COVER SHEET

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SEC Registration Number

A	L	A	S	K	A		M	I	L	K		C	O	R	P	O	R	A	T	I	O	N							

(Company's Full Name)

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

SANTIAGO A. POLIDO	840-45-00
Contact Person	Company Telephone Number

1	2	3	1	SEC FORM 17-Q	0	5	0	8
Month		Day		FORM TYPE	Month		Day	

Fiscal Year — Annual Meeting

N/A
Secondary License Type, If Applicable

Dept Requiring this Doc — Amended Articles Number / Section

Total Amount of Borrowings

3,154	N/A	N/A
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number — LCU

Document ID — Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

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

1. For the quarterly period ended: September 30, 2007

2. Commission identification number: ASO 94-008745

3. BIR Tax Identification No.: 047-003-945-022V

4. Name of Issuer: ALASKA MILK CORPORATION

5. Jurisdiction of Incorporation: Makati City, Philippines

6. Industry Classification Code: ______ (SEC Use Only)

7. Address: 6th Floor Corinthian Plaza, 121 Paseo de Roxas, Makati City

8. Telephone No.: 840-4500 / 840-5921 to 39

9. Former name, former address and former fiscal year, if changed since last report: Not Applicable

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

Title of Each Class	Number of Shares (as of September 30, 2007)
Common Stock	950,816,144 shares*

* *net of 15,368,734 shares held under Treasury*

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

YES (✓)   NO (   )

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

Philippine Stock Exchange - Common, Class A shares

12. Indicate by check mark whether the registrant:

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

YES (✓)   NO (   )

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

YES (✓)   NO (   )

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The Financial Statements are attached to this SEC Form 17-Q

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

Results of Operations

With the exception of the Powdered Milk Category, retail consumption of milk products continued to contract year-on-year as consumer demand softened following two successive selling price increases in June and September 2007. The domestic milk market's contraction, however, was slower compared to the double-digit contraction a year ago. The Powdered Milk Category, on the other hand, continued to show signs of recovery in the third quarter of 2007, underpinned by the market expansion of the lower-priced filled milk segment.

Higher sales volume across all product lines, combined with higher selling prices, pushed net sales for the third quarter of the year to ₱2.262 billion, ₱842 million or 59% higher than the ₱1.420 billion in net sales in the same period last year. Combined sales volume of the Company's liquid canned milk business posted high double-digit growth rates year-on-year on account of the strong off-take of the Alaska brands as well as the additional sales volume generated from the acquisition and licensing of Nestle's liquid canned milk brands. Marketing support and volume-generating initiatives were sustained during the quarter to drive-up usage going into the peak Christmas season.

Similarly, sales volume of the powdered milk business grew at a high single-digit rate compared to year-ago levels, outperforming the Powdered Milk Market's expansion. The improvement in sales volume is attributed to the improvements in supply conditions with the commercial operations of the Company's new powdered filled milk processing plant. Furthermore, introductory campaigns in support of the re-launch of Alaska Powdered Filled Milk pushed sales volumes as well as market share gains.

To partly mitigate cost pressures associated with the sharp increase in world prices of skimmed milk powder (SMP), selling prices of milk products were raised last September 1, 2007, in line with the industry's price increase.

Higher sales volume pushed cost of sales and operating expenses for the quarter to ₱2.034 billion, up 58% from ₱1.286 billion in the same period last year. In addition, operating expenses rose on the back of higher advertising and promotional spending to support volume growth and sustain consumer demand.

Altogether, operating income for the quarter stood at ₱228 million, 70% higher than year-ago operating income of ₱134 million. Operating margin, on the other hand, improved to 10.1% from 9.4%.

Interest income for the quarter dropped to ₱0.3 million from ₱21.8 million in the third quarter of 2006 due to the decline in the average cash balance relative to the Company's acquisition of Nestle's liquid canned milk business, higher working capital requirements and plant capacity expansion as well as lower interest placement rates. Lower foreign exchange losses, on the other hand, brought other income for the quarter at ₱6.4 million, from year ago other charges of ₱6.9 million.

Provision for income tax for the third quarter of the year increased by ₱22 million or 50% to ₱66 million from ₱44 million on account of the higher taxable income. Altogether, net income for the quarter surged to ₱168 million or 7.4% of net sales from a net income of ₱104 million or 7.3% in the same period last year.

Following a strong third quarter performance, net sales for the first nine months of the year grew by 50% to ₱6.222 billion from ₱4.158 billion in the same period last year. Higher sales volume across the Company's core business combined with higher selling prices as well as the incremental revenues generated from the newly acquired and licensed liquid milk brands helped lift net sales year-on-year.

