ANNUAL REPORT 2007

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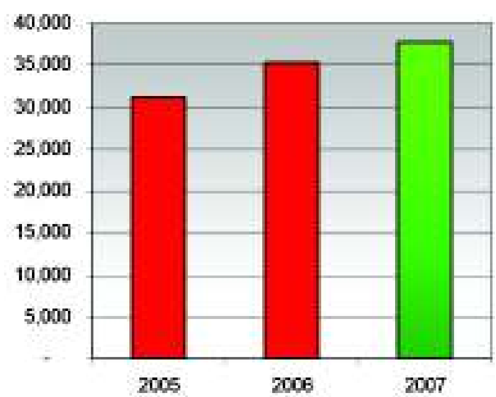
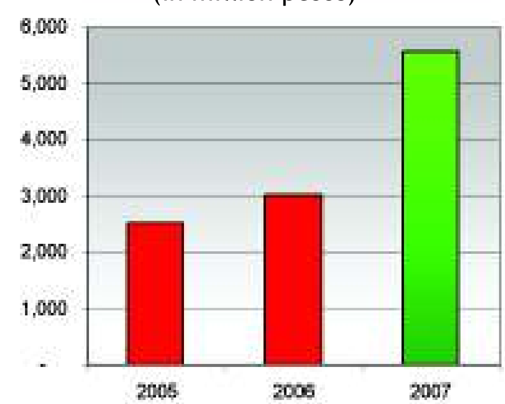
FINANCIAL HIGHLIGHTS

(in million pesos, except per share data)	Years ended September 30			2007 vs. 2006	
	2007	2006	2005	Inc/(Dec)	% growth
NET SALES	37,720	35,184	31,199	2,536	7%
INCOME FROM OPERATIONS	3,180	2,701	2,662	479	18%
NET INCOME TO EQUITY HOLDERS	5,557	3,019	2,526	2,538	84%
Total Assets	58,674	59,690	54,884	(1,016)	-2%
Total Liabilities	23,678	28,463	29,624	(4,785)	-17%
Stockholders' Equity	34,996	31,227	25,260	3,769	12%
Per Share					
Earnings	2.50	1.42	1.30	1.08	76%
Book Value	15.75	14.05	13.02	1.70	12%

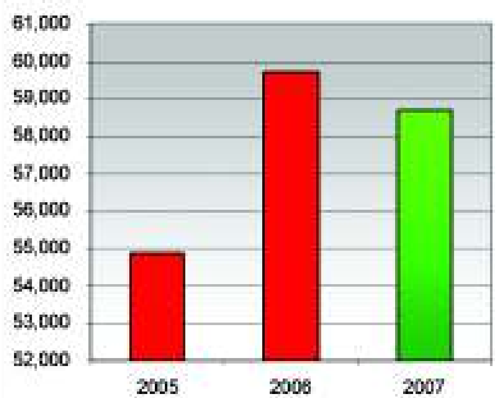
Net Sales (in million pesos)



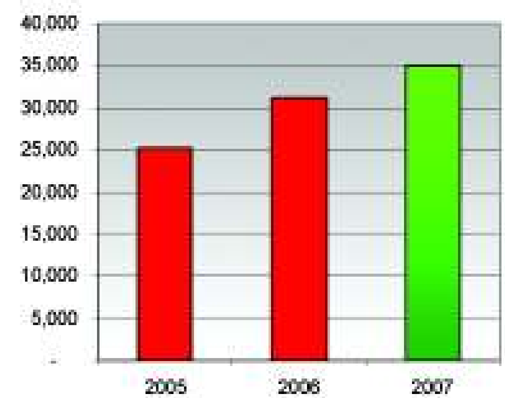
Net Income Attributable to Equity Holders (in million pesos)



Total Assets (in million pesos)



Stockholder's Equity (in million pesos)



MESSAGE FROM THE CHAIRMAN & CHIEF EXECUTIVE OFFICER AND THE PRESIDENT & CHIEF OPERATING OFFICER

To our shareholders,

The 2007 fiscal year has just passed, and we look back with gratitude at the commendable performance of your company, Universal Robina Corporation (URC). We had a strong financial performance and several milestones to celebrate.

Revenues increased by more than 7.2% over last year, reaching Php 37.72 billion due to the strong performance of domestic branded consumer foods, agro industrial, and commodity food groups. Operating income increased by 17.7% to Php 3.18 billion on the improved profitability of all groups and reduced losses in our branded consumer foods international operations. Net income increased by 89.0% to Php 5.50 billion in fiscal 2007 including the Php 2.86 billion gain from URC's sale of our investment in Robinsons Land Corporation (RLC) shares in October 2006 and a Php 345 million impairment loss provision for URC Packaging machines and equipment, and receivables. On a recurring basis, URC's net income amounted to Php 2.87 billion, or 2.6% higher than last year.

STRONG PERFORMANCE

Branded Consumer Foods Group

The Branded Consumer Foods Group (BCFG), comprised of BCFG Philippines, BCFG International, and Packaging, made up the lion's share of the company's revenue, accounting for over 75% of total URC sales in the fiscal year ended September 30, 2007. Revenues hit Php 28.4 billion in fiscal 2007, or 6.7% higher than last year.

BCFG Philippines

The growth in revenues was anchored on the stellar performance of domestic BCFG this fiscal year, accounting for 53.4% of total URC consolidated sales. The division has hit new highs, growing net sales to Php 20.1 billion, or 15.0% higher than fiscal 2006.

Snackfoods sales grew by 8.0% to reach Php 11.76 billion in fiscal 2007 due to a robust Philippine consumer market, as well as improved spending in the months leading up to the elections in May 2007.

Snackfoods continued to account for the majority of sales of the Branded Consumer Foods Group, with 58.4% of domestic BCFG sales this year. We remain the dominant number one Snackfoods player in the country, with market-leading positions in Savory Snacks, Candies, Chocolates, Cookies, and Pretzels, and we are close market challengers in other categories we compete in.

Revenues increased by more than 7.2% over last year, reaching Php 37.72 billion due to the strong performance of domestic branded consumer foods, agro industrial, and commodity food groups.

Our Beverage business grew by more than 49.6% in sales value to Php 5.36 billion compared to last year due to the rapid expansion of our coffee and ready-to-drink tea categories. Coffee grew by another 36% in sales value terms versus last year. Because of this, we embarked on an expansion for our Rosario coffee plant and concluded a leasing agreement for additional coffee manufacturing capacity. C2 continued to drive the growth of the ready-to-drink tea market, reaching a high of 1.2 million cases sold per month. Revenue was also pushed up by new products such as Nature's Harvest juices in PET bottles and the newly acquired water products from Nestle, Nestle Pure Life and Hidden Spring.

In our Grocery division, sales were slightly lower by 3.5% at Php 2.22 billion, due to a decline in Noodles sales, which was down 5% versus last year. Hunts, the brand for our tomato-based products, reported a 3% growth in sales during the same period.

We introduced over 100 new products to the market in the last fiscal year. We have also fixed price gaps for some product lines, controlled bad orders, rejects and floating accounts, and we have calibrated our spending to maintain profitability.

Operating income increased by 14.1% in fiscal 2007, to Php 2.25 billion.

BCFG International

In fiscal year 2007, URC International crossed over the US$150M mark and posted sales of Php 7.2 billion, accounting for 19.0% of total URC consolidated sales for the year. In Philippine pesos, net sales were down 7.6%, due to the appreciation of the Philippine Peso vis-à-vis the US dollar. The decline in sales due to cost and distribution rationalization efforts in URC China and URC Indonesia were tempered by the strong performance of URC Thailand, which posted its 4th consecutive annual double-digit growth. This was also a significant year for URC Vietnam which saw the rapid growth of C2 ready-to-drink tea. To date, C2 holds a market-leading position in Vietnam, the only country it is produced in outside of the Philippines. C2 will soon be exported to Thailand, Malaysia, and Indonesia.

Operating losses of Php 334 million were still reported for our international operations. However, there was a significant improvement from last year, despite the modest sales growth. This is attributed to URC China posting significantly lower operating losses due to our cost rationalization efforts.

URC Packaging

Packaging sales declined to Php 1.04 billion, due to lowered market prices and a delay in startup of one of our production lines. However, operations and maintenance have been reorganized to improve profitability. Sales have also begun moving towards specialized and higher-value films. The division has also penetrated the markets outside Southeast Asia, selling to Italy and Spain. These have managed to lower operating losses from Php 152 million last year to Php 105 million in fiscal 2007.

Agro-Industrial Group

The Agro-Industrial Group accounted for 15.0% of URC's total revenues in FY 2007. Net sales amounted to Php 5.65 billion, an increase of 11.2% from last year.

Feeds

The group's sales growth was driven mainly by a 19.4% increase in the revenues of the animal feeds business, which reached Php 2.64 billion. The business continued to expand due to increased marketing and sales efforts and the increasing strength of its three brand champions – Uno, Stargain, and Supremo.

Operating income was 2.8% lower than last year, hitting Php 411 million. Feeds profitability was affected by increased marketing and selling expenses, as well as increasing prices of raw materials such as corn, feed wheat, and soya.

Farms

The farms business grew to Php 3.01 billion this year, or a 4.8% increase versus fiscal 2006. The growth was due to the exceptional performance of the poultry business, as well as steady hogs volumes.

Farms profitability was noticeably higher, with operating income reaching Php 399 million, due to improvements in selling prices, particularly for hogs during the 3rd quarter, as well as lower mortality rates versus last year.

Commodities

The commodities group, made up of our Sugar and Flour divisions, saw net sales improving by almost Php 200 million versus last year, hitting Php 3.70 billion in fiscal 2007. The commodities group now accounts for 9.8% of the company's total revenues. Profitability improved considerably with operating income at Php 1.31 billion, or 21.8% higher than last year.

Sugar

URC Sugar had another banner year, with a 30.1% growth in gross sales and transfers, to Php 2.70 billion. Operating income was up 30.2% to Php 853 million due to better production and trading strategies of our three existing mills: URSUMCO, CARSUMCO, and SONEDCO. We have also commissioned a brand new refinery in our SONEDCO site, almost doubling our total refining capacity. We also began expanding our SONEDCO mills in the latter part of the year for commissioning in September 2007, improving our raw sugar production capacity by 23%. Finally, the end of the fiscal year saw the initiation of talks for the acquisition of the mills of PASSI Sugar Central, the largest sugar producer in Panay. The purchase of these mills will be booked in fiscal 2008, and we expect sugar milling to commence that year.

Flour

URC Flour Division closed fiscal 2007 with its highest income since it started its operations more than 35 years ago. While gross sales and transfers increased 2.4% to Php 3.60 billion, operating income increased 8.6% to Php 453 million versus last year. We succeeded in improving the market shares of our flour brands and gained substantial inroads in the high value segments. We continued to grow our export sales and we registered a 35% growth performance versus last year on that front.

ACHIEVEMENTS AND AWARDS

In fiscal 2007, URC received the AGORA AWARD for the Marketing Company of the Year. This coveted award was presented by the Philippine Marketing Association, for our successful brand-building efforts across the entire company.

URC employees worked hand in hand to build better communities. The company took the lead in organizing charity drives for the victims of natural disasters throughout the year, including supertyphoons Milenyo and Reming. On a lighter note, company employees set aside time from their busy schedules to help in the construction of 44 houses for Gawad Kalinga, at the Jack n Jill Village in Pinagsama Village, Taguig.

WHERE URC IS HEADED

We look forward to this coming fiscal year and all the opportunities it will bring. We have the resources, the people, the systems, the brands, and the values in place to face the challenges ahead. We are confident that we are a step closer of becoming the dominant pan-Asian food and beverage company we are all aspiring for.

For BCFG domestic, we will defend our dominance in the Snackfoods category, thru continuous extraction of efficiencies in our operations supply chain, particularly in our distribution system. In fiscal 2007, we began the split of our Snacks and Biscuits tertiary sales force for better coverage and hopefully see the benefits in improved sales in the next fiscal year. In our faster growing Beverage division, we will penetrate more markets with our newly formed On-Premise sales force, to further push the growth of our PET format products. Cognizant of the market's need for variety and innovation, we will continuously launch new products, notably our gum products to complement our candies division, our entry into the cereals market, and new beverage products. Finally, we will continue pursuing mergers and acquisitions of branded food and beverages businesses that have a strategic fit and accretive value to our business.

We are further building our BCFG international to scale and improving operating efficiencies in the countries we operate in. We have recently expanded our biscuits production capacity in Thailand and Vietnam, which will further drive the growth in sales. We have finished putting in place the distribution platform in Indonesia and we expect our products to gain back market share with some advertising and marketing support. In our newest market, Vietnam, C2 has gained wide acceptance and we look forward to its further success this fiscal year. We also look forward to bringing C2 to other countries in the region, with preliminary studies underway in Indonesia, Thailand, and Malaysia/Singapore. We have managed to cut the losses in China significantly last fiscal year, and we will now be looking to further improve sales of ACES breakfast cereal products and 3-in-1 coffee, through product innovation and distribution efforts.

For the Agro-Industrial Group, we will preserve our number two position in hogs by increasing the capacities of our hog farms to be able to serve a large underserved market and address the current supply problems of the hogs industry. We are also increasing our poultry capacity to enter the commercial egg business, to fully serve the needs of the Branded Consumer foods group and our sister retail company, Robinsons Supermarket. This move will help manage business volatility through forward integration with our poultry business. We are also continuing our branding efforts for AIG through the Robina Agri-Partners brand name and our brand champions, such as UNO and SUPREMO for Feeds. We have applied the branded food concepts to this business, and have seen these efforts bear fruit.

For Commodities, the increased output of the Sugar business, through the SONEDCO expansion and the new refinery, will assure a consistent supply to the growing sugar requirements in our branded consumer foods. With the additional contribution from the two PASSI mills in Iloilo, we shall also have a strategic balance in the raw sugar segment to complement our strong position in refined, and we will be the third largest sugar producer in the country. Finally, we are looking at further improving the profitability of our Flour business by improving the efficiency of wheat loading operations, optimizing the yields of our mills, and exploring nearer alternative sources of wheat.

VISION AND VALUES

URC's VISION is to be the best Philippine food and beverage conglomerate with a powerful presence throughout the ASEAN region and China, carrying a wide portfolio of strong brands, equipped with efficient systems and high-quality people.

In order to reach that stage, we shall nourish our spirits with these four values: Passion to Win, Dynamism, Integrity and Courage:

1. Passion to Win: We build organizational capability by being entrepreneurial and proactive, driven by a sense of urgency and purpose. We continuously challenge ourselves to deliver world-class brands and consistently rally our people to strive for excellence.

2. Dynamism: We cultivate a culture of innovation and productive working relationships. We continuously find ways to improve organizational and people capabilities to meet constantly changing consumer needs.

3. Integrity: We are guided by transparency, ethics and fairness. We build the business with honor and are committed to good governance. Our processes and products meet the highest standards. We are credible in our dealings with both internal and external stakeholders.

4. Courage: We seize opportunities in building long-term, sustainable businesses. We make tough people and business decisions to ensure competitive advantage.

APPRECIATION AND GRATITUDE

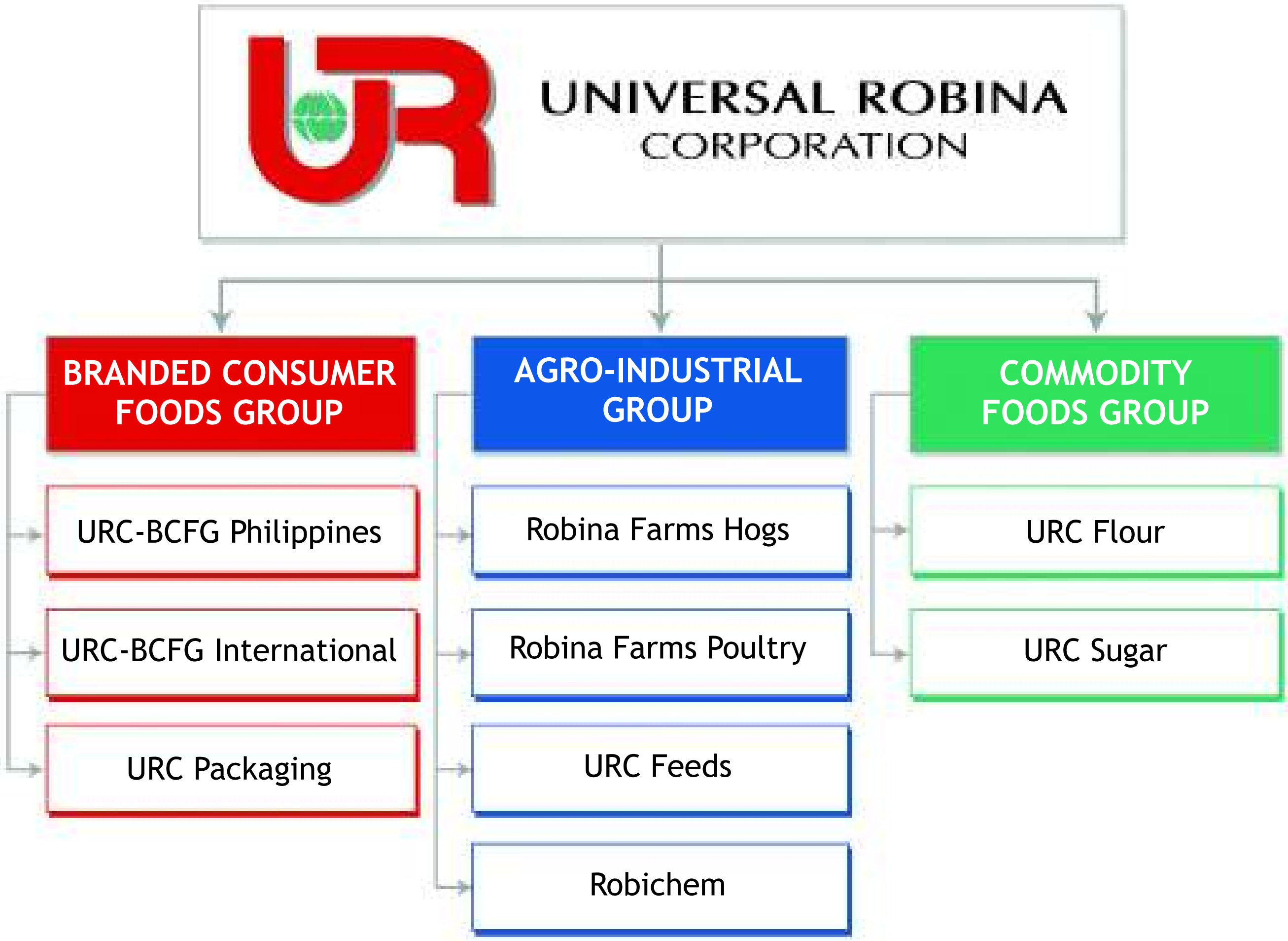
As URC strives to achieve its vision, we would like to express our sincere appreciation to our Board of Directors, shareholders, trade partners, suppliers, employees, and consumers for your unwavering support and confidence over the past years. We look forward to achieving our goals together with you.

Maraming salamat po,

James L. Go
Chairman and CEO

Lance Y. Gokongwei
President and COO

ORGANIZATIONAL CHART



Universal Robina Corporation has three main business lines:

- The Branded Consumer Foods Group is the largest business and the key driver of growth and profitability. It is composed of the Philippine, international and packaging businesses. In the Philippine BCFG, our main divisions are Snackfoods, Beverages, Grocery (which include the joint ventures Nissin-URC and Hunts URC), Exports and Packaging. our international investments are in Thailand, Indonesia, Malaysia/Singapore, China/Hong Kong, and Vietnam

- The Agro-Industrial Group is composed of hog and poultry farms, branded feeds, and animal health products.

- The Commodity Foods Group has both flour and sugar.

The latter two groups provide URC with consistent cashflows and, in the case of commodities, consistent supply of raw materials for the Branded Consumer Foods Group.

BRANDED CONSUMER FOODS GROUP

PHILIPPINES

Universal Robina Corporation (URC) is the leading branded convenience food and beverage company in the Philippines. URC is known for manufacturing and distributing high-performing products such as Chippy, Nova and other snack foods under the Jack 'n Jill mega brand, Nissin and Payless noodles, as well as Hunt's tomato-based products. URC is a market leader or a strong challenger in these categories.

URC is a trendsetter in the beverage industry with its coffee and ready-to-drink products. It blazed new trails in the local market with the successful launch and continuing promotion of C2 Cool & Clean Green Tea. Optimizing the emerging global trend of health and wellness, C2 spearheaded the expansion of a relatively new and potentially high-growth segment in the Philippine beverage industry: the green tea segment.

URC has 14 manufacturing facilities in 11 different locations, and 16 distribution centers nationwide.

SNACKFOODS

URC pioneered the snackfood industry in the Philippines through the launch of “Chiz Curls” and “Chippy” in the late 1960s. From this first foray into savory snacks over 40 years ago, URC has developed the largest and most diverse portfolio of snackfood products in the Philippines to fill all your snacking needs. And now, the products you grew up with and continue to snack on are all under the “Jack ‘n Jill” megabrand, a name synonymous with consistent quality, great value, and fun.

Snacks, biscuits, cakes, candies, and chocolates – the choices to satisfy your cravings are yours for the taking.

SAVORY SNACKS

URC is the market leader in savory snacks.

- Corn Chips – Chippy, Mr. Chips, Taquitos, Tostillas
- Natural Potato – Potato Chips, V-Cut
- Fabricated Potato – Piattos, Roller Coaster, Spuds
- Extruded / Pelletized – Curls, Poppins, Sea Crunch
- Multi-Grain - Nova

CAKES

URC is an innovative player in the cakes category.

