

COVER SHEET

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S. E. C. Registration Number

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P	U	R	E	F	O	O	D	S											
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(Company's Full Name)

23	r	d.		F	l	o	o	r		J	M	T		B	l	d	g	.	
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(Business Address: No. Street City/Town/Province)

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Contact Person

702-5000																			
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Company Telephone Number

SEC FORM

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Month

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Day

17-Q (1st Qtr.-2009)

FORM TYPE

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Month

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Day

Annual Meeting

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Secondary License Type, If Applicable

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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Document I. D.

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SEC FORM 17-Q

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

1. For the quarterly period ended March 31, 2009
2. SEC Identification Number 11840
3. BIR Tax Identification No. 000-100-341-000
4. Exact name of issuer as specified in its charter San Miguel Pure Foods Company, Inc.
5. Philippines
Province, Country or other jurisdiction
Of incorporation or organization
6. _____ SEC Use Only
Industry Classification Code
7. The JMT Corporate Condominium
ADB Avenue, Ortigas Center, Pasig City
Address of issuer's principal office
- 1605
Postal code
8. (02) 702-5000
Issuer's telephone number, including area code
9. Not Applicable
Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Section 4 and 8 of the RSA

Number of Shares of Common Stock
and Long-Term Debt Outstanding (As of March 31, 2009)

<u>Class A - P10 par value</u>	<u>94,663,673</u>
<u>Class B - P10 par value</u>	<u>46,579,677</u>

Long-Term Debt Outstanding - None

11. Are any or all these securities listed on the Philippine Stock Exchange?
- Yes (√) No ()
12. Indicate by check mark whether the registrant:
- a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports);
- Yes (√) No ()
- b) has been subject to such filing requirements for the past ninety (90) days.
- Yes (√) No ()

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of San Miguel Pure Foods Company, Inc. ("SMPFC" or the "Company") and its subsidiaries (collectively, the "Group") as of and for the period ended March 31, 2009 (with comparative figures as of December 31, 2008 and for the period ended March 31, 2008) and Selected Notes to Consolidated Financial Statements are hereto attached as Annex "A." Notes 6 and 7 of the Selected Notes to Consolidated Financial Statements contain the required information on the financial risk exposures and financial instruments of the Company.

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

The information required by Part III, Paragraph (A)(2)(b) of "Annex C, as amended" is attached hereto as Annex "B."

PART II – OTHER INFORMATION

SMPFC, may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C, which would otherwise be required to be filled with respect to such information, or in a subsequent report on Form 17-Q.

None

SIGNATURES

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

Issuer **SAN MIGUEL PURE FOODS COMPANY, INC.**

Signature and Title 
ZENAIDA M. POSTRADO
Vice President and Division Finance Officer

Date May 15, 2009

Annex "A"

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

**Consolidated Financial Statements
for the period ending March 31, 2009
*(with comparative figures for 2008)***

Annex A

SEC Number 11840
File Number _____

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

(Company's Full Name)

**JMT Corporate Condominium
ADB Avenue, Ortigas Center, Pasig City**

(Company's Address)

702-5000

(Telephone Number)

(Year Ending)
(month & day)

**Quarterly Consolidated
Financial Statements**

Form Type

Amendment Designation (If applicable)

March 31, 2009

Period Ended Date

(Secondary License Type and File Number)

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

	March 2009 Unaudited	December 2008 Audited
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6 and 7)	₱1,557,604	₱2,782,206
Trade and other receivables - net (Notes 4, 6 and 7)	5,946,402	7,762,091
Inventories - net	13,496,581	11,804,788
Biological assets	3,298,912	2,932,421
Prepaid expenses and other current assets (Note 7)	1,044,396	850,565
Total Current Assets	25,343,895	26,132,071
Noncurrent Assets		
Property, plant and equipment - net (Note 3)	7,997,980	8,058,423
Biological assets - net	1,187,576	1,115,963
Goodwill and intangible assets - net	322,913	326,600
Deferred tax assets	1,093,269	1,096,259
Pension and other noncurrent assets (Notes 4 and 7)	287,249	272,715
Total Noncurrent Assets	10,888,987	10,869,960
	₱36,232,882	₱37,002,031
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Notes 6 and 7)	₱11,100,630	₱11,666,380
Trade payables and other current liabilities (Notes 4, 6 and 7)	9,243,338	9,706,252
Income tax payable	300,788	208,860
Derivative liabilities (Note 7)	114,530	144,213
Total Current Liabilities	20,759,286	21,725,705
Noncurrent Liabilities		
Pension liability	120,120	77,458
Deferred tax liabilities	254,239	238,260
Total Noncurrent Liabilities	374,359	315,718
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock	1,454,510	1,454,510
Additional paid-in capital	5,821,288	5,821,288
Revaluation surplus	18,219	18,219
Cumulative translation adjustments	(72,913)	(70,416)
Retained earnings	5,727,438	5,584,315
Treasury stock	(182,094)	(182,094)
	12,766,448	12,625,822
Non-controlling Interests	2,332,789	2,334,786
Total Equity	15,099,237	14,960,608
	₱36,232,882	₱37,002,031

Note: See accompanying Management Discussion and Analysis and Selected Notes to Consolidated Financial Statements

CERTIFIED CORRECT:


ZENAIDA M. POSTRADO
Vice President and Division Finance Officer

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)****(Amounts in Thousands, Except Basic Earnings Per Share)**

	For the Three Months Ended	
	March 2009	March 2008
SALES (Note 4)	₱17,813,811	₱16,047,349
COST OF SALES (Note 4)	15,070,751	13,634,115
GROSS PROFIT	2,743,060	2,413,234
SELLING AND ADMINISTRATIVE EXPENSES (Note 4)	(2,240,239)	(1,998,979)
INTEREST EXPENSE AND FINANCING CHARGES	(224,363)	(153,780)
INTEREST INCOME	13,312	10,229
GAIN ON SALE OF INVESTMENTS AND PROPERTY, PLANT & EQUIPMENT	959	3,302
OTHER INCOME (CHARGES) – net	(22,059)	89,593
INCOME BEFORE INCOME TAX	270,670	363,599
INCOME TAX EXPENSE	128,011	185,919
NET INCOME	₱142,659	₱177,680
ATTRIBUTABLE TO:		
Equity holders of the Parent Company	₱143,123	₱162,418
Non-controlling interests	(464)	15,262
	₱142,659	₱177,680
Basic Earnings Per Share attributed to Equity holders of the Parent Company (Note 5)	₱1.01	₱1.15