Cost of sales and operating expenses for nine-month ending September 2007 amounted to ₱5.415 billion, 41% higher compared to year-ago cost of sales and operating expenses of ₱3.852 billion. The foregoing increase can be attributed to the higher sales volume as well as higher selling and marketing spending in support of volume growth. This put operating income for the first half of the year at ₱807 million, 163% higher than the ₱306 million operating income in the same period last year. Operating margin for the first semester of 2007 likewise improved to 13.0% from 7.4% a year ago.

Interest income for the first six months of the year dropped by ₱48 million or 67%, from ₱72 million in the same period last year to ₱24 million, due to the lower cash balance and decline in both domestic and US interest placement rates. Foreign exchange losses incurred relative to the Company's importation requirements was ₱7 million, ₱9 million or 56% lower versus year-ago foreign exchange losses of ₱16 million.

Provision for income tax increased by ₱156 million or 154% to ₱257 million as of end September 2007 from ₱101 million a year ago on account of the higher taxable income. The foregoing brought net income for the first nine months of the year to ₱566 million or 9.1% of net sales, ₱306 million or 118% higher than net income in the same period last year of ₱260 million or 6.3% of net sales. Net income for the period ending September 2007 is equivalent to an earnings per share (EPS) of ₱0.60 compared to year-ago EPS of ₱0.27.

Financial Condition

Current assets as of September 30, 2007 stood at ₱2.547 billion, ₱1.173 billion or 32% lower than the ₱3.630 billion in current assets as of end December 2006.

Short-term investments, consisting of short-term deposits with a maturity period of more than 90 days but less than 1 year, were pre-terminated during the first quarter of 2007. These pre-terminated short-term deposits were reinvested in short-term money market placements with a maturity of less than 90 days. However, funding for the acquisition of Nestle's liquid canned milk business, capacity expansion of the Company's powdered milk plant and increased working capital requirement on account of higher SMP cost and sales volume growth reduced cash balance to ₱154 million as of end September 2007. Net change of the foregoing is a decrease in total cash and cash equivalents and short term investments by ₱2.037 billion.

The company's accounts receivable balance of ₱572 million as of end September 2007 was 31% higher versus end December 2006 balance of ₱438 million largely due to the increase in sales revenue.

Inventories as of end September 2007 amounted to ₱1.641 billion, ₱713 billion or 77% higher compared to the December 31, 2006 balance of ₱928 million due to the inventory build-up of skimmed milk powder coupled with higher C&F cost as well as additional inventory relative to the acquisition of Nestle's liquid canned milk business.

Prepaid expenses of ₱87 million as of end September 2007 was ₱17 million or 24% higher compared to the end December 2006 balance of ₱70 million due to the advance payments made for import-related expenses as well as higher input taxes.

Property, plant and equipment (net of accumulated depreciation) as of end September 2007 amounted to ₱1.175 billion, ₱143 million or 14% higher compared to end December 2006's balance of ₱1.032 billion primarily due to the acquisition of new machineries and equipment relative to the expansion of the Company's manufacturing facility.

Other assets increased to ₱1.922 billion as of September 30, 2007 from ₱339 million as of end December 2006 principally due to the acquisition of Nestle's liquid canned milk business.

Total assets as of September 30, 2007 stood at ₱5.893 billion, ₱892 million or 18% higher than the ₱5.001 billion in total assets as of end December 2006.

The Company's total liabilities reached ₱2.263 billion as of September 30, 2007, ₱600 million or 36% higher compared to the end December 2006 balance of

₱1.663 billion. Accounts payable and accrued expenses as of end September 2007 of ₱1.606 billion was double than year end December 2006 balance of ₱800 million on account of the higher trade payables relative to the increase in working capital requirements. Acceptances payable of ₱449 million was ₱287 million or 39% higher versus end December 2006 balance of ₱736 million due to lower importations during the third quarter of 2007 vis-à-vis fourth quarter of 2006.

Dividends payable for the quarter ending September 2007 increased by ₱95 million or 194% to ₱144 million from ₱49 million in December 2006 due to the declaration of cash dividends last May 2007.

Income tax payable amounted to ₱63 million, ₱14 million or 18% lower compared to the end December 2006 balance of ₱77 million due to the tax incentive (7-Year Income Tax Holiday) awarded by the Board of Investments relative to the Company's new instant filled milk powder processing plant.

Net income of ₱566 million for the first nine months of 2007, less cash dividend declaration of ₱285 million, increased the retained earnings account to ₱2.597 billion as of end September 2007 from ₱2.315 billion in retained earnings balance as of end December 2006.

