

COVER SHEET

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S. E. C. Registration Number

S A N

M I G U E L

C O R P O R A T I O N

(Company's Full Name)

N o . 4 0 S a n M i g u e l

A v e n u e , M a n d a l u y o n G

C i t Y

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

Contact Person

632-3000

Company Telephone Number

SEC FORM

1 2

Month

3 1

Day

17-Q (3rd Qtr-2009)

FORM TYPE

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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

1. For the quarterly period ended September 30, 2009
2. Commission identification number PW00000227
3. BIR Tax Identification No **041-000-060-741**
4. Exact name of issuer as specified in its charter SAN MIGUEL CORPORATION
5. Philippines
Province, country or other jurisdiction
of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. **No. 40 San Miguel Avenue,**
Mandaluyong City 1550
Address of issuer's principal office Postal Code
8. **(632) 632-3000**
Issuer's telephone number, including area code
9. N/A
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 Sections 4 and 8 of the RSA

Number of shares of common stock and
Debt outstanding (as of September 30, 2009)

Class "A" Common Shares	1,924,472,614
Class "B" Common Shares	<u>1,237,338,217</u>
Total	3,161,810,831
Debt Outstanding	P90,330,000,000

11. Are any or all of the securities listed on a Stock Exchange?
Yes ☒ No ☐

If yes, state name of such Stock Exchange and the class/es of securities listed herein.
Class "A" and Class "B" Common Shares - Philippine Stock Exchange

12. Indicate by check mark whether the registrant:
- (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months.
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 Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended September 30, 2009 (with comparative figures as of December 31, 2008 and for the period ended September 30, 2008) and Selected Notes to Consolidated Financial Statements is hereto attached as **Annex "A"**.

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

The Company 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 otherwise be required to be filed 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 CORPORATION**

Signature and Title 
FERDINAND K. CONSTANTINO
Senior Vice President and
Chief Finance Officer/Authorized Signatory

Date November 16, 2009

Signature and Title 
BELLA O. NAVARRA
Comptrollership Manager/Authorized Signatory

Date November 16, 2009

**SAN MIGUEL CORPORATION
AND SUBSIDIARIES**

Consolidated Financial Statements
for the period ending September 30, 2009
(with comparative figures for 2008)

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2009 and December 31, 2008
(Amounts in Millions)

ASSETS

	2009 Unaudited	2008 Audited
Current Assets		
Cash and cash equivalents (Notes 9 and 10)	P 152,833	P 116,939
Trade and other receivables - net (Notes 3, 9 and 10)	56,093	50,814
Inventories - net	26,796	27,710
Current portion of biological assets - net	3,194	2,932
Prepaid expenses and other current assets (Notes 9 and 10)	7,153	5,868
Total Current Assets	246,069	204,263
Noncurrent Assets		
Investments and advances - net (Notes 9 and 10)	40,276	32,253
Property, plant and equipment - net (Note 4)	66,894	68,313
Investment properties - net	1,874	1,838
Biological assets - net of current portion	1,819	1,814
Goodwill - net	5,208	5,201
Other intangible assets - net	3,870	3,812
Deferred tax assets	11,819	7,638
Other noncurrent assets - net (Notes 3, 9 and 10)	13,095	14,241
Total Noncurrent Assets	144,855	135,110
	P 390,924	P 339,373

LIABILITIES AND EQUITY

	2009 Unaudited	2008 Audited
Current Liabilities		
Drafts and loans payable (Notes 9 and 10)	P 45,626	P 48,560
Accounts payable and accrued expenses (Notes 3, 9 and 10)	28,319	23,292
Income and other taxes payable	3,300	4,429
Dividends payable	367	1,563
Current maturities of long-term debt - net of debt issue costs (Notes 9 and 10)	1,106	9,044
Total Current Liabilities	78,718	86,888
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 9 and 10)	43,598	40,719
Deferred tax liabilities	16,903	17,851
Other noncurrent liabilities (Notes 9 and 10)	20,577	25,691
Total Noncurrent Liabilities	81,078	84,261
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock	16,136	16,112
Additional paid-in capital	31,482	31,183
Revaluation increment	18	18
Cumulative translation adjustments	4,389	4,837
Retained earnings:		
Appropriated for expansion projects	5,497	5,522
Unappropriated	151,143	96,298
Treasury stock	(4,053)	(4,053)
	204,612	149,917
Non-controlling interests	26,516	18,307
Total Equity	231,128	168,224
	P 390,924	P 339,373

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

CERTIFIED CORRECT:


 BELLA O. NAVARRA
 VP, Corporate Finance - Controllership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Period Ended September 30, 2009 and 2008 (Unaudited)
(Amounts in Millions, Except Earnings Per Share)

	2009		2008		For the Quarter Ended	
					2009	2008
SALES (Note 2)	P	126,528	P	122,184	P 41,675	P 42,594
COST OF SALES		<u>91,322</u>		<u>89,757</u>	<u>29,737</u>	<u>31,752</u>
GROSS PROFIT		35,206		32,427	11,938	10,842
SELLING AND ADMINISTRATIVE EXPENSES		(22,083)		(20,680)	(7,492)	(7,318)
INTEREST EXPENSE AND FINANCING CHARGES		(5,771)		(4,382)	(1,761)	(1,554)
INTEREST INCOME		3,686		5,303	1,218	1,553
EQUITY IN NET EARNINGS OF ASSOCIATES		1,564		48	667	7
GAIN ON SALE OF INVESTMENTS AND PROPERTY & EQUIP'T. AND OTHERS (Note 5)		<u>49,317</u>		<u>8,035</u>	<u>(928)</u>	<u>(1,312)</u>
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS		61,919		20,751	3,642	2,218
INCOME TAX EXPENSE		<u>3,006</u>		<u>4,657</u>	<u>975</u>	<u>594</u>
INCOME FROM CONTINUING OPERATIONS		58,913		16,094	2,667	1,624
INCOME AFTER INCOME TAX FROM DISCONTINUED OPERATIONS (Note 6)		<u>-</u>		<u>5,414</u>	<u>-</u>	<u>(246)</u>
NET INCOME	P	<u>58,913</u>	P	<u>21,508</u>	P <u>2,667</u>	P <u>1,378</u>
Net Income Attributable to :						
Equity holders of the Parent Company	P	57,031	P	20,861	P 1,406	P 1,129
Non-controlling interests		<u>1,882</u>		<u>647</u>	<u>1,261</u>	<u>249</u>
	P	<u>58,913</u>	P	<u>21,508</u>	P <u>2,667</u>	P <u>1,378</u>
Basic Earnings Per Share attributable to equity holders of the Parent Company (Note 7):						
From Continuing Operations	P	18.05	P	4.89	P 0.43	P 0.43
From Discontinued Operations		<u>-</u>		<u>1.72</u>	<u>-</u>	<u>(0.07)</u>
	P	<u>18.05</u>	P	<u>6.61</u>	P <u>0.43</u>	P <u>0.36</u>
Diluted Earnings Per Share attributable to equity holders of the Parent Company (Note 7):						
From Continuing Operations	P	<u>17.98</u>	P	<u>4.89</u>	P <u>0.43</u>	P <u>0.44</u>

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Period Ended September 30, 2009 and 2008 (Unaudited)
(Amounts in Millions)

			For the Quarter Ended	
	2009	2008	2009	2008
NET INCOME	P 58,913	P 21,508	P 2,667	P 1,378
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	(487)	1,599	(378)	400
NET GAIN ON CASH FLOW HEDGES	150	30	26	(36)
INCOME TAX BENEFIT (EXPENSE)	(45)	(9)	(8)	11
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	(124)	7	(141)	37
INCOME TAX BENEFIT (EXPENSE)	37	(2)	42	(11)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD - NET OF TAX	(469)	1,625	(459)	401
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD - NET OF TAX	P 58,444	P 23,133	P 2,208	P 1,779
Comprehensive Income Attributable to :				
Equity holders of the Parent Company	P 56,583	P 21,966	P 1,080	P 1,534
Non-controlling interests	1,861	1,167	1,128	245
	P 58,444	P 23,133	P 2,208	P 1,779

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

CERTIFIED CORRECT:

BELLA D. NAVARRA
VP, Corporate Finance & Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Period Ended September 30, 2009 and 2008
(Amounts in Millions)