- Quake Bars, Quake Cupps, Quake Layers, Quake Rolls, Quake Overload

BISCUITS

URC is one of the leading biscuit producers in the country.

- Cookies – Presto, Cream-O, Dewberry
- Crackers – Magic Flakes, Magic Creams, Magic Flavors
- Wafers – Hello! Coated, Hello! Pipers, Hello! Glazed, Wafrets
- Pretzels – Choco Pretzels, Knots

SNACKFOODS

CHOCOLATES

URC is the market leader in chocolates

- Enrobed – Cloud 9, Big Bang, Chooey, First Five
- Panned – Nips
- Moulded – Tivoli

CANDIES

URC is the market leader in candies.

- Hard Boiled – Maxx, Dynamite
- Deposited – X.O.
- Gummies / Jellies – Jojo Gummies
- Lollipops – Star Pops
- Marshmallows – Wiggles
- Soft – Lush, Star Fruits

Market Leaders in 2007

- Snacks 41 %
- Candies 46 %
- Chocolates 26 %
- Cookies 31%
  (share based to cookies segment of biscuits)
- Pretzels 66%
  (share based to pretzel segment of biscuits)

[1] URC calculation based in part on data reported by Nielsen through its Retail Index Service for various categories starting October/November 2006 up to August/September 2007 and November/December 2006 up to September/October 2007, in the Total Philippine market. (Copyright ©2008 The Nielsen Company.)

BEVERAGE

URC has grown the local beverage market by leaps and bounds ever since it produced the first locally manufactured coffee blend, Blend 45, in the 1960s. Other pioneering efforts include Great Taste Granules, the first concentrated coffee in the country, and Great Taste Mixes, the first complete 3-in-1 flavored coffee mix.

In 2004, URC launched C2 Cool & Clean, the first locally manufactured green tea-based beverage in handy PET bottles. This breakthrough product revitalized the ready-to-drink tea category, and is responsible for the bullish growth of the beverage market today. This was also the year that URC launched Refresh Flavored drink, the first ready-to-drink beverage uniquely packaged in convenient, lightweight polypropylene cups.

Expect to see more firsts in beverages, through URC's innovative products. With its wide array of beverage products, URC can definitely quench anyone's thirst.

BEVERAGE

URC participates in strategic segments in the Philippine beverage market that complement its snack food and biscuit products.

- Ready-to-Drink Tea – C2
- Juices – Refresh Flavored Drinks, Nature's Harvest
- Bottled Water – Hidden Spring, Nestlé Pure Life
- Sports Drinks – Rush
- Pure Coffee – Great Taste Granules, Great Taste Premium
- Blended Coffee – Blend 45
- Creamer – Cream All
- Ready-to-Drink Coffee – Great Taste Iced Coffee
- Instant Coffee Mixes – Great Taste Coffee Mixes

Market leader in Ready-to-Drink Tea -- 76 %

[1] URC calculation based in part on data reported by Nielsen through its Retail Index Service for various categories starting October/November 2006 up to August/September 2007 and November/December 2006 up to September/October 2007, in the Total Philippine market. (Copyright ©2008 The Nielsen Company.)

GROCERY

In response to the increasing need for lifestyle conveniences, URC manufactures an array of grocery products that are meant to make daily food preparation easier for Filipinos.

Its Payless brand offers a wide selection of affordable instant noodles in pouches and bowls, in regular and extra big servings. URC has also made Nissin's famous pre-flavored noodles readily available in the country, through its subsidiary Nissin Universal Robina, a 65%-35% joint venture with Nissin Japan.

URC, through its 50%-50% joint venture with ConAgra, has provided mothers with handy kitchen helpers in the form of tomato-based products such as pasta sauces and tomato sauce, as well as its market leading Pork and Beans. Swiss Miss products such as instant cocoa and ready-to-drink milkshakes are also manufactured under this joint venture.

GROCERY

HUNTS-URC

URC manufactures and markets tomato-based products, through its joint venture with ConAgra. URC also manufactures and markets Swiss Miss products through this joint venture.

- Canned Beans – Hunt's Pork and Beans, Hunt's Baked Beans, Hunt's Chili Beans
- Sauces – Hunt's Tomato Sauce, Hunt's Spaghetti Sauce
- Tomato Paste – Hunt's Tomato Paste
- Others – Swiss Miss, Swiss Miss Milk Shakes, Swiss Miss Non-Dairy Creamer

Market leader in Canned Beans -- 71 %

[1] URC calculation based in part on data reported by Nielsen through its Retail Index Service for various categories starting October/November 2006 up to August/September 2007 and November/December 2006 up to September/October 2007, in the Total Philippine market. (Copyright ©2008 The Nielsen Company.)

PAYLESS

URC manufactures and markets instant noodles in pouches and cups through its brand, Payless.

- Pouch Noodles - Payless Mami, Payless Pancit Canton, Payless Fiesta
- Cup Noodles – Payless Busog Sarap Bowl

NISSIN-URC

URC manufactures and markets instant noodles in cups and pouches through its subsidiary Nissin Universal Robina, a joint venture with Nissin Food Products Co., Ltd.

- Pouch Noodles – Nissin Yakisoba, Nissin Pancit Canton, Nissin Sotanghon, Nissin Ramen
- Cup Noodles – Nissin Cup Noodles, Nissin Yakisoba, Nissin Sotanghon

PACKAGING

URC Packaging Division produces and sells a wide range of Bi-axially Oriented Polypropylene (BOPP) films, primarily used for packaging of various consumer products. The BOPP plant, located in Simlong, Batangas, is equipped with Bruckner technology and has a rated capacity of 33,000 metric tons per annum. This business unit holds the distinction of being the only Integrated Management System ISO-certified BOPP plant in the country today with its Quality ISO 9001:2000 and Environmental ISO 14001:2004 Standards.

BRANDED CONSUMER FOODS GROUP

INTERNATIONAL

Looking ahead to "a world without borders," URC, currently the Philippine food and beverage company with the widest geographical footprint, has expanded steadily outside the country. At present, URC maintains manufacturing facilities in China, Thailand, Malaysia, Vietnam and Indonesia and has a strong foothold in the countries it presently operates in. URC products, under the "Jack 'n Jill" megabrand, are widely available in most trade channels in Thailand, Malaysia, Singapore, Indonesia, Vietnam, China, and Hong Kong.

The most established international operations of URC are in Thailand, Indonesia and Malaysia. Leading market share positions are attained in these countries in several niche product categories.

"ACES," a brand bought by URC from Acesfood Network Pte Ltd in 2005, continues to be a leader in the instant cereal beverage and oatmeal markets in China. In FY2007, ACES has contributed to more than 85% of the total revenues generated by URC China.

The purchase of the brand is a strategic move for URC as it allows improved distribution in key geographic markets and provides a strong, well-regarded brand that will be a platform for future growth in China.

In April 2006, URC started manufacturing and selling C2 Green Tea in Vietnam, making URC Vietnam the first subsidiary outside the Philippines to manufacture and market C2. C2 is now one of the two market leaders in Vietnam and manufacturing is being expanded to meet strong market demands. In August 2007, URC Vietnam started manufacturing biscuits in order to strengthen its foothold in the fast growing snackfoods market in Vietnam.

Brands such as Jack'nJill Potato Chips, Roller Coaster, Cloud 9, Cream-O, Magic, Dewberry, Lush, Xcite, Dynamite, and C2 can be found throughout the ASEAN region, making URC a true multinational consumer foods powerhouse.

THAILAND

URC Thailand, URC International's largest subsidiary, is a major snackfoods player in that country, manufacturing Snacks, Biscuits, Wafers, Candies, and Chocolates under the following brands:

- Snacks – Roller Coaster, Fun Bite
- Biscuits – Cream-O, Fun-O, Magic, Dewberry
- Wafers – Tivoli, Lausanne
- Candies – X.O., Dynamite, Lush, X-cite,
- Chocolates – Nips, Wiggles

MALAYSIA & SINGAPORE

In Malaysia, URC produces Snacks, Wafers, and Chocolates. These products are also carried by URC's sales office in Singapore.

- Snacks – Potato Chips, Roller Coaster, Jigs, Fun Bite
- Biscuits – Cream-O, Magic, Dewberry
- Wafers – Cloud 9
- Candies – Dynamite, Cloud 9 Candies
- Chocolates – Nips, Cloud 9, Chooey Choco

INDONESIA

URC has a factory in the most populous country in Southeast Asia, manufacturing Snacks, Candies, and Chocolates under the following brands:

- Snacks – Roller Coaster, Piattos, Sea Crunch, Peppitas, Guritoz, Chippy
- Wafers – Cloud 9 Wafrets
- Candies – Dynamite, Alus, Lush
- Chocolates – Chooey Choco, Cloud 9

INTERNATIONAL

VIETNAM

URC Vietnam, which started operations in 2004, is the newest addition to URC International. Vietnam manufactures Biscuits, Snacks and Candies, and is the very first URC subsidiary outside the Philippines to manufacture and successfully market C2 Green Tea.

- Snacks – Fun Bite, Potato Chips
- Biscuits – Cream-O, Magic
- Candies – Dynamite, Lush, X-cite
- Beverages – C2

CHINA & HONG KONG

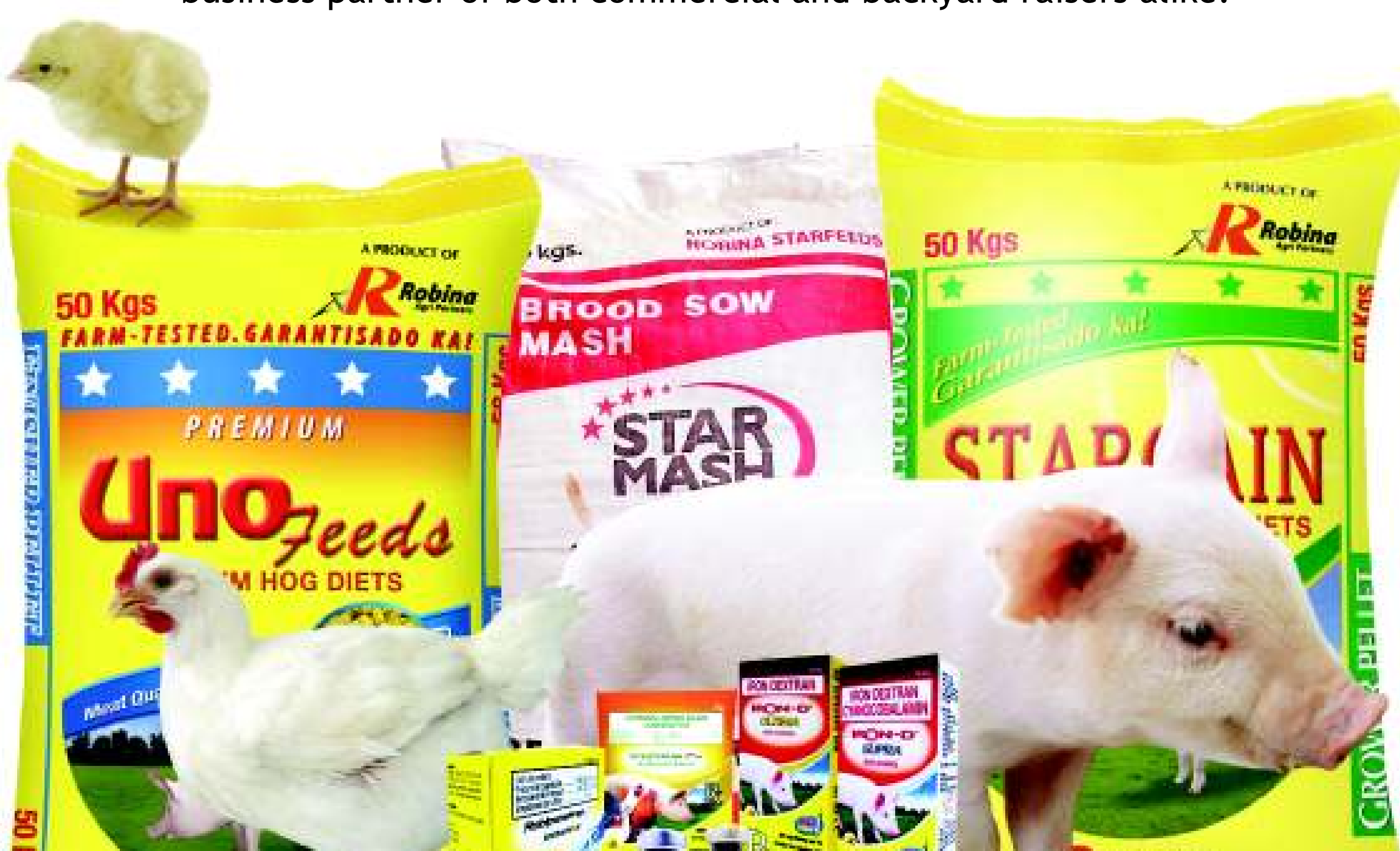
URC has factories in China that cater to both China and HK markets. These products are marketed under the following brands:

- Snacks – Roller Coaster, Potato Chips, Beef Crunchies, Spuds
- Candies – X.O., Dynamite
- Beverages (China only) – ACES Instant Cereal, ACES Oates, ACES Coffee, ACES Health drink, ACES Soya
- Chocolates (HK only) – Nips, Cloud 9
- Biscuits (HK only) – Cream-O, Magic, Dewberry

AGRO-INDUSTRIAL GROUP

URC is also one of the biggest players in the Agro-Industrial segment, and is involved in a wide range of agro-industrial businesses in the Philippines. These businesses were integrated under Robina Agri Partners (RAP), which combines the strengths, experiences and expertise of Universal Corn Products, Robichem Laboratories, and the Robina Farms poultry and hog divisions, in one team.

RAP provides exceptional value to the country's poultry & livestock industries through its Total Package Concept (TPC), supplying superior quality products covering all facets of a raiser's business, from quality feeds to effective and cost efficient veterinary medicines, to live animals that surpass international standards. This makes RAP the preferred business partner of both commercial and backyard raisers alike.



UNIVERSAL CORN PRODUCTS

- Universal Corn Products (UCP) is one of the leaders in the Philippine animal feed industry with combined milling capacities of 1,200 MT per day in its Manila and Cebu plants.
- Backyard and commercial raisers have relied on UCP's Brand Champions for Hog feeds - Uno Feeds & Stargain Performance Diets - for achieving the maximum income potential of their businesses thru superior Feed Conversion Ratios (FCR), as well as carcass quality. In addition, the Supremo brand has achieved recognition among the best and biggest Game fowl breeders in the Philippine for its ability to develop battle ready fighting cocks. Other feed categories produced and marketed by UCP are Broiler, Layer, Quail, Duck, and Aqua feeds. Feed products come in all forms – crumbled, pellet and mash form.
- UCP likewise produces and sells liquid glucose and quality soya products, which are used in the production of confectionery products and animal feeds, respectively.

ROBICHEM

- Robichem manufactures, distributes and sells a wide range of high-quality and well-known animal health products such as vaccines, water solubles, injectables, feeds supplements and disinfectants, which are both marketed commercially and used by Robina Farms because of its proven effectiveness and cost-efficiency.
- It has in its roster several Brand Champions – Robipenstrep P, Iron D, Spectrum and MVP Hog Cholera Vaccines - which have been trusted by animal raisers in ensuring their flock's or herd's state of health for many years.
- Robichem is also the exclusive distributor of multinational companies namely, Janssen Animal Health and Malaysian Vaccines Pharmaceuticals.

ROBINA FARMS – HOGS

- Robina Farms (RF) Hogs business unit breeds and sells prime finishers under the Brand name Robina Primera , breeder stocks such as its own Grandeur Boar and Grand Dame gilt, as well as quality piglets.

- The Robina Primera prime finishers are distributed through concessionaires in all the leading supermarkets in Metro Manila and is sought after by consumers and viajeros due to its high lean meat percentage, overall meat quality and thin back fat.

- RF-Hogs production facilities, located in Rizal, Novaliches, Bulacan and Batangas maintain 15,500 sows at any given time, and is reputed to be among the most modern swine facilities in the country.

ROBINA FARMS – POULTRY

- RF-Poultry business unit produces superior day-old broiler and layer chicks from the world-class breeds such as Hubbard, Shaver and Hyline.

- RF-Poultry production facilities are located in Cebu, Rizal and Bulacan, with a total farm capacity of 500,000 breeders.

- RF-Poultry is a formidable player in both the Layer and Broiler industries. It is the leader in the day old broiler and layer pullet chick markets, and is considered as one of the most dependable day-old chick suppliers in the country.

COMMODITY FOODS GROUP

URC is a major player in the Philippines' flour and sugar industries, and its commodities businesses are vertically integrated with both the Branded Consumer Foods Group and the Agro-Industrial Group.

URC FLOUR DIVISION

- URC Flour Division is one of the top flour millers in the country. It has 3 milling plants - CMC Pasig, CMC Davao and URC Flour Plant, with a combined milling capacity of 1,550 MT per day. URC Flour produces and sells Hard and Soft Wheat Flour to both commercial and institutional accounts. The division also supplies the local and export flour requirements of the URC Branded Consumer Food Group and URC international, respectively.

- The Hard Flour brands - UNIVERSAL First Class Flour, GLOBE First Class Flour and BLEND 100 Flour - contain high protein level recommended for making premium quality bread. On the other hand, the Soft Flour brands - WHITE ROSE and SAMPAGUITA - are ideal for making cookies, biscuits and pastries. Specialty flour brands are also available - CONTINENTAL All-Purpose Flour, best used for most baking needs and DAISY Cake Flour, excellent for baking light and fluffy cake bases. URC Flour Division also has the capability to do customized flour.

- Other product offerings are flour-milling by-products such as wheat germ, bran and pollard.

- URC Flour also manufactures and sells spaghetti and macaroni products under the brand name EL REAL and toll manufactures for other food companies.

- In Fiscal 2007, URC Flour produced approximately 174,246 MT of flour and 13,348 MT of pasta.

URC FLOUR DIVISION

- URC Sugar Division operates 3 sugar mills and 2 refineries across the country with combined capacity of 17,000 tons of sugar cane per day and 17,000 bags of refined sugar per day, respectively.

- URSUMCO and CARSUMCO provide sugar cane milling and refining services, trade raw sugar, and sell refined sugar and molasses. SONEDCO provides sugar cane milling services and trades raw sugar and molasses.

- With the completion of the raw sugar mill expansion and refinery in SONEDCO in the latter half of 2007, the combined capacity increased to 21,000 tons of sugar cane per day for raw sugar and 32,000 bags of refined sugar per day.

- At the end of 2007, URC purchased the milling assets of PASSI Iloilo Sugar Central. This acquisition will further increase raw sugar capacity to 29,000 tons of sugar cane per day in 2008, and this will help URC Sugar become one of the top 3 sugar producers in the country.

THE C2 STORY

A few years back, Mr. John Gokongwei was traveling through Asia, when he came upon a very interesting product in China – brewed tea, in ready-to-drink bottles. With his diverse line of businesses, he was visiting supermarkets, convenience stores, and factories throughout the country. And everywhere he went, he saw the ever-present tea. Though this had been widely available throughout China and Japan, he had never seen this product in the Philippines.

Intrigued, he gave URC Managing Director Bienvenido Bautista his marching orders in May of 2004 – URC would get 2 PET production lines to launch a green tea product within six months.

Initially, the situation looked grim:

• The Philippines wasn't a tea market (estimated at only around Php 3 billion), unlike China, which has been drinking tea for thousands of years. There would be no ready customers for the new product.

• The tea market was already dominated by Nestlé (both in retail and in foodservice), with their ubiquitous Nestea. URC was launching an unknown brand against a giant!

• While bottled tea was already available via imported brands, these had very small volumes and distribution – not enough to familiarize the masses.

• Sales of these brands were slow, due both to unfamiliarity with green tea and high price points (Php 30 per 500 ml bottle).

But again, relying on the same business acumen and foresight he used before, Mr. John had seen an opportunity. The winds were changing, and throughout his travels he had seen that wellness was becoming a worldwide trend. He believed that even here in the Philippines, people would start focusing on improving their health.

Green tea is among the healthiest teas, having the lowest amount of caffeine and more antioxidants than other teas. By providing this product, URC could fight not only in the existing tea market, but also against the big two softdrink players by providing an alternative to 'unhealthy' softdrinks.

With that, URC went to work.

• Market research was conducted, and confirmed that people were shifting away from carbonated drinks – local studies were slowly beginning to mirror those from abroad – sales of carbonated drinks were stagnating, while those of non-carbonated drinks were growing at a dizzying pace. From 2001 to 2005, sales of non-carbonated drinks had almost doubled in the Philippines, while those of carbonated drinks had actually declined slightly.

• Numerous branding studies were done – Among the finalists, "Chill" was a strong candidate as a brand name, as it was associated with a drink that was refreshing and cool. Ultimately, however, "C2 Cool and Clean" was picked because of its high association with health, and it had a stronger connection to the product's concept and positioning.

• Priced to penetrate the market - C2 offered a healthy alternative at an affordable price – avoiding the regular premiums tacked on for "healthy" products. More importantly, C2 competed directly with Coke and Pepsi at their price points. Initially, the smaller C2 bottles (355 ml) were priced just below softdrinks in cans, while the larger (500 ml) bottles were priced just below their 500 ml softdrink counterparts.

• Dedicated Beverage division - With an all-new flagship product, there was a need for the creation of a dedicated division, with its own in-house sales force specifically to push URC's Beverage products. The dynamics of the beverage market also differed from those of URC's Snackfoods and

> *...after 3 years in the Philippines, **C2 is the runaway market leader**, single-handedly driving the growth of the RTD Tea market and reaching an all-time high of 1.2M cases sold.*

Groceries, and thus exclusive Beverage regional distributors were appointed to push the product.

