 35% beginning November 1, 2005 and from 35% to 30% beginning January 1, 2009. In 2005, the regular corporate income tax rate was applied by multiplying the number of months covered by the new rate with the taxable income of the corporation during the year, divided by 12.

The changes in tax rates were included in the computation of deferred tax assets.



## 23. Share-based Payment

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

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

The BOD granted additional shares of 1,110,000 and 2,955,000 in 2007 and in 2005, respectively, for the EESOP with the same provisions as the previous EESOP. There have been no cancellations or modifications to the EESOP in 2007 and 2006.

Total expense arising from share-based payment amounted to ₱0.8 million, ₱0.9 million and ₱2.0 million in 2007, 2006 and 2005, respectively.

The following table illustrates the number and weighted average exercise price (WAEP) of and movements in share options:

	2007		2006		2005	
	Number	WAEP	Number	WAEP	Number	WAEP
Balance at beginning of year	<b>3,245,000</b>	<b>₱3.08</b>	3,985,000	₱3.05	2,700,000*	₱2.27
Exercised during the year (see Note 15)	<b>(2,105,000)</b>	<b>3.09</b>	(160,000)	3.01	(620,000)	2.17
Forfeited during the year	–	–	(580,000)	2.89	–	–
Additional shares granted during the year	<b>1,110,000</b>	<b>3.53</b>	–	–	2,955,000	3.18
Expired during the year	<b>(90,000)</b>	<b>2.72</b>	–	–	(1,050,000)	1.94
Balance at end of year	<b>2,160,000</b>	<b>₱5.62</b>	3,245,000	₱3.08	3,985,000	₱3.05
Exercisable at end of year	<b>895,000</b>	<b>₱3.51</b>	1,890,000	₱3.10	1,255,000	₱3.04

\* Included in this balance are stock options of 2,365,000 and 1,920,000 as of January 1 and December 31, 2004, respectively, that have not been recognized in accordance with PFRS 2 as the options were granted on or before November 7, 2002 and had vested before January 1, 2005. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with PFRS 2.



The options that have been exercised have an exercise price ranging from ₱2.72 to ₱3.53 in 2007 and ₱1.94 to ₱3.18 in 2006 and 2005. The average fair value of the shares as of the exercise dates was ₱3.76 in 2007 and ₱3.33 in 2006. Options not exercised from the 2004 grant of 90,000 shares and 2002 grant of 1,050,000 shares had expired in 2007 and 2005, respectively.

The weighted average remaining contractual life for the share options outstanding as of December 31, 2007 and 2006 is 1.5 years and 2 years, respectively.

The fair value of the option was determined using option pricing model, taking into account the terms and conditions upon which the options were granted. The dates of grant are May 9, 2007 and May 10, 2005.

The following table lists the inputs to the model used as of the grant date:

	2007	2005
Dividend yield	<b>8.76%</b>	8.82%
Historical daily volatility	<b>2.00%</b>	2.80%
Risk-free interest rate risk	<b>3.87% to 5.59%</b>	10.63%
Expected daily volatility	<b>2.00%</b>	2.80%
Weighted average share price	<b>₱3.42</b>	₱3.40

The expected daily volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

## 24. EPS Computation

	2007	2006	2005
(a) Net income	<b>₱667,085,082</b>	₱402,582,793	₱301,320,744
Number of shares issued and outstanding at beginning of year	<b>964,099,878</b>	963,939,878	892,450,690
Weighted average number of shares issued during the year	<b>1,402,500</b>	126,667	420,833
Weighted average number of treasury stock issued (acquired) during the year	-	(1,181,667)	9,611,742
(b) Weighted average number of shares outstanding during the year	<b>965,502,378</b>	962,884,878	902,483,265
Adjustment for potential common shares:			
Number of shares under the stock option	<b>2,250,000</b>	3,825,000	3,985,000
Number of shares that would have been issued at fair value related to the exercise of the stock option	<b>(1,449,696)</b>	(3,438,213)	(2,522,241)