The Company's current ratio stands at 0.09:1 as of September 30, 2007, lower than the 2.18:1 current ratio as of end December 2006. Alaska Milk Corporation does not anticipate any liquidity problems in the next twelve (12) months even as the Company's previously cash position has been significantly reduced. Cash generated by the Company's operations, as well as existing cash balance, have been the main source of funds for working capital requirements, capital expenditures as well as maintenance expenses. However, the Company has existing credit lines / facilities with banks to meet increasing working capital requirements and required capital expenditures. These credit limes remained largely unused in the past given the Company's strong cash position. Any excess cash is invested in low-risk, short-term money market instruments.

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

Skimmed milk powder (SMP) and foreign exchange costs have a significant impact on the Company's net income and profitability levels. World prices of SMP remain at peak levels of US$5,000/MT. Supply is still limited and Oceania export markets are firm. New Zealand's dairy manufacturing plants are running at full capacity to process milk output. Stocks are increasing but traders are cautious not to over commit powder for the second half of the dairy year. In Australia, production remains to be saddled by the drought. US production has increased. The US has been increasingly active in the export market with prices being more competitive. Trade sources indicate that demand is weaker as consumers have been unable to cope with the increase in retail selling prices of dairy products which has resulted from high SMP prices.

SMP prices and foreign exchange will continue to have a material impact on the company's operating income and profitability. Should the SMP supply situation improve, this may lighten the pressure on the Company’s income from operations and working capital requirements going forward. The recent appreciation of the Philippine Peso vis-à-vis the US dollar has cushioned the impact of high SMP prices. It will be noted though that any deterioration of the Peso versus the US dollar will exacerbate cost pressures. In view of the potential impact of any significant increase in SMP prices and foreign exchange cost to the company's income and profitability, the company continues to actively hedge part of its US dollar and SMP requirements.

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

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

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

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

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

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

KPI	Definition	As of end-Sep 2007	As of end-Sep 2006
Operating Margin	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. Formula: $\frac{\text{Operating Income}}{\text{Net Sales}}$	13.0%	7.4%
Return on Sales	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. Formula: $\frac{\text{Net Income}}{\text{Net Sales}}$	9.1%	6.3%
Return on Equity (for the 9-month period)	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 Formula: $\frac{\text{Net Income}}{\text{Total Stockholders' Equity}}$	15.6%	8.2%

KPI	Definition	As of end-Sep 2007	As of end-Sep 2006
Debt to Equity Ratio	Debt to equity ratio is the ratio of debt to total stockholders' equity. This KPI is a measure of the Company's use of leverage and solvency position. Formula: $\frac{\text{Total Liabilities}}{\text{Total Stockholders' Equity}}$	0.62:1	0.46:1
EBITDA	EBITDA is computed by adding back depreciation and amortization expenses (both non-cash expenses) to earnings before interest and income tax. This KPI is a measure of the Company's ability to generate cash from operations.	₱909.0 M	₱417.3 M

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

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

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

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

SIGNATURES

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

ALASKA MILK CORPORATION

Santiago A. Polido	Arnold L. Abad
Corporate Secretary	Vice President – Accounting & Controller

November 14, 2007

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

		SEP 30,2007		DEC 31,2006
ASSETS				
Current Assets				
Cash and Cash Equivalents (Note 3)	P	154,095	P	352,227
Short-term investments (Note 4)		-		1,838,538
Accounts Receivable - Net (Note 5)		572,613		438,440
Investments Available-for-Sale (Note 6)		2,556		2,556
Inventories (Note 7)		1,641,077		928,084
Prepaid Expenses and Other Current Assets		87,088		70,013
Total Current Assets		2,457,329		3,629,858
Property, Plant & Equipment - Net (Note 8)		1,175,734		1,032,269
Other Assets - Net		2,260,430		338,779
Total Assets	P	5,893,493	P	5,000,906
LIABILITIES AND STOCKHOLDER'S EQUITY				
Current Liabilities				
Accounts Payable and Accrued Expenses (Note 9)	P	1,606,426	P	800,466
Dividends payable		144,003		48,937
Acceptances Payable		449,064		735,873
Income Tax Payable		63,309		77,467
Total Liabilities		2,262,802		1,662,743
Stockholder's Equity				
Capital Stock		966,185		964,100
Additional Paid In Capital		100,923		91,889
Retained Earnings		2,596,872		2,315,463
Treasury Stocks		(33,289)		(33,289)
Total Stockholder's Equity		3,630,691		3,338,163
Total Liabilities and Stockholder's Equity	P	5,893,493	P	5,000,906

See accompanying Notes to Financial Statements

Certified Correct:

ARNOLD L. ABAD
VP for Accounting and Controller

ALASKA MILK CORPORATION
STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
For the Three Months Ended September 30, 2007 and 2006
(In Thousand Pesos)