Note: See accompanying Management Discussion and Analysis and Selected Notes to Consolidated Financial Statements

CERTIFIED CORRECT:**ZENADA M. POSTRADO**

Vice President and Division Finance Officer

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(Amounts in Thousands)

	For the Three Months Ended	
	March 2009	March 2008
NET INCOME	₱142,659	₱177,680
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	(4,600)	5,467
NET GAIN ON CASH FLOW HEDGES	3,005	-
INCOME TAX	(902)	-
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD - NET OF TAX	(2,497)	5,467
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD - NET OF TAX	₱140,162	₱183,147
COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Equity holders of the Parent Company	₱141,776	₱166,518
Non-controlling interests	(1,614)	16,629
	₱140,162	₱183,147

Note: See accompanying Management Discussion and Analysis and Selected Notes to Consolidated Financial Statements

CERTIFIED CORRECT:

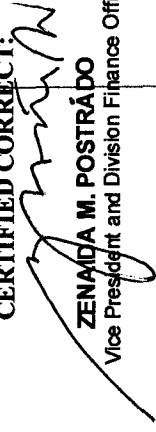

ZENAIDA M. POSTRADO
 Vice President and Division Finance Officer

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company										Non-controlling Interests	Total Equity
	Capital Stock	Additional Paid-In Capital	Revaluation Surplus	Cumulative Translation Adjustments				Retained Earnings	Treasury Stock	Total		
				Translation Reserve	Hedging Reserve	Fair Value Reserve						
Balance at December 31, 2008 (Audited)	P1,454,510	P5,821,288	P18,219	(P66,657)	(P7,837)	P4,078	P5,584,315	(P182,094)	P12,625,822	P2,334,786	P14,960,608	(4,600)
Foreign currency translation differences	-	-	-	(4,600)	-	-	-	-	(4,600)	-	-	(4,600)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	-	2,103	-	-	-	2,103	-	-	2,103
Total income and expense recognized directly in equity	-	-	-	(4,600)	2,103	-	-	-	(2,497)	-	-	(2,497)
Net income for the period	-	-	-	-	-	-	143,123	-	143,123	(464)	142,659	(464)
Total recognized income and expense	-	-	-	(4,600)	2,103	-	143,123	-	140,626	(464)	140,162	(464)
Addition/Deduction in non-controlling interests	-	-	-	-	-	-	-	-	-	(1,533)	(1,533)	-
Balance at March 31, 2009 (Unaudited)	P1,454,510	P5,821,288	P18,219	(P71,257)	(P5,734)	P4,078	P5,727,438	(P182,094)	P12,766,448	P2,332,789	P15,099,237	P15,099,237
Balance at December 31, 2007 (Audited)	P1,454,510	P5,821,288	P18,219	(P67,815)	(P368)	P3,994	P5,507,121	(P182,094)	P12,554,855	P2,255,287	P14,810,142	5,467
Foreign currency translation differences	-	-	-	5,467	-	-	-	-	5,467	-	5,467	-
Total income and expense recognized directly in equity	-	-	-	5,467	-	-	-	-	5,467	-	5,467	-
Net income for the period	-	-	-	-	-	-	162,418	-	162,418	15,262	177,680	15,262
Total recognized income and expense	-	-	-	-	-	-	162,418	-	167,885	15,262	183,147	15,262
Addition/Deduction in non-controlling interests	-	-	-	-	-	-	-	-	-	1,822	1,822	-
Balance at March 31, 2008 (Unaudited)	P1,454,510	P5,821,288	P18,219	(P62,348)	(P368)	P3,994	P5,669,539	(P182,094)	P12,722,740	P2,272,371	P14,995,111	P14,995,111

Note: See accompanying Management Discussion and Analysis and Selected Notes to Consolidated Financial Statements

CERTIFIED CORRECT:


ZENAIDA M. POSTRADO
Vice President and Division Finance Officer

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Amounts in Thousands)

	For the Three Months Ended	
	March 2009	March 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P270,670	P363,599
Adjustments for:		
Depreciation and amortization	412,137	392,208
Interest expense and financing charges	224,363	153,780
Interest income	(13,312)	(10,229)
Other charges net of loss on derivative transactions	11,909	289,773
Gain on sale of investments and property and equipment	(959)	(3,302)
Operating income before working capital changes	904,808	1,185,829
Allowance for impairment losses on receivables and inventory losses	16,234	12,692
Decrease (increase) in:		
Trade and other receivables	1,806,439	1,645,549
Inventories	(1,690,264)	(1,409,552)
Biological assets - current	(366,491)	(215,180)
Other current assets	(198,904)	(124,889)
Decrease in trade payables and other current liabilities	(548,346)	(536,159)
Cash generated from (used in) operations	(76,524)	558,290
Interest paid	(188,442)	(157,222)
Income taxes paid (including final tax)	(17,385)	(17,878)
Interest received	10,389	8,441
Net cash flows provided by (used in) operating activities	(271,962)	391,631
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Biological assets - noncurrent	(279,408)	(228,406)
Other noncurrent assets	24,690	54,904
Additions to property, plant and equipment	(134,574)	(147,868)
Proceeds from sale of investments and property and equipment	2,402	3,302
Net cash flows used in investing activities	(386,890)	(318,068)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net availments (payments) of notes payable	(565,750)	93,869
Net cash flows provided by (used in) financing activities	(565,750)	93,869
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,224,602)	167,432
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,782,206	1,342,643
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P1,557,604	P1,510,075

Note: See accompanying Management Discussion and Analysis and Selected Notes to Consolidated Financial Statements

CERTIFIED CORRECT:


ZENAIDA M. POSTRADO
Vice President and Division Finance Officer

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES
 AGING OF ACCOUNTS RECEIVABLE
 AS OF MARCH 31, 2009

I. AGING OF ACCOUNTS RECEIVABLE

Type of Receivable:	Total	Current	1-30 days	31-60 days	61-90 days	Over 90 days
A. Trade	₱5,404,240,617.57	₱3,527,766,628.96	₱610,201,780.00	₱132,546,643.89	₱124,074,585.16	₱1,009,650,979.56
Less: Allowance	555,712,650.77	-	-	-	2,698,651.85	553,013,998.92
Net Trade Receivable	4,848,527,966.80	3,527,766,628.96	610,201,780.00	132,546,643.89	121,375,933.31	456,636,980.64
B. Non-Trade	1,160,108,730.49	428,892,335.11	44,097,691.74	48,326,635.19	142,089,595.59	496,702,472.86
Less: Allowance	62,234,689.43	-	-	-	-	62,234,689.43
Net Non-Trade Receivable	1,097,874,041.06	428,892,335.11	44,097,691.74	48,326,635.19	142,089,595.59	434,467,783.43
Net Receivables	₱5,946,402,007.86	₱3,956,658,964.07	₱654,299,471.74	₱180,873,279.08	₱263,465,528.90	₱891,104,764.07

Accounts Receivable Description

Trade - Receivables arising from the ordinary course of business
 Non - Trade - consist mostly of receivables from affiliates/SMC subsidiaries/receivables from employees and deposits/claims from suppliers

II. Accounts Receivable Description

Type of Accounts Receivable:

Nature/Description

Collection Period

a. Trade Receivables

Sales of fresh and processed meats, poultry, feeds, flour, cooking oils, breadfill, snacks, noodles, desserts and dairy-based products and importation and marketing of coffee and coffee-related products

San Miguel Foods, Inc. 33 days
 San Miguel Mills, Inc. (formerly SMFI-Flour Business) 28 days
 Magnolia, Inc. and Subsidiary 43 days
 Monterey Foods Corporation 30 days
 PT San Miguel Pure Foods Indonesia 51 days
 San Miguel Super Coffeemix Co., Inc. 45 days
 The Purefoods Hormel Company, Inc. 41 days
 Great Food Solutions 42 days

b. Non-Trade Receivables

Advances to affiliates and company loans extended to employees
 Employee loans and advances
 Advances to Affiliates

Every 15th & 30th of the month
 Upon demand

III. Normal Operating Cycle

San Miguel Foods, Inc. 102 days
 San Miguel Mills, Inc. (formerly SMFI-Flour Business) 107 days
 Magnolia, Inc. and Subsidiary 198 days
 Monterey Foods Corporation 130 days
 PT San Miguel Pure Foods Indonesia 86 days
 San Miguel Super Coffeemix Co., Inc. 189 days
 The Purefoods Hormel Company, Inc. 141 days
 Great Food Solutions 102 days

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Per Share Data)

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its consolidated interim financial statements as of and for the period ended March 31, 2009 and comparative financial statements for the same period in 2008 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, Interim Financial Reporting. The consolidated financial statements of the Group have been prepared in compliance with accounting principles generally accepted in the Philippines as set forth in Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements are presented in Philippine peso and all values are rounded to the nearest thousand (₱000), except when otherwise indicated.

The principal accounting policies and methods adopted in preparing the interim consolidated financial statements of the Group are the same as those followed in the 2008 audited annual financial statements.

Adoption of New Standards, Amendments to Standards and Interpretations

The Financial Reporting Standards Council (FRSC) approved the adoption of new standards, amendments to standards, and interpretations as part of PFRS.

Amendments to Standard and Interpretations Adopted in 2009

Starting January 1, 2009, the Group adopted the following amended PAS and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC):

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, becomes effective for financial years beginning on or after July 1, 2008. This interpretation addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. This interpretation did not have a significant effect on the consolidated financial statements.
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*, becomes effective for financial years beginning on or after October 1, 2008. This interpretation applies to all entities using net investment hedging for investments in foreign operations and clarifies that net investment hedging can be applied only when the net assets of the foreign operation are included in the financial statements of the entity. The requirements in the interpretation do not apply to other forms of hedge accounting under PAS 39 and cannot be applied by analogy. IFRIC 16 provides guidance on the following issues: a) nature of the hedged risk and the amount of the hedged item for which a hedging relationship may be designated; b) where the hedging instrument can be held and assessing hedge effectiveness; and c) disposal of a foreign operation. This interpretation did not have an effect on the consolidated financial statements as there is no hedge of a net investment in a foreign operation.
- PFRS 8, *Operating Segments*, becomes effective for financial years beginning on or after January 1, 2009 and replaces PAS 14, *Segment Reporting*. This standard introduces the “management approach” to segment reporting and requires a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Company’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them. Currently, the Group presents segment information in respect of its business segments (Note 2).

- Revised PAS 1, *Presentation of Financial Statements*, becomes effective for financial years beginning on or after January 1, 2009. The standard has been revised to introduce the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the statement of income and all non-owner changes in equity in a single statement), or in a statement of income and a separate statement of comprehensive income. The Group elected to present two separate statements.
- Revised PAS 23, *Borrowing Costs*, becomes effective for financial years beginning on or after January 1, 2009. The standard removes the option to expense borrowing costs and requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. This revised standard did not have a material effect on the consolidated financial statements.
- Amendments to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*, becomes effective for financial years beginning on or after January 1, 2009. The standard has been amended to require puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The adoption of these amendments did not have an effect on the consolidated financial statements.
- Amendment to PFRS 2, *Share-based Payment - Vesting Conditions and Cancellations*, becomes effective for financial years beginning on or after January 1, 2009. The standard has been amended to clarify the definition of vesting conditions, introduce the concept of non-vesting conditions, require non-vesting conditions to be reflected in grant-date fair value and provide the accounting treatment for non-vesting conditions and cancellations. The adoption of this amendment did not have a material effect on the consolidated financial statements.
- Amended PFRS 1, *First Time Adoption of Philippine Financial Reporting Standards* and PAS 27, *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, becomes effective for financial years beginning on or after January 1, 2009. The amendments to PFRS 1 allow a first-time adopter, at its date of transition to IFRS in its separate financial statements, to use deemed cost to account for an investment in a subsidiary, jointly controlled entity or associate. The amendments to PAS 27 remove the definition of “cost method” currently set out in PAS 27, and instead require all dividend from a subsidiary, jointly controlled entity or associate to be recognized as income in the separate financial statements of the investor when the right to receive the dividend is established. The adoption of these amendments did not have an effect on the consolidated financial statements.
- *Improvements to PFRS 2008* discusses 35 amendments and is divided into two parts: a) Part I includes 24 amendments that result in accounting changes for presentation, recognition or measurement purposes ; and b) Part II includes 11 terminology or editorial amendments that the International Accounting Standards Board expects to have either no or only minimal effects on accounting. The improvements did not have a material effect on the consolidated financial statements.