	Equity Attributable to Equity Holders of the Parent Company														Non-controlling Interests	Total Equity								
	Capital Stock	Additional Paid-in Capital	Revaluation Increment	Cumulative Translation Adjustments			Retained Earnings		Treasury Stock	Total														
				Translation Reserve	Hedging Reserve	Fair Value Reserve	Appropriated	Unappropriated																
Balance at January 1, 2009 (Audited)	P	16,112	P	31,183	P	18	P	4,882	P	(123)	P	78	P	5,522	P	96,298	P	(4,053)	P	149,917	P	18,307	P	168,224
Foreign currency translation differences								(466)												(466)		(21)		(487)
Effective portion of changes in fair value of cash flow hedges, net of tax										105										105				105
Net change in fair value of available-for-sale financial assets, net of tax												(87)								(87)				(87)
Total income and expense recognized directly in equity		-		-		-		(466)		105		(87)		-		-		-		(448)		(21)		(469)
Net income for the period																57,031				57,031		1,882		58,913
Total recognized income and expense								(466)		105		(87)		-		57,031		-		56,583		1,861		58,444
Issuances of capital stock		24		299																323		-		323
Addition in non-controlling interests																				-		7,583		7,583
Appropriations - net														(25)		25				-		-		-
Cash dividends (Note 8)														-		(2,211)				(2,211)		(1,235)		(3,446)
Balance at September 30, 2009 (Unaudited)	P	16,136	P	31,482	P	18	P	4,416	P	(18)	P	(9)	P	5,497	P	151,143	P	(4,053)	P	204,612	P	26,516	P	231,128
Balance at January 1, 2008 (Audited)	P	16,109	P	30,930	P	18	P	4,698	P	-	P	173	P	6,034	P	80,855	P	(4,053)	P	134,764	P	11,329	P	146,093
Foreign currency translation differences								1,079												1,079		520		1,599
Effective portion of changes in fair value of cash flow hedges, net of tax										21										21				21
Net change in fair value of available-for-sale financial assets, net of tax												5								5		-		5
Total income and expense recognized directly in equity		-		-		-		1,079		21		5		-		-		-		1,105		520		1,625
Net income for the period																20,861				20,861		647		21,508
Total recognized income and expense		-		-		-		1,079		21		5		-		20,861		-		21,966		1,167		23,133
Issuances of capital stock		3		180																183		-		183
Addition in non-controlling interests																				-		6,314		6,314
Appropriations -net														169		(169)				-		-		-
Cash dividends (Note 8)																(3,312)				(3,312)		(221)		(3,533)
Balance at September 30, 2008 (Unaudited)	P	16,112	P	31,110	P	18	P	5,777	P	21	P	178	P	6,203	P	98,235	P	(4,053)	P	153,601	P	18,589	P	172,190

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BELLA D. NAVARRA
VP, Corporate Finance - Controlling

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Period Ended September 30, 2009 and 2008 (Unaudited)
(Amounts in Millions)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operations	P 61,919	P 20,751
Loss before income tax from discontinued operations	-	(17)
Income from disposal of discontinued operations	-	5,425
Income before income tax	61,919	26,159
Adjustments for :		
Depreciation, amortization and others - net	7,523	8,463
Interest expense and financing charges	5,771	4,382
Interest income	(3,686)	(5,303)
Equity in net earnings of associates	(1,564)	(48)
Gain from disposal of discontinued operations	-	(5,425)
Gain on sale of investments and property and equipment	(50,721)	(8,711)
Operating income before working capital changes	19,242	19,517
Changes in noncash current assets, certain current liabilities and others	(2,155)	(3,569)
Cash generated from operations	17,087	15,948
Interest paid	(3,873)	(4,186)
Income taxes paid	(4,797)	(5,554)
Net cash flows provided by operating activities	8,417	6,208
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to investments and advances	(4,482)	(1,250)
Additions to property, plant and equipment	(4,112)	(3,855)
Increase in other noncurrent assets and others	(1,184)	(1,874)
Advances to related parties - net	(8,750)	(6,562)
Proceeds from sale of investments and property and equipment	55,041	12,604
Proceeds from disposal of discontinued operation, net of cash disposed of	-	9,083
Interest received	3,381	5,264
Net cash flows provided by investing activities	39,894	13,410
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from :		
Short-term borrowings	517,756	464,792
Long-term borrowings	39,347	214
Payment of:		
Short-term borrowings	(520,648)	(464,038)
Long-term borrowings	(44,603)	(13,242)
Cash dividends paid	(3,286)	(3,354)
Issuances of capital stock	94	183
Dividends paid to non-controlling shareholders	(1,357)	(228)
Acquisition of non-controlling interests	(38)	-
Net cash flows used in financing activities	(12,735)	(15,673)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	318	2,089
NET INCREASE IN CASH AND CASH EQUIVALENTS	35,894	6,034
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	116,939	93,281
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P 152,833	P 99,315

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

CERTIFIED CORRECT:

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VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION (Parent Only)
ACCOUNTS RECEIVABLE - TRADE
AS OF SEPTEMBER 30, 2009

		<u>TOTAL</u>	<u>OVER 60 DAYS</u>
ACCOUNTS RECEIVABLE-TRADE	P	319,854,042.97	<u>319,854,042.97</u>
ALLOW. FOR DOUBTFUL ACCOUNTS		<u>(286,226,103.26)</u>	
NET	P	<u>33,627,939.71</u>	

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SAN MIGUEL CORPORATION AND SUBSIDIARIES
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Millions, 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 September 30, 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 million (₱000,000), 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 most recent audited annual financial statements.

Adoption of New Standards, Amendments to Standards and Interpretations

The Financial Reporting Standards Council (FRSC) approved the adoption of new or revised 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.
- 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 income statement and all non-owner changes in equity in a single statement), or in an income statement 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 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. These 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 is organized into three major business segments – beverage, food and packaging.

The beverage segment produces and markets alcoholic and nonalcoholic beverages.

The food segment includes, among others, the breeding, hatching, processing and marketing of chicken; production and marketing of feeds and flour, dairy products, snack foods, coffee, oil and fresh, ready-to-cook and processed meats.

The packaging segment is involved in the production and marketing of the following packaging products, among others, glass containers, glass molds, polyethylene terephthalate (PET) bottles and preforms, PET recycling, plastic closures, corrugated cartons, woven polypropylene/kraft sacks and paperboard, pallets, flexible packaging, plastic crates, plastic floorings, plastic films, plastic trays, plastic pails and tubs, crate and plastic pallet leasing, metal closures and two-piece aluminum cans, woven products, industrial laminates and radiant barriers. It is also involved in PET bottle filling graphics design, packaging research and testing, packaging development and consultation, contract packaging and trading.

Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between business segments. Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transfers are eliminated in consolidation.

Financial information about business segments follow:

For the period ended September 30, 2009 and 2008											
	Beverage		Food		Packaging		Others		Eliminations		Consolidated
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009 2008
Sales											
External sales	₱60,239	₱56,905	₱55,911	₱53,297	₱10,378	₱11,982	₱–	₱–	₱–	₱–	₱126,528 ₱122,184
Inter-segment sales	633	–	6	22	4,042	2,772	–	–	(4,681)	(2,794)	– –
Total Revenues											
from Continuing Operations	₱60,872	₱56,905	₱55,917	₱53,319	₱14,420	₱14,754	₱–	₱–	(₱4,681)	(₱2,794)	₱126,528 ₱122,184
Result											
Segment result	₱11,342	₱10,205	₱2,221	₱855	₱1,320	₱926	(₱2,231)	(₱613)	₱471	₱374	₱13,123 ₱11,747

3. Related Party Transactions

Transactions with related parties are made at normal market prices.

- a. The Parent Company has outstanding advances (including interest) to San Miguel Corporation Retirement Plan amounting to ₱15,558 and ₱6,323 as of September 30, 2009 and December 31, 2008, respectively, subject to interest of 6.5% per annum, included as part of "Trade and other receivables" account.
- b. The significant transactions of the Group and Manila Electric Company (Meralco) include the following:

	Purchases of Utilities	Included under "Trade and other receivables" account*	Included under "Accounts payable and accrued expenses" account
September 30, 2009	₱568	₱149	₱37
December 31, 2008	₱277**	₱168	P24

* Includes noncurrent portion of long-term receivables and deposits.

** Transactions from October 27 to December 31, 2008.

4. Property, Plant and Equipment

Property, plant and equipment consist of:

September 30, 2009

	Balance, January 1, 2009	Additions and Transfers	Disposals and Reclassifications	Currency Translation Differences	Balance, September 30, 2009
Cost:					
Land and land improvements	₱9,189	₱1,255	(₱85)	₱67	₱10,426
Buildings and improvements	23,973	668	(142)	65	24,564
Machinery and equipment	77,345	2,369	(398)	191	79,507
Transportation equipment	2,920	157	(320)	12	2,769
Tools and small equipment	1,854	102	(74)	(9)	1,873
Office equipment, furniture and fixtures	2,606	98	(113)	11	2,602
Molds	527	118	(72)	5	578
Leasehold improvements	840	125	(14)	1	952
Construction in progress	5,379	(780)	(232)	2	4,369
	124,633	4,112	(1,450)	345	127,640
Accumulated depreciation and amortization:					
Land improvements	1,054	62	(2)	11	1,125
Buildings and improvements	6,199	517	(35)	6	6,687
Machinery and equipment	38,076	2,769	(627)	62	40,280
Transportation equipment	2,027	165	(238)	9	1,963
Tools and small equipment	1,510	89	(88)	(9)	1,502
Office equipment, furniture and fixtures	2,157	137	(111)	10	2,193
Molds	403	111	(54)	3	463
Leasehold improvements	334	34	(6)	1	363
	51,760	3,884	(1,161)	93	54,576
Accumulated impairment losses:					
Buildings and improvements	1,090	634	-	(2)	1,722
Machinery and equipment	3,442	983	(5)	(6)	4,414
Transportation equipment	1	3	-	-	4
Tools and small equipment	10	1	-	-	11
Office equipment, furniture and fixtures	15	2	-	-	17
Molds	2	-	-	-	2
	4,560	1,623	(5)	(8)	6,170
Net book value	₱ 68,313	(₱1,395)	(₱284)	₱260	₱66,894