	3 mos. Ended September 30		9 mos. Ended September 30	
	2007	2006	2007	2006
CAPITAL STOCK	966,185	964,100	966,185	964,100
Additional Paid-In Capital	100,923	91,029	100,923	91,029
RETAINED EARNINGS				
Appropriated for various capital investment projects	650,000	650,000	650,000	650,000
Appropriated for the Share - Buy Back Program	200,000	200,000	200,000	200,000
Unappropriated:				
Balance at the beginning of quarter	1,578,884	1,368,958	1,465,465	1,403,061
Net Income	167,988	104,231	566,535	260,308
Dividends declared	-	-	(285,128)	(190,180)
Appropriation for capital inv. project during the qtr.		(150,000)		(150,000)
Balance at end of quarter	1,746,872	1,323,189	1,746,872	1,323,188
	2,596,872	2,173,189	2,596,872	2,173,188
CUMULATIVE TRANSLATION ADJUSTMENT				
Balance at beginning of quarter	-	(37,026)	-	(8,954)
Additions/(Deductions) during the period	-	13,693	-	(14,379)
Balance at end of quarter	-	(23,333)	-	(23,333)
TREASURY STOCK				
Balance at beginning of quarter	(33,289)	(26,779)	(33,289)	(26,779)
Acquisition	-	(6,510)	-	(6,510)
Balance at end of quarter	(33,289)	(33,289)	(33,289)	(33,289)
	3,630,692	3,171,696	3,630,692	3,171,696

See accompanying Notes to Financial Statements

Certified Correct:

ARNOLD L. ABAD
VP for Accounting and Controller

ALASKA MILK CORPORATION
COMPARATIVE INCOME STATEMENTS
For the Three Months Ended September 30, 2007 and 2006
(In Thousand Pesos)

		3 mos. Ended SEP 30,2007		3 mos. Ended SEPT. 30, 2006		9 mos. Ended SEP 30,2007		9 mos. Ended SEPT. 30, 2006
SALES	P	2,261,544	P	1,419,894	P	6,222,517	P	4,158,042
COST OF SALES & OPERATING EXPENSES		2,033,814		1,286,179		5,415,447		3,851,810
INCOME FROM OPERATION		227,730		133,715		807,070		306,232
OTHER INCOME/(CHARGES)								
Interest -Net		306		21,806		24,172		71,907
Miscellaneous		6,427		(6,907)		(7,130)		(16,384)
Total		6,733		14,899		17,042		55,523
INCOME BEFORE INCOME TAX		234,463		148,614		824,112		361,755
PROVISION FOR INCOME TAX		66,475		44,383		257,577		101,447
NET INCOME		167,988		104,231		566,535		260,308
Retained Earnings at Beginning of Period		2,428,884		2,068,958		2,315,465		2,103,061
Dividend Declared/Paid		-		-		(285,128)		(190,180)
Retained Earnings at End of Period	P	2,596,872	P	2,173,189	P	2,596,872	P	2,173,189
Appropriated Retained Earnings:						-		
Appropriation for various capital investment project & stock buy back program		850,000		850,000		850,000		850,000
Treasury stock Acquired		33,289		-		33,289		-
Unappropriated retained earnings		1,713,584		1,323,189		1,713,584		1,323,189
	P	2,596,872	P	2,173,189	P	2,596,872	P	2,173,189
Earnings Per Share	P	0.18	P	0.11	P	0.60	P	0.27
No. of Shares Issued		*966,184,878*		*964,099,878*		*966,184,878*		*964,099,878*
Less: No. of Treasury Stocks		*(15,368,734)*		*(15,368,734)*		*(15,368,734)*		*(15,368,734)*
Total Shares issued net of Treasury Stocks		*950,816,144*		*948,731,144*		*950,816,144*		*948,731,144*

See accompanying Notes to Financial Statements

Certified Correct:

ARNOLD L. ABAD
VP for Accounting and Controller

ALASKA MILK CORPORATION
CASH FLOW STATEMENTS
For the Three Months Ended September 30, 2007 and 2006
(In Thousand Pesos)