	2007	2006	2005
(c) Weighted average number of shares issued and outstanding adjusted for potential common shares	<b>₱966,302,682</b>	₱963,271,665	₱903,946,024
Basic EPS (a/b)	<b>₱0.6909</b>	₱0.4181	₱0.3339
Diluted EPS (a/c)	<b>₱0.6903</b>	₱0.4179	₱0.3333

## 25. Related Party Disclosures

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

Transactions with related parties include the following:

- a. The Company charges GenOSI, Inc. (GenOSI) and Wentworth Development Corporation (WDC), affiliates, for their share in the expenses incurred by directors and officers common to these companies. The total charges and related receivables are as follows:

	Year	Total Charges	Receivables
GenOSI	2007	₱81,480	₱-
	2006	113,474	112,688
WDC	2007	34,540	4,503
	2006	96,827	4,630

- b. The Company has a ten-year lease agreement with WDC starting March 1, 2000 for the lease of provincial office space. Rent expense amounted to ₱0.6 million in 2007, 2006 and 2005. Annual lease payments for the whole term of the lease amount to ₱0.6 million.
- c. The Company recognizes incentives to the members of the BOD, management and employees based on a certain percentage of operating income which amounted to ₱54.5 million in 2007, ₱29.9 million in 2006 and ₱20.9 million in 2005.
- d. The Company leases the land where its manufacturing plant is situated from AMC Retirement Plan for a period of 25 years starting November 9, 2004. Rent expense amounted to ₱15.6 million in 2007, 2006 and 2005. Annual lease payments for the whole term of the lease amount to ₱15.6 million.

On January 1, 2006, the Company entered into another 25 years lease agreement with AMC Retirement Plan for the lease of land adjacent to where the manufacturing plant is situated. The lease is renewable at the option of the Company, at an annual rent of ₱13.2 million. Rent expense amounted to ₱13.2 million in 2007 and 2006.



- e. The compensation of key management personnel of the Company follows:

	2007	2006	2005
Short-term employee benefits	<b>₱72,432,621</b>	₱57,157,510	₱57,037,655
Post-retirement benefits	<b>1,704,767</b>	3,411,277	2,500,729
Share-based payments	<b>240,263</b>	215,177	938,806
	<b>₱74,377,651</b>	₱60,783,964	₱60,477,190

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## 26. Agreements

- a. License and Purchase Agreements

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

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

On December 27, 2006, the Company and Hershey's Foods Corporation agreed to extend their licensing agreement up to February 28, 2007. Royalty expense is computed based on 5% of net sales.

- b. Distribution Agreement

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

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

- c. Lease Agreements

As Lessee

- i) The Company has a lease agreement with a third party for the lease of land and warehouse in Cainta, for a period of three (3) years until June 30, 2008. Rental expense amounted to ₱8.8 million in 2007, 2006 and 2005.
- ii) The Company has lease agreements with various third parties for the lease of land and warehouse in different provinces for a period of one (1) year, automatically renewable every year. Rent expense amounted to ₱7.5 million in 2007 and 2006 and ₱7.0 million in 2005.



As Lessor

- i) The Company assumed all the rights and obligations of a lessor related to the condominium property as discussed in Notes 10 and 11. The agreement is for a period of three (3) years until March 31, 2008, renewable under such terms and conditions agreeable to both parties. Rent income amounted to ₱1.0 million in 2007 and 2006 and ₱0.1 million in 2005.
- ii) The Company has an existing lease agreement with a third party for a lease on condominium property for a period of one (1) year until February 29, 2008, renewable at the option of both parties. Rent income amounted to ₱1.5 million in 2007, ₱1.4 million in 2006 and ₱1.3 million in 2005.

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## 27. Financial Risk Management Objectives and Policies

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

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

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

### Foreign Currency Risk

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

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

	2007		2006	
	US\$	PhP	US\$	PhP
Current financial assets:				
Cash and cash equivalents	\$46,222	₱1,908,044	\$6,382,360	₱312,927,111
Short-term investments	–	–	22,030,800	1,080,170,124
Advances to supplier	495,292	20,445,654	531,602	26,064,446
Total financial assets	541,514	22,353,698	28,944,762	1,419,161,681
Current financial liabilities:				
Acceptances payable	26,429,091	1,090,992,888	14,192,246	695,845,821
Other payables	–	–	136,000	6,668,080
Total financial liabilities	26,429,091	1,090,992,888	14,328,246	702,513,901
Net financial assets (liabilities)	(\$25,887,577)	(₱1,068,639,190)	\$14,616,516	₱716,647,780



In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were ₱41.28 to US\$1.00 and ₱49.03 to US\$1.00, the Philippine peso to U.S. dollar exchange rates as at December 31, 2007 and 2006, respectively.