September 30, 2008

	Balance, January 1, 2008	Additions and Transfers	Disposals and Reclassifications	Currency Translation Differences	Balance, September 30, 2008
Cost:					
Land and land improvements	₱8,881	₱130	(₱29)	₱206	₱9,188
Buildings and improvements	21,214	1,176	(212)	1,602	23,780
Machinery and equipment	68,696	4,109	(298)	3,700	76,207
Transportation equipment	2,701	261	(87)	51	2,926
Tools and small equipment	1,932	(98)	(44)	90	1,880
Office equipment, furniture and fixtures	2,451	131	(24)	73	2,631
Molds	395	156	(4)	13	560
Leasehold improvements	825	42	(7)	-	860
Construction in progress	7,461	(2,052)	-	606	6,015
	114,556	3,855	(705)	6,341	124,047
Accumulated depreciation and amortization:					
Land improvements	1,074	(18)	(3)	26	1,079
Buildings and improvements	5,279	497	(49)	354	6,081
Machinery and equipment	33,977	2,489	(235)	1,421	37,652
Transportation equipment	1,888	187	(74)	40	2,041
Tools and small equipment	1,559	(83)	(42)	78	1,512
Office equipment, furniture and fixtures	2,005	122	(15)	50	2,162
Molds	288	14	35	74	411
Leasehold improvements	309	26	(3)	1	333
	46,379	3,234	(386)	2,044	51,271
Accumulated impairment losses:					
Buildings and improvements	918	-	-	162	1,080
Machinery and equipment	2,884	-	(43)	574	3,415
Transportation equipment	1	-	-	-	1
Tools and small equipment	11	-	-	3	14
Office equipment, furniture and fixtures	6	-	-	13	19
Molds	2	-	-	-	2
	3,822	-	(43)	752	4,531
Net book value	₱64,355	₱621	(₱276)	₱3,545	₱68,245

Depreciation and amortization charged to operations amounted to ₱3,884 and ₱3,234 in September 2009 and 2008, respectively.

The decline in demand for the products of San Miguel Guangdong Brewery Company Limited (SMGB) compared to forecasted growth in sales and operating losses indicated that certain noncurrent assets relating to SMGB operations comprising of fixed assets, intangible assets, other noncurrent assets and goodwill from the acquisition of an additional interest in SMGB may be impaired. In view of this, a cash flow projection was prepared to estimate the recoverable amount of these assets. As of September 30, 2009, the Group recognized impairment loss amounting to HK\$290 (₱1,787) against these assets.

5. Gain on Sale of Investments and Property and Equipment and Others

This account consists of:

	September 30	
	2009	2008
Gain on sale of investments and property and equipment - net	₱50,721	₱8,711
Foreign exchange gains	444	7,499
Gain (Loss) on derivatives - net	202	(8,106)
Others - net	(2,050)	(69)
	₱49,317	₱8,035

6. Discontinued Operations

As required by PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, the results of operations of Agribusiness Division in 2008 and the gain on the sale of the Parent Company, through San Miguel Beverages (L) Pte. Ltd. of its San Miguel Australia Holdings Ltd. shares including J. Boag & Son Pty. Ltd. in January 2008 were presented as a separate item under “Income after Income Tax from Discontinued Operations”, in the consolidated statements of income.

The results of discontinued operations are presented below:

	September 30, 2008
Net sales	₱180
Cost of sales	167
Gross profit	13
Selling and administrative expenses	(31)
Other income	1
Loss before income tax	(17)
Income tax benefit	(6)
Loss from discontinued operations	(11)
Gain on sale of investment - net of tax	5,425
Net income from discontinued operations	₱5,414
Attributable to:	
Equity holders of the Parent Company	₱5,414
Non-controlling interests	-
	₱5,414

Cash flows provided by discontinued operations are presented below:

	September 30, 2008
Net cash provided by operating activities	₱1,496
Net cash provided by investing activities	7,790
Net cash provided by discontinued operations	₱9,286

7. Earnings Per Share

Basic earnings per share is computed by dividing the net income for the period attributable to equity holders of the Parent Company by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

Diluted EPS is computed in the same manner, adjusted for the effects of the shares issuable to employees and executives under the Parent Company’s Employees Stock Purchase Plan and Long term Incentive Plan, respectively, which are assumed to be exercised at the date of grant.

Where the EPS effect of the assumed conversion of shares issuable to employees and executives under the Parent Company’s stock purchase and option plans would be anti-dilutive, diluted EPS is not presented.

Basic and Diluted EPS is computed as follows:

	September 30	
	2009	2008
Net income from continuing operations attributable to equity holders of the Parent Company (a)	₱57,031	₱15,447
Net income from discontinued operations attributable to equity holders of the Parent Company (b)	-	5,414
Net income attributable to equity holders of the Parent Company	57,031	20,861
Weighted average number of shares outstanding (in millions) (c)	3,159	3,157
Effect of dilution (in millions)	12	1
Weighted average number of shares outstanding (in millions) - diluted (d)	3,171	3,158
Basic EPS from continuing operations (a/c)	₱18.05	₱4.89
Basic EPS from discontinued operations (b/c)	-	1.72
	₱18.05	₱6.61
Diluted EPS from continuing operations (a/d)	₱17.98	₱4.89
Diluted EPS from discontinued operations (b/d)	-	1.72
	₱17.98	₱6.61

8. Dividends

Cash dividends declared amounted to ₱0.70 and ₱1.05 per share as of September 2009 and 2008, respectively.

9. Financial Risk Management Objectives and Policies

Objectives and Policies

The Group's principal financial instruments other than derivatives include cash and cash equivalents, available-for-sale investments, short-term and long-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, noncurrent receivables and deposit, accounts payable and accrued expenses and other noncurrent liabilities, which arise directly from its operations.

The Group also enters into derivative transactions such as commodity and currency options, forwards and swaps. The Group uses derivatives to manage its exposures to foreign currency, interest and commodity price risks arising from the Group's operations and financing activities.

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 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 10.

Interest Rate Risk

The Group's exposure to 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 debts.

In managing interest rate, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the long-term, however, permanent changes in interest rates would have an impact on consolidated earnings.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by ₱26 and ₱471 as of September 30, 2009 and 2008, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. There is no impact on the Group's equity.

As of September 30, 2009 and December 31, 2008, the Group's long-term debt, presented by maturity profile, are as follows:

September 30, 2009	<1 year	1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total
Fixed rate							
Philippine peso	P -	P -	P14,545	P -	P23,670	P2,810	P41,025
Interest rate			6.50% - 8.25%		7.25% - 8.875%	10.5%	
Floating rate							
Philippine peso-denominated notes	P -	P -	P1,000	P -	P -	P -	P1,000
Interest rate			PDST – F for 3 months + margin				
Foreign currency-denominated notes (expressed in Philippine peso)	P1,107	P1,106	P629	P201	P61	P -	P3,104
Interest rate	THBFIX, VNIBOR +margin; and discount from PBOC lending rate	THBFIX, VNIBOR +margin; and discount from PBOC lending rate	THBFIX, VNIBOR +margin; and discount from PBOC lending rate	THBFIX, VNIBOR +margin	THBFIX +margin		
							P45,129
December 31, 2008	<1 year	1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total
Fixed rate							
Philippine peso	P -	P -	P -	P955	P -	P1,270	P2,225
Interest rate				6.50%		7.25%	
Floating rate							
Foreign currency-denominated notes (expressed in Philippine peso)	P9,233	P17,411	P17,391	P3,751	P117	P59	P47,962
Interest rate	LIBOR, THBFIX, VNIBOR +margin; and discount from PBOC lending rate	LIBOR, THBFIX, VNIBOR +margin; and discount from PBOC lending rate	LIBOR, THBFIX, VNIBOR +margin; and discount from PBOC lending rate	LIBOR, THBFIX, VNIBOR +margin	THBFIX +margin	THBFIX +margin	
							P50,187

Foreign Currency Risk

The Group's exposure to foreign currency risk results from its business transactions and financing arrangements denominated in foreign currency. The Group uses a combination of natural hedges and derivative hedges to manage its foreign currency exposure. It uses currency derivatives to reduce earnings volatility related to foreign exchange movements.

Short-term currency forward contracts (deliverable and non-deliverable) are entered into to manage foreign currency risks arising from importations, revenue and expense transactions, and other foreign currency-denominated obligations. Currency swaps are entered into to manage foreign currency risks relating to long-term foreign currency-denominated debts.

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

	September 30, 2009		December 31, 2008	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$1,846	₱87,479	US\$1,845	₱87,660
Accounts receivable	73	3,477	88	4,159
Noncurrent receivables	100	4,753	118	5,616
	2,019	95,709	2,051	97,435
Liabilities				
Drafts and loans payable	60	2,849	191	9,077
Accounts payable and accrued expenses	89	4,201	102	4,853
Long-term debt	66	3,134	1,009	47,961
	215	10,184	1,302	61,891
Net foreign currency-denominated monetary assets	US\$1,804	₱85,525	US\$749	₱35,544

The Group reported net foreign exchange gains (losses) amounting to (₱335) and ₱3,363 in September 30, 2009 and 2008, respectively, with the translation of its foreign currency-denominated assets and liabilities. These resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Peso to US Dollar
December 31, 2007	41.28
September 30, 2008	47.05
December 31, 2008	47.52
September 30, 2009	47.39

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 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 a foreign operations) as of September 30, 2009 and December 31, 2008.