2. Segment Information

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

The Group used to classify its business segments into two (2) major groupings, namely, Meats and Poultry, and Feeds and Flour. The other businesses of the Group are under Dairy and Others.

In compliance with *PFRS 8, Operating Segments*, which took effect January 1, 2009, the Group identified three (3) reportable business segments, namely, Agro-Industrial, Value-Added Meats and Milling. Management identified and grouped the operating units in its business segments with the objective of transforming the Group into a more rationalized and focused organization. The structure aims to boost efficiencies across the Group and raise effectiveness in defining and meeting the needs of consumers in innovative ways.

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

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

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

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

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

Information with regard to the Group's significant business segment operations are shown below:

	For the Three Months Ended March 31, 2009						
	Agro- Industrial	Value Added Meats	Milling	Total Reportable Segments	Dairy & Others	Eliminations	Consolidated
REVENUES							
External Sales	₱ 11,962,723	₱ 2,259,136	₱ 1,823,682	₱ 16,045,541	₱ 1,768,270	₱-	₱ 17,813,811
Inter-segment sales	141,705	181,742	219,621	543,068	171,063	(714,131)	-
Total Revenues	12,104,428	2,440,878	2,043,303	16,588,609	1,939,333	(714,131)	17,813,811
Segment operating results*	360,565	63,734	21,767	446,066	(5,515)	(157)	440,394
Interest expense and financing charges							(224,363)
Interest income							13,312
Gain on sale of investments and property, plant and equipment							959
Other income (charges) – net							40,368
Income before Income Tax							₱ 270,670

For the Three Months Ended March 31, 2008

	Agro- Industrial	Value Added Meats	Milling	Total Reportable Segments	Dairy & Others	Eliminations	Consolidated
Net sales							
External Sales	₱ 9,432,912	₱ 2,191,443	₱ 1,920,670	₱ 13,545,025	₱ 2,502,324	₱-	₱ 16,047,349
Inter-segment sales	951,807	120,989	200,420	1,273,216	223,207	(1,496,423)	-
Total Revenues	10,384,719	2,312,432	2,121,090	14,818,241	2,725,531	(1,496,423)	16,047,349
Segment operating results*	413,267	117,939	169,633	700,839	(10,693)	(157)	689,989
Interest expense and financing charges							(153,780)
Interest income							10,229
Gain on sale of investments and property, plant and equipment							3,302
Other income (charges) – net							(186,141)
Income before Income Tax							₱ 363,599

* including realized mark-to-market gain (loss) on commodity derivatives

3. Property, Plant and Equipment

This account consists of:

	Land and Improvements	Buildings and Improvements	Machinery, Equipment, Furniture and Others	Transportation Equipment	Construction in Progress	Total
Cost:						
Balance at December 31, 2008	₱1,496,344	₱4,050,351	₱8,348,129	₱506,203	₱883,827	₱15,284,854
Additions	1,026	1,301	17,305	107	114,834	134,573
Disposals	-	(825)	(10,549)	(4,028)	-	(15,402)
Transfers/reclassifications	86	24,240	84,102	1,216	(113,571)	(3,927)
Exchange differential	(1,263)	(1,076)	(5,273)	(985)	(370)	(8,967)
Balance at March 31, 2009	1,496,193	4,073,991	8,433,714	502,513	884,720	15,391,131
Accumulated depreciation and amortization:						
Balance at December 31, 2008	₱251,338	₱1,651,793	₱4,868,931	₱454,369	₱-	₱7,226,431
Depreciation for the period	4,693	44,622	128,965	6,667	-	184,947
Disposals	-	(727)	(9,203)	(4,028)	-	(13,958)
Transfers/reclassifications	-	-	(16)	-	-	(16)
Exchange differential	-	(456)	(2,884)	(913)	-	(4,253)
Balance at March 31, 2009	256,031	1,695,232	4,985,793	456,095	-	7,393,151
Net book value at March 31, 2009	₱1,240,162	₱2,378,759	₱3,447,921	₱46,418	₱884,720	₱7,997,980
Cost:						
Balance at December 31, 2007	₱1,474,063	₱3,872,021	₱7,801,106	₱514,201	₱1,360,207	₱15,021,598
Additions	647	560	8,433	978	137,250	147,868
Disposals	-	-	(2,267)	(3,244)	-	(5,511)
Transfers/reclassifications	1,648	30,076	55,213	-	(112,611)	(25,674)
Exchange differential	1,263	1,076	5,130	1,011	135	8,615
Balance at March 31, 2008	1,477,621	3,903,733	7,867,615	512,946	1,384,981	15,146,896
Accumulated depreciation and amortization:						
Balance at December 31, 2007	₱233,907	₱1,485,568	₱4,607,183	₱443,688	₱-	₱6,770,346
Depreciation for the period	4,282	42,503	113,658	10,048	-	170,491
Disposals	-	-	(2,217)	(3,244)	-	(5,461)
Transfers/reclassifications	-	-	11	-	-	11
Exchange differential	-	424	2,581	905	-	3,910
Balance at March 31, 2008	238,189	1,528,495	4,721,216	451,397	-	6,939,297
Net book value at March 31, 2008	₱1,239,432	₱2,375,238	₱3,146,399	₱61,549	₱1,384,981	₱8,207,599

Depreciation and amortization charged to operations amounted to ₱184.9 million and ₱170.5 million in March 2009 and March 2008, respectively.

4. Related Party Transactions

Transactions with related parties are made at normal market prices.