• Aggressive marketing and promotions – beverage marketing is all about image, and from the get-go URC's advertising and promotions worked with this in mind. C2 was positioned as a lifestyle brand, while educating the consumer about the health benefits of drinking tea. Consumer events also continued to harp on the advantages of tea, while promoting an active and healthy lifestyle.

• Internal product testing – Through the months leading up to the launch, the product was test-marketed extensively in the JG Summit Group. Employees would be purchasing C2 from the company store, and regularly guzzling down bottles of the product. The enthusiastic reception indicated that URC had a hit on its hands. Just to be safe, URC had a soft launch at select Robinsons Supermarket branches. When C2 began outselling Coke in cans, URC knew it had succeeded.

URC was tasked to bring C2 to the market by October 2004. And after 3 years in the Philippines, C2 is the runaway market leader, single-handedly driving the growth of the RTD Tea market and reaching an all-time high of 1.2M cases sold, with market share five times that of its nearest competitor.

An additional 4 PET lines were ordered due to the strength of C2. In addition to boosting C2 production and realizing economies of scale, the new lines have also allowed URC to bring other new PET products to the market, such as RUSH Fitness Water and Nature's Harvest. And the market is still growing.

Yes, C2 is a success story in the Philippines. The next step? To introduce C2 to the rest of the world.

Through URC's Export Trading Division, C2 is now enjoyed abroad, in Korea, Finland, Guam, Saipan, UK and Canada. ASEAN countries are also enjoying C2, with URC International operating its very first PET production line in Vietnam. URC Vietnam was the first to launch C2 outside the Philippines, followed by Thailand and Malaysia.

So what else lies ahead for URC? While brand-building efforts for its existing lines continue, URC will constantly be on the lookout for new, innovative, and exciting products to bring to its consumers. Much like what it did with C2, URC will continue to evaluate new markets to enter and shake up the competition.

C2 was a major home run for URC. But the game's not over yet.

URC hailed as Agora Awards' Marketing Company of the Year

For its innovative marketing practices, Universal Robina Corporation (URC) was named Marketing Company of the Year at the Agora awards. In photo: (L-R) Ricky M. Alegre, President, Philippine Marketing Association; Pet Bautista, URC-BCFG Managing Director; Lance Gokongwei, URC President; Vivian R. Faustino, Category Head, Marketing Company of the Year; and Erlinda B. De Guzman, Director-in-Charge, Agora Awards.

Universal Robina Corporation (URC) was declared Marketing Company of the Year at the 2007 Agora Awards.

URC's President and Chief Operating Officer Lance Gokongwei, who has himself been conferred the "Entrepreneur of the Year Philippines" award by Ernst & Young in 2005, describes the company's latest achievement as part of a larger corporate vision: "We at URC are deeply honored by the marketing industry's recognition of our efforts. This award further affirms what our company has always stood for: excellence, innovation, and a firm commitment to producing high-quality products that delight our customers."

The Agora Awards was established by the Philippine Marketing Association (PMA) to recognize outstanding achievements in various fields of marketing such as export marketing, marketing management, marketing education, advocacy marketing, and small-, medium-, and large-scale entrepreneurship. The Marketing Company of the Year award is granted to companies that exemplify innovative and versatile marketing operations, responsible corporate citizenship, and a proven commitment to delivering quality goods and services.

CORPORATE SOCIAL RESPONSIBILITY

Universal Robina Corporation's focus is to help improve the quality of life through building sustainable communities for the less fortunate, and supporting activities that contribute to education and youth development.

Its most recent philanthropic endeavor is a tie-up with Gawad Kalinga to shelter families in Taguig. Dubbed as "Jack 'n Jill Village," 44 houses are currently being built by employees of URC with the help of those from other JG Summit companies. Gawad Kalinga aims to see a slum-free, squatter-free nation, and the addition of URC in its roster of partners will make this goal one step closer to seeing reality.

URC is an ardent advocate of activities centered on the youth. It has partnered with such organizations as World Vision, Pathways, National Book Development Board, and Anak TV for projects that ensure the availability of education to impoverished youngsters. The company also supports projects such as storytelling sessions, which are spearheaded by public and provincial libraries. Every Christmas, URC participates in a yearly project with GMA7's Kapuso Foundation, to spread Yuletide cheer to various groups of disadvantaged youngsters.

Building Better Lives: In photo, URC employees, led by president Lance Gokongwei (2nd from left), and Mrs. Jay Gokongwei (extreme left), with employees of other JG Summit companies and Gawad Kalinga volunteers, at the construction site of "Jack 'n Jill Village" in Taguig.

Supporting projects that promote value formation in children through giving, acts of kindness, sharing joys and blessings, and a show of respect and integrity is an integral part of URC's role as a responsible corporate citizen. This includes outreach programs, medical missions, feeding programs, donations to areas afflicted by calamities, livelihood seminars and other undertakings conducted by various churches, non-profit organizations and Local Government Units. URC is often in the forefront of activities that serve – and improve life in – the society at large.

URC is also committed to ethical, moral and sound business practices in all aspects of its operations.

board of directors

BOARD OF DIRECTORS

JOHN L. GOKONGWEI, JR.
Chairman Emeritus

JAMES L. GO
Chairman and Chief Executive Officer

LANCE Y. GOKONGWEI
President
and Chief Operating Officer

PATRICK HENRY C. GO
Vice President and
Business Unit General Manager, Packaging Division

FREDERICK D. GO
Director

JOHNSON ROBERT G. GO, JR.
Director

ROBERT G. COYIUTO, JR
Director

PASCUAL S. GUERZON
Director

WILFRIDO E. SANCHEZ
Director

GROUP HEADS

BIENVENIDO S. BAUTISTA
Executive Vice-President and Managing Director,
URC Branded Consumer Foods Group,
Philippines and PT URC Indonesia

VINCENT HENRY C. GO
Group Business Unit General Manager,
Agro-Industrial Group

PATRICK O. NG
Executive Vice President and Managing Director,
URC International and
Acting Business Unit General Manager, URC Vietnam

BENEDICTO A. SANCHEZ
Business Unit General Manager,
Beverage Division

ALBERTINE P. MONTERON
Business Unit General Manager,
Hunts Universal Robina Corporation

EDWIN R. CANTA
Business Unit General Manager,
Nissin Universal Robina Corporation

BUSINESS UNIT HEADS
PHILIPPINES

DANTE J. PALABRICA
Business Unit General Manager,
Hogs Operations

WILLIAM F. LIM
Business Unit General Manager,
Poultry Operations

ELLISON DEAN C. LEE
Business Unit General Manager,
Flour Division

RENATO P. CABATI
Business Unit General Manager,
Sugar Group Division

EDUARDO G. YAP JR
Business Unit General Manager,
CFC Flexible Packaging Division

PREMCHAI NAVARASUCHITR
Business Unit General Manager,
URC Thailand

EDWIN S. TOTANES
Business Unit General Manager,
URC Indonesia

BRIAN GO
Business Unit General Manager / CFO,
URC China & URC Hong Kong

ERROL A. TAN
Business Unit General Manager,
URC Malaysia & URC Singapore

STANLEY M. P. POON
Asst. Business Unit General Manager,
URC Hong Kong

EXECUTIVE OFFICERS

JAMES L. GO
Chairman and Chief Executive Officer

LANCE Y. GOKONGWEI
President and Chief Operating Officer

BIENVENIDO S. BAUTISTA
Executive Vice President and Managing Director, URC Branded Consumer Food Group Philippines and PT URC Indonesia

PATRICK O. NG
Executive Vice President and Managing Director, URC International

EUGENIE M.L. VILLENA
Senior Vice President - Chief Financial Officer

CONSTANTE T. SANTOS
Senior Vice President - Corporate Controller

BACH JOHANN M. SEBASTIAN
Senior Vice President - Corporate Planning

GERALDO N. FLORENCIO
First Vice President - Controller

PATRICK HENRY C. GO
Vice President

ESTER T. ANG
Vice President - Treasurer

ROSALINDA F. RIVERA
Corporate Secretary

financial section

UNIVERSAL ROBINA
CORPORATION
110 E. RODRIGUEZ, JR. AVENUE, BAGUMBAYAN, QUEZON CITY, PHILIPPINES 1600, P.O. Box 3542 MM 2800 - P.O. BOX 99-AC CUBAO, QUEZON CITY
TEL. 635-0751 TO 85 ; 671-2935 TO 42

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Securities and Exchange Commission
SEC Building, EDSA, Greenhills
Mandaluyong City

The management of Universal Robina Corporation and Subsidiaries is responsible for all information and representations contained in the consolidated financial statements as of September 30, 2007 and 2006 and for each of the three years in the period ended September 30, 2007. The consolidated financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's audit committee and to its external 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 and Co. (SGV), the independent auditors appointed by the stockholders, have examined the consolidated financial statements of the Company and its subsidiaries in accordance with the generally accepted auditing standards in the Philippines and have expressed their opinion on the fairness of presentation upon completion of such examination, in the attached report to the stockholders and the Board of Directors.

JAMES L. GO Chairman and Chief Executive Officer	LANCE Y. GOKONGWEI President and Chief Operating Officer	CONSTANTE T. SANTOS SVP – Corporate Controller

SUBSCRIBED AND SWORN to before me this JAN 1 1 2008 day of January, 2008 affiant(s) exhibiting to me his/their Community Tax Certificates as follows:

NAMES	C.T. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
James L. Go	18159312	01.31.07	Pasig City
Lance Y. Gokongwei	18159313	01.31.07	Pasig City
Constante T. Santos	18158212	01.31.07	Pasig City

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Book No. II
Series of 2008

MARY JANE V. FLORES
NOTARY PUBLIC
UNTIL 31 DECEMBER 2008
IBP NO. 736823, 1-09-08, RIZAL
PTR NO. 4341264, 1-09-08, PASIG
ROLL N 42280

A JG Summit Company

SGV & Co

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City

Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Universal Robina Corporation
110 E. Rodriguez Avenue
Bagumbayan, Quezon City

We have audited the accompanying consolidated financial statements of Universal Robina Corporation and Subsidiaries, which comprise the consolidated balance sheets as of September 30, 2007 and 2006, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended September 30, 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 consolidated financial statements present fairly, in all material respects, the financial position of Universal Robina Corporation and Subsidiaries as of September 30, 2007 and 2006, and their financial performance and their cash flows for each of the three years in the period ended September 30, 2007 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Renato Galve

Renato J. Galve
Partner
CPA Certificate No. 37759
SEC Accreditation No. 0081-AR-1
Tax Identification No. 102-087-055
PTR No. 0017596, January 3, 2008, Makati City

January 11, 2008

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30	
	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 6)	**₱5,055,486,225**	₱5,979,875,395
Financial assets at fair value through profit or loss (Notes 3, 4 and 7)	**16,536,713,409**	17,889,646,288
Receivables - net (Notes 3, 4, 8 and 31)	**5,239,851,887**	5,118,112,629
Inventories (Note 9)	**5,899,214,363**	5,391,590,367
Other current assets (Notes 3, 4 and 10)	**607,356,868**	122,596,044
Total Current Assets	**33,338,622,752**	34,501,820,723
Noncurrent Assets		
Property, plant and equipment - net (Notes 3, 5 and 11)	**22,266,666,365**	20,563,902,523
Biological assets (Notes 3 and 12)	**1,050,568,773**	817,003,453
Goodwill - net (Notes 3 and 13)	**844,548,190**	844,548,190
Net pension assets (Notes 3 and 28)	**92,534,300**	236,346,400
Investments in an associate and a joint venture (Notes 3 and 14)	**89,872,575**	1,958,480,986
Investment properties (Notes 3 and 15)	**82,601,829**	86,200,074
Other noncurrent assets (Notes 3 and 16)	**908,684,428**	681,642,566
Total Noncurrent Assets	**25,335,476,460**	25,188,124,192
	₱58,674,099,212	₱59,689,944,915

LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt (Notes 4, 18 and 27)	**₱4,308,381,067**	₱4,026,417,791
Accounts payable and other accrued liabilities (Notes 4, 17 and 31)	**4,276,258,155**	4,301,479,128
Trust receipts and acceptances payable (Notes 4 and 9)	**385,279,591**	661,147,316
Income tax payable	**119,192,023**	144,210,996
Current portion of long-term debt (Notes 4, 19 and 27)	**5,072,751,025**	2,534,798,394
Total Current Liabilities	**14,161,861,861**	11,668,053,625
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 4, 19 and 27)	**9,064,974,890**	16,499,917,160
Deferred income tax liabilities - net (Note 29)	**451,559,675**	294,958,956
Total Noncurrent Liabilities	**9,516,534,565**	16,794,876,116
Total Liabilities	**23,678,396,426**	28,462,929,741

(Forward)

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30	
	2007	2006
Equity		
Equity attributable to equity holders of the parent		
Paid-up capital (Note 20)	**₱13,429,513,837**	₱13,429,513,837
Retained earnings (Note 20)	**20,300,463,625**	16,254,343,977
Deposits for future stock subscriptions (Note 20)	**26,043,533**	26,043,533
Cumulative translation adjustments	**544,386,903**	765,869,023
	34,300,407,898	30,475,770,370
Equity attributable to minority interests	**695,294,888**	751,244,804
Total Equity	**34,995,702,786**	31,227,015,174
	₱58,674,099,212	₱59,689,944,915

See accompanying Notes to Consolidated Financial Statements.

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended September 30		
	2007	2006	2005
SALE OF GOODS AND SERVICES (Notes 5, 31 and 32)	**₱37,720,260,615**	₱35,183,814,854	₱31,199,275,746
COST OF SALES (Notes 9, 21, 24, 25, and 31)	**27,616,777,337**	26,359,974,231	23,307,712,686
GROSS PROFIT	**10,103,483,278**	8,823,840,623	7,891,563,060
SELLING AND DISTRIBUTION COSTS (Notes 22, 24, 25 and 31)	**(5,119,182,316)**	(4,790,405,938)	(3,912,572,954)
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 23, 24, 25 and 31)	**(1,803,972,344)**	(1,332,342,501)	(1,317,946,536)
GAIN ON SALE OF INVESTMENT (Notes 5 and 14)	**2,858,765,293**	–	–
FINANCE REVENUE (Notes 5 and 26)	**1,562,117,043**	2,319,815,409	1,908,880,098
MARKET VALUATION GAIN ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 5 and 7)	**451,809,003**	923,670,697	493,318,452
EQUITY IN NET INCOME OF AN ASSOCIATE AND A JOINT VENTURE (Notes 5 and 14)	**23,287,500**	319,996,500	244,623,123
FINANCE COSTS (Notes 5, 18, 19 and 27)	**(1,620,998,830)**	(2,271,950,902)	(2,114,784,811)
IMPAIRMENT LOSS (Notes 3, 5, 8, 11 and 24)	**(344,666,537)**	(283,979,473)	(223,518,513)
FOREIGN EXCHANGE GAIN (LOSS) - Net	**(255,323,511)**	(259,222,224)	172,389,517
OTHER REVENUE (EXPENSES) - Net (Note 15)	**97,966,109**	(155,966,428)	(246,871,545)
INCOME BEFORE INCOME TAX	**5,953,284,688**	3,293,455,763	2,895,079,891
PROVISION FOR INCOME TAX (Notes 5 and 29)	**452,255,980**	382,364,589	493,408,420
NET INCOME	**₱5,501,028,708**	₱2,911,091,174	₱2,401,671,471
ATTRIBUTABLE TO			
Equity holders of the parent	**₱5,556,978,624**	₱3,018,916,609	₱2,526,249,661
Minority interest	**(55,949,916)**	(107,825,435)	(124,578,190)
	₱5,501,028,708	₱2,911,091,174	₱2,401,671,471
BASIC/DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (Notes 20 and 30)	**₱2.50**	₱1.42	₱1.30

See accompanying Notes to Consolidated Financial Statements.

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Year Ended September 30, 2007

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT										
	Paid-up Capital (Note 20)			**Retained Earnings** (Note 20)							
	Common Stock	**Additional Paid-in Capital**	**Total Paid-up Capital**	**Unappropriated Retained Earnings**	**Appropriated Retained Earnings**	**Total Retained Earnings**	**Deposits for Future Stock Subscriptions** (Note 20)	**Cumulative Translation Adjustments** (Note 36)	**Total**	**ATTRIBUTABLE TO MINORITY INTEREST**	**TOTAL EQUITY**
Balances as of September 30, 2006	₱2,221,851,481	₱11,207,662,356	₱13,429,513,837	₱13,254,343,977	₱3,000,000,000	₱16,254,343,977	₱26,043,533	₱765,869,023	₱30,475,770,370	₱751,244,804	₱31,227,015,174
Adjustments to foreign currency translation	–	–	–	–	–	–	–	(221,482,120)	(221,482,120)	–	(221,482,120)
Net income for the year	–	–	–	5,556,978,624	–	5,556,978,624	–	–	5,556,978,624	(55,949,916)	5,501,028,708
Total income (expense) recognized for the year	–	–	–	5,556,978,624	–	5,556,978,624	–	(221,482,120)	5,335,496,504	(55,949,916)	5,279,546,588
Cash dividends (Note 20)	–	–	–	(1,510,858,976)	–	(1,510,858,976)	–	–	(1,510,858,976)	–	(1,510,858,976)
Balances as of September 30, 2007	**₱2,221,851,481**	**₱11,207,662,356**	**₱13,429,513,837**	**₱17,300,463,625**	**₱3,000,000,000**	**₱20,300,463,625**	**₱26,043,533**	**₱544,386,903**	**₱34,300,407,898**	**₱695,294,888**	**₱34,995,702,786**

For the Year Ended September 30, 2006

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT										
	Paid-up Capital (Note 20)			Retained Earnings (Note 20)							
	Common Stock	Additional Paid-in Capital	Total Paid-up Capital	Unappropriated Retained Earnings	Appropriated Retained Earnings	Total Retained Earnings	Deposits for Future Stock Subscriptions (Note 20)	Cumulative Translation Adjustments (Note 36)	Total	ATTRIBUTABLE TO MINORITY INTEREST	TOTAL EQUITY
Balances as of September 30, 2005	₱1,686,479,549	₱6,843,501,476	₱8,529,981,025	₱11,762,281,005	₱3,000,000,000	₱14,762,281,005	₱26,043,533	₱993,318,822	₱24,311,624,385	₱948,579,793	₱25,260,204,178
Cumulative effect of change in accounting policy for financial instruments as of October 1, 2005	–	–	–	(75,100,307)	–	(75,100,307)	–	–	(75,100,307)	–	(75,100,307)
Balances as of October 1, 2005, as adjusted	1,686,479,549	6,843,501,476	8,529,981,025	11,687,180,698	3,000,000,000	14,687,180,698	26,043,533	993,318,822	24,236,524,078	948,579,793	25,185,103,871
Adjustments to foreign currency translation	–	–	–	–	–		–	(227,449,799)	(227,449,799)	(89,509,554)	(316,959,353)
Net income for the year	–	–	–	3,018,916,609	–	3,018,916,609	–	–	3,018,916,609	(107,825,435)	2,911,091,174
Total income (expense) recognized for the year	–	–	–	3,018,916,609	–	3,018,916,609	–	(227,449,799)	2,791,466,810	(197,334,989)	2,594,131,821
Issuance of common shares of stock	282,400,000	4,364,160,880	4,646,560,880	–	–	–	–	–	4,646,560,880	–	4,646,560,880
Stock dividends (Note 20)	252,971,932	–	252,971,932	(252,971,932)	–	(252,971,932)	–	–	–	–	–
Cash dividends (Note 20)	–	–	–	(1,198,781,398)	–	(1,198,781,398)	–	–	(1,198,781,398)	–	(1,198,781,398)
Balances as of September 30, 2006	₱2,221,851,481	₱11,207,662,356	₱13,429,513,837	₱13,254,343,977	₱3,000,000,000	₱16,254,343,977	₱26,043,533	₱765,869,023	₱30,475,770,370	₱751,244,804	₱31,227,015,174

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Year Ended September 30, 2005

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT										
	Paid-up Capital (Note 20)			Retained Earnings (Note 20)							
	Common Stock	Additional Paid-in Capital	Total Paid-up Capital	Unappropriated Retained Earnings	Appropriated Retained Earnings	Total Retained Earnings	Deposits for Future Stock Subscriptions (Note 20)	Cumulative Translation Adjustments (Notes 20 & 36)	Total	ATTRIBUTABLE TO MINORITY INTEREST	TOTAL EQUITY
Balances as of September 30, 2004	₱1,686,479,549	₱6,843,501,476	₱8,529,981,025	₱9,741,975,209	₱3,000,000,000	₱12,741,975,209	₱26,043,533	₱984,957,815	₱22,282,957,582	₱1,093,649,532	₱23,376,607,114
Net income for the year	–	–	–	2,526,249,661	–	2,526,249,661	–	–	2,526,249,661	(124,578,190)	2,401,671,471
Adjustments to foreign currency translation	–	–	–	–	–	–	–	8,361,007	8,361,007	(20,491,549)	(12,130,542)
Total income (expense) recognized for the year	–	–	–	2,526,249,661	–	2,526,249,661	–	8,361,007	2,534,610,668	(145,069,739)	2,389,540,929
Cash dividends (Note 20)	–	–	–	(505,943,865)	–	(505,943,865)	–	–	(505,943,865)	–	(505,943,865)
Balances as of September 30, 2005	₱1,686,479,549	₱6,843,501,476	₱8,529,981,025	₱11,762,281,005	₱3,000,000,000	₱14,762,281,005	₱26,043,533	₱993,318,822	₱24,311,624,385	₱948,579,793	₱25,260,204,178

See accompanying Notes to Consolidated Financial Statements.