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

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

	Decrease in ₱ to US\$ 1	Effect on Income Before Income Tax and Management Incentive Bonus	Effect on Equity
2007	₱0.48	₱12.4 million increase	₱7.6 million increase

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

#### Credit Risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The Company does not grant credit terms without the specific approval of the credit departments under the direction of credit committee. Moreover, the credit committee regularly reviews the age and status of outstanding accounts receivable.

There are no significant concentrations in credit risk.

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

As of December 31 2007, the aging analysis of trade receivables and other receivables is as follows:

	Neither Past Due Nor Impaired	Past Due but Not Impaired		Impaired		Total
		<30 days	30-60 days	Individual	Collective	
Trade	₱700,364,378	₱57,859,100	₱8,715,900	₱33,259,742	₱60,607,778	₱860,806,898
Advances to suppliers	23,542,939	-	-	-	-	23,542,939
Others	30,964,656	-	-	5,626,215	-	36,590,871
	₱754,871,973	₱57,859,100	₱8,715,900	₱38,885,957	₱60,607,778	₱920,940,708



As of December 31 2007, the credit quality of the Company's financial assets is as follows:

	Neither Past Due Nor Impaired		Past Due or Impaired	Total
	High Grade	Standard Grade		
Cash and cash equivalents	₱136,339,726	₱-	₱-	₱136,339,726
AFS investments	-	2,556,403	-	2,556,403
Trade receivables	394,277,614	306,086,764	160,442,520	860,806,898
Advances to suppliers	23,542,939	-	-	23,542,939
Others	18,578,794	12,385,862	5,626,215	36,590,871
Receivable from Meralco	-	7,986,812	-	7,986,812
At December 31, 2007	₱572,739,073	₱329,015,841	₱166,068,735	₱1,067,823,649

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

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

#### Interest Rate Risk

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

As of December 31, 2007 and 2006, the Company's bank loans are at fixed rate of interest, hence, the Company is not sensitive to interest rate changes.

#### Liquidity Risk

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

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

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

	2007			Total
	On Demand	Less than 3 Months	3 to 12 Months	
Bank loans	₱-	₱708,482,416	₱97,113,438	₱805,595,854
Trade and other payables	320,613	1,259,432,000	92,141,000	1,351,893,613
Acceptances payable	-	1,090,992,888	-	1,090,992,888
Dividends payable	-	72,727,192	-	72,727,192
	₱320,613	₱3,131,634,496	₱189,254,438	₱3,321,209,547



### Capital Management

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

The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares. No changes were made in the objectives, policies, or processes during the years ended December 31, 2007 and 2006.

The Company monitors its capital gearing by measuring the ratio of debt to total capital. Debt includes bank loans, trade and other payables, acceptances payable and dividends payable. The Company's policy is to keep within the gearing ratio at 70:30. As of December 31, 2007 and 2006, the Company's ratios of debt to total capital are 47% and 34%, respectively.

Details are as follows:

	2007	2006
Bank loans	<b>₱800,000,000</b>	₱-
Trade and other payables	<b>1,351,893,613</b>	927,320,577
Acceptances payable	<b>1,090,992,888</b>	735,870,973
Dividends payable	<b>72,727,192</b>	48,937,138
Total debt (a)	<b>3,315,613,693</b>	1,712,128,688
Total stockholders' equity	<b>3,732,545,172</b>	3,338,592,025
Total debt and stockholders' equity (b)	<b>₱7,048,158,865</b>	₱5,050,720,713
Gearing ratio (a/b)	<b>47%</b>	34%