Significant transactions with related parties and the related balances are as follows:

Name of Company	Relationship	Nature of Transactions	March 31	December 31
			2009	2008
<i>(In Thousands)</i>				
San Miguel Corporation (SMC)	Ultimate Parent Company	Sales	₱ 1,567,615	₱ 7,437,073
		Purchases	101,153	561,929
		Trade and other receivables	1,183,491	1,906,940
		Trade payables and other current liabilities	706,520	704,221
Anchor Insurance Brokerage Corporation	Affiliate	Purchases	14	12,044
		Trade and other receivables	10	204
		Trade payables and other current liabilities	46	190
Ginebra San Miguel, Inc.	Affiliate	Sales	–	2,110
		Purchases	410	553
		Trade and other receivables	18,696	19,148
		Trade payables and other current liabilities	9,806	11,168
San Miguel Yamamura Packaging Corporation (formerly San Miguel Packaging Specialists, Inc.)	Affiliate	Sales	–	5,702
		Purchases	24,389	117,632
		Trade and other receivables	5,243	18,480
		Trade payables and other current liabilities	65,161	86,848
San Miguel Brewery Inc.	Affiliate	Sales	–	7,859
		Purchases	1,643	3,241
		Trade and other receivables	2,318	20,857
		Trade payables and other current liabilities	10,454	19,955
San Miguel Beverages, Inc.	Affiliate	Sales	382	4,322
		Purchases	285	1,363
		Trade and other receivables	10,716	12,618
		Trade payables and other current liabilities	728	2,875
San Miguel Rengo Packaging Corporation	Affiliate	Purchases	25,707	193,022
		Trade payables and other current liabilities	43,201	54,798

(forward)

Name of Company	Relationship	Nature of Transactions	March 31	December 31
			2009	2008
<i>(In Thousands)</i>				
SMITS, Inc.	Affiliate	Sales	P –	P 251
		Purchases	3,740	57,675
		Trade and other receivables	119	1,040
		Trade payables and other current liabilities	75,592	88,617
SMC Shipping and Lighterage Corporation	Affiliate	Purchases	60,760	204,298
		Trade and other receivables	13,571	17,925
		Trade payables and other current liabilities	534,685	534,820
San Miguel International, Limited	Affiliate	Trade and other receivables	44,491	42,990
		Trade payables and other current liabilities	–	3,612
San Miguel Properties, Inc.	Affiliate	Purchases	–	957
		Trade and other receivables	731	1,312
		Non-current receivables	291	291
		Trade payables and other current liabilities	341	691
San Miguel Yamamura Asia Corp.	Affiliate	Purchases	5,525	30,240
		Trade and other receivables	1,680	479
		Trade payables and other current liabilities	6,053	4,126
Star Dari, Inc.	Affiliate	Purchases	P 9,361	P 6,883
		Trade payables and other current liabilities	97,419	89,287
Archen Technologies, Inc.	Affiliate	Purchases	139	1,601
		Trade and other receivables	21	122
		Trade payables and other current liabilities	934	2,288
San Miguel Distribution Co., Inc.	Affiliate	Purchases	2,808	4,294
		Trade and other receivables	156	209
		Trade payables and other current liabilities	1,465	3,169

Affiliates refer to companies controlled by SMC.

5. Earnings Per Share (EPS)

The following table presents information necessary to calculate EPS:

	For the Three Months Ended	
	March 31, 2009	March 31, 2008
(a) Net income attributable to equity holders of the Parent Company	P143,123	P162,418
(b) Weighted average number of shares	141,243,350	141,243,350
Earnings Per Share (a/b)	P1.01	P1.15

6. Financial Risk Management Objectives and Policies

Objectives and Policies

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

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

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

The Group's accounting policies in relation to derivatives are set out in Note 7.

Interest Rate Risk

The Group's exposure to changes in interest rates relates primarily to the Group's notes payable.

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

Foreign Currency Risk

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

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

	March 31, 2009		December 31, 2008	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets:				
Cash and cash equivalents	US\$1,501	₱72,543	US\$1,127	₱53,556
Accounts receivable (included under "Trade and other receivables")	2,902	140,254	3,049	144,889
Total	4,403	212,797	4,176	198,445
Liabilities (included under "Trade payables and other current liabilities")				
Acceptance payable	316	15,272	925	43,956
Trade payables	41,948	2,027,347	1,340	63,677
Total	42,264	2,042,619	2,265	107,633
Net foreign currency-denominated liabilities	(US\$37,861)	(₱1,829,822)	US\$1,911	₱90,812

With the translation of these foreign currency-denominated assets and liabilities, the Group reported net foreign exchange gain amounting to ₱2.5 million and ₱5.9 million as of March 31, 2009 and December 31, 2008, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations) as of March 31, 2009 and December 31, 2008.

	March 31, 2009			
	P1 decrease in the US dollar exchange rate		P1 increase in the US dollar exchange rate	
	Effect on Income before Income Tax	Effect on Equity (net of tax)	Effect on Income before Income Tax	Effect on Equity (net of tax)
Cash and cash equivalents	(₱1,501)	(₱1,051)	₱1,501	₱1,051
Trade and other receivables	(2,902)	(2,031)	2,902	2,031
	(4,403)	(3,082)	4,403	3,082
Trade payables and other current liabilities	42,264	29,585	(42,264)	(29,585)
	₱37,861	₱26,503	(₱37,861)	(₱26,503)

December 31, 2008				
	P1 decrease in the US dollar exchange rate		P1 increase in the US dollar exchange rate	
	Effect on Income before Income Tax	Effect on Equity (net of tax)	Effect on Income before Income Tax	Effect on Equity (net of tax)
Cash and cash equivalents	(P1,127)	(P733)	P1,127	P733
Trade and other receivables	(3,049)	(1,982)	3,049	1,982
	(4,176)	(2,715)	4,176	2,715
Trade payables and other current liabilities	2,265	1,472	(2,265)	(1,472)
	(₱1,911)	(P1,243)	₱1,911	₱1,243

Commodity Price Risk

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

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

Liquidity Risk

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

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

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments as of March 31, 2009 and December 31, 2008:

Non-derivative financial liabilities	March 31, 2009		
	Carrying Amount	Contractual cash flow	Less than 1 year
Notes payable including accrued interest payable	₱11,157,263	₱11,173,339	₱11,173,339
Trade payables and other current liabilities	9,186,705	9,186,705	9,186,705

Non-derivative financial liabilities	December 31, 2008		
	Carrying Amount	Contractual cash flow	Less than 1 year
Notes payable including accrued interest	₱11,749,174	₱11,784,993	₱11,784,993
Trade payables and other current liabilities	9,623,458	9,623,458	9,623,458

Credit Risk

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

With respect to credit risk arising from the other financial assets of the Group, which comprise of cash and cash equivalents and certain derivative instruments, the Group’s exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments, net of the value of collaterals, if any. Financial information on the Group’s maximum exposure to credit risk as of March 31, 2009 and December 31, 2008, without considering the effects of collaterals and other risk mitigation techniques are presented below.