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended September 30		
	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱5,953,284,688**	₱3,293,455,763	₱2,895,079,891
Adjustments for:			
Gain on sale of investment (Note 14)	**(2,858,765,293)**	–	–
Depreciation and amortization of:			
Property and equipment (Note 11)	**2,172,452,012**	1,990,987,053	1,661,878,254
Investment properties (Note 15)	**3,598,245**	3,598,245	3,598,245
Intangible assets (Note 16)	**1,383,818**	–	–
Finance costs (Note 27)	**1,620,998,830**	2,271,950,902	2,114,784,811
Finance revenue (Note 26)	**(1,562,117,043)**	(2,319,815,409)	(1,908,880,098)
Market valuation gain on financial instruments at fair value through profit or loss (Notes 4 and 7)	**(451,809,003)**	(923,670,697)	(493,318,452)
Gain arising from changes in fair value less estimated point-of-sale costs of swine stocks (Note 12)	**(276,815,236)**	(244,709,188)	(340,923,379)
Foreign exchange loss (gain) - net	**255,323,511**	259,222,224	(172,389,517)
Impairment losses on:			
Property and equipment (Note 11)	**203,436,240**	–	–
Receivables (Note 8)	**141,230,297**	43,290,658	223,518,513
Goodwill (Note 13)	–	240,688,815	–
Gain on sale of financial assets at fair value through profit or loss	**(51,173,807)**	(250,535,563)	(64,033,979)
Amortization of debt issuance costs	**26,473,920**	19,739,316	26,725,131
Equity in net income of an associate and a joint venture (Note 14)	**(23,287,500)**	(319,996,500)	(244,623,123)
Gain on sale of property and equipment	**(5,325,919)**	(15,321,831)	(66,441,653)
Impairment of financial assets at fair value through profit or loss	**3,145,057**	–	–
Market valuation gain on derivative transactions (Note 4)	**(2,179,639)**	–	–
Loss on reacquisition of long-term debt	–	14,523,978	–
Operating income before working capital changes	**5,149,853,178**	4,063,407,766	3,634,974,644
Decrease (increase) in:			
Receivables	**(318,739,043)**	(1,109,168,022)	(523,200,563)
Inventories	**(507,623,996)**	316,204,821	(347,523,096)
Other current assets	**(487,764,768)**	18,944,885	(14,861,094)
Increase (decrease) in:			
Accounts payable and other accrued liabilities	**(98,562,349)**	794,525,773	1,444,756
Trust receipts and acceptances payable	**(275,867,725)**	(567,908,862)	7,379,377
Cash generated from operations	**3,461,295,297**	3,516,006,361	2,758,214,024
Interest paid	**(1,688,635,192)**	(2,375,737,859)	(1,906,301,983)
Interest received	**1,617,886,531**	2,473,385,348	1,702,810,195
Income taxes paid	**(320,674,234)**	(237,980,553)	(179,372,435)
Net cash provided by operating activities	**3,069,872,402**	3,375,673,297	2,375,349,801

(Forward)

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended September 30		
	2007	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	**(₱3,875,562,972)**	(₱5,830,795,216)	(₱3,646,648,409)
Proceeds from sale of:			
Investment in an associate (Note 14)	**4,750,661,204**	–	–
Property and equipment	**43,239,562**	328,575,448	386,401,162
Net disposal (acquisition) of financial assets at fair value through profit or loss	**1,631,288,512**	5,305,631,278	(9,195,370,783)
Acquisition of subsidiaries, net of cash acquired (Note 34)	**(94,841,444)**	–	–
Decrease (increase) in:			
Other noncurrent assets	**(228,425,680)**	(495,814,416)	(107,165,549)
Net pension assets	**143,812,100**	(66,235,600)	40,908,700
Biological assets	**43,249,916**	180,609,264	(210,165,177)
Investments in an associate and a joint venture	–	316,584,062	78,021,541
Dividends received (Note 14)	–	171,391,485	114,619,657
Proceeds from sale of financial assets at fair value through profit or loss	–	194,870,469	–
Net cash provided by (used in) investing activities	**2,413,421,198**	104,816,774	(12,539,398,858)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of:			
Long-term debt	**(5,178,787,070)**	(3,596,331,326)	(498,757,403)
Short-term debt	**(35,000,000)**	(423,512,167)	(1,249,733,248)
Proceeds from:			
Long-term debt	–	–	11,132,000,000
Short-term debt	**316,963,276**	2,230,655,543	–
Cash dividends paid (Note 20)	**(1,510,858,976)**	(1,198,781,397)	(505,943,862)
Decrease in minority interests	–	(89,509,553)	(20,491,549)
Proceeds from issuance of common shares of stock	–	4,646,560,880	–
Net cash provided by (used in) financing activities	**(6,407,682,770)**	1,569,081,980	8,857,073,938
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(924,389,170)**	5,049,572,051	(1,306,975,119)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**5,979,875,395**	930,303,344	2,237,278,463
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱5,055,486,225**	₱5,979,875,395	₱930,303,344

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

Universal Robina Corporation (hereinafter referred to as "the Parent Company" or "URC") is incorporated in the Republic of the Philippines. The registered office address of the Parent Company is 110 E. Rodriguez Avenue, Bagumbayan, Quezon City, Philippines.

The Parent Company is a majority owned subsidiary of JG Summit Holdings, Inc. ("the ultimate parent" or "JGSHI").

The Parent Company and its subsidiaries (hereinafter referred to as "the Group") is one of the largest branded food products companies in the Philippines and has a growing presence in other markets in Asia. The Group is involved in a wide range of food-related businesses which are organized into three (3) business segments: (a) the branded consumer food segment which manufactures and distributes a diverse mix of salty snacks, chocolates, candies, biscuits, bakery products, beverages, noodles and tomato-based products; (b) the agro-industrial segment which engages in hog and poultry farming, production and distribution of animal health products and manufacture and distribution of animal feeds, glucose and soya bean products; and (c) the commodity foods segment which engages in sugar milling and refining, flour milling and manufacture and marketing of pasta. The Parent Company also engages in consumer product-related packaging business through its packaging division which manufactures bi-axially oriented polypropylene (BOPP) film and through its subsidiary, CFC Clubhouse Property, Inc., which manufactures polyethylene terephthalate (PET) bottles and printed flexible packaging materials. The Parent Company's packaging division is included in the branded consumer food segment.

The operations of certain consolidated subsidiaries are registered with the Board of Investments (BOI) as preferred pioneer and nonpioneer activities. Under the terms of the registrations and subject to certain requirements, the Parent Company and certain subsidiaries are entitled to certain fiscal and non-fiscal incentives, including among others, an income tax holiday (ITH) for a period of four (4) years to six (6) years from respective start dates of commercial operations (see Note 32). The Group is also subject to certain regulations with respect to, among others, product composition, packaging, labeling, advertising and safety.

The principal activities of the Group are further described in Note 5 to the consolidated financial statements.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and certain derivative financial instruments that have been measured at fair value, and biological assets and agricultural produce that have been measured at fair value less estimated point-of-sale costs.

The consolidated financial statements of the Group are presented in Philippine Peso. The functional and presentation currency of the Parent Company and its Philippine subsidiaries (except certain consolidated foreign subsidiaries), is the Philippine Peso (see further discussion under Foreign Currency Translation/Transactions).

Statement of Compliance
The financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The consolidated financial statements include the financial statements of the Parent Company and the following wholly and majority owned subsidiaries:

Subsidiaries	Country of Incorporation	Effective Percentage of Ownership		
		2007	2006	2005
CFC Clubhouse, Incorporated	Philippines	**100.00**	100.00	100.00
CFC Clubhouse Property, Inc.	- do -	**100.00**	100.00	100.00
URC Confectionary Corporation	- do -	**100.00**	100.00	100.00
CFC Corporation	- do -	**100.00**	100.00	100.00
Universal Robina Sugar Milling Corporation (URSUMCO)	- do -	**100.00**	100.00	100.00
South Luzon Greenland, Inc. (Note 34)	- do -	**100.00**	–	–
Southern Negros Development Corporation (SONEDCO)	- do -	**94.00**	94.00	94.00
Nissin - URC	- do -	**65.00**	65.00	65.00
URC Philippines, Limited (URCPL)	British Virgin Islands	**100.00**	100.00	100.00
URC Asean Brands Co., Ltd.	- do -	**77.00**	77.00	77.00
Hong Kong China Foods Co., Ltd.	- do -	**77.00**	77.00	77.00
URC International Co. Ltd. (URCICL)	- do -	**77.00**	77.00	77.00
Universal Robina (Cayman), Ltd. (URCL)	Cayman Islands	**100.00**	100.00	100.00
Shanghai Peggy Foods Co., Ltd.	China	**100.00**	100.00	100.00
Tianjin Pacific Foods Manufacturing Co., Ltd.	- do -	**100.00**	100.00	100.00
URC China Commercial Co. Ltd.	- do -	**100.00**	100.00	100.00
Xiamen Tongan Pacific Food Co., Ltd.	- do -	**100.00**	100.00	100.00
Panyu Peggy Foods Co., Ltd.	- do -	**90.00**	90.00	90.00
URC Hong Kong	Hong Kong	**100.00**	100.00	100.00
PT URC Indonesia	Indonesia	**100.00**	100.00	100.00
Ricellent Sdn. Bhd.	Malaysia	**54.03**	54.03	54.03
URC Snack Foods (Malaysia) Sdn. Bhd. (formerly Pacific World Sdn. Bhd.)	- do -	**91.52**	91.52	91.52
URC Foods (Singapore) Pte. Ltd. (formerly Pan Pacific Snacks Pte. Ltd.)	Singapore	**100.00**	100.00	100.00
Acesfood Network Pte. Ltd. (Note 34)	- do -	**96.08**	–	–
URC (Thailand) Co., Ltd. (formerly Thai Peggy Foods Co. Ltd.)	Thailand	**100.00**	100.00	100.00
URC Vietnam Co., Ltd.	Vietnam	**100.00**	100.00	100.00

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany transactions and balances, including intercompany profits and unrealized profits and losses, are eliminated in the consolidation.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest.

Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognized in the consolidated statement of income on the date of acquisition.

Minority interests represent the portion of income or loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from the parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial years, except as follows:

Amendments to PFRS and Philippine Interpretations effective in 2006

The Group has adopted the following amendments to PFRS and Philippine Interpretations during the year. Adoption of these amendments to PFRS and Philippine Interpretations did not have any effect on the financial statements of the Group. They did, however, give rise to additional disclosures.

- Amendments to Philippine Accounting Standards (PAS) 19, *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures*

  As of October 1, 2006, the Group adopted the amendments to PAS 19 which introduce an additional option for recognition of actuarial gains and losses in post-employment defined benefit plans. The amendments permit an entity to recognize actuarial gains and losses in the period in which they occur outside of the consolidated statement of income. The amendments also require additional disclosures on the financial statements 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 Group chose not to apply the new option offered to recognize actuarial gains and losses outside of the consolidated statement of income. Additional disclosures required by the amendments were included in the consolidated financial statements, where applicable (see Note 28).

- Amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*

  As of October 1, 2006, the Group adopted the amendments to PAS 21 which state that all exchange differences arising from a nonmonetary item that form part of an entity's net investment in foreign operations must be recognized in a separate component of equity in the consolidated financial statements, regardless of the currency in which the monetary item is denominated. This amendment did not have any effect on the consolidated financial statements of the Group.

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement*

  As of October 1, 2006, the Group adopted the following amendments to PAS 39:

  (a) *Amendment for financial guarantee contracts.* This 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 any effect on the consolidated financial statements of the Group.

  (b) *Amendment for cash flow hedge accounting of forecast intragroup transactions.* This amended the scope of PAS 39 to permit the foreign currency risk of a highly probable intragroup 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 consolidated statement of income. As the Group currently has no such transactions, this amendment did not have any effect on the consolidated financial statements of the Group.

  (c) *Amendment for the fair value option.* This amended the scope of PAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit or loss. This amendment did not have any significant effect on the consolidated financial statements of the Group.

- Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*

  This Philippine Interpretation provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. The adoption of this Philippine Interpretation did not have any effect on the consolidated financial statements of the Group.

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*

  This Philippine 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 adoption of this Philippine Interpretation did not have any effect on the consolidated financial statements of the Group.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*

  This Philippine Interpretation becomes effective for financial years beginning on or after June 1, 2006. It 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 adoption of this Philippine Interpretation did not have any effect on the consolidated financial statements of the Group.

Significant Accounting Policies

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods
Revenue from sale of goods is recognized upon delivery, when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, excluding any trade discounts, prompt payment discounts and volume rebates.

Rendering of services
Revenue derived from tolling activities, whereby raw sugar from traders and planters is converted into refined sugar, is recognized as revenue when the related services have been rendered.

Dividend income
Dividend income is recognized when the shareholder's right to receive the payment is established.

Rent income
Rent income arising on investment properties is accounted for on a straight-line basis over the lease term on on-going leases.

Interest income
Interest is recognized as it accrues (based on the effective interest rate method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

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 (3) months or less and that are subject to an insignificant risk of changes in value.

Recognition of Financial Instruments

Date of recognition
Financial instruments are recognized in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivatives are recognized on trade date basis.

Initial recognition of financial instruments
Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial instruments valued at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments, and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of fair value
The fair value for financial instruments traded in active markets at consolidated 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 ask 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 or loss
Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 profit or loss) in the consolidated statement of income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the Day 1 profit or loss amount.

Financial assets and financial liabilities at FVPL
Financial assets and financial liabilities classified in this category are designated by management on initial recognition when any of the following criteria are met:

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

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their 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.

Financial assets and financial liabilities at FVPL are recorded in the consolidated balance sheet at fair value. Changes in fair value are reflected in the consolidated statement of income. Interest earned or incurred is recorded in 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 the payment has been established.

The Group's financial assets designated as FVPL consist of private bonds, government securities and equity securities (see Note 7).

Derivatives recorded at FVPL
The Parent Company is counterparty to certain derivative contracts, such as currency forwards. These derivatives are entered into as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified primarily as either: (a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge). In 2007, 2006 and 2005, the Group did not apply hedge accounting treatment for its derivative transactions.

The fair values of the Group's derivative instruments are calculated by using certain standard valuation methodologies and quotes obtained from third parties.

HTM investments
HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement,

these investments are subsequently measured at amortized cost using the effective interest rate method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the consolidated statement of income. The effects of restatement of foreign currency-denominated HTM investments are recognized in the consolidated statement of income.

As of September 30, 2007 and 2006, the Group had no HTM investments.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale, and are not classified as other financial assets held for trading, designated as AFS investments or financial assets designated at FVPL.

This accounting policy applies primarily to the Group's trade and other receivables (see Note 8).

After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. The amortization is included under interest income account in the consolidated statement of income. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

AFS investments
AFS investments are those nonderivative investments which are designated as such or do not qualify to be classified as designated financial assets or financial liabilities at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the consolidated statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported earnings and are reported under the Equity section of the consolidated balance sheet, if any.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income. Interest earned on holding AFS investments are reported as interest income using the effective interest rate. Where the Group holds more than one investment in the same security these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS investments are reported as interest income using the effective interest rate. Dividends earned on holding AFS investments are recognized in the consolidated statement of income, when the right to receive payment has been established. The losses arising from impairment of such investments are recognized in the consolidated statement of income.

As of September 30, 2007 and 2006, the Group had no AFS investments.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

This accounting policy applies primarily to the Group's short-term and long-term debt, accounts payable and other accrued liabilities and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and pension liabilities).

<u>Impairment of Financial Assets</u>
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of

impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

- Assets carried at amortized cost

  If there is objective evidence that an impairment loss on financial assets carried at amortized cost (i.e. receivables) 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 asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The loss is recognized in the consolidated statement of income.

  The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

- AFS investments 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 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. The carrying amount of the asset is reduced through the use of an allowance account.

<u>Derecognition of Financial Instruments</u>

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

- the rights to receive cash flows from the asset have expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of ownership and retained control of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are

substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

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

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

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

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet 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; thus, the related assets and liabilities are presented gross in the consolidated balance sheet.

Inventories
Inventories, including goods-in-process, are valued at the lower of cost or net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Finished goods, work-in-process, raw materials, containers and packaging materials
Cost is determined using the average method; finished goods and work-in-process include direct materials and labor, and a proportion of manufacturing overhead costs based on actual goods processed and produced.

Spare parts and supplies
Cost is determined using the average method.

Materials in-transit
Cost is determined using the specific identification method.

Property, Plant and Equipment
Property, plant and equipment, except land, are carried at cost less accumulated depreciation and amortization and impairment losses, if any. Cost of an item of property, plant and equipment comprises of its purchase price and any cost attributable in bringing the asset to its intended location and working condition. Cost also includes: (a) interest and other financing charges on borrowed funds used to finance the acquisition of property, plant and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligation relating to property, plant and equipment installed/constructed on leased properties, if any.

Land is stated at cost less any impairment in value.

Subsequent costs are capitalized as part of the Property, Plant and Equipment account, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Foreign exchange differentials arising from the acquisition of property, plant and equipment are charged against current operations and are no longer capitalized.

Construction in-progress are transferred to the related Property, Plant and Equipment account when the construction or installation and related activities necessary to prepare the property, plant and equipment for their intended use are completed, and the property, plant and equipment are ready for service.
Depreciation and amortization of property, plant and equipment commence, once the property, plant and equipment are available for use and are computed using the straight-line method over the estimated useful lives (EUL) of the assets regardless of utilization.

Major spare parts and stand-by equipment items that the Group expects to use over more than one (1) period and can be used only in connection with an item of property, plant and equipment are accounted for as property, plant and equipment. Depreciation and amortization on these major spare parts and stand-by equipment commence once these have become available for use (i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Group).

The EUL of property, plant and equipment of the Group follow:

Land improvements	20 years
Buildings and improvements	10 to 30 years
Machinery and equipment	10 years
Transportation equipment	5 years
Furniture, fixtures and equipment	5 years

Leasehold improvements are amortized over the shorter of their EUL or the corresponding lease terms.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 item) is included in the consolidated statement of income, in the year the item is derecognized.

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

<u>Biological Assets</u>
The biological assets of the Group are divided into two (2) major categories with sub-categories as follows:

Swine livestock	- Breeders (livestock bearer) - Sucklings (breeders' offspring) - Weanlings (comes from sucklings intended to be breeders or to be sold as fatteners) - Fatteners/finishers (comes from weanlings unfit to become breeders; intended for the production of meat)
Poultry livestock	- Breeders (livestock bearer) - Chicks (breeders' offspring intended to be sold as breeders)

A biological asset shall be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs, except for a biological asset where fair value is not clearly determinable. Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less estimated point-of-sale costs.

The Group is unable to measure fair values reliably for its poultry livestock breeders in the absence of: (a) an available market determined prices or values; and (b) alternative estimates of fair values that are determined to be clearly reliable; thus, these biological assets are measured at cost less accumulated depreciation and any accumulated impairment losses. However, once the fair values become reliably measurable, the Group measures these biological assets at their fair values less estimated point-of-sale costs.

Agricultural produce is the harvested product of the Group's biological asset. A harvest occurs when agricultural produce is either detached from the bearer biological asset or when the asset's life processes of the agricultural produce ceases. A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale cost shall be included in the consolidated statement of income in the period in which it arises. The agricultural produce in swine livestock is the suckling that transforms into weanling then into fatteners/finishers, while the agricultural produce in poultry livestock is the hatched chick.

Biological assets at cost
The cost of an item of biological asset comprises its purchase price and any costs attributable in bringing the biological asset to its location and conditions intended by management.

Depreciation is computed using the straight-line method over the EUL of the biological assets, regardless of utilization. The EUL of biological assets is reviewed annually based on expected utilization as anchored on business plans and strategies that considers market behavior to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items of biological assets. The EUL of biological assets ranges from two (2) to three (3) years.

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

Biological assets carried at fair values less estimated point-of-sale costs
Swine weanlings and fatteners/finishers are measured at their fair values less point-of-sale costs. The fair values are determined based on current market prices of livestock of similar age, breed and genetic merit. Point-of-sale costs include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get the biological assets to the market.

A gain or loss on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset shall be included in the consolidated statement of income in the period in which it arises.

<u>Goodwill</u>
Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of the investee at the date of acquisition which is not identifiable to specific assets. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently, if events of changes in circumstances indicate that the carrying value may be impaired (see further discussion under Impairment of Nonfinancial Assets).

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the costs of the business combination, the acquirer shall recognize immediately in the consolidated statement of income any excess remaining after reassessment.

<u>Investments in an Associate and a Joint Venture</u>
The Group's 19% investment in Robinsons Land Corporation (RLC), an associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. In 2007, the Group sold its investment in RLC (see Note 14).

The Group also has a 50% interest in Hunt-Universal Robina Corporation (HURC), a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two (2) or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Under the equity method, the investments in an associate and a joint venture are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate and joint venture. The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the investees' equity, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses arising from transactions between the Group and the associate are eliminated to the extent of the interest in the associate and joint venture.

The investee companies' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

<u>Investment Properties</u>
Investment properties consist of properties that are held to earn rentals or for capital appreciation or both, and those which are not occupied by entities in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and any impairment in value. Land is carried at cost less 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 cost of day-to-day servicing of an investment property.

The Group's investment properties are depreciated using the straight-line method over their EUL as follows:

Land improvements	10 years
Buildings and building improvements	10 to 30 years

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 consolidated statement of income in the year of retirement or disposal.

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

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

Intangible Assets

Intangible assets represent the Group's acquired trademarks. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment losses, if any. The useful lives of intangible assets with finite life are assessed at the individual asset level. Intangible assets with finite life are amortized over their useful life. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

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

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite useful 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.

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the consolidated statement of income when the asset is derecognized.