## **28. Financial Instruments**

### Fair Values

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

	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Loans and receivables:				
Cash and cash equivalents	<b>₱136,339,726</b>	<b>₱136,339,726</b>	₱352,227,556	₱352,227,556
Short-term investments	-	-	1,838,537,764	1,838,537,764
Trade and other receivables:				
Trade	<b>766,939,379</b>	<b>766,939,379</b>	506,013,917	506,013,917
Advances to suppliers	<b>23,542,939</b>	<b>23,542,939</b>	29,931,937	29,931,937
Others	<b>30,964,655</b>	<b>30,964,655</b>	29,349,290	29,349,290
Receivable from Meralco (see Note 31)	<b>7,986,812</b>	<b>7,445,915</b>	10,161,617	10,456,690
	<b>965,773,511</b>	<b>965,232,614</b>	2,766,222,081	2,766,517,154
AFS Investments	<b>2,556,403</b>	<b>2,556,403</b>	2,556,403	2,556,403
	<b>₱968,329,914</b>	<b>₱967,789,017</b>	₱2,768,778,484	₱2,769,073,557



	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Liabilities:</b>				
Financial liabilities at FVPL - derivative liabilities	<b>₱2,025,720</b>	<b>₱2,025,720</b>	₱-	₱-
<b>Other financial liabilities:</b>				
Bank loans	<b>800,000,000</b>	<b>800,000,000</b>	-	-
Trade and other payables				
Trade	<b>534,766,888</b>	<b>534,766,888</b>	464,125,337	464,125,337
Accruals for:				
Selling and marketing expenses	<b>538,285,419</b>	<b>538,285,419</b>	295,033,335	295,033,335
Employees-related expenses	<b>106,571,850</b>	<b>106,571,850</b>	74,308,436	74,308,436
Importation charges, royalty and other expenses	<b>121,782,153</b>	<b>121,782,153</b>	43,559,710	43,559,710
Others	<b>24,150,348</b>	<b>24,150,348</b>	23,184,038	23,184,038
	<b>1,325,556,658</b>	<b>1,325,556,658</b>	900,210,856	900,210,856
Acceptances payable	<b>1,090,992,888</b>	<b>1,090,992,888</b>	735,870,973	735,870,973
Dividends payable	<b>72,727,192</b>	<b>72,727,192</b>	48,937,138	48,937,138
	<b>₱3,291,302,458</b>	<b>₱3,291,302,458</b>	₱1,685,018,967	₱1,685,018,967

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

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

*Receivable from Meralco.* Receivable from Meralco pertains to Meralco refund as disclosed in Note 31. The fair value is estimated based on the discounted value of future cash flows using the applicable rate for similar type of instruments. The receivable was discounted using prevailing market rates of 8.68% to 8.96% in 2007 and 7.52% to 8.77% in 2006.

#### Derivative Instruments

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

As of December 31, 2007, the Company has outstanding buy USD/sell PhP forward transactions with total notional amount of USD900,000 at an average rate of ₱45.88:\$1.00. In the last quarter of 2007, due to continuous appreciation of peso, the Company entered into sell USD/buy PhP with the same notional amount at average forward rate of ₱43.63:\$1.00 to counter the losses it incurred. The net fair value of the outstanding forward contracts is a negative value of ₱2.03 million. The net fair value is based on third party valuation.



As of December 31 2007 and 2006, the Company has foreign currency derivatives embedded in certain purchase contracts. The aggregate marked-to-market gain from such instruments is immaterial.

In 2007, the net movement in fair value changes of derivative instruments is as follows:

Balance at beginning of year	₱-
Net changes in fair value during the year [included in "foreign exchange gain (loss)" account in the statements of income]	(36,373,804)
Fair value of settled contracts	34,348,084
<u>Balance at end of year</u>	<u>(₱2,025,720)</u>

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## 29. Notes to Statements of Cash Flows

### Non-cash Transactions

In 2005, the principal non-cash transaction under investing and financing activities pertains to the acquisition of a condominium property in exchange for the Company's treasury shares (see Note 10).

### HTM Investment

In 2005, the cash inflows from investing activities include increase in HTM investment amounting to ₱100.0 million representing withdrawal in that year. The investment pertains to a two-year note with a coupon rate of 9.38%. The investment matured on May 6, 2006.