	March 31, 2009	December 31, 2008
Cash and cash equivalents	₱1,557,604	₱2,782,206
Trade and other receivables - net	5,946,402	7,762,091
Derivative assets	31,280	35,757
Available-for-sale investments	11,459	11,426
	₱7,546,745	₱10,591,480

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

Financial and Other Risks Relating to Livestock

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

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

The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production

and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.

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

Capital Management

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

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

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

The Group is not subject to externally imposed capital requirements.

7. Financial Assets and Liabilities

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

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The fair value of the consideration given or received is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rate of interest for similar instruments with similar maturities. The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

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

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

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

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

Financial Assets

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

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognized in the consolidated statements of income.

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

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

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

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

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

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS or financial asset at FVPL. Loans and receivables are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest method.

The Group's cash and cash equivalents and trade and other receivables are included in this category.

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Gains and losses are recognized in the consolidated statements of income when the HTM investments are derecognized or impaired, as well as through the amortization process.

The Group has no investments classified as HTM as of March 31, 2009 and December 31, 2008.

AFS Investments. AFS investments are non-derivative financial assets that are designated in this category or are not classified in any of the other categories. Subsequent to initial recognition, AFS investments are carried at fair value in the consolidated statements of financial position. Changes in the fair value of such assets are reported in the equity section of the consolidated statements of financial position until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in equity is transferred to the consolidated statements of income. Interest earned on holding AFS investments are recognized in the consolidated statements of income using effective interest rate.

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

Financial Liabilities

Financial Liability at FVPL. Financial liabilities are classified in this category if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Group elects to designate a financial liability under this category.

Included in this category are the Group's derivative financial instruments with negative fair values.

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

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

Included in this category are the Group's notes payable, trade payables and other current liabilities.

Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

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

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

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

	March 31, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	₱ 1,557,604	₱ 1,557,604	₱2,782,206	₱2,782,206
Trade and other receivables – net	5,946,402	5,946,402	7,762,091	7,762,091
Derivative assets (included under “Prepaid expenses and other current assets” account)	31,280	31,280	35,757	35,757
Available-for-sale investments (included under “Pension and other noncurrent assets” account)	11,459	11,459	11,426	11,426
Financial Liabilities				
Notes payable	11,100,630	11,100,630	11,666,380	11,666,380
Trade payables and other current liabilities	9,243,338	9,243,338	9,706,252	9,706,252
Derivative liabilities	114,530	114,530	144,213	144,213

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

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

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

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

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

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments that are categorized into those accounted for as hedges and those that are not designated as hedges are discussed below.

Derivative Instruments Accounted for as Hedges

Freestanding Derivatives

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

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

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

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

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

As of March 31, 2009, and December 31, 2008, the Group has no outstanding derivatives accounted for as fair value hedges.

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

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

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

As of March 31, 2009 and December 31, 2008, the Group has outstanding commodity options designated as effective cash flow hedges. The effective fair value changes, net of tax, on the Group's cash flow hedges that were deferred in equity as of March 31, 2009 and December 31, 2008 amounted to ₱5.7 million and ₱7.8 million, respectively.

Commodity Options

The Group has outstanding options bought and sold that have been entered into on its behalf by SMC to hedge fuel oil requirements in 2009. These options can be exercised at various calculation dates in 2009 with specified quantities on each calculation date. As of March 31, 2009 and December 31, 2008, the notional quantity allocated to the Group is 428 metric tons and 571 metric tons, respectively. The negative fair value of these options amounted to ₱7.2 million and ₱9.9 million as of March 31, 2009 and December 31, 2008, respectively.

Net Investment Hedge. As of March 31, 2009 and December 31, 2008, the Group has no hedge of a net investment in a foreign operation.

Derivative Instruments Not Accounted for as Hedges

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

Freestanding Derivatives

Commodity Options

The Group has outstanding bought and sold options covering its fuel oil requirements in 2009. These options can be exercised at various calculation dates in 2009 with specified quantities on each calculation date. As of March 31, 2009 and December 31, 2008, the notional quantity allocated to the Group is 1,285 metric tons and 1,714 metric tons, respectively. The negative fair value of these options amounted to ₱18.2 million and ₱25.8 million as of March 31, 2009 and December 31, 2008, respectively.

The Group also has outstanding bought and sold and options covering its wheat requirements with various maturities up to November 2009. As of March 31, 2009 and December 31, 2008, the notional quantity allocated to the Group is 47,355 metric tons and 34,292 metric tons, respectively. The net negative fair value of these options as of March 31, 2009 and December 31, 2008 amounted to ₱61.9 million and ₱93.9 million, respectively.

Embedded Derivatives

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

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

Embedded Currency Forwards

The Group's embedded derivatives include currency forwards embedded in non-financial contracts. As of March 31, 2009 and December 31, 2008, the total outstanding notional amount of such forwards amounted to US\$23.0 million and US\$23.4 million, respectively. These non-financial contracts consist mainly of foreign-currency denominated purchase orders, sales agreements and capital expenditures. As of March 31, 2009 and December 31, 2008, the net positive fair value of these embedded currency forwards amounted to ₱4.1 million and ₱21.1 million, respectively.

8. Other Matters

- a. There were no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Conditions and Results of Operations portion of the Group's SEC 17Q Report.
- b. There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.
- c. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- d. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operations.
- e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual consolidated statements of financial position date, except for Note 31 (c) of the 2008 Audited Consolidated Financial Statements that remain outstanding as of March 31, 2009. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- f. There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended March 31, 2009.
- g. Except for the Value-Added or Processed Meats and Dairy Businesses which consistently generate higher revenues during the Christmas holiday season, the effects of seasonality or cyclicity on the interim operations of the Company's other businesses are not material.
- h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end of March 31, 2009. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the businesses. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash and short-term loans.
- i. There were no issuances, repurchases, and repayments of debt and equity securities done by the Group as of and for the period ended March 31, 2009.
- j. There were no dividends paid (aggregate or per share) separately for ordinary shares of the Company as of and for the period ended March 31, 2009.

various increases in operating costs, interest expense and other charges.