September 30, 2009

	₱1 decrease in the US dollar exchange rate		₱1 increase in the US dollar exchange rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(₱1,718)	(₱1,159)	₱1,718	₱1,159
Trade and other receivables	(7)	(70)	7	70
Noncurrent receivables	(100)	(60)	100	60
	(1,825)	(1,289)	1,825	1,289
Drafts and loans payable	10	57	(10)	(57)
Accounts payable and accrued expenses	4	86	(4)	(86)
Long-term debt (including current maturities)	-	66	-	(66)
	14	209	(14)	(209)
	(₱1,811)	(₱1,080)	₱1,811	₱1,080

December 31, 2008

	₱1 decrease in the US dollar exchange rate		₱1 increase in the US dollar exchange rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(₱1,623)	(₱1,276)	₱1,623	₱1,276
Trade and other receivables	(12)	(83)	12	83
Noncurrent receivables	(99)	(82)	99	82
	(1,734)	(1,441)	1,734	1,441
Drafts and loans payable	140	142	(140)	(142)
Accounts payable and accrued expenses	6	100	(6)	(100)
Long-term debt (including current maturities)	923	686	(923)	(686)
	1,069	928	(1,069)	(928)
	(₱665)	(₱513)	₱665	₱513

Commodity Price Risk

The Group 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 marked-to-market losses; however, any loss in the marked-to-market positions is offset by the resulting lower physical raw material cost.

Commodity Swaps, Futures and Options. Commodity swaps, futures and options are used to manage the Group's exposures to volatility in prices of certain commodities such as fuel oil, aluminum, soybean meal and wheat.

Commodity Forwards. The Group enters into forward purchases of various commodities. The prices of the commodity forwards are fixed either through direct agreement with suppliers or by reference to a relevant commodity price index.

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 objectives 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 September 30, 2009 and December 31, 2008:

September 30, 2009

Non-derivative financial liabilities	Carrying Amount	Contractual cash flow	1year or less	> 1 year - 2 years	>2 years - 5 years	Over 5 years
Drafts and loans payable	₱45,626	₱45,798	₱45,798	₱ -	₱ -	₱ -
Accounts payable and accrued expenses	27,950	27,950	27,950	-	-	-
Long-term debt (including current maturities)	44,704	60,714	4,711	4,831	21,917	29,255
Other noncurrent liabilities	20,577	20,577	-	8,984	11,593	-

December 31, 2008

Non-derivative financial liabilities	Carrying Amount	Contractual cash flow	1year or less	> 1 year - 2 years	>2 years - 5 years	Over 5 years
Drafts and loans payable	₱48,560	₱48,790	₱48,790	₱ -	₱ -	₱ -
Accounts payable and accrued expenses	20,939	20,939	20,939	-	-	-
Long-term debt (including current maturities)	49,763	53,241	10,151	18,402	23,127	1,561
Other noncurrent liabilities	25,691	25,691	-	7,543	18,148	-

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 internal mechanism 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 September 30, 2009 and December 31, 2008, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	September 30, 2009	December 31, 2008
Cash and cash equivalents	₱152,833	₱116,939
Trade and other receivables - net	56,093	50,814
Derivative assets	374	191
Available-for-sale investments	344	590
Noncurrent receivables	6,399	7,439
	₱216,043	₱175,973

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 prices of chicken and the 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 over which the Group has little control. The mitigating factors are listed below.

The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and government regulatory authorities. 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 in all dressing plants and issue certificates accordingly. These authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.

The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.

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

Capital Management

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

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

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

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

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

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

The Group is not subject to externally imposed capital requirements.

10. 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 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 and liabilities 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 purpose 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 statements of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

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

Day 1 Profit. Where the transaction price in a non-active market is different from the fair value of 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 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 at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis; or
- the assets are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately 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, trade and other receivables and noncurrent receivables and deposits 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 classified 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 is 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 September 30, 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 equity securities included under “Investments and advances” account are classified under this category.

Financial Liabilities

Financial Liabilities at FVPL. Financial liabilities are classified in this category if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the 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 at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

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 drafts and loans payable, accounts payable and accrued expenses, long-term debt and other noncurrent liabilities.

Debt Issue Costs

Debt issue costs are shown as deduction against the related debt and are amortized over the terms of the related borrowings using the effective interest method.

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 all of the Group's financial instruments as of September 30, 2009 and December 31, 2008:

	<u>September 30, 2009</u>		<u>December 31, 2008</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial Assets				
Cash and cash equivalents	₱152,833	₱152,833	₱116,939	₱116,939
Trade and other receivables - net	56,093	56,093	50,814	50,814
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position amounted to ₱374 and ₱190 in September 30, 2009 and December 31, 2008, respectively and "Other noncurrent assets" account in the consolidated statements of financial position amounting to ₱1 in December 31, 2008.)	374	374	191	191
Available-for-sale investments (included under "Investments and advances" account in the consolidated statements of financial position)	344	344	590	590
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	6,399	6,399	7,439	7,439
(forward)				

	September 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities				
Drafts and loans payable	₱45,626	₱45,626	₱48,560	₱48,560
Accounts payable and accrued expenses	27,950	27,950	20,939	20,939
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	369	369	2,353	2,353
Long-term debt (including current maturities)	44,704	50,669	49,763	49,826
Other noncurrent liabilities	20,577	18,876	25,691	22,963

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.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the 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.

Drafts and Loans Payable and Accounts Payable and Accrued Expenses. The carrying amount of drafts and loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturity of these financial instruments.

Long-term Debt. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable rates for similar types of loans as of the statements of financial position date. As of September 30, 2009 and December 31, 2008, discount rates used are from 4.1% to 7.9% and 5.7% to 6.9%, respectively. The carrying values of floating rate loans with quarterly repricing approximate fair value.

Noncurrent Receivables and Deposits and Other Noncurrent Liabilities. The fair value is based on the present value of expected future cash flows using the applicable discount rates.

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.

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

Derivative Instruments Accounted for as Hedges

Freestanding Derivatives

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

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

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

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

As of September and June 30, 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.

Commodity Options

As of September and June 30, 2009 and December 31, 2008, the Group has outstanding bought and sold options covering its fuel oil requirements with notional quantities of 3,000, 6,000 and 12,000 metric tons, respectively. These options can be exercised at various calculation dates in 2009 with specified quantities on each calculation date. The effective fair value change, net of tax, deferred under "Cumulative translation adjustments" account as of September and June 30, 2009 and December 31, 2008 amounted to ₱18, ₱36 and ₱123, respectively.

Net Investment Hedge. As of September and June 30, 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

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss during the period incurred. Details are as follows:

Freestanding Derivatives

Currency Forwards

As of September 30, 2009, the Group has outstanding forward contracts to sell US\$ and buy PhP to hedge existing and anticipated US\$-denominated receivables. These forwards have an aggregate notional amount of US\$210 to mature in December 2009. As of September 30, 2009, the net negative fair value of these currency forwards amounted to ₱91.

The Group also has outstanding forward contracts to buy US\$ and sell PhP to manage its foreign currency exposure on US\$-denominated receivables. As of September 30, 2009, these forwards have an aggregate notional amount of US\$130 to mature in December 2009 and the net positive fair value amounted to ₱45.

There were no outstanding currency forward contracts as of June 30, 2009 and December 31, 2008.

Short-term Currency Swaps

As of December 31, 2008, the Group has outstanding short-term currency swap agreements with an aggregate notional amount of US\$881. The net negative fair value of these currency swaps as of December 31, 2008 was ₱905. These swaps matured in March 2009.

As of September and June 30, 2009, the Group has no outstanding short-term currency swap.

Currency Options

As of September 30, 2009, the Group entered into US\$ options to manage its foreign currency exposure on US\$-denominated receivables and obligations. These options have an aggregate notional amount of US\$531. As of September 30, 2009, the net negative fair value of these options amounted to ₱83.

The Group has no outstanding currency options as of June 30, 2009 and December 31, 2008.

Commodity Swaps

As of September and June 30, 2009 and December 31, 2008, the Group has outstanding swap agreement, covering its aluminum requirements, maturing in 2009, 2010 and 2011. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding

equivalent notional quantity covered by the commodity swaps as of September and June 30, 2009 is 2,400 and as of December 31, 2008 is 450 metric tons. The positive fair value of these swaps amounted to ₱41 and ₱16 as of September and June 30, 2009, respectively while the negative fair value as of December 31, 2008 was ₱19.

Commodity Options

As of September and June 30, 2009 and December 31, 2008, the Group has outstanding bought and sold options covering its fuel oil requirements with notional quantities of 13,200, 26,400 and 58,800 metric tons, respectively. These options can be exercised at various calculation dates in 2009 with specified quantities on each calculation date. The net negative fair value of these options as of September and June 30, 2009 and December 31, 2008 amounted to ₱80, ₱185 and ₱920, respectively.

The Group has outstanding bought and sold options covering its wheat requirements with notional quantities as of June 30 and March 31, 2009 and December 31, 2008 of 32,659, 24,494 and 34,292 metric tons, respectively. These options can be exercised at various calculation dates in 2009 and 2010 with specified quantities on each calculation date. As of September 30, 2009 and December 31, 2008, the net negative fair value of these options amounted to ₱33 and ₱94, respectively while the net positive fair value as of June 30, 2009 was ₱11.