A summary of the policies applied to the Group's intangible assets follow:

	Trademarks acquired from:	
	Nestlé Waters Philippines, Inc. (Note 34)	Acesfood Network Pte. Ltd. (Note 34)
Useful lives	Finite (4 years)	Indefinite
Amortization method used	Straight-line amortization	No amortization
Internally generated or acquired	Acquired	Acquired

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs to sell and 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 groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) 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 (or cash generating unit).

Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired nonfinancial asset.

For assets excluding goodwill, 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 consolidated statement of income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

The following criteria are also applied in assessing impairment of specific assets:

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

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

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

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

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

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually as of year-end either individually or at the cash-generating level, as appropriate.

Investment in an associate and a joint venture
After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss of the Group's investments in its associate and joint venture. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognizes the amount in the consolidated statement of income.

<u>Short-term and Long-term Debt</u>
All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable debt issuance costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized or impaired, as well as through the amortization process.

Debt Issuance Costs
Debt issuance costs are amortized using the effective interest method and unamortized debt issuance costs are offset against the related carrying value of the loan in the consolidated balance sheet. When a loan is paid, the related unamortized debt issuance costs at the date of repayment are charged against current operations (see accounting policy on Financial Instruments).

Provisions
Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each consolidated balance sheet date and adjusted to reflect the current best estimate. 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 in the consolidated statement of income. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Pension Costs
Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses and the effect of any curtailments or settlements.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. The excess actuarial gains or losses are recognized over the average remaining working lives of the employees participating in the plan.

The asset or liability recognized in the consolidated balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation as of consolidated balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of the any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash inflows using risk-free interest rates that have terms to maturity approximating the terms of the related pension liability.

Income 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 substantially enacted at the balance sheet date.

Deferred income tax
Deferred income tax is provided using the balance sheet liability method on all temporary differences, with certain exceptions, at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred income tax assets are recognized for all deductible temporary differences with certain exceptions, and carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized.

Deferred income tax assets are not recognized when they arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable income or loss. Deferred income tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures. With respect to investments in foreign subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amounts of deferred income tax assets are 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 income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each consolidated balance sheet date, and are recognized to the extent that it has become probable that future taxable income will allow the deferred income tax asset to be recognized.

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of balance sheet date.

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

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

Leases
The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, 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. A reassessment is made 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 an extension granted, unless that 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 shall commence or cease from the date when the change in circumstances gave rise to the reassessment for any of the scenarios above, and at the date of renewal or extension period for the second scenario.

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

Group as a lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Borrowing Costs
Borrowing costs are generally expensed as incurred. Interest and other finance costs incurred during the construction period on borrowings used to finance property development are capitalized to the appropriate asset accounts. Capitalization of borrowing costs commences when the activities to prepare the asset are in-progress and expenditures and borrowing costs are being incurred. The capitalization of these borrowing costs ceases when substantially all the activities necessary to prepare the asset for sale or its intended use are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on the applicable weighted average borrowing rate.

Interest expense on loans is recognized using the effective interest rate method over the term of the loans.

Foreign Currency Translation/Transactions
The functional and presentation currency of the Parent Company and its Philippine subsidiaries (except certain consolidated foreign subsidiaries), is the Philippine Peso. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognized in the consolidated statement of income. Tax charges and credits attributable to exchange differences on those

borrowings are also dealt with in equity. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of the Group's consolidated foreign subsidiaries follow:

Subsidiaries	Country of Incorporation	Functional Currency
Universal Robina (Cayman), Ltd.	Cayman Islands	US Dollar
URC Philippines, Limited	British Virgin Islands	US Dollar
URC International Co. Ltd.	- do -	US Dollar
Hong Kong China Foods Co. Ltd.	- do -	US Dollar
URC Asean Brands Co. Ltd.	- do -	US Dollar
URC Hong Kong Company Limited (formerly Hong Kong Peggy Snacks Foods Co., Limited)	Hong Kong	HK Dollar
Tianjin Pacific Foods Manufacturing Co., Ltd.	China	Chinese Yuan
Shanghai Peggy Foods Co., Ltd.	- do -	Chinese Yuan
Xiamen Tongan Pacific Food Co., Ltd.	- do -	Chinese Yuan
URC Foods (Singapore) Pte. Ltd. (formerly Pan Pacific Snacks Pte. Ltd.)	Singapore	Singapore Dollar
URC (Thailand) Co., Ltd. (formerly Thai Peggy Foods Co. Ltd.)	Thailand	Thai Baht
Panyu Peggy Foods Co., Ltd.	China	Chinese Yuan
URC China Commercial Co. Ltd.	- do -	Chinese Yuan
URC Snack Foods (Malaysia) Sdn. Bhd. (formerly Pacific World Sdn. Bhd.)	Malaysia	Malaysian Ringgit
Ricellent Sdn. Bhd.	- do -	Malaysian Ringgit
PT URC Indonesia	Indonesia	Indonesian Rupiah
URC Vietnam Co., Ltd.	Vietnam	Vietnam Dong
Acesfood Network Pte. Ltd.	Singapore	Singapore Dollar

As of the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and their consolidated statement of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation shall be recognized in the consolidated statement of income.

Earnings Per Share (EPS)

Basic EPS is computed by dividing net income applicable to common stock (net income less dividends on preferred stock) by the weighted average number of common shares issued and outstanding during the year, adjusted for any subsequent stock dividends declared.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Segment Reporting

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

Contingencies

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

Subsequent Events
Any post-year-end event up to the date of approval of the Board of Directors (BOD) of the consolidated financial statements that provides additional information about the Group's position at balance sheet date (adjusting event) is reflected in the consolidated financial statements. Any post-year-end event that is not an adjusting event is disclosed in the notes to the consolidated financial statements, when material.

Future Changes in Accounting Policies
The Group has not applied the following PFRS, amendment to PAS and Philippine Interpretations which are not yet effective for the year ended September 30, 2007:

- PFRS 7, *Financial Instruments: Disclosures*, and the complementary amendment to PAS 1, *Presentation of Financial Statements: Capital Disclosures* (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 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 disclosures about the level of an entity's capital and how it manages capital. The Group is currently assessing the impact of PFRS 7 and the amendment to PAS 1, and expects that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by PFRS 7 and the amendment to PAS 1. The Group will apply PFRS 7 and the amendment to PAS 1 in its 2008 consolidated financial statements.

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

  PFRS 8 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 consolidated balance sheet and consolidated statement of income and companies will need to provide explanations and reconciliations of the differences. PFRS 8 will replace PAS 14, *Segment Reporting.* The Group will assess the impact of the standard on its current manner of reporting segment information.

- Amendment to PAS 1, *Amendment on Statement of Comprehensive Income*

  In accordance with the amendment to PAS 1, the statement of changes in equity shall include only transactions with owners, while all non-owner changes will be presented in equity as a single line with details included in a separate statement. Owners are defined as holders of instruments classified as equity.

  The amendment to PAS 1 also provides for the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in the statement of income together with 'other comprehensive income'. The revisions specify what is included in other comprehensive income, such as gains and losses on available-for-sale assets, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can choose to present all items in one (1) statement, or to present two (2) linked statements, a separate statement of income and a statement of comprehensive income. The Group will assess and evaluate the options available under the amendment to PAS 1, and will comply with such changes once effective.

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

  Amendment to PAS 23 requires the 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 of the standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after November 1, 2006)

  This Philippine Interpretation prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. This Philippine Interpretation will not have any effect on the Group's consolidated financial statements.

- Philippine Interpretation IFRIC 11, PFRS 2 - *Group and Treasury Share Transactions* (effective for annual periods beginning on or after March 1, 2007)

  This Philippine Interpretation 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. This Philippine Interpretation will not have any effect on the Group's consolidated financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, (effective for annual periods beginning on or after January 1, 2008)

  This Philippine Interpretation covers contractual arrangements arising from private entities providing public services and is not relevant to the Group's current operations.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after July 1, 2008)

  This Philippine Interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received and is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this Philippine Interpretation will have no impact on the Group's consolidated financial statements, as no such scheme currently exists.

- Philippine Interpretation IFRIC 14, PAS 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after January 1, 2008)

  This Philippine 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 Group will assess the impact of adoption when it applies Philippine Interpretation IFRIC 14 in 2008.

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3. **Significant Accounting Estimates and Judgments**

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Group'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 consolidated financial statements:

Financial assets and financial liabilities

The Group carries certain financial assets and financial liabilities (i.e. financial assets at FVPL, derivative assets and derivative liabilities) at fair value which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group utilized different valuation methodologies (see Notes 4, 7, 10 and 17). Any changes in fair value of these financial assets and financial liabilities would affect profit and loss and equity.

The fair values of the Groups's financial assets and financial liabilities which require use of accounting estimates and judgments follow:

	2007	2006
Financial assets at FVPL (Note 7)	**₱16,536,713,409**	₱17,889,646,288
Derivative assets (included under Other Current Assets account in the consolidated balance sheets) (Note 10)	**155,375**	3,200,097
Derivative liabilities (included under Accounts Payable and Other Accrued Liabilities account in the consolidated balance sheets) (Note 17)	**(7,266,667)**	(12,491,028)

Distinction between investment properties and owner-occupied properties
The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Operating lease commitments - Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out on operating leases.

As of September 30, 2007 and 2006, the carrying value of the Group's investment properties amounted to ₱82.6 million and ₱86.2 million, respectively (see Note 15).

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 33).

Estimates
The key assumptions concerning the future and other 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.

Impairment of trade receivables
The Group maintains allowances for impairment losses on trade receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the management on the basis of factors that affect the collectibility of the accounts.

These factors include, but are not limited to, the length of relationship with the customer, the customer's payment behavior and known market factors. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis. The Group provides full allowance for trade receivables that it deems uncollectible. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in the allowance for impairment losses on trade receivables would increase recorded operating expenses and decrease current assets.

Provisions for impairment loss on trade receivables amounted to ₱141.2 million, ₱43.3 million and ₱223.5 million in 2007, 2006 and 2005, respectively. Total receivables, net of allowance for impairment loss, amounted to ₱5.2 billion and ₱5.1 billion as of September 30, 2007 and 2006, respectively (see Note 8).

EUL of property, plant and equipment and investment properties
The Group estimated the useful lives of its property, plant and equipment and investment properties based on the period over which the assets are expected to be available for use. The EUL of property, plant and equipment and investment properties are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned above. A reduction in the EUL of property, plant and equipment and investment properties would increase depreciation expense and decrease noncurrent assets.

As of September 30, 2007 and 2006, the balances of the Group's property, plant and equipment and investment properties follow:

	2007	2006
Property, plant and equipment - net (Note 11)	**₱22,266,666,365**	₱20,563,902,523
Investment properties - net (Note 15)	**82,601,829**	86,200,074

Fair values less estimated point-of-sale costs of biological assets
The fair values are determined based on current market prices of livestock of similar age, breed and genetic merit. Point-of-sale costs include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get the biological assets to the market. The fair values are reviewed and updated if expectations differ from previous estimates due to changes brought by both physical change and price changes in the market. It is possible that future results of operations could be materially affected by changes in these estimates brought about by the changes in factors mentioned.

Biological assets carried at fair values less estimated point-of-sale costs amounted to ₱966.2 million and ₱765.4 million as of September 30, 2007 and 2006, respectively (see Note 12).

Impairment of nonfinancial assets
The Group assesses the impairment of assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

As of September 30, 2007 and 2006, the balances of the Group's nonfinancial assets, net of accumulated depreciation and amortization and impairment loss follow:

	2007	2006
Property, plant and equipment - net (Note 11)	**₱22,266,666,365**	₱20,563,902,523
Goodwill - net (Note 13)	**844,548,190**	844,548,190
Investments in an associate and a joint venture (Note 14)	**89,872,575**	1,958,480,986
Investment properties - net (Note 15)	**82,601,829**	86,200,074
Intangibles (included under Other Noncurrent		
Assets account in the consolidated balance sheets (Note 16)	**200,140,763**	190,223,400

Deferred income tax assets
The Group reviews the carrying amounts of deferred income taxes at each consolidated balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of deferred income tax assets to be utilized.

Net deferred income tax liabilities amounted to ₱451.6 million and ₱295.0 million as of September 30, 2007 and 2006, respectively (see Note 29).

Pension and other retirement benefits
The determination of the obligation and cost of retirement and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rates (see Note 28). Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

The Group also estimates other employee benefits obligation and expense, including the cost of paid leaves based on historical leave availments of employees, subject to the Group's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

As of September 30, 2007 and 2006, the balances of the Group's net pension assets, actuarial loss and other employee benefits follow:

	2007	2006
Net pension assets (Note 28)	**₱92,534,300**	₱236,346,400
Actuarial loss - net (Note 28)	**74,340,000**	92,966,509
Other employee benefits (Note 25)	**527,715,556**	500,440,853

4. **Financial Instruments**

Financial Risk Management Objectives and Policies
The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents and interest-bearing loans and borrowings. The main purpose of these financial instruments is to raise financing for its operations and capital expenditures. The Group has various other financial assets and liabilities, such as receivables and payables which arise directly from its operations.

The main risks arising from the use of financial instruments are foreign exchange risk, credit risk, liquidity risk, price risk on biological assets and interest rate risk. The Group's BOD reviews and approves policies for managing each of these risks and they are summarized below.

Foreign exchange risk
Foreign exchange risk arises on financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured.

The Group has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the functional currency of the Parent Company and its consolidated subsidiaries. As of September 30, 2007 and 2006, approximately 19.1% and 22.1% of the Group's total sales are denominated in currencies other than the functional currency. In addition, the US Dollar-denominated debt of the Group approximated at 76.93% and 80.20% of the total debt as of September 30, 2007 and 2006, respectively.

The Group does not have any foreign currency hedging arrangements.

Information on the Group's foreign currency-denominated monetary assets and liabilities in their Philippine Peso equivalents follows:

2007

	US Dollar	Other Currencies*	Total
Assets			
Cash and cash equivalents	**₱258,785,093**	**₱2,120,737,406**	**₱2,379,522,499**
Financial assets at FVPL	**15,103,614,332**	**–**	**15,103,614,332**
Receivables - net	**856,739,032**	**405,148,763**	**1,261,887,795**
Other current assets	**186,685,868**	**–**	**186,685,868**
	16,405,824,325	**2,525,886,169**	**18,931,710,494**
Liabilities			
Short-term debt	**3,128,952,820**	**1,179,428,247**	**4,308,381,067**
Accounts payable and other accrued liabilities	**729,782,726**	**285,994,361**	**1,015,777,087**
Trust receipts and acceptances payable	**385,279,591**	**–**	**385,279,591**
Long-term debt (including current portion)	**13,970,910,281**	**114,462,319**	**14,085,372,600**
	18,214,925,418	**1,579,884,927**	**19,794,810,345**
Net Foreign Currency-Denominated Assets (Liabilities)	**(₱1,809,101,093)**	**₱946,001,242**	**(₱863,099,851)**

**Other currencies include Singapore Dollar, Thai Baht, Chinese Yuan, Malaysian Ringgit, Indonesian Rupiah, and Vietnam Dong*

2006

	US Dollar	Other Currencies*	Total
Assets			
Cash and cash equivalents	₱750,428,671	₱4,527,408,537	₱5,277,837,208
Financial assets at FVPL	17,221,545,515	–	17,221,545,515
Receivables - net	1,197,835,440	465,484,608	1,663,320,048
Other current assets	69,625,303	3,200,097	72,825,400
	19,239,434,929	4,996,093,242	24,235,528,171
Liabilities			
Short-term debt	3,324,589,449	666,828,342	3,991,417,791
Accounts payable and other accrued liabilities	590,778,297	383,687,516	974,465,813
Trust receipts and acceptances payable	661,147,316	–	661,147,316
Long-term debt (including current portion)	18,252,449,271	229,849,990	18,482,299,261
	22,828,964,333	1,280,365,848	24,109,330,181
Net Foreign Currency-Denominated Assets (Liabilities)	(₱3,589,529,404)	₱3,715,727,394	₱126,197,990

**Other currencies include Singapore Dollar, Thai Baht, Chinese Yuan, Malaysian Ringgit, Indonesian Rupiah, and Vietnam Dong*

Credit risk
The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Credit and Collection Department of the Group continuously provides credit notification and implements various credit actions, depending on assessed risks, to minimize credit exposure. Receivable balances of trade customers are being monitored on a regular basis and appropriate credit treatments are executed for overdue accounts. Likewise, other receivable balances are also being monitored and subjected to appropriate actions to manage credit risk.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, financial assets at FVPL and certain derivative investments, the Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments. The Group has a counterparty credit risk management policy which allocates investment limits based on counterparty credit ratings and credit risk profile.

The credit risk is concentrated to the following customers:

Type of Customers	Percentage
Related parties	20.0%
Unrelated parties:	
Supermarkets and convenience stores	41.4
Distribution companies	38.6
	80.0
Total	100.0%

Liquidity risk
Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they come due without recurring unacceptable losses or costs.

The Group's liquidity management involves maintaining funding capacity to finance capital expenditures and service maturing debts, and to accommodate any fluctuations in asset and liability levels due to changes in the Group's business operations or unanticipated events created by customer behavior or capital market conditions. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities. Fund raising activities may include obtaining bank loans and capital market issues both onshore and offshore.

Price risk on biological assets
The Group is exposed to risks arising from changes in prices of livestock and meat products. The Group does not anticipate that livestock and meat products will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in market prices. The Group reviews its outlook for market prices regularly in considering the need for active financial risk management.

Interest rate risk
Interest rate risk arises on interest-bearing financial instruments recognized in the consolidated balance sheets and on some financial instruments not recognized in the consolidated balance sheets (i.e. certain loan commitments, if any).

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's short-term and long-term debt obligations. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group's policy has been revised to target a ratio of 99.42% fixed rate debt for US Dollar-denominated debts.

As of September 30, 2007 and 2006, 98.84% and 98.33% of the Group's borrowings are at a fixed rate of interest, respectively.

The following tables show information about the Group's financial instruments that are exposed to interest rate risk and presented by maturity profile:

2007

	<1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total (In Euro)	Total (In US Dollar)	Total (in Philippine Peso)	Debt Issuance Costs	Carrying Value (in Philippine Peso)	Fair Value
Liabilities:												
Foreign currencies:												
Floating rate												
Euro loans	€1,797,498	€–	€–	€–	€–	€–	€1,797,498	US$–	₱–	(₱2,499,103)	₱114,462,322	₱114,462,319
Interest rate	EURIBOR/ USD LIBOR + 0.75%	–	–	–	–	–						
US Dollar loans	US$–	US$2,211,856	US$–	US$–	US$–	US$–	–	2,211,856	–	–	99,622,015	103,290,631
Interest rate	–	USD LIBOR + 0.75%	–	–	–	–						
Fixed rate												
US Dollar loans	US$187,048,008	US$	US$–	US$–	US$200,000,000	US$–	–	387,048,008	–	(51,545,838)	17,385,520,677	20,354,409,384
Interest rate	4.30% to 9.00%	–	–	–	8.25%	–						
Euro loans	€19,474,897	€–	€–	€–	€–	€–	19,474,897	–	–	–	1,179,428,247	1,179,428,247
Interest rate	4.32% to 5.01%	–	–	–	–	–						
Local currencies:												
Fixed rate												
Philippine Peso loans	₱–	₱–	₱–	₱–	₱–	₱52,353,312	–	–	52,353,312	–	52,353,312	59,593,027
Interest rate	–	–	–	–	–	7.5%						
							€21,272,395	US$389,259,864	₱52,353,312	(₱54,044,941)	₱18,831,386,573	₱21,811,183,608

2006

	<1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total (In Euro)	Total (In US Dollar)	Total (in Philippine Peso)	Debt Issuance Costs	Carrying Value (in Philippine Peso)	Fair Value
Liabilities:												
Foreign currencies:												
Floating rate												
Euro loans	€–	€3,594,995	€–	€–	€–	€–	€3,594,995	US$–	₱–	(₱25,568,805)	₱229,849,990	₱235,015,421
Interest rate	–	EURIBOR/ USD LIBOR + 0.75%	–	–	–	–						
US Dollar loans	US$–	US$–	US$3,981,342	US$–	US$–	US$–	–	3,981,342	–	–	155,480,237	161,447,732
Interest rate	–	–	USD LIBOR + 0.75%	–	–	–						
Fixed rate												
US Dollar loans	US$132,108,333	US$125,000,000	US$–	US$–	US$–	US$200,000,000	–	457,108,333	–	(65,621,098)	22,082,705,799	22,890,203,808
Interest rate	4.37% to 8.375%	5.03% to 9.00%	–	–	–	8.25%						
Euro loans	€10,487,116	€–	€–	€–	€–	€–	10,487,116	–	–	–	666,828,342	666,828,342
Interest rate	2.69% to 3.59%	–	–	–	–	–						
Local currencies:												
Fixed rate												
Philippine Peso loans	₱535,000,000	₱–	₱–	₱–	₱–	₱52,416,293	–	–	587,416,293	–	587,416,293	600,790,971
Interest rate	8.11% and 3 moths MART1 + 1.00% to 2.00%	–	–	–	–	7.5%						
							€14,082,111	US$461,089,675	₱587,416,293	(₱91,189,903)	₱23,722,280,661	₱24,554,286,274

Derivative Financial Instruments

The Group's freestanding and embedded derivative financial instruments are accounted for as financial instruments at FVPL. Gains or losses arising from fair value changes on these derivative instruments are reported immediately in the consolidated statements of income.