Income tax expense declined by 31% due to the lower taxable income for the quarter registered by some subsidiaries versus same period last year.

With the increases in raw material costs, selling and administrative expenses, and financing costs, as well as the impact of mark-to-market losses, net income for the period registered at P 142.7 million, dropping from the P 177.7 million reported for the same period last year. And, thus, the decline as well in both net income attributable to equity holders of the Parent Company and to non-controlling interests.

Business Highlights:

Agro-Industrial

San Miguel Foods, Inc.'s (SMFI) Poultry Business, still accounting for the biggest chunk in the Group's revenue, posted a 21% increase in sales driven by a 9% volume growth and better selling prices. Higher feeds and broiler costs, combined with increases in various selling and administrative expenses, however, prevented the business from registering operating results at par with same period last year.

The Feeds Business under SMFI registered sales revenue growth of 17% due to sustained favorable selling prices and higher volume aided by various selling and marketing programs implemented. Cost reduction and efficiency improvement programs initiated by the business, coupled with purposive reduction in fixed costs, helped temper the effects of increasing costs of some raw materials, particularly soybean meal, and the related realized mark-to-market loss recognized on commodity derivatives, hence, a business performance substantially higher than last year's level was achieved.

Monterey Foods Corporation's Basic Meats Business registered 5% growth in volume in spite of the weakening demand due to the E. Reston virus scare in the early part of February. Better selling prices likewise helped the business achieve the 11% increase in revenues. However, the high cost to produce, brought about by higher direct materials cost, increase in antibiotics cost and the use of corn as alternative to the less expensive tapioca due to shortage of supply of the latter, affected the operating performance of the business.

Value-Added

Despite a volume 4% below last year's level due to soft market demand and tight competition, the Value-Added or Processed Meats Business under The Purefoods-Hormel Company, Inc. posted a modest sales revenue growth of 6% on account of better selling prices and new product introductions. Higher cost of some of its major raw materials, as well as increase in operating expenses such as third party services and merchandising expenses, however, prevented the business from registering operating profits higher than last year's level.

Milling

The Company's Milling Segment under San Miguel Mills, Inc., whose businesses include flour and snacks and noodles, was able to register flour sales volume at par with same period last year. However, the sharp drop in flour prices industry wide from December 2008 levels, brought about by lower world wheat prices and temporary six-month suspension of tariff on wheat, resulted in flour sales revenue lagging by 2% below 2008 level. With flour prices dropping at a much faster pace than the decline in wheat costs, as well as the impact of realized mark-to-market loss on wheat derivatives, the operating results of the business dropped 87% from last year's level.

Dairy & Others

Magnolia Inc.'s revenue for the three months ended March 2008 reached P 1.2 billion, 5% above 2007 due to better selling prices and record high volume level posted by its ice cream business. Cost breaks in some of its major raw materials such as buttermilk powder, palm oil, skimmed milk powder and coconut oil enabled the business to turn around its operating performance versus 2007.

San Miguel Super Coffeemix Co., Inc. registered a decline in its volume and revenue performance from last year due to weak market demand. Operating income was likewise below 2007 level due to higher importation costs brought about by the depreciation of the peso.

2008 vs 2007

SMPFC ended the first quarter of 2008 with consolidated sales growing versus 2007 level by 18% to P 16.0 billion, as most businesses posted higher volumes and enjoyed favorable selling prices. The Company's Poultry and Flour businesses continued to deliver solid gains as they effectively managed their operations.

Significantly higher input costs, particularly soybean meal, wheat, imported beef, pork, palm and coconut oil, milk fat and milk powder, continued to weigh down on the Company's profits, resulting in cost of sales rising by 20%.

On the other hand, selling and administrative expenses grew by 14% on account of advertising and promotions spending for new products and major brands, higher manpower costs, third party services, as well as the impact of the escalation in fuel prices on distribution and travel, among other expenses.

The growth in the Group's sales turnover and continuous operational efficiency improvements resulted in a 7% increase in gross profit versus same period of 2007.

Increase in bank's borrowing rates, combined with a subsidiary's availment of additional short-term loan borrowings for its working capital requirements, explains the 14% surge in interest expense and financing charges.

Interest income decreased by 29% due to the decline in the average level of money market placements and lower placement rates.

The substantial increase in gain on sale of investments and property, plant and equipment was due to a subsidiary's disposal of its idle fixed assets to a third party troller.

Other income (charges) - net significantly rose due to the increase in the number of options entered into and higher mark-to-market gains on derivatives during the first quarter of 2008.

Although intensified productivity and cost-efficiency measures were undertaken by the Group to lessen the effect of higher costs on the bottom line, income before income tax was still behind 2007 level by 10%.

The expiration of income tax holiday of a subsidiary and higher taxable income explains the 25% increase in income tax expense.

With the increases in financing costs and taxes, net income for the first quarter of 2008 registered at P 177.7 million dropping from the P257 million reported for the same period of 2007. And, thus, the decline as well in both net income attributable to equity holders of the Parent Company and to non-controlling interests.

Business Highlights:

Agro-Industrial

SMFI's Poultry Business, which remained the biggest contributor to the Group's sales revenue, posted 12% and 20% increase in volume and sales, respectively, on account of good selling prices. Combined with better efficiencies, the business ended the first quarter of 2008 with operating profits growing double digit despite higher feeds and broiler costs.

Amidst a contracting hog industry, SMFI's Feeds Business registered volume and sales growth of 3% and 15%, respectively, due to better selling prices and various selling and marketing programs implemented. Year-to-date March 2008 operating income grew by double digit as cost reduction and efficiency improvement programs cushioned the impact of increasing costs of major raw materials, particularly soybean meal and corn.

Amidst soft pork demand brought about by increase in its retail prices, Basic Meats Business under Monterey Foods Corporation, which became a fully consolidated subsidiary of the Company in January 2007, contributed sales of P 1.5 billion and registered almost break-even results.