Embedded Derivatives

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

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

The Group's embedded derivatives include currency forwards and options embedded in non-financial contracts.

Embedded Currency Forwards

As of September and June 30, 2009 and December 31, 2008, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$118, US\$112 and US\$73, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. As of September 30, 2009, the net positive fair value of these embedded currency forwards amounted to ₱22 while the net negative fair value as of June 30, 2009 and December 31, 2008 was ₱65 and ₱26, respectively.

Embedded Currency Options

As of September and June 30, 2009 and December 31, 2008, the total outstanding notional amount of currency options embedded in non-financial contracts amounted to US\$40, US\$56 and US\$15, respectively. These non-financial contracts consist of sales agreements. As of September and June 30, 2009, the net negative fair value of these embedded currency options amounted to ₱50 and ₱51, respectively while the net positive fair value as of December 31, 2008 was ₱10.

For the period ended September and June 30, 2009 and September and June 30, 2008, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to ₱202, (₱118), (₱8,106) and (₱6,431), respectively.

11. Subsequent Events

- a. On October 5, 2009, the Parent Company completed the exchange for Series “1” preferred shares of 476,296,752 Common Class “A” shares and 396,876,601 Common Class “B” shares or a total of 873,173,353 common shares which were offered to be exchanged under the Offer.
- b. On October 8, 2009, the Parent Company obtained a three-year US\$600 loan to fund future acquisitions.
- c. On October 15, 2009, the Parent Company’s Board of Directors approved the issuance, through private placement, of up to 226.8 million Series “1” preferred shares. The proceeds from the issuance will be used to finance investments and acquisitions of the Parent Company. To date, the said preferred shares have not been issued.
- d. In a letter dated November 5, 2009, the Philippine Dealing Exchange Corporation (PDEX) approved San Miguel Brewery Inc.’s application for the trading of its Bonds on the PDEX. The Bonds will be listed on the PDEX on November 17, 2009.

12. Other Matters

- a. There are 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.
- 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 operation.
- 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 statements of financial position date, except for Note 21 (c) of the 2008 Audited Consolidated Financial Statements that remain outstanding as of September 30, 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-statements financial position 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 September 30, 2009.

- g. The effects of seasonality or cyclicity on the interim operations of the Group's 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 September 30, 2009. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. 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, short and long-term loans.



SAN MIGUEL CORPORATION

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Corporation (the “Parent Company”) and subsidiaries (collectively, the “Group”) as of and for the period ended September 30, 2009 (with comparative figures as of December 31, 2008 and for the period ended September 30, 2008). All necessary adjustments to present fairly the consolidated financial position, results of operations, and cash flows of the Group as at September 30, 2009, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. 2009 TRANSACTIONS

- On January 27, 2009, the Parent Company’s Board of Directors (BOD) approved the sale of its domestic beer and malt-based beverages brands, including related trademarks, copyrights, patents and other intellectual property rights and know-how (IP Rights) to San Miguel Brewery Inc. (SMB), through the sale of all its interests in Iconic Beverages, Inc. (IBI), to which the Parent Company transferred the IP Rights pursuant to a Deed of Assignment of Domestic Intellectual Property Rights dated December 16, 2008, as supplemented executed between IBI and the Parent Company, in exchange for common shares in IBI to Parent Company. The BOD of SMB approved on the same date, the purchase of the IP Rights through the purchase of all the Parent Company’s interests in IBI after the completion of such transfer by the Parent Company of the IP Rights to IBI.

SMB’s BOD also approved on January 27, 2009, the purchase of all the interests of the Parent Company in Brewery Properties Inc. (BPI) after completion of the transfer by the Parent Company of certain parcels of land to BPI in exchange for BPI common shares and after San Miguel Brewery Inc. Retirement Plan (SMBRP) has transferred its shares in Brewery Landholdings, Inc. (BLI) to BPI in exchange for BPI preferred shares. The purchase price will be at the appraised value of the land transferred by the Parent Company to BPI amounting to ₱6,829 million. The sale of the Parent Company’s interest in BPI to SMB was likewise approved by the Parent Company’s BOD on the same date and will be implemented after obtaining all the required approvals from the appropriate regulatory agencies.

On February 25, 2009, the Parent Company sold certain parcels of land to BLI, a subsidiary of SMBRP, for a total consideration of ₱239 million and recognized a gain of ₱232 million.

On February 27, 2009, the Securities and Exchange Commission (SEC) approved the transfer of the IP Rights by the Parent Company to IBI in exchange for 100,000,000 shares of IBI under a tax-free asset-for-share agreement.

On April 29, 2009, the Parent Company sold its 100% interest in IBI to SMB for a total purchase price of ₱32,000 million.

On September 10, 2009, the SEC approved the transfer by SMBRP of its 2,389,494 common shares in BLI with a par value of ₱100.00 per common share to BPI as payment for its subscription to 2,389,494 preferred shares of BPI with a par value of ₱100.00 per share. As such, BLI became a subsidiary of BPI and was consolidated into the Parent Company through BPI.

Also on September 10, 2009, the SEC approved the transfer of certain parcels of land (used in the domestic beer business of SMB) of the Parent Company to BPI in exchange for additional 1,592,281 common shares from the unissued authorized capital stock of BPI (after the increase in the par value of common shares of BPI from ₱100.00 to ₱350.00 and increase in BPI's authorized capital stock from ₱1 million divided into 10,000 common shares to ₱800 million divided into 1,600,000 common shares with par value of ₱350.00 per share and 2,400,000 preferred shares with a par value of ₱100.00 per share which were also approved by the SEC on September 10, 2009).

- Pursuant to an order by the SEC rendering SMB's registration statement effective and the permit to offer securities for sale issued by the SEC, both dated March 17, 2009, SMB offered for subscription and issued Philippine peso-denominated fixed rate bonds with an aggregate principal amount of ₱38,800 million (Bonds). The Bonds were issued in three series: Series A, Series B and Series C. The Series A Bonds with an aggregate principal amount of ₱13,590 million have a term of 3 years beginning on April 3, 2009 and ending on April 3, 2012, with a fixed interest rate of 8.25% per annum; Series B Bonds with an aggregate principal amount of ₱22,400 million have a term of 5 years and 1 day beginning on April 3, 2009 and ending on April 4, 2014, with a fixed interest rate of 8.875% per annum; and Series C Bonds with an aggregate principal amount of ₱2,810 million have a term of 10 years beginning on April 3, 2009 and ending on April 3, 2019, with a fixed interest rate of 10.5% per annum. Proceeds from the issuance of the Bonds were used to finance SMB's acquisition of the equity interests of the Parent Company in IBI and will be used to acquire the Parent Company's equity interests in BPI. The offering of the Bonds was completed on April 3, 2009.
- On April 30, and May 22, 2009, the Parent Company sold its 2,185,402,491 and 4,479,621,199 common shares, respectively, representing 43.249% stake in SMB to Kirin Holdings Company, Limited (Kirin) at ₱8.841 per share for a total purchase price of ₱58,925 million. The Group recognized a gain of ₱50,537 million from the sale of the Parent Company to Kirin.
- On March 6, 2009, the BOD of Thai San Miguel Liquor Co., Ltd. (TSML), a joint venture of the Ginebra San Miguel, Inc. (GSMI) with the Thai Life Group of Companies, approved the increase in the capital stock of TSML from THB 1 billion to THB 1.25 billion. On the same date, Ginebra San Miguel International Limited (GSMIL), a wholly-owned subsidiary of GSMI, subscribed to 40% of the said increase for a total subscription price of THB 100 million (₱134.6 million) to maintain its 40% stake in TSML. On March 9, 2009, GSMIL remitted to TSML THB 60 million (₱80.7 million) representing 60% of the subscription price as deposit for future stock subscription.

On March 6, 2009, Siam Wine and Liquor Co. Ltd. (SWLCL) subscribed to 10% of the increase in capital stock of TSML for a total of THB 25 million (₱33.6 million) to retain its 10% stake in TSML. Siam Holdings Limited (SHL), a wholly-owned subsidiary of the GSMI, holds 49% of the outstanding capital stock of SWLCL. On March 9, 2009, SWLCL remitted to TSML THB15 million (₱20.2 million) representing 60% of the subscription as deposit for future stock

subscription. With the subscriptions of GSMIL and SWLCL in TSML, the GSMI group's interests in TSML remained at 44.9%.

- In April 2009, Monterey Foods Corporation (Monterey), a subsidiary of San Miguel Pure Foods Company, Inc. (SMPFC), acquired the subscription rights of certain individuals in Highbreed Livestock Corporation (HLC), a Philippine company engaged in livestock farming, processing, selling meat products (mainly pork and beef) and leasing of properties for ₱6.25 million as consideration for the assignment of their subscription in HLC and assumed the unpaid subscription of such individuals in the amount of ₱18.75 million. As such, HLC became a subsidiary of Monterey and was consolidated into SMPFC through Monterey. The respective board of directors and stockholders of Monterey and HLC on June 22, 2009 approved the merger of HLC into Monterey, with Monterey as the surviving corporation. The SEC approved the merger on October 22, 2009.
- On April 17, 2009, the Parent Company completed the acquisition of Rengo Co. Ltd's. 30% and 20% stake in San Miguel Rengo Packaging Corporation (Rengo) and Mindanao Corrugated Fibreboard, Inc. (Mincorr), respectively, for a total purchase price of ₱250 million.