	3 mos. Ended SEP 30,2007	3 mos. Ended SEPT. 30, 2006	9 mos. Ended SEP 30,2007	9 mos. Ended SEPT. 30, 2006
CASH FLOW FROM OPERATING ACTIVITIES				
Net Income	P 187,988	P 104,231	P 566,535	P 260,308
Depreciation & Amortizations	38,775	28,831	101,928	89,604
Net Change in Assets & Liabilities				
Decrease/Increase in Current Assets	356,457	136,335	(864,141)	(91,938)
Decrease/Increase in Current Liabilities	(339,991)	128,398	504,999	308,782
Net Operational Flows	P 223,230	P 397,795	P 309,320	P 566,756
CASH FLOW FROM INVESTING ACTIVITIES				
Payment for purchase of Prop. Plant & Equipt.	(62,950)	(259,129)	(245,394)	(277,145)
Treasury Stocks		(2,010)		(6,510)
Decrease in Investment held-to-maturity		29,605		222,073
Decrease in Investment available-for-sale		-		100,000
Increase/Decrease in Other Assets	(12,336)	(14,098)	(1,921,651)	(15,347)
Net Investment Flows	P (75,286)	P (245,732)	P (2,167,046)	P 23,070
CASH FLOW FROM FINANCING ACTIVITIES				
Increase/Decrease Cumulative Translation Adj.		(27,081)	-	(14,379)
Issuance of Capital Stock	4,929	-	11,119	481
Dividend payment	(71,270)	(47,442)	(190,061)	(191,231)
Net Financing Flows	P (66,341)	P (74,523)	P (178,942)	P (205,129)
NET CASH PROVIDED/USED	P 81,603	P 77,539	P (2,036,668)	P 384,698
	P 72,492	P 1,869,307	P 2,190,765	P 1,562,149
CASH AND CASH EQUIVALENTS & SHORT- TERM INVESTMENTS AT END OF THE PERIOD	P 154,095	P 1,946,847	P 154,095	P 1,946,847
See accompanying Notes to Financial Statements			(0)	(0)

Certified Correct:

ARNOLD L. ABAD
VP for Accounting and Controller

ALASKA MILK CORPORATION
AGING OF ACCOUNTS RECEIVABLE
AS OF SEPTEMBER 30, 2007
(In Thousand Pesos)

	CURRENT	PAST DUE				TOTAL
		1-30 DAYS	31-60 DAYS	61-90 DAYS	OVER 91 DAYS	
Trade - net	502,408	50,058	7,915	-	37,881	598,262
Non-trade						73,745
Total	502,408	50,058	7,915	-	37,881	672,007
Less: Allowance for B/D						(99,494)
Accounts Receivable, Net						572,513

See accompanying Notes to Financial Statements

Certified Correct:

ARNOLD L. ABAD
VP for Accounting and Controller

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 28, 1994. The Company is principally involved in the manufacture, distribution and sale of liquid, powdered and Ultra-Heat Treated milk products under the Alaska brand. The registered office address of the Company is 6th Floor, Corinthian Plaza, Paseo de Roxas, Makati City.

2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
The financial statements of the Company have been prepared on a historical cost basis, except for the investments available-for-sale (AFS) and derivative instruments, which have been measured at fair value. The financial statements are presented in Philippine peso, which is the Company's functional currency. Amounts are rounded off to the nearest peso unit, except when otherwise indicated.

<u>Statement of Compliance</u>
The accompanying financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

<u>Changes in Accounting Policies</u>
The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Company has adopted the following new and amended Philippine Accounting Standards (PAS), PFRS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) during the period. Adoption of these revised standards and interpretations did not have any effect on the Company except for the additional disclosures on the financial statements.

- PAS 19, *Amendment - Employee Benefits,*
- PAS 39, *Amendments - Financial Instruments Recognition and Measurement,* and
- Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease.*

<u>PAS 19, *Employee Benefits*</u>
Additional disclosures on the financial statements are made to provide information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has no recognition nor measurement impact, as the Company chose not to apply the option to recognize actuarial gains and losses outside of the statement of income.

PAS 39, *Financial Instruments: Recognition and Measurement*

Amendment for Financial Guarantee Contracts (issued August 2005) - amended the scope of PAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognized initially at fair value and to be remeasured at the higher of the amount determined in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18, *Revenue*. This amendment did not have an effect on the financial statements.

Amendment for Hedges of Forecast Intra-group Transactions (issued April 2005) - amended PAS 39 to permit the foreign currency risk of a highly probable intra-group forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the statement of income. As the Company currently has no such transactions, the amendment did not have an effect on the financial statements.

Amendment for the Fair Value Option (issued June 2005) - amendments to PAS 39 prescribe the conditions under which the fair value option on classification of financial instruments at fair value through profit or loss (FVPL) may be used. The amendment did not have an effect on the Company's financial statements.

Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement contains a Lease*
Philippine Interpretation IFRIC 4 provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy has no significant impact on the financial statements.

The following interpretations are effective for annual periods beginning on or after January 1, 2006 but are not relevant to the Company.