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## 30. Board of Investments

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

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

Total tax incentives availed in 2007 amounted to ₱21.1 million.



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### 31. Other Matters

a. Refund from Meralco

As a customer of Meralco, the Company expects to receive a refund for some of its previous billings under Phase IV of Meralco's refund scheme. Under the Meralco refund scheme, the refund may be received through postdated checks or as a fixed monthly credit to bills with cash option. The Company intends to recover through fixed monthly credit to bills with cash option, starting 2006 up to 2010. The Company recognized a receivable from Meralco amounting to ₱12.6 million, net of unearned interest income of ₱3.6 million and income from the refund of ₱12.6 million (included in "Cost of sales"). The receivable was discounted using an effective interest rate of 11.7%.

As of December 31, 2007 and 2006, the current portion of the receivable, included in "Prepaid expenses and other current assets," amounted to ₱2.2 and ₱2.0 million, net of unearned interest income of ₱0.9 and ₱1.1 million, respectively. The portion expected to be recovered beyond one year amounting to ₱5.8 and ₱8.0 million, respectively, net of unearned interest income of ₱0.4 million in 2007 and ₱1.1 million in 2006, is included under "Other noncurrent assets".

As of December 31, 2007 and 2006, earned interest income amounted to ₱0.9 million and ₱1.4 million, respectively.

b. Lawsuits

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



## CERTIFICATION OF INDEPENDENT DIRECTORS

I, ANTONIO H. OZAETA, Filipino, of legal age and a resident of Alexandra Condominium, 29 Meralco Avenue, Pasig City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an Independent Director of Alaska Milk Corporation.
2. I am affiliated with the following companies or organizations:

Company/Organization	Position / Relationship	Period of Service
Philippine Trust Co. (PHILTRUST BANK)	President / Director	1992-present
Ancel Holdings Corporation	Chairman of the Board	2005-present
The Insular Life Assurance Co., Ltd.	Director	1997-present
Insular Health Care, Inc.	Director	1998-present
Home Credit Mutual Building & Loan Assoc	Director	2006-present
Magellan Capital Holdings Corporation	Chairman of the Board	1999-present
Magellan Cogeneration, Inc.	Chairman of the Board	1999-present
Magellan Utilities Development Corp	Chairman of the Board	1990-present
Melitona Estate, Inc.	Director	1950-present
Philippine Commercial Capital, Inc.	Chairman of the Board	2006-present
PCCI Finance Corporation	Chairman of the Board	1992-present
PCCI Insurance Brokerage, Inc.	Chairman of the Board	2006-present
PCCI Securities Brokers Corporation	Chairman of the Board	1984-2001
Prudential Guarantee & Assurance, Inc.	Director	1999-present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Alaska Milk Corporation, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code.
5. I shall inform the Corporate Secretary of Alaska Milk Corporation of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this 8th day of May at 2007 Makati City

  
 \_\_\_\_\_  
 Independent Director  
 MAY 08 2007

SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of \_\_\_\_\_, 2007,  
 Affiant exhibiting to me his Community Tax Certificate No. 18150903 issued on Jan. 26, 2007  
 in Pasig City.

Doc. No. 374  
 Page No. 17  
 Book No. XIX  
 Series et 2007

  
 MARIA REGINA A. RUIZ  
 Notary Public  
 Until December 31, 2008  
 17 Pasong de Roxas St., Lagaspi VIII, Makati City  
 RPT No. 2007/001-02-07 Makati City  
 RPT No. 2006/01-05-07 Makati City

## CERTIFICATION OF INDEPENDENT DIRECTORS

I, **ROBERTO FABROS DE OCAMPO**, Filipino, of legal age and a resident of 121 **Victoria corner Homonhon Streets, Magallanes Village, Makati City**, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an Independent Director of Alaska Milk Corporation.
2. I am affiliated with the following companies or organizations:

Company / Organization	Position / Relationship	Date Assumed
Philam Mutual Funds	President	2005
DFNN (International)	Chairman	1999
EastBay Resorts, Inc and EastBay Realty, Inc	Chairman	2004
Emerald Headway	Chairman	2003
Grace Park International, Inc.	Chairman	2003
JP Latex Technologies, Inc.	Chairman	2004
Philand Group of Companies	Chairman	1999
Prime East Properties, Inc.	Chairman	1999
Stradcom Corporation	Chairman	2003
Stradcom International Holdings, Inc.		
Tollways Association of the Philippines	Chairman	2003
Seaboard Eastern Insurance Co.	Vice-Chairman	2000
Universal LRT Corporation	Vice-Chairman	2004
AB Capital & Investment Corporation	Director	2000
Alaska Milk Corp.	Director	1999
Bankard, Inc.	Director	2006
Centennial Group (Washington), D.C.	Director	
EEl Corporation	Director	2005
Globe Telecom	Director	2004
House of Investments	Director	2000
Philam Savings Bank	Director	2003
PSi Technologies, Inc.	Director	2000
RCBC	Director	2006
Robinsons Land Corporation	Director	2003
Salcon Power Corporation	Director	2002
United Overseas Bank Philippines	Director	2003
The Conference Board (New York)	Member, Global Advisory Board	2004
AIESEC Philippines Foundation, Inc.	Member, Board of Advisers	2002
Argosy Fund, Inc.	Member, Board of Advisers	1998
Asia Foundation	Member, Board of Advisers	2003
Corporate Governance Institute of the Philippines	Member, Board of Advisers	2004
Foundation for Economic Freedom	Member, Board of Advisers	1999
Navis Investment Partners	Member, Board of Advisers	
Philippine Cancer Society	Member, Board of Advisers	2006
Sa Aklat Sikat Foundation	Member, Board of Advisers	

Company / Organization	Position / Relationship	Date Assumed
Asian Institute of Management	Member, Board of Trustees	1998
Angeles University Foundation	Member, Board of Trustees	2003
Ramos Peace and Development Foundation	Member, Board of Trustees	1999
Trilateral Commission	Member, Asia Pacific Group Representing ASEAN	2000

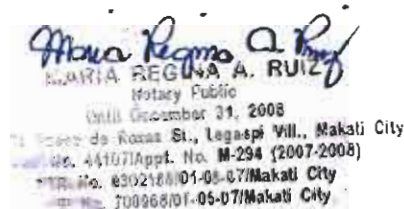
3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Alaska Milk Corporation, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code.
5. I shall inform the Corporate Secretary of Alaska Milk Corporation of any changes in the abovementioned information within five days from its occurrence.

Done this        day of        at        **MAKATI CITY**       

  
Affiant

SUBSCRIBED AND SWORN to before me this        day of        <sup>MAY 07 2007</sup> 2007, affiant personally appeared before me and exhibited to me his Community Tax Certificate No. 17655787 issued in **Makati City** on 19 January 2007.

Doc. No. 362,  
Page No. 75,  
Book No. XIX  
Series of 2007.

  
MARIA REGINA A. RUIZ  
Notary Public  
Until December 31, 2008  
1000 de Roxas St., Legaspi Vill., Makati City  
Reg. No. 441071 Appt. No. M-294 (2007-2008)  
PTR No. 0302188/01-08-07/Makati City  
TIN No. 700268/01-05-07/Makati City

## CERTIFICATION OF INDEPENDENT DIRECTORS

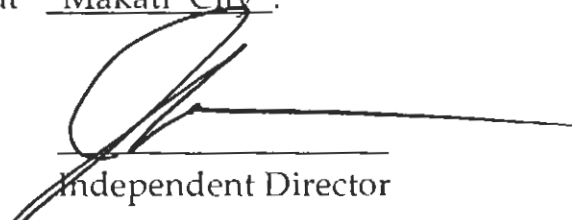
I, Jose R. Facundo, Filipino, of legal age and a resident of Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an Independent Director of Alaska Milk Corporation.
2. I am affiliated with the following companies or organizations:

Company / Organization	Position / Relationship	Period of Service
Security Bank	Adviser/Board Member	6 years
Siemens Philippines	Board Member	3 years
Alaska Milk	Board Member	12 years

3.  I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Alaska Milk Corporation, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code.
5. I shall inform the Corporate Secretary of Alaska Milk Corporation of any changes in the abovementioned information within five days from its occurrence.