The Group's freestanding derivatives that are not designated as hedges consist of:

	2007			2006		
	Currency Forwards	**Currency Options**	**Total**	Currency Forwards	Currency Options	Total
Notional amounts	**US$1,000,000**	**US$200,000**	**US$1,200,000**	US$824,000	US$41,000,000	US$41,824,000
Derivative assets (included under Other Current Assets account in the consolidated balance sheets) (Note 10)	**₱–**	**₱155,375**	**₱155,375**	₱141,090	₱3,059,007	₱3,200,097
Derivative liabilities (included under Accounts Payable and Other Accrued Liabilities account in the consolidated balance sheets) (Note 17)	**₱1,884,564**	**₱5,382,103**	**₱7,266,667**	₱197,074	₱12,293,954	₱12,491,028
Maturity	**Less than a year**	**Less than a year**		Less than a year	Less than a year	

Fair value changes on derivatives

The net movements in fair value changes of all derivative instruments in 2007 and 2006 are as follows:

	2007	2006
Balance at beginning of year:		
Derivative assets (Note 10)	**₱3,200,097**	**₱–**
Derivative liabilities (Note 17)	**(12,491,028)**	–
Net changes in fair value of derivatives	**(2,998,648)**	(12,037,563)
Fair value of settled instruments	**5,178,287**	2,746,632
Balance at end of year:		
Derivative assets (Note 10)	**₱155,375**	₱3,200,097
Derivative liabilities (Note 17)	**(₱7,266,667)**	(₱12,491,028)

Fair Value Measurement

The methods and assumptions used by the Group in estimating the fair value of its financial instruments are:

Cash and cash equivalents, receivables, accounts payable and other accrued liabilities and trust receipts and acceptances payable

Carrying amounts approximate their fair values due to the relatively short-term maturity of these instruments.

Amounts due from and due to related parties

Carrying amounts of due to related parties which are due on demand approximate their fair values.

Derivative financial instruments

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of forward exchange derivatives embedded in nonfinancial contracts is calculated by reference to the prevailing interest differential and spot exchange rate as of valuation date, taking into account the remaining term-to-maturity of the forwards.

Currency options are valued using the simple option pricing model of Bloomberg.

Long-term debt

The fair value is determined using the discounted cash flow methodology, with reference to the Group's current incremental lending rates for similar types of loans.

The following table summarizes the carrying amounts and fair values of the financial assets and financial liabilities by category as of September 30, 2007 and 2006.

	2007		2006	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱5,055,486,225**	**₱5,055,486,225**	₱5,979,875,395	₱5,979,875,395
Receivables	**4,647,749,736**	**4,647,749,736**	4,641,130,961	4,641,130,961
Due from related parties (included under Receivables account in the consolidated balance sheets)	**592,102,151**	**592,102,151**	476,981,668	476,981,668
Total loans and receivables	**10,295,338,112**	**10,295,338,112**	11,097,988,024	11,097,988,024
Financial assets at FVPL:				
Financial assets at FVPL	**16,536,713,409**	**16,536,713,409**	17,889,646,288	17,889,646,288
Derivative assets (included under Other Current Assets account in the consolidated balance sheets)	**155,375**	**155,375**	3,200,097	3,200,097
Total financial assets at FVPL	**16,536,868,784**	**16,536,868,784**	17,892,846,385	17,892,846,385
	₱26,832,206,896	**₱26,832,206,896**	₱28,990,834,409	₱28,990,834,409
Financial Liabilities				
Financial liabilities at amortized cost:				
Accounts payable and other accrued liabilities	**₱3,001,892,711**	**₱3,001,892,711**	₱3,089,199,557	₱3,089,199,557
Due to related parties (included under Accounts Payable and Other Accrued Liabilities account in the consolidated balance sheets)	**115,764,412**	**115,764,412**	270,572,527	270,572,527
Short-term debt	**4,308,381,067**	**4,308,381,067**	4,026,417,791	4,026,417,791
Trust receipts and acceptances payable	**385,279,591**	**385,279,591**	661,147,316	661,147,316
Long-term debt (including current portion)	**14,137,725,915**	**17,117,522,953**	19,034,715,554	22,866,721,167
Total financial liabilities at amortized cost	**21,949,043,696**	**24,928,840,734**	27,082,052,745	30,914,058,358
Financial liabilities at FVPL:				
Derivative liabilities (included under Accounts Payable and Other Accrued Liabilities account in the consolidated balance sheets)	**7,266,667**	**7,266,667**	12,491,028	12,491,028
	₱21,956,310,363	**₱24,936,107,401**	₱27,094,543,773	₱30,926,549,386

5. Business Segment Information

For management purposes, the Group is organized into business units based on their products and services, and has three (3) reportable operating segments as follows:

- The branded consumer food products segment manufactures and distributes a diverse mix of snack foods, instant coffee products, instant noodles, chocolates, soft and hard candies, biscuits, tomato-based products and ready-to-drink beverages. This segment also includes the packaging division which manufactures BOPP films primarily used in packaging. In 2006, the Group began operations of its PET bottle manufacturing plant to supply the packaging requirements of products in PET bottle format.

- The agro-industrial products segment engages in hog and poultry farming, manufactures and distributes animal feeds and soya products and manufactures and distributes animal health products.

- The commodity food products segment engages in sugar milling and refining, and flour milling and pasta manufacturing.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs and revenue) and income taxes are managed on a group basis and are not allocated to operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The Group's business segment information follows:

2007

	Branded Consumer Food Segment	Agro-Industrial Segment	Commodity Food Segment	Adjustments and Eliminations	Total
			(In Thousand Pesos)		
Sale of Goods and Services					
Third party	₱28,370,359	₱5,647,937	₱3,701,965	₱–	₱37,720,261
Inter-segment	3,265,165	2,375,669	2,600,364	(8,241,198)	–
	₱31,635,524	₱8,023,606	₱6,302,329	(₱8,241,198)	₱37,720,261
Result					
Segment result	₱1,249,737	₱697,258	₱1,233,333	₱–	₱3,180,328
Gain on sale of equity investment (Note 14)					2,858,765
Finance revenue (Note 26)					1,562,117
Finance costs (Notes 18, 19 and 27)					(1,620,999)
Equity in net income of an associate and a joint venture (Note 14)					23,288
Impairment loss					(344,666)
Other revenue - net					294,451
Income before income tax					5,953,284
Provision for income tax					(452,255)
Net income					₱5,501,029
Other Information					
Segment assets	₱26,505,653	₱3,654,421	₱6,064,615	₱–	₱36,224,689
Investment in an associate and a joint venture					89,873
Unallocated corporate assets					22,359,537
Total assets					₱58,674,099
Segment liabilities	₱5,892,985	₱601,332	₱900,762	₱–	₱7,395,079
Unallocated liabilities					16,283,317
Total liabilities					₱23,678,396
Capital expenditures (Note 11)	₱2,732,249	₱367,993	₱1,016,324	₱–	₱4,116,566
Depreciation and amortization (Note 24)	₱1,958,370	₱75,707	₱143,357	₱–	₱2,177,434
Non-cash expenses other than depreciation and amortization					
Impairment losses on:					
Receivables (Note 8)	₱141,230	₱–	₱–	₱–	₱141,230
Property and equipment (Note 24)	203,436	–	–	–	203,436
	₱344,666	₱–	₱–	₱–	₱344,666

2006

	Branded Consumer Food Segment	Agro-Industrial Segment	Commodity Food Segment	Adjustments and Eliminations	Total
			(In Thousand Pesos)		
Sale of Goods and Services					
Third party	₱26,596,746	₱5,082,758	₱3,504,311	₱–	₱35,183,815
Inter-segment	1,607,301	2,275,294	2,090,690	(5,973,285)	–
	₱28,204,047	₱7,358,052	₱5,595,001	(₱5,973,285)	₱35,183,815
Result					
Segment result	₱1,025,354	₱657,847	₱1,017,891	₱–	₱2,701,092
Finance revenue (Note 26)					2,319,815
Finance costs (Notes 18, 19 and 27)					(2,271,951)
Equity in net income of an associate and a joint venture (Note 14)					319,996
Impairment loss					(283,979)
Other revenue - net					508,483
Income before income tax					3,293,456
Provision for income tax					(382,365)
Net income					₱2,911,091
Other Information					
Segment assets	₱25,027,816	₱3,351,385	₱5,273,461	₱–	₱33,652,662
Investment in an associate and a joint venture					1,958,481
Unallocated corporate assets					24,078,802
Total assets					₱59,689,945
Segment liabilities	₱5,718,080	₱501,244	₱1,129,802	₱–	₱7,349,126
Unallocated liabilities					21,113,804
Total liabilities					₱28,462,930
Capital expenditures (Note 11)	₱4,093,163	₱1,350,911	₱386,721	₱–	₱5,830,795
Depreciation and amortization (Note 24)	₱1,707,999	₱150,149	₱136,437	₱–	₱1,994,585
Non-cash expenses other than depreciation and amortization					
Impairment losses on:					
Goodwill (Note 13)	₱240,689	₱–	₱–	₱–	₱240,689
Receivables (Note 8)	43,291	–	–	–	43,291
	₱283,980	₱–	₱–	₱–	₱283,980

2005

	Branded Consumer Food Segment	Agro-Industrial Segment	Commodity Food Segment	Adjustments and Eliminations	Total
			(In Thousand Pesos)		
Sale of Goods and Services					
Third party	₱23,783,623	₱4,214,865	₱3,200,788	₱–	₱31,199,276
Inter-segment	1,034,398	2,080,998	2,242,319	(5,357,715)	–
	₱24,818,021	₱6,295,863	₱5,443,107	(₱5,357,715)	₱31,199,276
Result					
Segment result	₱1,187,441	₱518,901	₱954,701	₱–	₱2,661,043
Finance revenue (Note 26)					1,908,880
Finance costs (Notes 18, 19 and 27)					(2,114,785)
Equity in net income of an associate and a joint venture (Note 14)					244,623
Impairment loss					(223,518)
Other revenue - net					418,836
Income before income tax					2,895,079
Provision for income tax					493,408
Net income					₱2,401,671
Other Information					
Segment assets	₱21,559,405	₱3,325,589	₱4,611,224	₱–	₱29,496,218
Investment in an associate and a joint venture					1,831,926
Unallocated corporate assets					23,556,117
Total assets					₱54,884,261
Segment liabilities	₱5,304,898	₱797,110	₱1,525,615	₱–	₱7,627,623
Unallocated liabilities					21,996,434
Total liabilities					₱29,624,057
Capital expenditures (Note 11)	₱3,008,595	₱345,190	₱292,863	₱–	₱3,646,648
Depreciation and amortization (Note 24)	₱1,250,248	₱132,945	₱282,283	₱–	₱1,665,476
Non-cash expenses other than depreciation and amortization					
Impairment losses on receivables	₱223,518	₱–	₱–	₱–	₱223,518

Geographical Segments
The Group operates in the Philippines, Thailand, Malaysia, Indonesia, China, Hong Kong, Singapore and Vietnam.

The following table shows the distribution of the Group's consolidated sales by geographical market, regardless of where the goods were produced, and the carrying amounts of segment assets and additions to property, plant, equipment, and intangible assets by geographical area in which the assets are located.

2007

	Domestic	**Foreign**	**Total**
		(In Thousand Pesos)	
Sale of goods and services	**₱30,528,379**	**₱7,191,882**	**₱37,720,261**
Segment assets	**₱49,375,242**	**₱9,298,857**	**₱58,674,099**
Capital expenditures (Note 11)	**₱3,310,430**	**₱806,136**	**₱4,116,566**
Depreciation and amortization (Note 24)	**₱1,520,550**	**₱656,884**	**₱2,177,434**
Non-cash expenses other than depreciation and amortization			
Impairment losses on:			
Receivables (Note 8)	**₱141,230**	**₱–**	**₱141,230**
Property and equipment (Note 24)	**203,436**	**–**	**203,436**
	₱344,666	**₱–**	**₱344,666**

2006

	Domestic	Foreign	Total
		(In Thousand Pesos)	
Sale of goods and services	₱27,396,584	₱7,787,231	₱35,183,815
Segment assets	₱49,743,001	₱9,946,944	₱59,689,945
Capital expenditures (Note 11)	₱4,140,667	₱1,690,128	₱5,830,795
Depreciation and amortization (Note 24)	₱1,377,048	₱617,537	₱1,994,585
Non-cash expenses other than depreciation and amortization			
Impairment losses on:			
Goodwill (Note 13)	₱–	₱240,689	₱240,689
Receivables (Note 8)	43,291	–	43,291
	₱43,291	₱240,689	₱283,980

2005

	Domestic	Foreign	Total
		(In Thousand Pesos)	
Sale of goods and services	₱24,208,482	₱6,990,794	₱31,199,276
Segment assets	₱44,171,339	₱10,712,922	₱54,884,261
Capital expenditures (Note 11)	₱3,239,606	₱407,042	₱3,646,648
Depreciation and amortization (Note 24)	₱1,182,350	₱483,126	₱1,665,476
Non-cash expenses other than depreciation and amortization			
Impairment losses on receivables	₱–	₱223,518	₱223,518

6. Cash and Cash Equivalents

This account consists of:

	2007	2006
Cash on hand	**₱137,846,817**	₱116,309,197
Cash in banks	**525,902,930**	1,047,715,315
Short-term investments	**4,391,736,478**	4,815,850,883
	₱5,055,486,225	₱5,979,875,395

Cash in banks earns interest at the respective bank deposit rates. Short-term investments represent money market placements are made for varying periods depending on the immediate cash requirements of the Group, and earn interest ranging from 4.1% to 5.8% and 3.0% to 5.6%, in 2007 and 2006, respectively.

7. Financial Assets at Fair Value Through Profit or Loss

These investments that are held for trading consist of:

	2007	2006
Private bonds	**₱9,981,812,179**	₱10,429,537,504
Government securities	**4,352,248,713**	6,307,880,191
Equity securities	**2,202,652,517**	1,152,228,593
	₱16,536,713,409	₱17,889,646,288

The above investments consist of quoted debt and equity securities issued by certain domestic and foreign entities.

Net market valuation gain of financial assets at FVPL amounted to ₱451.8 million, ₱923.7 million and ₱493.3 million in 2007, 2006 and 2005, respectively.

8. Receivables

This account consists of:

	2007	2006
Trade receivables	**₱3,446,812,087**	₱3,607,949,891
Due from related parties (Notes 4 and 31)	**592,102,151**	476,981,668
Interest receivable	**410,468,355**	466,237,843
Advances to officers, employees and suppliers	**441,906,587**	400,397,101
Others	**557,263,405**	526,651,672
	5,448,552,585	5,478,218,175
Less allowance for impairment loss	**208,700,698**	360,105,546
	₱5,239,851,887	₱5,118,112,629

Changes in allowance for impairment loss on receivables follow:

	2007	2006
Balance at beginning of year	**₱360,105,546**	₱457,047,781
Provision for impairment loss during the year	**141,230,297**	43,290,658
Write offs during the year	**(292,635,145)**	(140,232,893)
Balance at end of year	**₱208,700,698**	₱360,105,546

9. Inventories

This account consists of:

	2007	2006
At cost:		
Raw materials	**₱1,855,797,593**	₱1,689,796,065
Finished goods	**1,354,054,122**	1,192,363,771
	3,209,851,715	2,882,159,836
At NRV:		
Goods in-process	**127,880,688**	154,977,829
Containers and packaging materials	**959,536,372**	915,193,405
Spare parts and supplies	**904,731,722**	710,790,467
	1,992,148,782	1,780,961,701
Materials in-transit	**697,213,866**	728,468,830
	₱5,899,214,363	₱5,391,590,367

Under the terms of the agreements covering liabilities under trust receipts totaling ₱385.3 million and ₱661.1 million as of September 30, 2007 and 2006, respectively, certain inventories have been released to the Group in trust for the banks. The Parent Company is accountable to these banks for the trusteed merchandise or their sales proceeds.

Inventory variances written down as expense (included under the Cost of Sales account in the consolidated statements of income) amounted to ₱32.0 million, ₱57.0 million and ₱23.4 million in 2007, 2006 and 2005, respectively.

10. Other Current Assets

This account consists of:

	2007	2006
Input value-added tax - net	**₱408,463,933**	₱–
Prepaid expenses	**193,382,651**	114,196,426
Derivative assets (Notes 3 and 4)	**155,375**	3,200,097
Others	**5,354,909**	5,199,521
	₱607,356,868	₱122,596,044

11. Property, Plant and Equipment

Movements in the Property, Plant and Equipment account in 2007 follow:

	Land	Land Improvements	Buildings and Improvements	Machinery and Equipment	Sub-total
Cost					
Balance at beginning of year	₱958,734,712	₱1,317,046,756	₱6,365,865,314	₱24,555,481,500	₱33,197,128,282
Additions (Notes 5 and 34)	31,371,406	52,289,658	706,984,682	3,641,268,911	4,431,914,657
Disposals and other adjustments	(20,142,273)	–		(4,386,446)	(24,528,719)
Balance at end of year	969,963,845	1,369,336,414	7,072,849,996	28,192,363,965	37,604,514,220
Accumulated Depreciation, Amortization and Impairment Loss					
Balance at beginning of year	–	686,332,793	2,806,351,132	12,503,631,352	15,996,315,277
Depreciation and amortization (Notes 5 and 24)	–	26,724,728	220,317,309	1,750,694,264	1,997,736,301
Impairment loss (Note 24)	–	–	–	203,436,240	203,436,240
Disposals and other adjustments	–	–	472,074	19,266,154	19,738,228
Balance at end of year	–	713,057,521	3,027,140,515	14,477,028,010	18,217,226,046
Net Book Value	₱969,963,845	₱656,278,893	₱4,045,709,481	₱13,715,335,955	₱19,387,288,174

	Transportation Equipment	Furniture, Fixtures and Equipment	Construction In-progress	Equipment In-transit	Total
Cost					
Balance at beginning of year	₱1,661,748,178	₱1,436,955,455	₱591,516,328	₱1,703,378,173	₱38,590,726,416
Additions (Notes 5 and 34)	88,620,714	168,265,356	900,404,032	(1,472,639,022)	4,116,565,737
Disposals and other adjustments	(33,449,181)	(40,909)	–	–	(58,018,809)
Balance at end of year	1,716,919,711	1,605,179,902	1,491,920,360	230,739,151	42,649,273,344
Accumulated Depreciation, Amortization and Impairment Loss					
Balance at beginning of year	1,188,136,996	842,371,620	–	–	18,026,823,893
Depreciation and amortization (Notes 5 and 24)	81,592,697	93,123,014	–	–	2,172,452,012
Impairment loss (Note 24)	–		–	–	203,436,240
Disposals and other adjustements	(39,347,789)	(495,605)	–	–	(20,105,166)
Balance at end of year	1,230,381,904	934,999,029	–	–	20,382,606,979
Net Book Value	₱486,537,807	₱670,180,873	₱1,491,920,360	₱230,739,151	₱22,266,666,365

Movements in the Property, Plant and Equipment account in 2006 follow:

	Land	Land Improvements	Buildings and Improvements	Machinery and Equipment	Sub-total
Cost					
Balance at beginning of year	₱875,814,973	₱1,247,270,922	₱5,404,710,282	₱21,323,566,820	₱28,851,362,997
Additions (Note 5)	82,919,739	321,786,331	912,799,970	2,135,914,709	3,453,420,749
Disposals	–	(252,073,629)	(116,456,870)	(27,001,112)	(395,531,611)
Other adjustments	–	63,132	164,811,932	1,123,001,083	1,287,876,147
Balance at end of year	958,734,712	1,317,046,756	6,365,865,314	24,555,481,500	33,197,128,282
Accumulated Depreciation and Amortization					
Balance at beginning of year	–	434,792,801	2,203,534,785	11,012,754,417	13,651,082,003
Depreciation and amortization (Notes 5 and 24)	–	215,529,734	273,250,625	1,248,726,300	1,737,506,659
Disposals	–	–	(5,793,493)	(128,888,350)	(134,681,843)
Other adjustments	–	36,010,258	335,359,215	371,038,985	742,408,458
Balance at end of year	–	686,332,793	2,806,351,132	12,503,631,352	15,996,315,277
Net Book Value	₱958,734,712	₱630,713,963	₱3,559,514,182	₱12,051,850,148	₱17,200,813,005

	Transportation Equipment	Furniture, Fixtures and Equipment	Construction In-progress	Equipment In-transit	Total
Cost					
Balance at beginning of year	₱1,532,088,249	₱1,093,223,914	₱564,652,478	₱574,592,107	₱32,615,919,745
Additions (Note 5)	153,795,249	311,338,569	480,889,910	1,431,350,739	5,830,795,216
Disposals	(99,319,774)	(16,838,048)	–	–	(511,689,433)
Other adjustments	75,184,454	49,231,020	(454,026,060)	(302,564,673)	655,700,888
Balance at end of year	1,661,748,178	1,436,955,455	591,516,328	1,703,378,173	38,590,726,416
Accumulated Depreciation and Amortization					
Balance at beginning of year	1,132,179,340	708,003,045	–	–	15,491,264,388
Depreciation and amortization (Notes 5 and 24)	127,398,568	126,081,826	–	–	1,990,987,053
Disposals	(95,580,181)	(4,141,943)	–	–	(234,403,967)
Other adjustments	24,139,269	12,428,692	–	–	778,976,419
Balance at end of year	1,188,136,996	842,371,620	–	–	18,026,823,893
Net Book Value	₱473,611,182	₱594,583,835	₱591,516,328	₱1,703,378,173	₱20,563,902,523

The total costs of fully depreciated property, plant and equipment which are still in use amounted to ₱7.7 billion and ₱6.4 billion as of September 30, 2007 and 2006.

Property, plant and equipment with an aggregate net book value of ₱97.3 million have been pledged as security for certain long-term debt as of September 30, 2007 and 2006 (see Note 19).