- Philippine Interpretation IFRIC 5, *Rights to Interests Arising from Decommissioning Restoration and Environmental Rehabilitation Funds,* and

- Philippine Interpretation IFRIC 6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment.*

Future Changes in Accounting Policies
The Company did not early adopt the following standards and amendments which have been approved but are not yet effective:

- The Amendment to PAS 1, *Presentation of Financial Statements*. This standard introduces disclosures about the level of an entity's capital and how it manages capital. The Company will apply the amendment to PAS 1 in 2007.

- PFRS 7, *Financial Instruments - Disclosures*. This standard introduces new disclosures to improve information about financial instruments. It requires the disclosure of qualitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The revised disclosures on financial instruments provided by this standard will be included in the Company's financial statements when the amendment to the standard is adopted in 2007.

- PFRS 8, *Operating Segments*. This standard will be effective on January 1, 2009 and will replace PAS 14, *Segment Reporting,* and adopts a management approach to reporting segment information. PFRS 8 is required for adoption only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the Philippine 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 the financial statements.

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*. This interpretation requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. The interpretation will have no impact on the financial position of the Company.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*. This interpretation becomes effective for financial years beginning on or after June 1, 2006. This interpretation establishes 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. The Company assessed that the adoption of this interpretation will have no significant impact on the financial statements.

- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*. This interpretation provides that the frequency of financial reporting does affect the amount of impairment charge to be recognized in the annual financial reporting with respect to goodwill and AFS investments. This interpretation has no significant impact to the financial statements of the Company.

- Philippine Interpretation IFRIC 11, *PFRS 2 - Company and Treasury Share Transactions*. This interpretation will be effective January 1, 2008. 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 shareholder(s) 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*. This will become effective January 1, 2008. This interpretation which covers contractual arrangements arising from entities providing public services, is not relevant to the Company's current operations.

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

Lease Commitments. The Company has determined that it retains all the significant risks and rewards of ownership of its investment properties which are leased out on operating leases.

Contingencies. The estimate of the probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Company's defense in these matters and is based upon an analysis of potential results (see Note 28). Management and its legal counsels believe that the company has substantial legal and factual bases for its position and is of the opinion that losses arising from these legal actions, if any, will not have a material adverse impact on the financial statements. There was no provision for contingencies in 2006, 2005 and 2004.

<u>Use of Estimates</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the 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:

Estimated Useful Lives. The useful life of each of the Company's property, plant and equipment and investment property 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 property would increase the recorded operating expenses and cost of sales and decrease noncurrent assets.

Impairment of Non-financial Assets. PFRS requires that an impairment review be informed when certain impairment indicators are present.

Determining the value of non-financial 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 makes 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 judgment 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.

Deferred Tax Assets. The Company reviews the carrying amount at each balance sheet date and reduces deferred tax assets 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.

Estimating Allowance for Doubtful Accounts. Allowance for doubtful accounts is calculated using two methods, each of these methods are combined to determine the total amount of reserve. The first method is specific evaluation of information available that certain customers are unable to meet their financial obligations. In these cases, management uses judgment, based on the best available facts and circumstances, including but not limited to, the length of relationship with customer and the customer's current credit status based on known market factors, to record specific reserves for customers against amounts due to reduce receivable amounts to expected collection. These specific reserves are re-evaluated and adjusted as additional information received affects the amounts estimated. Second, a provision is established as a certain percentage of receivables not provided with specific reserves. This percentage is based on a collective assessment of historical collection, current economic trends, changes in customer payment terms and other factors that may affect the Company's ability to collect payments. Full allowance is provided for receivables with contested status.

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.

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

There are no quoted market prices for unlisted investment shares of stock and there are no other reliable sources of their fair values, therefore, they are carried at cost. The fair value of mutual and common trust funds is determined by reference to the net asset value of the fund.

The carrying value and fair value of financial assets and liabilities as of December 31, 2006 and 2005 are disclosed in Note 24.

Impairment of AFS Investments. The Company follows the guidance of PAS 39 in determining when an asset is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; the financial health of and near-term business outlook of the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If the assumption made regarding the duration that, and extent to which the fair value is less than cost, the Company would suffer an additional loss in its financial statements, representing the write down of cost at its fair value.

Net Realizable Value of Inventories. The Company provides 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.

Pension Cost. 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 expected return on the relevant plan assets, discount rate and employee compensation increase. 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 obligations are based in part on current market conditions. Additional information is disclosed in Note 18.

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

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

The valuation technique shall be consistent with generally accepted valuation technologies 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, exercise price, expected volatility, option life, expected dividends, the risk-free interest rate 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.

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 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. There was no balance of short-term investments as of June 30, 2007.

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:

Raw materials, packaging materials, spare parts, supplies and others	–	purchase cost
Finished goods	–	cost includes direct materials, labor and a proportion of manufacturing overhead costs based on normal operating capacity

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

Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at FVPL.