Subsequently, on April 29, 2009, the Parent Company completed the acquisition of all the interests of Macondray Fibreboard Corporation in Mincorr for ₱27 million.

The acquisitions of the said interests by the Parent Company resulted in Rengo and Mincorr becoming wholly-owned subsidiaries of the Parent Company. On July 27, 2009, San Miguel Rengo Packaging Corporation ceased its operations.

- In March 2009, San Miguel Properties, Inc. (SMPI) sold to RMFPU Properties, Inc. its condominium unit located at 38th Floor, Tower 1, of the Enterprise Center, Ayala Avenue, Makati City, with an area of 1,100.38 square meters, for a total consideration of ₱123 million, inclusive of taxes.
- In April 2009, SMPI fully paid the remaining balance of ₱450 million for its subscription to additional common shares of Bank of Commerce (BOC) amounting to ₱600 million from the increase in the authorized capital stock of BOC. The additional subscription was made to maintain SMPI's 30% ownership interest in BOC relative to San Miguel Corporation Retirement Plan's (SMCRP) additional subscription which increased SMCRP's ownership in BOC from 4% to 21%.

On July 15, 2009, SMPI's Board of Directors (BOD) approved SMPI's to exercise of its pre-emptive rights to subscribe to the additional share issuance of Bank of Commerce (BOC). The SMPI BOD also authorized SMPI to increase its equity share in BOC up to 40% in the event that the other BOC shareholders will not exercise their pre-emptive rights. Pursuant to such approval, SMPI subscribed to 4,001,197 BOC shares at ₱173.54 per share for a total subscription price of ₱694 million.

Further to the authority granted by the SMPI BOD, SMPI also signed a subscription agreement with BOC for additional 597,828 BOC shares at ₱173.54 per share or ₱104 million representing shares not taken up by the other shareholders who did not exercise their pre-emptive rights.

- In April 2009, SMPI entered into an Asset Purchase Agreement with Puka Beach Holdings, Corp. to acquire certain parcels of land at Boracay Island, Brgy. Yapak, Malay, Aklan, with a total area of 38,714 square meters, for ₱246 million. As of September 30, 2009, the total deposit made for this transaction amounted to ₱222 million.
- In 2009, SMPI executed the Deed of Absolute Sale completing the purchase of all the interests of Wallmasters, Inc. and certain individuals in MPI for a total purchase price of ₱311 million, including related taxes. SMPI fully paid the balance of the purchase price for the acquisition of shares of stock of Maison 17 Properties, Inc. (MPI) amounting to ₱157 million (net of ₱154 million advanced in 2008). As a result, MPI became a wholly-owned subsidiary of SMPI.
- In June 2009, SMPI entered into a Joint Venture Agreement with certain individuals and companies for the development of certain real properties located in Barrio Diezmo, Cabuyao Laguna, including the operation thereof, into a mixed commercial and residential estate in the manner contemplated and determined by the parties. As of September 30, 2009, the total advance payment made by SMPI for this joint venture amounted to ₱249 million.
- On July 8, 2009, the Parent Company, thru a wholly-owned subsidiary, Vega Telecom, Inc. (Vega) acquired 579,111,669 common shares in Liberty Telecoms Holdings, Inc. (LTHI) from LTHI's existing stockholders for a total consideration of ₱1,997 million. The acquisition covered approximately 32.7% of the outstanding capital stock of LTHI.

On July 21, 2009, Vega signed a subscription agreement with LTHI for 587,951,737 preferred shares at P3.00 per share or ₱1,764 million. The preferred shares will be issued from the increase in capital stock of LTHI after such increase has been approved by the SEC. Vega paid ₱735 million as deposit for the subscription.

- On July 23, 2009, the stockholders, at their annual meeting, approved amendments to the Parent Company's articles of incorporation to provide that the present authorized capital stock of ₱22,500 million shall be divided into 2,034,000,000 Class "A" common shares, 1,356,000,000 Class "B" common shares and 1,110,000,000 Series "1" preferred shares, and to define the terms and features of the Series "1" preferred shares. The SEC approved these amendments to the Amended Articles of Incorporation of the Parent Company on August 20, 2009. The stockholders also approved in the same stockholders' meeting, further amendments to the resolutions on the increase in the authorized capital stock of the Parent Company which were passed during the 2007 annual stockholders meeting to provide for the division of the increased authorized capital stock of the Parent Company into common shares and two series of preferred shares. The proposed increase in the authorized capital stock of the Parent Company to the SEC has not been submitted to the SEC for approval.
- On July 23, 2009, the stockholders of the Parent Company, in their annual meeting, also approved the "offer" by the Parent Company to exchange existing common shares of up to approximately 35% of the issued and outstanding capital stock of the Parent Company with Peso-denominated, perpetual, cumulative and non-voting Series "1" preferred shares on a one (1) common share for one (1) Series "1" preferred share exchange ratio (Offer). The Offer is open to qualified shareholders of record as of July 2, 2009. The Series "1" preferred shares shall have an issue price of ₱75.00 per share and a dividend rate of 8% per annum computed in reference to the issue price.

On October 5, 2009, the Parent Company completed the exchange for Series “1” preferred shares of 476,296,752 Common Class “A” shares and 396,876,601 Common Class “B” shares or a total of 873,173,353 common shares which were offered to be exchanged under the Offer.

On October 15, 2009, the Parent Company’s BOD approved the issuance, through private placement, of up to 226.8 million Series “1” preferred shares. The proceeds will be used to finance future investments and acquisitions.

- On August 17, 2009, the Parent Company assigned its international trademarks, trade dress, know-how, copyrights, patents and other intellectual rights used in connection with the international beer business of the Parent Company and its international subsidiaries valued at US\$31.5 million to San Miguel International Limited (SMIL) in exchange for 2,863,636 common shares in SMIL.
- On August 26, 2009, the Parent Company through a subsidiary, San Miguel Energy Corporation (SMEC), won in the public bidding for the sale of the 620-megawatt Limay Combined Cycle Power Plant conducted by the Power Sector Assets and Liabilities Management Corp. (PSALM) for a bid of US\$13.5 million.
- On August 28, 2009, the Parent Company through SMEC, won the public bidding for the contract to manage the 1,000-megawatt Sual coal-fired power plant conducted by PSALM for a bid of US\$1,072 million.
- On September 11, 2009, the Parent Company through a subsidiary, Rapid Thoroughfares Inc., (RTI) acquired 35% stake in Private Infra Dev Corporation (PIDC), a consortium of construction companies behind the Tarlac-Pangasinan-La Union Expressway Project. RTI subscribed to 1,575,000 common shares or ₱1,575 million and paid a portion of the subscription price amounting to ₱561 million on September 11, 2009.
- On February 17, 2009, the Parent Company issued ₱1,000 million-floating rate corporate notes, to be used for general financing and corporate requirements.
- On June 3, 2009, the Parent Company paid off its US\$923 million or about ₱43,575 million long-term debt.
- As of September 30, 2009, the Group incurred losses amounting to ₱2,356 million due to the recent calamity brought about by typhoons Ondoy and Pepeng. Bulk of the losses comes from The Purefoods-Hormel Company, Inc. and SMB. These losses are covered by existing insurance policies of the Group.

II. RESULTS OF OPERATIONS

2009 vs. 2008

The Group's September 2009 year-to-date consolidated sales revenue amounted to ₱ 126,528 million, 4% above last year. The beverage business led the sustained growth versus last year with hard liquor continuing to post strong double-digit volume growth and the domestic beer maintaining its volume growth momentum starting in the second quarter.

With the sustained sales performance and managed fixed costs, consolidated operating income reached ₱13,123 million, 12% above last year.

The Group's net financing charges, on the other hand, amounted to ₱2,085 million as of September 2009. Higher interest expenses were partly offset by interest income.

Equity in net earnings of associates represents the Group's share in the unaudited net income of The Manila Electric Company (Meralco) and BOC.

The Group recognized gain on sale of investments and property and equipment and others amounting to ₱ 49,317 million, bulk of which pertains to gain from sale of the 43.249% stake in SMB to Kirin in May 2009. The proceeds from the sale were used to pay the Parent Company's debt of US\$923 million or about ₱43,575 million. The balance is earmarked for the acquisition of future investments.

Consolidated net income as of September 2009 reached ₱57,031 million, significantly higher than last year's net income.

Excluding the one-off items, net income for the period is ₱7,607 million, 6% higher than last year's net income.

2008 vs. 2007

The Group's September 2008 consolidated sales revenue amounted to ₱ 122,184 million, 15% above 2007 as most businesses registered double digit revenue growth during the third quarter versus the same period in 2007.

This resulted to a consolidated operating income of ₱ 11,747 million, 26% higher than 2007. Beer domestic operations continued to show good performance while beer international turned around its first semester loss and reported positive results during the third quarter. These were, however, partially offset by the slowdown in food's operating income performance with the higher costs of operations.

September 2008 net financing income is ₱ 921 million, with the interest income on the Group's cash balance.

Equity in net earnings of associates mainly represents the Group's share in the unaudited net income of BOC.