12. **Biological Assets**

Movements in the Biological Assets account in 2007 follow:

	Swine (At Fair Values Less Estimated Point-of-Sale Costs)			**Poultry (At Cost)**	
	Mature	**Immature**	**Sub-total**	**Mature**	**Total**
Balance at beginning of year	**₱555,415,570**	**₱209,979,070**	**₱765,394,640**	**₱97,225,296**	**₱862,619,936**
Additions	**1,312,996,220**	**409,051,179**	**1,722,047,399**	**119,355,254**	**1,841,402,653**
Disposal	**(1,321,813,233)**	**(476,209,662)**	**(1,798,022,895)**	**(78,556,520)**	**(1,876,579,415)**
Gain arising from changes in fair value less estimated point of-sale costs	**146,173,504**	**130,641,732**	**276,815,236**	**–**	**276,815,236**
Balance at end of year	**692,772,061**	**273,462,319**	**966,234,380**	**138,024,030**	**1,104,258,410**
Accumulated Depreciation					
Balance at beginning of year	–	–	–	**45,616,483**	**45,616,483**
Depreciation	–	–	–	**85,923,741**	**85,923,741**
Disposal	–	–	–	**(77,850,587)**	**(77,850,587)**
Balance at end of year	–	–	–	**53,689,637**	**53,689,637**
Net	**₱692,772,061**	**₱273,462,319**	**₱966,234,380**	**₱84,334,393**	**₱1,050,568,773**

Movements in the Biological Assets account in 2006 follow:

	Swine (At Fair Values Less Estimated Point-of-Sale Costs)			Poultry (At Cost)	
	Mature	Immature	Sub-total	Mature	Total
Balance at beginning of year	₱504,844,065	₱224,602,896	₱729,446,961	₱88,759,302	₱818,206,263
Additions	1,659,396,764	66,583,548	1,725,980,312	125,517,604	1,851,497,916
Disposal	(1,742,678,885)	(192,062,936)	(1,934,741,821)	(117,051,610)	(2,051,793,431)
Gain arising from changes in fair value less estimated point of-sale costs	133,853,626	110,855,562	244,709,188	–	244,709,188
Balance at end of year	555,415,570	209,979,070	765,394,640	97,225,296	862,619,936
Accumulated Depreciation					
Balance at beginning of year	–	–	–	57,563,853	57,563,853
Depreciation	–	–	–	73,762,770	73,762,770
Disposal	–	–	–	(85,710,140)	(85,710,140)
Balance at end of year	–	–	–	45,616,483	45,616,483
Net	₱555,415,570	₱209,979,070	₱765,394,640	₱51,608,813	₱817,003,453

The Group has about 167,841 and 190,385 heads of swine as of September 30, 2007 and 2006, respectively, and about 413,231 and 425,539 heads of poultry as of September 30, 2007 and 2006, respectively.

13. **Goodwill**

Movements in the Goodwill account follow:

	2007	2006
Cost		
Balance at beginning and end of year	**₱1,085,237,005**	₱1,085,237,005
Impairment loss		
Balance at beginning of year	**240,688,815**	–
Provision for impairment loss	**–**	240,688,815
Balance at end of year	**240,688,815**	240,688,815
Net	**₱844,548,190**	₱844,548,190

The Group's goodwill pertains to: (a) excess of the acquisition cost over the fair values of the net assets acquired by Hong Kong China Foods Co. Ltd. (HCFCL) and URC Asean Brands Co. Ltd. (UABCL) in 2000 and (b) the acquisition of Southern Negros Development Corporation (SONEDCO) in 1998. The goodwill arising from the acquisitions of HCFCL and UABCL was translated at the applicable year-end exchange rate.

Due to continued losses from operations in HCFCL, the allocated goodwill on this subsidiary was written down and a provision for impairment loss amounting to ₱240.7 million was recorded in 2006.

14. **Investment in an Associate and a Joint Venture**

This account consists of:

	2007	2006
Acquisition Cost		
Balance at beginning of year	**₱1,197,593,846**	₱1,197,593,846
Disposal	**(1,196,343,846)**	–
Balance at end of year	**1,250,000**	1,197,593,846
Accumulated Equity in Net Earnings		
Balance at beginning of year	**760,887,140**	612,282,125
Equity in net earnings during the year	**23,287,500**	319,996,500
Dividends received	**–**	(171,391,485)
Disposal	**(695,552,065)**	–
Balance at end of year	**88,622,575**	760,887,140
Net Carrying Value	**₱89,872,575**	₱1,958,480,986

The Parent Company has an equity interest in Hunt-Universal Robina Corporation (HURC), a domestic joint venture. HURC manufactures and distributes food products under the "Hunt's" brand name, which is under exclusive license to HURC in the Philippines.

URC also had an equity interest in Robinsons Land Corporation (RLC), where it exercised significant influence. In 2007, RLC made a follow-on offering where a total of 932.8 million of RLC common shares were offered at a price of ₱12.0 per share. The Parent Company sold a total of all of its 410 million RLC common shares. Total gain on sale of said investments in common shares of RLC amounted to ₱2.9 billion.

The Parent Company's equity in the net assets of its associates and joint ventures and the related percentages of ownership are summarized below:

	Percentage of Ownership		Equity in Net Assets	
	2007	2006	**2007**	2006
			(In Million Pesos)	
Joint venture				
HURC	**50**	50	**₱89.9**	₱66.6
Associate				
RLC	**–**	19	**–**	1,891.90

Summarized financial information of the investee companies which are accounted for under the equity method follows:

	HURC		RLC	
	2007	2006	**2007**	2006
	(In Million Pesos)			
Current assets	**₱239,345**	₱245,786	**₱–**	₱3,689,732
Noncurrent assets	**4,323**	2,702	**–**	29,069,664
Current liabilities	**(161,454)**	(176,214)	**–**	(12,728,197)
Noncurrent liabilities	**(4,999)**	–	**–**	(5,405,441)
Revenue	**614,149**	558,417	**–**	6,643,111
Costs and expenses	**(546,143)**	(521,587)	**–**	(4,355,652)
Net income	**45,060**	36,830	**–**	1,724,996

15. **Investment Properties**

Movements in the Investment Properties account follow:

	2007	2006
Cost		
Balance at beginning and end of year	**₱107,947,364**	₱107,947,364
Accumulated Depreciation		
Balance at beginning of year	**21,747,290**	18,149,045
Depreciation (Note 24)	**3,598,245**	3,598,245
Balance at end of year	**25,345,535**	21,747,290
Net Book Value	**₱82,601,829**	₱86,200,074

The aggregate fair value of the Group's investment properties amounted to ₱240.0 million as of September 30, 2007 and 2006, respectively.

Total rental income earned from investment properties (included under Other Revenue (Expenses) - Net account in the consolidated statements of income) amounted to ₱50.3 million, ₱50.0 million and ₱53.3 million in 2007, 2006 and 2005, respectively.

16. **Other Noncurrent Assets**

This account consists of:

	2007	2006
Input value-added tax - net	**₱205,464,745**	₱–
Intangible assets	**200,140,763**	190,223,400
Miscellaneous deposits	**74,419,424**	65,184,054
Others	**428,659,496**	426,235,112
	₱908,684,428	₱681,642,566

Intangible assets represent the Group's acquired trademarks which have definite and indefinite useful lives. Movement in the Intangibles account follows:

	2007	2006
Cost		
Balance at beginning of year	**₱190,223,400**	₱–
Additions (Note 34)	**11,301,181**	190,223,400
Balance at end of year	**201,524,581**	190,223,400
Accumulated Amortization		
Balance at beginning of year	**–**	–
Amortization during the year	**1,383,818**	–
Balance at end of year	**1,383,818**	–
Net Carrying Value	**₱200,140,763**	₱190,223,400

17. **Accounts Payable and Other Accrued Liabilities**

This account consists of:

	2007	2006
Trade payables	**₱2,649,137,788**	₱2,764,524,367
Accrued expenses	**1,151,334,365**	1,040,466,083
Due to related parties (Note 31)	**115,764,412**	159,322,460
Customers' deposits	**58,131,585**	74,158,180
Derivative liabilities (Notes 3 and 4)	**7,266,667**	12,491,028
Others	**294,623,338**	250,517,010
	₱4,276,258,155	₱4,301,479,128

The Accrued Expenses account includes accruals for:

	2007	2006
Advertising and promotions	**₱403,611,208**	₱394,057,469
Interest expense	**291,476,641**	359,113,003
Freight and handling costs	**100,707,839**	61,234,898
Others	**355,538,677**	226,060,713
	₱1,151,334,365	₱1,040,466,083

18. **Short-term Debt**

Short-term debt consists of:

	2007	2006
Parent Company		
Philippine Peso - with interest rate of 8.11% in 2006	**₱–**	₱35,000,000
Subsidiaries		
Foreign currencies - with interest rates ranging from 4.30% to 5.95% per annum in 2007 and 3.33% to 5.88% per annum in 2006	**4,308,381,067**	3,991,417,791
	₱4,308,381,067	₱4,026,417,791

Interest is based on prevailing market rates and repriced quarterly. Accrued interest payable on the Group's short-term debt (included under Accounts Payable and Other Accrued Liabilities account in the consolidated balance sheets) amounted to ₱21.1 million and ₱27.5 million as of September 30, 2007 and 2006, respectively.

19. **Long-term Debt**

Long-term debt (net of debt issuance costs) consists of:

	Maturities	Interest Rates	**2007**	2006
Parent Company:				
Foreign currencies				
HypoVereinsbank term loan facilities	Various dates through 2009	EURIBOR/ USD LIBOR + 0.75%	**₱214,084,334**	₱385,330,227
Philippine peso				
Metrobank loan	Various dates through 2007	3 months MART 1 + 1.00% to 2.00%	**–**	500,000,000
			214,084,334	885,330,227
Subsidiaries:				
Foreign currencies:				
URCL US$100 million guaranteed notes	2006	8.38%		1,869,297,394
URCPL US$125 million guaranteed notes	2008	9.00%	**4,912,482,077**	6,250,681,194
URC US$200 million guaranteed notes	2012	8.25%	**8,958,806,192**	9,976,990,446
			13,871,288,269	18,096,969,034
Philippine Peso				
Philippine Sugar Corporation restructured loan	2013	7.50%	**52,353,312**	52,416,293
			13,923,641,581	18,149,385,327
			14,137,725,915	19,034,715,554
Less current portion			**5,072,751,025**	2,534,798,394
			₱9,064,974,890	₱16,499,917,160

Long-term debt is shown net of unamortized debt issuance costs totaling ₱54.0 million (US$1.2 million) and ₱91.2 million (US$1.8 million) as of September 30, 2007 and 2006, respectively (see Note 4).

Repayments of the long-term debt (net of debt issuance costs) follow:

	2007	2006
Due in:		
2007	**₱–**	₱2,534,798,394
2008	**5,072,751,025**	6,415,375,998
2009	**46,253,466**	50,827,585
2010	**26,809,413**	29,096,472
2011	**7,401,385**	8,661,162
Thereafter	**8,984,510,626**	9,995,955,943
	₱14,137,725,915	₱19,034,715,554

The exchange rates used to restate the foreign currency borrowings were ₱45.04 to US$1.00 and ₱50.21 to US$1.00 as of September 30, 2007 and 2006, respectively.

The following significant transactions affected the Group's long-term debt:

Parent Company HypoVereinsbank Term Loan Facilities
The Parent Company entered into two (2) credit term loan facilities with HypoVereinsbank to finance the supply of certain property and equipment for its biaxially-oriented polypropylene plant and flour mill plant. The loans obtained from said facility shall bear interest at floating rate based on the EURIBOR/USD LIBOR plus 0.75%. The loan shall be payable in fourteen (14) equal, consecutive, semi-annual payments starting six (6) months after the weighted average delivery period of all units or, at the latest, starting six (6) months after August 1, 2002, whichever date shall occur earlier, with the last repayment installment due October 15, 2009.

These loans contain negative covenants that, among others, prohibit merger or consolidation with other entities, dissolution, liquidation or winding-up except with any of its subsidiaries; prohibit purchase or redemption of any issued shares or reduction of registered and paid-up capital or distribution of assets resulting in capital base impairment.

As of September 30, 2007 and 2006, the outstanding balance of the loan obtained from the term loan facilities amounted to ₱214.1 million (US$4.8 million) and ₱385.3 million (US$7.7 million), respectively.

Parent Company Metrobank Loan
The Parent Company obtained a five (5)-year loan from Metrobank, a local bank, payable in six (6) semi-annual amortizations of ₱100 million commencing in January 2002, with the remaining balance payable at maturity. The loan, which was fully paid in January 2007, was used to finance capital expenditures relative to the expansion of certain operations of the branded consumer food segment.

The loan was collateralized by a negative pledge on certain assets. The loan agreement contained certain provisions which, among others, imposed negative covenants relating to the Parent Company's ownership structure and nature of business, merger or consolidation with another entity and acquisition of its own capital stock.

URCL US$100 Million Guaranteed Notes Due 2006
On December 19, 1996, URCL issued US$100 million 8.375% notes due 2006 guaranteed by the Parent Company. Unless previously redeemed or purchased and cancelled, the notes will be redeemed at their principal amount, plus accrued and unpaid interest, on December 19, 2006.

On May 2006, notes with a face value of US$28.6 million were redeemed. The remaining balance of the loan was fully settled in 2007.

URCPL US$125 Million Guaranteed Notes Due 2008
On February 5, 2003, URCPL issued US$125 million, 9% guaranteed notes due 2008 which are unconditionally and irrevocably guaranteed by the Parent Company. Unless previously redeemed or purchased and cancelled, the notes will be redeemed at their principal amount, plus accrued and unpaid interest, on February 6, 2008. Related terms and conditions provide for financial covenants to be complied with by URCPL and URC.

As of September 30, 2007 and 2006, the outstanding balance of the notes amounted to ₱4.9 billion (US$109.7 million) and ₱6.3 billion (US$124.5 million), respectively.

URCPL 8.25% Guaranteed Notes Due 2012
On January 14, 2005, URCPL issued US$200 million 8.25% notes due 2012 guaranteed by the Parent Company. Unless previously redeemed or purchased and cancelled, the notes will be redeemed at their principal amount, plus accrued and unpaid interest on January 20, 2012.

As of September 30, 2007 and 2006, the outstanding balance of the notes amounted to ₱9.0 billion (US$199.0 million) and ₱10.0 billion (US$198.7 million), respectively.

Philippine Sugar Corporation Restructured Loan
Republic Act (RA) No. 7202 dated February 24, 1992 provided for, among others, the condonation of all penalties and surcharges on loans granted to sugar producers from crop year 1974-1975 up to and including 1984-1985. The guidelines for the implementation of RA No. 7202 was issued under Executive Order No. 31 dated October 29, 1992, directing all government lending financial institutions to write off from their respective books the interest in excess of 12% yearly and all penalties and surcharges due.

Certain property and equipment of a certain subsidiary with net book value of ₱97.3 million as of September 30, 2007 and 2006 were used to secure the loan. The loan is payable in 25 equal annual amortizations of ₱9.9 million. Unpaid interest on the loan amounted to ₱2.9 million and ₱3.3 million as of September 30, 2007 and 2006, respectively.

Total interest expense and other related charges on all of these long-term debts amounted to ₱1.4 billion, ₱1.8 billion and ₱1.7 billion in 2007, 2006 and 2005, respectively.

20. Equity

The details of the Parent Company's common stock follow:

	2007	2006	2005
Authorized shares	**2,998,000,000**	2,998,000,000	1,998,000,000
Par value per share	**₱1.00**	₱1.00	₱1.00
Issued:			
Balance at beginning of year	**2,221,851,481**	1,686,479,549	1,686,479,549
Issuance of common shares of stock during the year	**–**	535,371,932	–
Balance at end of year	**2,221,851,481**	2,221,851,481	1,686,479,549

Increase in Authorized Capital Stocks
On October 7, 2005, the BOD approved the increase in the authorized capital stock from ₱2,000,000,000 divided into 1,998,000,000 common shares and 2,000,000 preferred shares, both at ₱1 par value per share to ₱3,000,000,000 divided into 2,998,000,000 common shares and 2,000,000 preferred shares both at ₱1 par value per share.

On November 22, 2005, the Group's stockholders approved the above increase in the authorized capital stock and the 15% stock dividends to all stockholders of record as of January 14, 2006, which was subsequently approved by the Philippine Securities and Exchange Commission (SEC) on December 16, 2005.

On December 19, 2005, the SEC authorized the issuance of 252,971,932 common shares with ₱1 par value per share or ₱252,971,932 to cover the 15% stock dividends which was declared by the BOD and subsequently ratified by the stockholders.

Transaction costs on the issuance of additional common shares in February 2006 amounting to ₱19.3 million have been accounted for as a deduction against additional paid-in capital.

Cumulative Redeemable Preferred Shares
The Group's authorized preferred shares of stock are 12% cumulative, nonparticipating, and nonvoting. In case of dissolution and liquidation of the Parent Company, the holders of the preferred shares shall be entitled to be paid an amount equal to the par value of the shares or ratably insofar as the assets of the Parent Company may warrant, plus accrued and unpaid dividends thereon, if any, before the holders of the common shares of stock can be paid their liquidating dividends. The authorized preferred stock is 2,000,000 shares at par value of ₱1.0 per share. There have been no issuances of preferred stock as of September 30, 2007 and 2006.

Deposits for Future Stock Subscriptions
On August 3, 2001, the Parent Company's BOD approved the issuance of 55,659,008 shares to JGSHI, Robinson's Supermarket Corporation and a certain stockholder in exchange for two (2) parcels of land and certain marketable securities which were valued at ₱250.5 million. This was reflected as Deposits for Future Stock Subscriptions in the consolidated balance sheets pending approval of the Philippine SEC.

On June 19, 2003, the Philippine SEC approved the issuance of 49,871,556 shares for the two (2) parcels of land. The remaining 5,787,452 shares are still pending approval of the Philippine SEC.

Retained Earnings
Dividends
Details of the Group's dividend declarations follow:

	2007	2006	2005
Date of declaration	**April 19, 2007**	April 20, 2006	May 5, 2005
Dividend per share	**₱0.68**	₱0.54	₱0.30
Total dividends	**₱1.5 billion**	₱1.2 billion	₱0.5 billion
Date of record	**May 18, 2007**	May 19, 2006	June 3, 2005
Date of payment	**June 14, 2007**	June 15, 2006	June 29, 2005

The Group intends to maintain an annual cash dividend payment ratio of 50% of the Group's consolidated net income from the preceding fiscal year, subject to the requirements of the applicable laws and regulations and the absence of circumstances which may restrict the payment of such dividends. The BOD may, at any time, modify such dividend payment ratio.

Appropriation of retained earnings
In 2003, the Group's BOD approved the appropriation of retained earnings amounting to ₱3.0 billion for the Group's expansion plans.

21. Cost of Sales

This account consists of:

	2007	2006	2005
Raw materials used	**₱20,964,162,832**	₱19,975,260,129	₱16,640,705,039
Direct labor (Note 25)	**817,733,243**	741,356,852	669,759,560
Overhead costs (Notes 24 and 25)	**5,969,474,472**	5,659,055,964	6,078,021,097
Total manufacturing cost	**27,751,370,547**	26,375,672,945	23,388,485,696
Goods in-process	**27,097,141**	(60,810,866)	(10,830,264)
Cost of goods manufactured	**27,778,467,688**	26,314,862,079	23,377,655,432
Finished goods	**(161,690,351)**	45,112,152	(69,942,746)
	₱27,616,777,337	₱26,359,974,231	₱23,307,712,686

22. Selling and Distribution Costs

This account consists of:

	2007	2006	2005
Advertising and promotions	**₱2,346,564,689**	₱2,347,929,155	₱1,838,104,926
Freight and other selling expenses	**2,038,261,862**	1,874,294,290	1,453,400,399
Compensation and benefits (Note 25)	**552,941,525**	452,753,908	447,529,249
Depreciation and amortization (Notes 24)	**80,666,522**	57,273,438	39,556,839
Repairs and maintenance	**43,219,005**	32,222,306	46,064,558
Other selling and distribution costs	**57,528,713**	25,932,841	87,916,983
	₱5,119,182,316	₱4,790,405,938	₱3,912,572,954

23. **General and Administrative Expenses**

This account consists of:

	2007	2006	2005
Compensation and benefits (Note 25)	**₱784,979,618**	₱600,807,483	₱585,205,491
Depreciation and amortization (Note 24)	**234,369,163**	123,739,621	112,401,147
Repairs and maintenance	**32,540,510**	27,276,993	25,760,680
Other general and administrative expenses	**752,083,053**	580,518,404	594,579,218
	₱1,803,972,344	₱1,332,342,501	₱1,317,946,536

24. **Depreciation, Amortization and Impairment Loss**

Depreciation and Amortization
The breakdown of consolidated depreciation and amortization on property, plant and equipment, investment in properties and intangible assets follows:

	2007	2006	2005
Cost of sales	**₱1,862,398,389**	₱1,813,572,239	₱1,513,518,513
Selling and distribution costs	**80,666,522**	57,273,438	39,556,839
General and administrative expenses	**234,369,163**	123,739,621	112,401,147
	₱2,177,434,074	₱1,994,585,298	₱1,665,476,499

Impairment Loss on Property and Equipment
In 2007, the Group recorded a provision for impairment loss on certain machinery and equipment relating to its packaging operations amounting to ₱203.4 million. The recoverable amount was determined as the higher of the assets' net selling price and value in use. The Group used the net selling price in computing for the provision on impairment losses.