The Company recognizes a financial asset or a financial liability in the balance sheet 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.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Financial instruments are offset when there is a legally enforceable right to offset and intention to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are classified as either FVPL, loans and receivables, held-to-maturity (HTM), or AFS. The Company determines the classification at initial recognition and where allowed and appropriate, re-evaluates this designation at every reporting date.

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

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets and financial liabilities may be designated at initial recognition as at FVPL if the following criteria are met:

(i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the financial assets or recognizing gains or losses on them on a different basis;

(ii) the assets are part of the group of financial assets managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy or investment strategy; or

(iii) the financial instruments contain 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.

Financial assets and financial liabilities at FVPL are recorded in the balance sheet at fair value. Changes in the fair value are recognized directly in earnings. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in other operating income according to the terms of the contract, or when the right of payment has been established. Classified as financial assets and financial liabilities at FVPL are the Company's derivative transactions.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Classified as loans and receivables are the Company's trade and other receivables and short-term investments.

AFS Investments. AFS investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. AFS investments are carried at fair value in the balance sheet. Changes in the fair value of such assets are accounted for in the stockholders' equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in the stockholders' equity is included in the statement of income. Gains and losses are recognized in the statement of income when the AFS investments are derecognized or impaired. Classified as AFS investments in 2006 and 2Q 2007 is the Company's investment in shares of stocks.

Financial assets and liabilities are classified as current if maturity or disposal is within twelve months from the balance sheet date otherwise, these are classified as noncurrent.

<u>Determination of Fair Value</u>
The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price 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.

There are no quoted market prices for unlisted investment shares of stock and there are no other reliable sources of their fair values, therefore, they are carried at cost. The fair value of mutual and common trust funds is determined by reference to the net asset value of the fund.

Impairment of Financial Assets

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement 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 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 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 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 statement of income – is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement 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 financial assets carried at amortized cost. 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 statement 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 statement of income, the impairment loss is reversed through the statement of income.

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset 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, cancelled or has expired.

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 accumulated impairment in value, if any. Such cost includes the cost of replacing part of such property, plant and equipment if such cost incurred has met the recognition criteria. Land is stated at cost less any impairment in value.

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 statement of income in the year the asset is derecognized.

Depreciation and amortization are computed using the straight-line method.

Estimated useful lives of the assets are as follows:

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

The assets' residual values, useful lives, and method of depreciation and amortization are reviewed, and adjusted if appropriate, at each financial year-end.

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, and are not depreciated until such time that the relevant asset is 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.

<u>Investment Properties</u>
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.

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 of 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 the retirement or disposal of an investment property are recognized in the statement of income in the year of retirement or disposal.

<u>Impairment of Non-financial Assets</u>
The Company assesses at each reporting date whether there is an indication that property, plant and equipment and investment property 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 an asset's or cash-generating unit's fair value less costs to sell or its 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 group of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an approximate valuation model is used. Their calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses are recognized in the statement of income in those expense categories consistent with the function of the impaired asset. No impairment losses were recognized during the year.

<u>Treasury Stock</u>
Own equity instruments which are reacquired are deducted from the stockholders' equity. No gain or loss is recognized in the statement of income on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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

Sales. Sales are recognized upon delivery and billing to customers.

Interest. Interest is recognized on a time proportion basis that takes into account the effective yield on the related asset.

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

<u>Operating Lease</u>
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.

The Company as Lessee. A reassessment is made for after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting will commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Lease payments under operating leases are recognized as expense on a straight-line basis over the terms of the lease agreements.

The Company as Lessor. Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term as rental income.

Share-based Payment Transactions

Key executives and members of management of the Company are granted options to purchase shares, subject to restrictions, terms and conditions provided in the Executive Employee Stock Option Plan (EESOP). The cost of equity-settled transactions, for awards granted after November 2002, is measured by reference to the fair value at the date on which they are granted

The cost of equity-settled transactions is recognized with a corresponding increase in the stockholders' equity ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The amount reflected in the statement 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, 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.

Pension Expense

The Company has a funded, noncontributory defined benefit retirement plan administered by a Board of Trustees covering all permanent employees. The cost of providing benefits under the defined benefit plans 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 amount recognized as defined benefit liability is the aggregate of the present value of the defined benefit obligation at the balance sheet date, and any actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value at the 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 Translation

Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the balance sheet date. All differences are taken to the statement 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 statement 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 the balance sheet date.

Deferred Tax. Deferred tax is provided using the balance sheet liability method on temporary differences at the 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 asset to be recovered.

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

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 an interest expense.