Done this 7th day of May 2007 at Makati City.

  
Independent Director

SUBSCRIBED AND SWORN to before me this    day of MAY 08 2007 2007, affiant exhibiting to me his Community Tax Certificate No. 15098380 issued on January 8, 2007 in Makati City.

Doc. No. 375  
Page No. 74  
Book No. XTY  
Series of 2007.

  
MARIA REGINA A. RUIZ  
Notary Public  
Until December 31, 2008  
425 Pasco de Roxas St., Legaspi VII, Makati City  
Reg. No. 44107/App. No. M-294 (2007-2008)  
PTR No. 0302168/01-08-07/Makati City  
IBP No. 700968/01-05-07/Makati City

## CERTIFICATION OF INDEPENDENT DIRECTORS

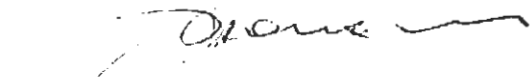
I, Grahame S. Tonkin, Australian Citizen, of legal age and temporarily residing at Mandarin Oriental Manila, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an Independent Director of Alaska Milk Corporation.
2. I am affiliated with the following companies or organizations.

Company/Organization	Position/Relationship	Period of Service
South Australian Government	Exec. Director	2 years
S.A. Independent Glass Pty. Ltd.	Chairman	1 1/2 years

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Alaska Milk Corporation, as provided for in Section 38 of the Securities Regulation Code and its implementing Rules and Regulations.
4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code.
5. I shall inform the Corporate Secretary of Alaska Milk Corporation of any changes in the abovementioned information within 5 days from its occurrence.

Done this at 8<sup>th</sup> day of May 2007 at Makati City.

  
 \_\_\_\_\_  
 Affiant

SUBSCRIBED AND SWORN to before me this ~~MAY 08 2007~~ of May, 2007, affiant personally appeared before me and exhibited to me his Australian Passport No. L7004781 issued at Melbourne on 9<sup>th</sup> of December, 1998.

Doc. No. 373  
 Page No. 58  
 Book No. XIX  
 Series of 2007.

  
**MARIA REGINA A. RUIZ**  
 Notary Public  
 Until December 31, 2008  
 171 Pasen de Roxas St., Legaspi VIII, Makati City  
 Rol No. 44107/Appt. No. M-294 (2007-2008)  
 PTR No. 0302168/01-08-07/Makati City  
 AFP No. 70096051-05-07/Makati City

**CERTIFICATION OF INDEPENDENT DIRECTORS**

I, **JUAN B. SANTOS**, Filipino, of legal age and a resident of #26 Malipajo St., Valle Verde III, Ugong, Pasig City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an Independent Director of Alaska Milk Corporation.
2. I am affiliated with the following companies or organizations:

Company / Organization	Position / Relationship	Period of Service
Great Pacific Life Assurance Corporation	Director	Oct. 2006 to present
Marsman Drysdale Group of Companies	Consultant	September 2007 to present
St. Luke's Medical Center	Member, Board of Trustees	August 2005 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Alaska Milk Corporation, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code.
5. I shall inform the Corporate Secretary of Alaska Milk Corporation of any changes in the abovementioned information within five days from its occurrence.

Done this 28<sup>th</sup> day of March, 2008 at Makati City.

  
**JUAN B. SANTOS**  
Affiant

SUBSCRIBED AND SWORN to before me this 1 APR 11 2008 day of March, 2008, affiant personally appeared before me and exhibited to me his Community Tax Certificate No. 19497349 issued on January 23, 2008 at Makati City.

Doc. No. 353;  
Page No. 74;  
Book No. XXII;  
Series of 2008.

  
**MARIA REGINA A. RUIZ**  
Notary Public  
Until December 31, 2008  
112 121 Pasiao de Roxas St., Leganes VIII, Makati City  
Roll No. 44107/Appt. No. M-294 (2007-2008)  
PTR No. 0302168101-04-07/Makati City  
IBP No. 700968101-05-07/Makati City