25. **Personnel Expenses**

Personnel expenses consist of:

	2007	2006	2005
Salaries and wages	**₱1,532,487,453**	₱1,365,897,499	₱1,258,083,567
Other employee benefits	**527,715,556**	500,440,853	403,502,033
Pension expense (income) (Note 28)	**143,812,100**	(55,723,791)	54,732,596
	₱2,204,015,109	₱1,810,614,561	₱1,716,318,196

The breakdown of consolidated personnel expenses follows:

	2007	2006	2005
Cost of sales	**₱866,093,966**	₱757,053,170	₱683,583,456
Selling and distribution costs	**552,941,525**	452,753,908	447,529,249
General and administrative expenses	**784,979,618**	600,807,483	585,205,491
	₱2,204,015,109	₱1,810,614,561	₱1,716,318,196

26. **Finance Revenue**

This account consists of:

	2007	2006	2005
Income from investments in financial assets at FVPL	**₱1,211,892,358**	₱2,044,697,457	₱1,764,739,009
Bank interest income	**249,801,776**	96,913,776	102,388,986
Dividend income	**100,145,952**	177,903,257	41,526,253
Others	**276,957**	300,919	225,850
	₱1,562,117,043	₱2,319,815,409	₱1,908,880,098

27. **Finance Costs**

This account consists of finance costs arising from:

	2007	2006	2005
Long-term debt	**₱1,407,852,157**	₱1,814,587,075	₱1,720,652,986
Short-term debt	**210,818,317**	443,065,132	368,178,926
Others	**2,328,356**	14,298,695	25,952,899
	₱1,620,998,830	₱2,271,950,902	₱2,114,784,811

28. **Pension Costs**

The Parent Company has a funded, noncontributory defined benefit retirement plan covering all its regular employees. The plan provides for retirement, separation, disability and death benefits to its members. The Parent Company, however, reserves the right to discontinue, suspend or change the rates and amounts of its contributions at any time on account of business necessity or adverse economic conditions. The retirement fund is being administered and managed by certain stockholders as trustees. The latest actuarial valuation report was made on December 7, 2007.

The following tables summarize the components of net pension expense recognized in the consolidated statements of income, and the funded status and amounts recognized in the consolidated balance sheets.

The amounts recognized in the consolidated balance sheets follow:

	2007	2006	2005
Present value of funded obligation	**₱934,438,200**	₱753,987,300	₱593,828,500
Fair value of plan assets	**1,218,540,900**	1,162,943,500	1,098,144,300
Excess of fair value of plan assets over present value of funded obligation	**284,102,700**	408,956,200	504,315,800
Unrecognized actuarial loss - net	**92,534,300**	–	68,316,196
Net plan assets	**₱376,637,000**	₱408,956,200	₱572,631,996
Asset limit to be recognized in the consolidated balance sheets	**₱92,534,300**	₱236,346,400	₱170,110,800
Net plan assets in excess of the asset ceiling limit (not to be recognized in the consolidated balance sheets)	**₱284,102,700**	₱172,609,800	₱402,521,196

Asset limits to be recognized in the consolidated balance sheets were determined as follows:

	2007	2006	2005
Unrecognized actuarial loss - net	**₱92,534,300**	₱236,346,400	₱170,110,800
Asset ceiling limit to be recognized in the consolidated balance sheets	**₱92,534,300**	₱236,346,400	₱170,110,800

Components of the Group's pension expense follow:

	2007	2006	2005
Current service cost	**₱47,374,300**	₱35,275,200	₱26,159,500
Interest cost	**66,350,900**	67,463,600	58,780,200
Expected return on plan assets	**(81,406,000)**	(76,195,900)	(71,609,400)
Net actuarial loss (gain) recognized during the year	**111,492,900**	(82,266,691)	41,402,296
Total pension expense (income)	**₱143,812,100**	(₱55,723,791)	₱54,732,596

Changes in the present value of the defined benefit obligation follow:

	2007	2006	2005
Balance at beginning of year	**₱753,987,300**	₱593,828,500	₱438,717,300
Current service cost	**47,374,300**	35,275,200	26,159,500
Interest cost	**66,350,900**	67,463,600	58,780,200
Benefits paid	**(7,614,900)**	(25,034,700)	(23,387,296)
Actuarial loss - net (Note 3)	**74,340,600**	82,454,700	93,558,796
Balance at end of year	**₱934,438,200**	₱753,987,300	₱593,828,500

Changes in the fair value of plan assets follow:

	2007	2006	2005
Balance at beginning of year	**₱1,162,943,500**	₱1,098,144,300	₱1,027,773,000
Expected return on plan assets	**81,406,000**	76,195,900	71,609,400
Actual contributions	**–**	5,770,500	5,770,500
Benefits paid	**(7,614,900)**	(25,034,700)	(15,333,900)
Actuarial gain (loss) - net	**(18,193,700)**	7,867,500	8,325,300
Balance at end of year	**₱1,218,540,900**	₱1,162,943,500	₱1,098,144,300
Actual return on plan assets	**₱63,212,300**	₱84,063,400	₱79,934,700

Principal actuarial assumptions at the balance sheet date follow:

	2007	2006	2005
Discount rate	**9.50%**	8.80%	13.94%
Salary rate increase	**7.00%**	6.00%	6.00%
Expected rate of return on plan assets	**5.50%**	6.94%	6.96%
Experience adjustments gain (loss) - net	**₱78,783,300**	(₱181,622,700)	–
Turn over rate	**0.00% - 25.00%**	0.00% - 15.00%	0.00% - 15.00%

The Group's plan assets consist of the following:

	2007	2006	2005
Cash	**₱27,090**	₱26,130	₱24,827
Receivables	**1,351,241,647**	1,289,301,558	1,207,826,532
Liabilities	**(132,727,802)**	(126,384,188)	(109,707,059)
	₱1,218,540,935	₱1,162,943,500	₱1,098,144,300

The Group expects to contribute about ₱77.3 million into the pension fund for the year ending September 30, 2008.

29. **Income Taxes**

Provision for income tax consists of:

	2007	2006	2005
Current	**₱295,655,261**	₱256,450,512	₱259,557,329
Deferred	**156,600,719**	125,914,077	233,851,091
	₱452,255,980	₱382,364,589	₱493,408,420

Components of the Group's deferred income tax assets and liabilities follow:

	2007	2006	2005
Deferred income tax assets on:			
Impairment loss on trade receivables			
and property and equipment	**₱138,522,917**	₱174,591,181	₱165,336,869
Inventory write-downs	**13,869,875**	13,615,167	13,615,167
Others	**9,586,407**	9,586,407	9,586,407
	161,979,199	197,792,755	188,538,443
Deferred income tax liabilities on:			
Undistributed income of foreign			
subsidiaries	**281,250,000**	273,437,500	218,750,000
Foreign exchange gain (loss) - net	**235,403,541**	98,620,522	(3,862,106)
Gain arising from changes in fair value			
less estimated point-of-sale costs			
of swine stocks	**96,885,333**	88,477,912	119,323,183
Others	**–**	32,215,777	23,372,245
	613,538,874	492,751,711	357,583,322
Net deferred income tax liabilities	**(₱451,559,675)**	(₱294,958,956)	(₱169,044,879)

Reconciliation between the Group's statutory tax rate and effective tax rate follows:

	2007	2006	2005
Statutory income tax rate	**35.00%**	34.75%	32.00%
Increase (decrease) in tax rates resulting from:			
Gain on sale of investment (Note 14)	**(16.81)**	–	–
Net income of foreign subsidiaries for which no tax was provided	**(8.15)**	(14.87)	(14.74)
Decline in value of financial assets at FVPL	**(2.66)**	(3.55)	(1.47)
Income exempt from tax	**(1.50)**	(4.88)	(0.35)
Equity in net income of an associate and a joint venture	**(0.14)**	(3.49)	(2.82)
Interest income subjected to final tax	**(0.06)**	(0.19)	(0.32)
Nondeductible interest expense	**–**	0.14	0.04
Others	**1.92**	3.7	4.7
Effective income tax rate	**7.60%**	11.61%	17.04%

RA No. 9337

RA No. 9337 was enacted into law amending various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said RA, which became effective on November 1, 2005, follow:

- Increase in the corporate income tax rate from 32% to 35% with a reduction thereof to 30% beginning January 1, 2009;
- Increase in value-added tax rate from 10% to 12%, effective February 1, 2006 as authorized by the Philippine president pursuant to the recommendation of the Secretary of Finance; subject to compliance to certain economic conditions;
- Revised invoicing and reporting requirements for VAT;
- Expanded scope of transactions subject to VAT; and
- Increase in unallowable interest rate from 38% to 42% with a reduction thereof to 33% beginning January 1, 2009.

Entertainment, Amusement and Recreation (EAR) Expenses

Revenue Regulation No. 10-2002 defines expenses to be classified as EAR expenses and sets a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 0.5% of net sales for sellers of goods or properties or 1% of net revenue for sellers of services. For sellers of both goods or properties and services, an apportionment formula is used in determining the ceiling on such expenses. EAR expenses amounted to ₱22.3 million, ₱19.2 million and ₱14.6 million in 2007, 2006 and 2005, respectively.

30. Earnings Per Share

Basic earnings per share (EPS) is calculated by dividing the net income for the year attributable to common shareholders divided by the weighted average number of common shares outstanding during the year (adjusted for any stock dividends).

The following reflects the income and share data used in the basic/dilutive EPS computations:

	2007	2006	2005
Net income attributable to equity holders of the parent	**₱5,556,978,624**	₱3,018,916,609	₱2,526,249,661
Weighted average number of common shares	**2,221,851,481**	2,127,851,482	1,939,451,481
Basic/dilutive EPS	**₱2.50**	₱1.42	₱1.30

There were no potential dilutive shares in 2007, 2006 and 2005.

31. **Related Party Transactions**

The Group, in the regular conduct of its business, has entered into transactions with JGSHI, its ultimate parent, and other related parties principally consisting of sales, purchases, advances and reimbursement of expenses, various guarantees, regular banking transactions, leases and, management and administrative service agreements.

Intercompany transactions are eliminated in the accompanying consolidated financial statements. Related party transactions not eliminated are as follows:

	2007	2006
Due from related parties (shown under Receivables account in the consolidated balance sheets) (Notes 8)	**₱592,102,151**	₱476,981,668
Due to related parties (shown under Accounts Payable and Other Accrued Liabilities account) in the consolidated balance sheets (Note 17)	**(₱115,764,412)**	(₱159,322,460)

The Group's significant transactions with related parties follow:

(a) Sales to related parties amounted to ₱641.0 million, ₱586.3 million and ₱460.9 million in 2007, 2006 and 2005, respectively.

(b) The Group purchases polypropylene resin for bi-axially oriented polypropylene (BOPP) film from JG Summit Petrochemical Corporation (JGSPC), an affiliate. BOPP film is used as one (1) of the raw materials for the Group's packaging division. Said purchases amounted to ₱559.3 million, ₱568.3 million and ₱750.4 million in 2007, 2006 and 2005, respectively.

(c) The Group also purchases power from Litton Mills, Inc. and JGSPC. Said purchases amounted to ₱139.4 million, ₱129.0 million and ₱199.3 million in 2007, 2006 and 2005, respectively.

(d) JGSHI provides the Group certain corporate services including corporate finance, corporate planning, procurement, human resources, legal and corporate communications.

(e) The Group leases certain properties from JGSHI. Expenses relating to said lease amounted to ₱15.4 million, ₱10.7 million and ₱10.7 million in 2007, 2006 and 2005, respectively.

(f) The Group leases certain properties to various related parties. Rent income earned from said properties amounted to ₱50.3 million, ₱49.6 million and ₱52.7 million in 2007, 2006 and 2005, respectively.

(g) The Group engages in regular bank transactions with Robinsons Savings Bank Corp., an affiliated local commercial bank.

Compensation of Key Management Personnel

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

	2007	2006	2005
Short-term employee benefits	**₱116,756,552**	₱87,864,148	₱85,235,629
Post-employment benefits	**2,533,899**	1,707,426	903,133
	₱119,290,451	₱89,571,574	₱86,138,762

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's pension plans.

32. **Registration with the Board of Investments**

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

URSUMCO
In 2005, the five (5)-year ITH granted to URSUMCO under its old BOI registration as a new domestic producer of refined sugar in 1995 expired. However, the following incentives are still available to URSUMCO under said BOI registration: (a) tax credits on taxes and duties on raw materials and supplies used in the manufacture of export products and forming parts thereof; (b) additional deduction from taxable income on wages subject to certain terms and conditions; (c) exemption from wharfage dues and any export tax, duty impost and fees for ten (10) years from date of registration; (d) exemption from taxes and duties on imported spare parts and supplies for certain producers at least 70% of production; and (e) other non-fiscal incentives that may be applicable.

In 2004, URSUMCO applied for a new registration with the BOI as expanding producer of refined sugar and molasses. The application for registration for the new activity was approved and granted by the BOI in April 2004. Under the terms of its new registration, URSUMCO is entitled, among others, to the following incentives: (a) ITH for a period of three (3) years from April 2004 or actual start of operations, whichever is earlier; (b) tax credits on taxes and duties on raw materials and supplies used in the manufacture of export products and forming parts thereof for ten (10) years from start of commercial operations; (c) additional deduction from taxable income on wages subject to certain terms and conditions; (d) exemption from wharfage dues and any export tax, duty impost and fees for ten (10) years from date of registration; (e) exemption from taxes and duties on imported spare parts and supplies for export producers with Customs Bonded Manufacturing Warehouse (CBMW) exporting at least 70% of production; and (f) importation of consigned equipment for a period of ten (10) years from date of registration.

SONEDCO
In November 2005, SONEDCO was registered with the BOI as a new producer of refined sugar and its by-product (molasses) on a pioneer status.

Under the terms of the registration and subject to certain requirements, SONEDCO is entitled to the following fiscal and non-fiscal incentives: (a) ITH for a period of six (6) years from November 2006; (b) additional deduction from taxable income on wages subject to certain terms and conditions; (c) employment of foreign nationals; (d) tax credits on taxes and duties on raw materials and supplies used in the manufacture of export products and forming parts thereof for ten (10) years from start of commercial operations; (e) simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies; (f) access to CBMW subject to Custom rules and regulations provided firm exports at least 70% of production output; (g) exemption from wharfage dues and any export tax, duty, impost and fees; (h) importation of consigned equipment for a period of ten (10) years from date of registration; and (i) exemption from taxes and duties on imported spare parts and consumable supplies for exports producers with CBMW exporting at least 70% of production.

CFC Clubhouse Property, Inc.
In June 2005, CFC Clubhouse Property, Inc. (CCPI) was registered with the BOI as a new producer of printed flexible packaging materials on a non-pioneer status, and as a new producer of PET bottles on a non-pioneer status.

Under the terms of the registration and subject to certain requirements, CCPI is entitled to the following fiscal and non-fiscal incentives: (a) ITH for a period of four (4) years from April 2007 (as a new producer of printed flexible packaging materials) and from January 2007 (as a new producer of PET bottles); (b) additional deduction from taxable income on wages subject to certain terms and conditions; (c) employment of foreign nationals; (d) tax credits on taxes and duties on raw materials and supplies used in the manufacture of export products and forming parts thereof for ten (10) years from start of commercial operations; (e) simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies; (f) access to CBMW subject to Custom rules and regulations provided firm exports at least 70% of production output; (g) exemption from wharfage dues and any export tax, duty, impost and fees (h) importation of consigned equipment for a period of ten (10) years from date of registration; and (i) exemption from taxes and duties on imported spare parts and consumable supplies for exports producers with CBMW exporting at least 70% of production.

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33. **Commitments and Contingencies**

Operating Lease Commitments - Group as a Lessee
The Group leases land where certain of its facilities are located. The operating lease agreements are for periods ranging from one (1) to five (5) years from the date of the contracts and are renewable under certain terms and conditions. The Group's rentals incurred on these leases (included under Selling and Distribution Costs account in the consolidated statements of income) amounted to ₱55.0 million, ₱62.4 million and ₱46.5 million in 2007, 2006 and 2005, respectively.

Future minimum rentals payable under noncancellable operating leases follow:

	2007	2006	2005
Within one (1) year	**₱14,199,136**	₱44,005,896	₱19,330,942
After one (1) year but not more than five (5) years	**59,982,842**	2,319,970	3,462,874
	₱74,181,978	₱46,325,866	₱22,793,816

Operating Lease Commitments - Group as a Lessor
The Group has entered into a (1) one-year renewable, noncancellable lease with various related parties covering certain land and building where office spaces are located.

Future minimum rentals receivables under noncancellable operating leases follow:

	2007	2006	2005
Within one (1) year	**₱50,329,035**	₱49,968,169	₱53,339,900

Others
The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts, under arbitration or being contested, the outcome of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims, arbitration and assessments.

34. **Business Combinations and Purchase Agreements**

The Group engaged in the following business acquisitions and purchase transactions in 2007:

Acquisition of South Luzon Greenland, Inc. and Purchase of Assets from Nestlé Waters Philippines Inc.
On March 1, 2007, the Group wholly acquired the water business of Nestlé Waters Philippines, Inc. (NWPI) for an aggregate amount of approximately US$5.0 million (₱248.9 million).

In connection with the foregoing acquisition, the Group's BOD also approved the following: (a) the assignment and purchase from NWPI of the "Hidden Spring" trademark and copyright; (b) the purchase from the NWPI of the buildings/improvements and accessories, plants, machinery; (c) laboratory equipment, and furniture; (d) the acquisition of the water source and manufacturing site, through the purchase of all the outstanding shares of stock of South Luzon Greenland, Inc. (SLGI) which are owned by NWPI and Nestlé Philippines, Inc. Retirement Fund; (e) the assignment and transfer to the Group by NWPI of all of its financial claims from SLGI consisting of shareholder's advances; (f) the purchase from NWPI of its inventory of finished products, raw and packaging materials, the consideration for which is not included in the purchase price mentioned above and shall be determined on closing date; and (g) the execution of a licensing agreement with Société Des Produits Nestlé S.A., pursuant to which the Group shall be licensed to manufacture, promote, distribute and sell, the products carrying the "Nestlé Pure Life" trademark in the Philippines.

SLGI was acquired for an aggregate amount of ₱7.7 million in 2007. The fair values of the identifiable assets and liabilities of SLGI as of the date of acquisition were:

	Fair Value Recorded on Acquisition
Cash	₱565,944
Property and equipment	31,458,905
Other current assets	40,778
Liabilities	(24,398,499)
Total assets acquired	₱7,667,128
Consideration, satisfied by cash	₱7,667,128

Acquisition of Acesfood Network Pte. Ltd.
On May 10, 2007, the Group acquired 96.08% of the shares of Acesfood Network Pte. Ltd. (Acesfood) for an aggregate amount of approximately SGD3.0 million (₱87.7 million).

The fair value of the identifiable assets and liabilities of Acesfood as of the date of acquisition were:

	Fair Value Recorded on Acquisition
Property and equipment	₱209,543,860
Accounts payable and other accrued liabilities	(121,803,600)
Total net assets acquired	₱87,740,260
Consideration, satisfied by cash	₱87,740,260

The fair value adjustments as of September 30, 2007 were provisional as the Group had sought an independent valuation for the property and equipment owned by Acesfood. The results of this valuation had not been received as of the date the 2007 consolidated financial statements were authorized for issue by management.

Acesfood trademark
In 2006, the Group acquired the Acesfood trademark amounting to ₱190.2 million (see Note 16).

35. **Events After Balance Sheet Date**

On October 3, 2007, the Group purchased the manufacturing assets of PASSI (Iloilo) Sugar Central, Inc. (PASSI) for ₱680.0 million. PASSI is the largest raw sugar producer in the province of Panay, and currently operates two (2) sugar mills with a combined milling capacity of over 8,000 tons of cane per day. The purchase of PASSI, together with the expansion of the mills and refinery of SONEDCO, will make the Group the second largest sugar miller and refiner in the country.

On November 13, 2007, the Group's BOD approved the creation and implementation of a share buy-back program alloting up to ₱2.5 billion to reacquire a portion of the Company's issued and outstanding common shares, representing approximately 7.63% of current market capitalization.

36. **Supplemental Disclosures of Noncash Financing Activity**

The Group's noncash financing activity pertains to the movement of the Cumulative Translation Adjustment account.

	2007	2006	2005
Cumulative translation adjustment	**(₱221,482,120)**	(₱227,449,799)	₱8,361,007

37. **Reclassification of Accounts**

The following accounts in the 2006 consolidated balance sheet and 2006 and 2005 consolidated statements of income were reclassified to conform with the 2007 consolidated financial statement presentation:

Reclassified from:	Reclassified to:	2006	2005
Due from affiliated companies (shown as a separate line item in the consolidated balance sheets)	Due from related parties (included under Receivables account in the consolidated balance sheets)	₱476,981,668	₱–
Others (included under Receivables account in the consolidated balance sheets)	Advances to officers, employees and suppliers (included under Receivables account in the consolidated balance sheets)	201,649,638	–
Others (included under Other Current Assets account in the consolidated balance sheets)	Derivative assets (included under Other Current Assets account in the consolidated balance sheets)	3,200,097	–
Goodwill (included under Other Noncurrent Assets account in the consolidated balance sheets)	Goodwill (shown as a separate line item in the consolidated balance sheets)	844,548,190	–
Due to affiliated companies (shown as a separate line item in the consolidated balance sheets)	Due to related parties (included under Accounts Payable and Other Accrued Liabilities account in the consolidated balance sheets)	159,322,664	–
Others (included under Accounts Payable and Other Accrued Liabilities account in the consolidated balance sheets)	Derivative liabilities (included under Accounts Payable and Other Accrued Liabilities account in the consolidated balance sheets)	12,491,028	–
Operating and other administrative expenses	Selling and distribution costs (shown as a separate line item in the consolidated statements of income)	4,790,405,938	3,912,572,954
	General and administrative expenses (shown as a separate line item in the consolidated statements of income)	1,332,342,501	1,317,946,536
	Impairment loss (shown as a separate line item in the consolidated statements of income)	43,290,658	223,518,513

38. **Approval of the Consolidated Financial Statements**

The accompanying consolidated financial statements of the Group were authorized for issue by the Audit Committee and the BOD on January 11, 2008.

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