Contingencies

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

Subsequent Events

Post year-end events that provide additional information about the Company's position at the 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 attributable to the shareholders by the weighted average number of shares outstanding during the year.

Diluted EPS is computed by dividing net income attributable to the shareholders 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.

3. Cash and Cash Equivalents

This account consists of:

	9/30/2007 (in 000's)	12/31/2006 (in 000's)
Cash on hand and in banks	**₱154,095**	**₱114,384**
Short-term deposits	**-**	**237,843**
	₱154,095	**₱352,227**

Cash in banks earns 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.

As of December 31, 2006 and September 30. 2007, the Company does not have outstanding cash flow hedges.

4. Short-term Investments

This account consists of investments in time deposits with interest rates ranging from 4.30% to 5.50% in 2006, and from 2.0% to 5.04% in 3Q 2007.

5. Trade and Other Receivables

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

6. Investments Available-for-Sale

This account consists of the Company's unlisted investment in shares of stock.

7. Inventories

This account consists of Finished goods, Raw and packaging materials, Spare parts, supplies and others, Goods in Transit. Allowance for inventory obsolescence is deducted from this account.

8. Property, Plant and Equipment

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

Estimated useful lives of the assets are as follows:

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

9. Trade and Other Payables

This account consists of:

	9/30/2007 (in 000's)	12/31/2006 (in 000's)
Accounts Payable Trade	**₱1,337,786**	**₱663,878**
Accrued Expenses & Other payables	**268,640**	**136,588**
	₱1,606,426	**₱800,466**

Terms and conditions of the above financial liabilities:

- Trade payables are non interest-bearing and are normally settled on 30 days' terms.
- Accruals and other payables are settled monthly throughout the financial year.

10. Pension Plan

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

11. 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

12. Related Party Disclosures

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

Transactions with related parties include the following:

a. The Company charges GenOSI, Inc. (GenOSI) and Wentworth Development Corporation (WDC), affiliates, for their share in the expenses incurred by directors and officers common to these companies.

b. The Company had a two-year lease agreement with SCM until December 7, 2005 for the lease of office space. The Company acquired the condominium property from SCM on December 7, 2005.

c. The Company also has a ten-year lease agreement with WDC starting March 1, 2000 for the lease of provincial office space. Annual lease payments for the whole term of the lease amount to ₱0.6 million.

d. The Company recognizes incentives to the members of the BOD, management and employees based on a certain percentage of operating income.

e. The Company leases the land where its manufacturing plant is situated from the Retirement Plan for a period of 25 years starting November 9, 2004. Annual lease payments for the whole term of the lease amount to ₱16 million.

   On January 1, 2006, the Company entered into another lease agreement with the Retirement Plan for the lease of land adjacent where the manufacturing plant is situated for a period of 25 years, renewable at the option of the Company, at an annual rental of ₱ 13 million.

13. Financial Risk Management Objectives and Policies

The Company's principal financial instruments, other than derivatives, comprise of AFS investments, cash and cash equivalents, short-term investments and HTM investment. 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 receivables and trade payables, which arise directly from its operations.

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. The Company's accounting policies in relation to derivatives are set out in Note 2.

Foreign Currency Risk

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

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 the credit committee. Moreover, the credit committee regularly reviews the age and status of outstanding accounts receivable.

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, AFS, HTM and certain derivative instruments. Credit risk management involves entering into financial instruments only with counterparties with acceptable credit standing.

The Company has no significant concentrations of credit risk.

Interest Rate Risk

The Company's exposure to interest rate risk is minimal due to short-term nature of the transactions of financial assets and liabilities.

Liquidity Risk

The Company's objective is to maintain a balance between continuity and flexibility through the use of internally generated funds and banks.

14. 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, which entitles the Company to tax and other incentives.

On December 19, 2006, the BOI approved the Company's appeal for the grant of a 6-year Income Tax Holiday (ITH) Incentive among the tax and other incentives 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.

On January 10, 2007, the Certificate of Registration has been issued by the BOI. On May 21, 2007, the Anhydro Plant 2 Project commences its commercial operation.

15. Other Matters

a. Refund from Meralco

As a customer of Meralco, the Company could expect to receive a refund for some of its previous billings under Phase IV of Meralco's refund scheme. In 2004, the amount and timing of the receipt of the refund was not yet virtually certain. Subsequent developments in 2005, principally the approval of Meralco's amended refund scheme by the Energy Regulatory Commission, indicate that the amount and timing of the receipt of the refund is now certain.

Under the Meralco refund scheme, the refund may be received through postdated checks or as a fixed monthly credit to bills with cash option. The Company intends to recover through fixed monthly credit to bills with cash option, starting 2006 up to 2010.

b. Lawsuits

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