As of September 2008, the Group recognized gain on sale of investments and property and equipment and others amounting to ₱ 8,035 million. Bulk of which pertains to gains from the sale of: a.) 5.75% stake in SMB by way of initial public offering of SMB and secondary public

offering of Parent Company's shares in SMB, b.) KSA Realty, Corporation (KSA) shares to Shang Properties, Inc. and c.) Aurora, Quezon City property to Robinson's Land Corp. The Group also recognized foreign exchange gains which were offset by marked-to-market losses on foreign currency hedges reported under other charges.

With this, profit from continuing operations as of September 2008 amounted to ₱16,094 million, significantly higher than 2007. Combined with the gain from discontinued operations, September 2008 consolidated net income amounted to ₱21,508 million, significantly higher than 2007.

Without the non-recurring gains on sale of investments and properties, September 2008 net income would have been ₱ 7,146 million, significantly higher than the comparable net income in 2007.

The following are the highlights of the performance of the individual business segments:

1. BEVERAGES

2009 vs. 2008

a. Beer

San Miguel Brewery Inc. (SMB)

SMB registered a 7% volume growth during the third quarter bringing September 2009 year-to-date volume of about 128 million cases. Revenues of about ₱36,950 million as of September 2009 were 5% higher than last year. Correspondingly, operating income improved to ₱11,268 million, 5% increase versus last year.

San Miguel Brewing International Ltd. (SMBIL)

SMBIL's consolidated revenue for January to September 2009 is \$202 million, 5% below last year. This was on sales volume of more than 33 million cases, 15% lower than last year. SMBIL's consolidated operating income as of September year-to-date was US\$ 2.7 million. This was better than the reported loss in the same period last year as Indonesia and SMBIL exports continue to outperform 2008 operating income level.

b. Ginebra San Miguel, Inc. (GSMI)

GSMI continued to exhibit strong results in the third quarter with September year-to-date consolidated revenues ending at ₱14,121 million, higher than last year's level by 27%. This was driven by strong domestic hard liquor sales volume of about 27 million cases, 13% above last year.

Sustained improvements in alcohol production and product distribution costs resulted to higher margins and generated significantly higher operating income.

2008 vs. 2007

a. Beer

San Miguel Brewery Inc. (SMB)

SMB posted a 6% volume increase as of September 2008. This resulted in revenue of ₱35,225 million, 10% higher than 2007.

Robust sales, continuing efforts to improve execution, efficiencies and better managed fixed costs resulted to September 2008 operating income of ₱10,762 million, 23% above 2007.

Increased visibility for flagship brand San Miguel Pale Pilsen and brands San Mig Light, Red Horse and Gold Eagle stimulated consumption.

San Miguel Brewing International Ltd. (SMBIL)

SMBIL operations ended the nine-month period generating volume sales of 1% higher than 2007 with corresponding revenue of \$213 million, 25% growth over 2007. This resulted to an operating income of US\$1.32 million, a rebound from 2007's loss due to strong volume gains in Indonesia and the recovery of the Group's Hong Kong and North China operations and the significant improvement in the Group's Thailand operations.

b. Ginebra San Miguel, Inc. (GSMI)

GSMI's GSM Blue and Gran Matador continued to deliver robust volume gains, registering September 2008 hard liquor domestic volumes of 12% higher than 2007. GSM Blue continued to reap expanded consumer acceptance aided by improvements in product availability, penetration and promo activities.

Gran Matador's 1-liter format continues to enjoy strong volume growth and GSM Red also did very well on the heels of its successful "Gin to Ginto" promo. As a result, revenue grew 17% to ₱11,150 million.

Improved conversion efficiencies and lower alcohol costs have largely offset higher packaging materials and distribution costs, enabling GSMI to maintain its overall profitability.

September 2008 operating income ended at ₱621 million, 14% above 2007's level.

2. PACKAGING

2009 vs. 2008

Consolidated September year-to-date sales revenue for the Packaging group is ₱14,420 million, 2% lower than last year. Higher sales volume, cheaper raw materials, and lower production costs all contributed to garner a consolidated operating income of ₱1,379 million as of September 2009. This is significantly higher than last year's performance.

2008 vs. 2007

Packaging group generated sales revenue of ₱14,754 million, 8% higher than 2007, mainly caused by the consistent performance of the glass and plastic businesses. These resulted to Packaging group's operating income of ₱978 million, exceeding 2007's income by 94%.

3. FOOD

2009 vs. 2008

The San Miguel Food Group's consolidated revenues reached ₱55,906 million, a 5% increase from last year's level as most business units - poultry, basic meats, flour, milk and ice cream businesses, continued to post higher volumes. Consolidated operating income ended at ₱2,308 million, surpassing last year's level by 51%. This is driven by lower cost of direct materials of flour and dairy businesses; higher selling prices for feeds, poultry, value-added meats and dairy business; and improvement in performance of P.T. San Miguel Pure Foods Indonesia Ltd. (PTSMPI) operations.

Details of the businesses that comprise the Food Group are as follows.

a. Agro-Industrial

The agro-industrial cluster delivered consolidated revenues of ₱39,217 million, 12% higher than last year and operating income of ₱1,708 million, 22% higher than last year mainly due to better selling prices of poultry and feeds coupled with higher volumes of poultry and basic meats.

b. Value-Added Meats

Despite soft market demand, value-added meats business delivered revenue of ₱7,912 million, 2% above last year due to favorable average selling prices.

c. Milling Cluster

The milling cluster posted a nine-month revenue at ₱5,978 million, slightly lower than last year as flour prices dropped due to competitive prices in the market driven by the decline in global wheat prices. However, the business registered a positive operating income of ₱366 million a turnaround from last year's operating loss, as a result of the lower cost of wheat.

d. Magnolia Inc.

Magnolia Inc. contributed revenues at ₱3,594 million, 4% higher than last year, due to higher selling prices on all segments and volume growth of milk, ice cream and jelly snacks. Also, the business posted a strong turnaround from last year's operating loss to positive operating income of ₱50 million due to cost breaks from strategic raw materials.

2008 vs. 2007

Food Group continued to be adversely affected by persistent cost pressures on raw materials, most of which were reflected in the third quarter. However, robust volume performance from poultry, feeds, processed meats and price increases in these segments resulted in consolidated revenues of ₱53,103 million, 19% higher than 2007.

With the notable exception of Dairy, majority of the Food Group's businesses contributed to the marked sales improvement, with PTSMPFI posting positive gains during the third quarter.

Despite this, the Food Group's operating income fell short of 2007, ending 14% lower at ₱1,526 million. Affected as they are by high wheat and dairy raw material costs and industry-wide market contraction, the flour and dairy businesses continued to weigh down the Food Group. These factors shrunk its margins during the third quarter.

The Group is continuously implementing various cost-saving initiatives, efficiency improvements and focusing on more profitable segments to protect its profitability.

Details of the businesses that comprise the Food Group are as follows.

a. Agro-Industrial

Feeds and Poultry businesses continued to maintain its profitable volumes but basic meats still lagged behind due to prevailing weak demand. Sales registered at ₱35,084 million, 15% higher than 2007.

b. Value-Added Meats

Value added business brought in revenue of ₱7,782 million, 13% higher than 2007 due to stronger volumes and better selling prices from both the refrigerated and canned products. Operating income was however weighed down by the rising costs of raw materials, ending 13% lower than 2007.

c. Milling Cluster

Milling operation's revenue reached ₱6,257 million, 31% higher than 2007 mainly driven by price increases in flour products to cover the rise in wheat prices.

Cost recovery measures (e.g., enhancing the milling process and fixed costs savings) are being implemented.

d. Magnolia Inc.

Rising raw materials costs continue to adversely affect Magnolia Inc. The dairy unit registered volume shortfall across all major categories, except for ice cream. Despite price increases across all product lines and volume improvements in July, sales revenue slipped 3% below 2007.

III. FINANCIAL CONDITIONS

2009 vs. 2008

Cash and cash equivalents increased by 31% from ₱116,939 million in 2008 to ₱152,833 million in 2009. The increase mainly came from the: a) sale of SMB shares, b) issuance of bonds by SMB and c) floating rate corporate notes by the Parent Company, net of loan payments by the Parent Company, additional advances to a related party, dividends paid, additional investment in BOC shares of stock, investment in shares of stock of LTHI and PIDC and payment of trade and income taxes payable.

Receivables increased by ₱5,279 million from ₱50,814 million in 2008 due to additional advances to a related party, net of collection of trade receivables.

Current biological assets increased by 9% to ₱3,194 million in 2009 due to increase in volume of poultry livestock and hogs and higher feed costs of broilers and hogs.

Prepaid expenses and other current assets increased by ₱1,285 million mainly due to the acquisition by SMPI of properties in Cauayan, Isabela, Makati, McKinley, Bel-Air and Mandaluyong and increase in the Parent Company's prepaid insurance and derivative assets which is attributable to the increase in market price of aluminum and new contracts for currency derivatives with favorable strike prices.

Investments increased from ₱32,253 million to ₱40,276 million in 2009 mainly due to investment in shares of stock of LTHI and PIDC, additional investment in the shares of stock of BOC and equity in current earnings of Meralco and BOC.

Deferred tax assets increased by 55% from ₱7,638 million in 2008 to ₱11,819 million in 2009 due to the effect of recognition of additional deferred tax on the NOLCO of the Parent Company and unrealized gross profit mainly from the sale of IBI to SMB, net of the effect of recognition of unrealized foreign exchange gains.