Value-Added

The Purefoods-Hormel Company, Inc.'s Value-Added or Processed Meats Business posted volume and sales growth of 8% and 12%, respectively, versus 2007 amidst stiff competition. Various cost reduction programs implemented to manage production and the appreciation of the peso helped the business achieve operating income that exceeded 2007's performance.

Milling

In spite of a relatively flat industry and the threat posed by the continued influx of cheaper flour imports, San Miguel Mills, Inc. registered a 38% growth in sales. The combined effect of the increase in sales revenue and the substantial surge in the market prices of wheat options that resulted in the recognition of realized mark-to-market gains enable the business to register a commendable growth in profitability versus same period in 2007.

Dairy & Others

Magnolia Inc.'s revenue by the end of the first quarter of 2008 reached P 1.1 billion, 6% above same period of 2007 due to higher volumes from butter and margarine and the contribution of ice cream, one of its operating segments. Unprecedented increases in costs of most of its major imported raw materials and constraint in upward pricing, however, prevented the business from translating the sales growth into positive results.

San Miguel Super Coffeemix Co., Inc. sustained its strong presence in the market with its 3-in-1 coffee mix product keeping a strong hold of its market share. Volume and sales of the business increased by 3% and 13%, respectively, while operating income grew almost double the 2007 level.

II. FINANCIAL CONDITION

SMPFC's overall financial position remained healthy with current ratio and debt to equity ratio recorded at 1.22:1 and 1.40:1, respectively.

Analysis of Financial Position Accounts

Unaudited Financial Position as of March 31, 2009 vs Audited December 31, 2008

Cash and cash equivalents decreased by 44% as funds were used by the subsidiaries to partially pay-off their accountabilities with suppliers as well as settle maturing short-term loans. The payments made resulted in the 5% decline both in notes payable and trade payables and other current liabilities.

Trade and other receivables - net declined by 23% as peak season sales made last December 2008 were collected during the first quarter of 2009. Proceeds from these collections were then used to finance inventory requirements of the Group.

Inventories - net was higher by 14% due to the increase in costs of most of the major raw materials such as anhydrous milk fat, cheese curd, soybean meal, brazilian beef, rennet casein, corn and cassava.

Current biological assets grew by 13% due to the increase in the volume of growing poultry livestock and goods in process coupled with higher feed costs of broiler and hogs.

Prepaid expenses and other current assets rose by 23% due to the increase in the level of creditable input and withholding taxes for application against future tax liabilities.

The 6% surge in noncurrent biological assets was due to the increase in the volume of Monterey breeding stock coupled with higher growing costs.

Pension and other noncurrent assets grew by 5% on account of the deposits made on certain purchases.

Income tax payable was 44% higher versus year-end 2008 level on account of the Company's positive performance in the first quarter resulting in additional income tax, on top of the outstanding 2008 tax liability.

Derivative liabilities decreased by 21% due to settlement made by a subsidiary of its wheat options that expired during the first quarter of 2009.

Pension liability increased by 55% due to subsidiaries' set up of pension expense for the period.

Deferred tax liabilities increased by 7% due to the recognition of tax liability on unrealized mark-to-market gains on certain financial instruments.

Unaudited Financial Position as of March 31, 2008 vs Audited December 31, 2007

The 12% increase in cash and cash equivalents attributed to higher sales collections during the first quarter of 2009 from the December 2008 holiday sales by most subsidiaries likewise resulted in the 22% drop in trade and other receivables – net. Proceeds from these collections were then used to partially pay-off trade payables and other current liabilities.

The 13% increase in inventories - net was due to the early arrival of soybean meal shipments, usage of which will start beginning the second quarter of 2008, and the increase in landed cost of wheat.

Biological assets - current rose by 9% due to the increase in the volume of growing poultry livestock coupled with higher feed cost of broiler and hogs.

The increase in deferred tax assets and derivative liabilities was due to the drop in the market prices of soybean meal options which resulted in the recognition of tax asset on unrealized mark-to-market losses.

Income tax payable was 73% higher versus year-end 2007 level on account of the Group's positive performance in the first quarter of 2008 resulting in additional income tax, on top of the outstanding 2007 tax liability.

The 30% growth in pension liability is due to a subsidiary's recognition of pension expense covering both the normal and past service costs for the first quarter of 2008.

Deferred tax liabilities increased by 14% due to the recognition of tax liability on unrealized mark-to-market gains on certain financial instruments.

The decrease in cumulative translation adjustments by 9% is attributed to the appreciation of Indonesia's rupiah against the Philippine peso.

III. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	2009	2008
Net cash flows provided by (used in) operating activities	(272.0)	391.6
Net cash flows used in investing activities	(386.9)	(318.1)
Net cash flows provided by (used in) financing activities	(565.8)	93.9

Net cash from (used in) operations consists of income for the period less changes in non-cash current assets, certain current liabilities and others, which include increases in inventory level.

Net cash flows used in investing activities included the following:

<i>(In millions)</i>	2009	2008
Additions to property, plant & equipment	(134.6)	(147.9)
Increase in biological assets - noncurrent and other noncurrent assets	(252.3)	(170.2)

Main component of net cash flows provided by (used in) financing activities was the payments and net proceeds from short term loans amounting to P 565.8 million and P 93.9 million in March 2009 and March 2008, respectively.

IV. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Company uses. Analyses are employed by comparisons and measurements based on the financial data of the periods indicated below.

KPI	March 2009	December 2008
Liquidity: Current Ratio	1.22	1.20
Solvency: Debt to Equity Ratio	1.40	1.47

Profitability: Return on Average Stockholders' Equity	4.51%	0.61%
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KPI	Period Ended March 2009	Period Ended March 2008
Operating Efficiency: Volume Growth	1.53%	7.56%
Revenue Growth	11.01%	17.82%
Operating Margin	2.82%	2.58%

The manner by which the Company calculates the above indicators is as follows:

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Non-current)}}{\text{Minority Interest + Stockholders' Equity}}$
Return on Average Stockholders' Equity	$\frac{\text{Net Income}^*}{\text{Average Stockholders' Equity}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior period Net Sales}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* Annualized for quarterly reporting