Other noncurrent assets decreased by 8% from ₱14,241 million in 2008 mainly due to the collection of the remaining balance of the proceeds from the sale of the Group's stake in Del Monte Pacific Ltd. in 2007 and reclassification to investments of advances to BOC.

Drafts and loans payable decreased by 6% from ₱48,560 million in 2008 mainly due to net payments and translation adjustments for the period.

Accounts payable and accrued expenses increased by 22% from ₱23,292 million in 2008 mainly due to the reclassification to current liabilities of the unpaid balance of the purchase price for Meralco shares of stock due next year and accrual of interest on bond issuance of SMB, net of payment of trade payables and the decrease in derivative liabilities of the Parent Company which is attributable to the maturity of currency and commodity derivatives, as well as in the increase in market price of fuel.

Income and other taxes payable decreased by 25% from ₱4,429 million in 2008 due to payment of annual income tax in April 2009 and lower income tax expense as compared to the same period last year as a result of lower income tax rate, from 35% to 30% this year.

Dividends payable decreased by 77% mainly due to net payments made for the period.

Long-term debt decreased by ₱5,059 million from ₱49,763 million in 2008 mainly due to payments made by the Parent Company and SMIL and translation adjustments, net of issuance of bonds by SMB and of floating rate corporate note by the Parent Company.

Deferred tax liabilities decreased by 5% mainly due to decrease in deferred tax liability on translation adjustments, undistributed earnings of foreign subsidiaries and unrealized foreign exchange gains.

Other noncurrent liabilities decreased by 20% from ₱25,691 million in 2008 mainly due to reclassification to current liabilities of the unpaid balance of the purchase price for Meralco shares of stock due next year, net of the subscriptions payable related to the investment in shares of stock of LTHI and PIDC.

Cumulative translation adjustments decreased by 9% from ₱4,837 million in 2008 due to translation of foreign subsidiaries' net assets. The exchange rates used for net assets in September 30, 2009 is ₱47.39 to US\$1 (₱47.52 to US\$1 in December 31, 2008).

Non-controlling interests increased by 45% from ₱18,307 million in 2008, mainly due to the recognition of additional non-controlling interests as a result of the sale of 43.249% stake in SMB to Kirin and issuance of BPI's preferred stocks to SMBRP, net of the effect of acquisition of the remaining non-controlling interests in Rengo and Mincorr.

2008 vs. 2007

Cash and cash equivalents increased by 6% from ₱93,281 million in 2007 to ₱99,315 million in 2008 mainly due to cash provided by operations, proceeds from sale of: J. Boag & Son Ltd., SMB shares, 35% stake in the packaging businesses and KSA shares, interest received and foreign exchange restatement, net of loan payments, additional advances to a related party, suppliers and dividends paid.

Receivables increased by ₱8,653 million from ₱61,879 million in 2007 due to additional advances to a related party, increase in advances to suppliers and receivable from Robinsons Land Corp. on the sale of Aurora, Quezon City property, net of the decrease in trade receivables.

The increase in inventories of ₱7,080 million from ₱23,852 million in 2007 is attributed to the increasing costs of major raw materials such as soy bean meal, wheat and malt; build up of inventory for the peak season of San Miguel Food Group and SMB; and higher production volume of GSML.

Current biological assets increased by 15% to ₱2,673 million in 2008 due to increase in volume of growing poultry livestock and goods in process coupled with higher feed costs of broilers and hogs.

Prepaid expenses and other current assets increased by ₱1,053 million mainly due to SMPI's acquisition of Boracay property and SMB's prepayment of its contribution to its retirement plan.

Investments increased from ₱771 million to ₱2,609 million in 2008 mainly due to the investment in BOC.

Property, plant and equipment increased by ₱3,890 million from ₱64,355 million in 2007 due to various capital expenditures (i.e., on-going expansion of the brewery of San Miguel Guangdong Brewery Company Limited and the multi-product beverage plant in China and Vietnam; installation of new bottling line for the non-alcoholic beverages, SMC Shipping and Lighterage Corp.'s acquisition of two barges and two tug boats; construction of Sumilao hog farm; rehabilitation of pier facility in Tabangao, renovation of SMPFC's Cavite plant, capacity expansion of San Miguel Yamamura Packaging Corporation's (SMYPC) plant and upgrade of various plant machineries), net of depreciation and disposal for the period.

Investment properties increased by 9% from ₱1,648 million in 2007 to ₱1,789 million in 2008 mainly due to the increase in SMBIL's balance as a result of translation adjustments, net of disposal and amortization for the period.

Noncurrent biological assets increased by 31% to ₱1,734 million due to increase in volume of the Group's breeding stock (poultry and hogs) coupled with higher growing costs.

Other intangible assets increased by ₱653 million from ₱3,202 million in 2007 due to the reclassification of certain land and land improvements to land-use rights by San Miguel (Guangdong) Foods & Beverages Co. Ltd., increase in translation adjustments, and additional computer software (SAP and Microsoft) of SMPFC, net of amortization.

Deferred tax assets increased by 19% from ₱4,973 million in 2007 to ₱5,935 million in 2008 due to the effect of the recognition of additional marked-to-market losses and additional set up of NOLCO for the period, net of the effect of the decrease in foreign exchange gains.

Accounts payable and accrued expenses increased by 16% from ₱20,311 million in 2007 mainly due to increase in derivative liabilities and increase in trade payables mostly on imported raw materials in connection with the build-up of inventory for the peak season.

Long-term debt decreased by 12% from ₱55,834 million in 2007 to ₱49,365 million in 2008 mainly due to partial payments made during the period, net of availments and translation adjustments.

Deferred tax liabilities increased by 38% from ₱12,721 million in 2007 to ₱17,606 million in 2008 mainly due to the set up of deferred income tax on the gain from the sale of J. Boag & Son Ltd.

Assets held for sale, liabilities directly associated with assets held for sale and amounts recognized directly in equity relating to assets held for sale were reversed as a result of the completion of the sale of J. Boag & Son Ltd. and KSA in January 2008.

Cumulative translation adjustments increased by 24% from ₱4,834 million in 2007 due to translation of the net assets of the Parent Company's foreign subsidiaries.

Non-controlling interests increased by 64% mainly due to the recognition of additional minority interests as a result of the sale of the Group's 35% stake in SMYPC and San Miguel Yamamura Packaging International Limited to Nihon Yamamura Glass Co. Ltd. and 5.75% stake in SMB.

Equity

The increase in equity is due to:

<i>(In millions)</i>	September 30	
	2009	2008
Income during the period	₱58,913	₱21,508
Increase in non-controlling interests	7,583	6,314
Issuance of capital stock	323	183
Effect of translation adjustments	(487)	1,599
Changes in fair value of cash flow hedges	105	21
Changes in fair value of available-for-sale financial assets	(87)	5
Cash dividends	(3,446)	(3,533)
	₱62,904	₱26,097

Current ratio was 3.13 in 2009 and 2.35 in 2008. Debt to equity ratio was 0.69 and 1.02 as of 2009 and 2008, respectively.

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	September 30	
	2009	2008
Net cash flows provided by operating activities	₱8,417	₱6,208
Net cash flows provided by investing activities	39,894	13,410
Net cash flows used in financing activities	(12,735)	(15,673)

Net cash flows from operations basically consists of income for the period less changes in noncash current assets, certain current liabilities and others, which include decrease in inventory level.

Net cash flows provided by (used in) investing activities included the following:

<i>(In millions)</i>	September 30	
	2009	2008
Additions to investments and advances	(₱4,482)	(₱1,250)
Additions to property, plant and equipment	(4,112)	(3,855)
Proceeds from sale of investments and property and equipment	55,041	12,604
Proceeds from sale of discontinued operation, net of cash disposed of	-	9,083
Interest received	3,381	5,264
Advances to a related party	(8,750)	(6,562)
Increase in other noncurrent assets and others	(1,184)	(1,874)

Major components of net cash flows provided by (used in) financing activities are as follows:

<i>(In millions)</i>	September 30	
	2009	2008
Proceeds from (payments of) short-term loan - net	(₱2,892)	₱754
Payments of long-term debt - net	(5,256)	(13,028)
Payments of dividends	(4,643)	(3,582)
Other financing activities	56	183

The effect of exchange rate changes on cash and cash equivalents amounted to ₱318 million and ₱2,089 million in September 30, 2009 and 2008, respectively. The exchange rates used for net assets in September 30, 2009 are ₱47.39 to US\$1 (₱47.52 in December 31, 2008) and ₱47.93 to US\$1 as of September 30, 2009 (₱43.22 as of September 30, 2008) for income and expense items.

V. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Company uses. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year. Please refer to Item II “Results of Operations” of this Management’s Discussion and Analysis for the discussion of the computed certain Key Performance Indicators.

	September 2009	December 2008
<u>Liquidity:</u>		
Current Ratio	3.13	2.35
<u>Solvency:</u>		
Debt to Equity Ratio	0.69	1.02
<u>Profitability:</u>		
Return on Average Equity to Equity Holders of the Parent Company	33.60%	13.59%
	Period Ended September 30	
	2009	2008
<u>Operating Efficiency:</u>		
Volume Growth	1%	6%
Revenue Growth	4%	15%
Operating Margin	10.37%	9.61%

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	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Non-controlling Interests + Equity}}$
Return on Average Equity	$\frac{\text{Net Income}^*}{\text{Average Equity}}$
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