COVER SHEET

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(Company's Full Name)

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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) 632-3000

Company Telephone Number

SEC FORM

1	2

Month

3	1

Day

	1	7	-	Q		

FORM TYPE

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

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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, 2008**

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

Title of each Class	Number of shares of common stock outstanding (as of September 30, 2008)
Class "A" Common Shares	**1,921,277,855**
Class "B" Common Shares	**1,235,715,222**
Total	**3,156,993,077**

11. Are any or all of the securities listed on a Stock Exchange?
    Yes [x] 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 [x] No [ ]

    (b) has been subject to such filing requirements for the past ninety (90) days.
    Yes [x] 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, 2008 (with comparative figures as of December 31, 2007 and for the period ended September 30, 2008) and Selected Notes to Consolidated Financial Statements is hereto attached as Annex "A". Notes 8 and 9 of the Notes to Consolidated Financial Statements contain the required information on the financial risk exposures and financial instruments of the Group.

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

The information required by Part IV, Paragraph (a)(2)(B) of SRC Rule 12 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 14, 2008
Signature and Title	**BELLA C. NAVARRA** Comptrollership Manager/Authorized Signatory
Date	November 14, 2008

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2008 and December 31, 2007
(Amounts in Millions)

ANNEX "A"

ASSETS

	2008 Unaudited	2007 Audited
Current Assets		
Cash and cash equivalents (Notes 8 and 9)	₱ **99,315**	₱ 93,281
Trade and other receivables - net (Notes 3, 8 and 9)	**70,532**	61,879
Inventories - net	**30,932**	23,852
Current portion of biological assets - net	**2,673**	2,324
Prepaid expenses and other current assets (Notes 8 and 9)	**6,730**	5,677
	210,182	187,013
Assets held for sale	**-**	5,792
Total Current Assets	**210,182**	192,805
Noncurrent Assets		
Investments and advances - net	**2,609**	771
Property, plant and equipment - net (Note 4)	**68,245**	64,355
Investment properties - net	**1,789**	1,648
Biological assets - net of current portion	**1,734**	1,319
Goodwill - net	**5,511**	5,348
Other intangible assets - net	**3,855**	3,202
Deferred tax assets	**5,935**	4,973
Other noncurrent assets - net (Notes 8 and 9)	**13,477**	13,688
Total Noncurrent Assets	**103,155**	95,304
	₱ **313,337**	₱ 288,109

LIABILITIES AND EQUITY

	2008 Unaudited	2007 Audited
Current Liabilities		
Drafts and loans payable (Notes 8 and 9)	₱ **45,565**	₱ 44,231
Accounts payable and accrued expenses (Notes 8 and 9)	**23,517**	20,311
Income and other taxes payable	**3,212**	3,327
Dividends payable (Note 8)	**1,446**	1,494
Current maturities of long-term debt - net of debt issue costs (Notes 8 and 9)	**8,197**	1,222
	81,937	70,585
Liabilities directly associated with assets held for sale	**-**	3,642
Total Current Liabilities	**81,937**	74,227
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 8 and 9)	**41,168**	54,612
Deferred tax liabilities	**17,606**	12,721
Other noncurrent liabilities (Notes 8 and 9)	**436**	456
Total Noncurrent Liabilities	**59,210**	67,789
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock	**16,112**	16,109
Additional paid -in capital	**31,110**	30,930
Revaluation increment	**18**	18
Cumulative translation adjustments	**5,976**	4,834
Retained earnings:		
Appropriated for expansion projects	**6,203**	6,034
Unappropriated	**98,235**	80,855
Treasury stock	**(4,053)**	(4,053)
	153,601	134,727
Amounts recognized directly in equity relating to assets held for sale	**-**	37
Minority Interests	**18,589**	11,329
Total Equity	**172,190**	146,093
	₱ **313,337**	₱ 288,109

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

CERTIFIED CORRECT:

BELLA C. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Period Ended September 30, 2008 and 2007
(Amounts in Millions, Except Earnings Per Share)

	For the Quarter Ended			
	2008	2007	**2008**	2007
	Unaudited	Unaudited (As Restated)	Unaudited	Unaudited (As Restated)
SALES	₱ **122,184**	₱ 105,838	₱ **42,594**	₱ 35,131
COST OF SALES	**89,757**	79,185	**31,752**	26,139
GROSS PROFIT	**32,427**	26,653	**10,842**	8,992
SELLING AND ADMINISTRATIVE EXPENSES	**(20,680)**	(17,326)	**(7,318)**	(6,002)
INTEREST EXPENSE AND FINANCING CHARGES	**(4,382)**	(5,073)	**(1,552)**	(2,244)
INTEREST INCOME	**5,303**	790	**1,553**	242
FOREIGN EXCHANGE GAIN - Net	**7,499**	1,552	**(1,287)**	130
EQUITY IN NET EARNINGS OF ASSOCIATES	**48**	91	**7**	36
GAIN ON SALE OF INVESTMENTS	**7,149**	2,171	**(1)**	2
OTHER CHARGES - Net (Note 9)	**(6,613)**	(31)	**(25)**	(365)
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS	**20,751**	8,827	**2,219**	791
INCOME TAX EXPENSE	**4,657**	3,252	**594**	273
INCOME FROM CONTINUING OPERATIONS	**16,094**	5,575	**1,625**	518
INCOME AFTER INCOME TAX FROM DISCONTINUED OPERATIONS (Note 5)	**5,414**	1,687	**(247)**	113
NET INCOME	₱ **21,508**	₱ 7,262	₱ **1,378**	₱ 631
Attributable to :				
Equity holders of the Parent Company	₱ **20,861**	₱ 7,073	₱ **1,129**	₱ 471
Minority interests	**647**	189	**249**	160
	₱ **21,508**	₱ 7,262	₱ **1,378**	₱ 631
Basic/Diluted Earnings Per Share attributable to equity holders of the Parent Company: (Note 6)				
From Continuing Operations	₱ **4.89**	₱ 1.65	₱ **0.44**	₱ 0.12
From Discontinued Operations	**1.72**	0.59	**(0.08)**	0.02
	₱ **6.61**	₱ 2.24	₱ **0.36**	₱ 0.14

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 CHANGES IN EQUITY
For the Period Ended September 30, 2008 and 2007
(Amounts in Millions)

	Equity Attributable to Equity Holders of the Parent Company									
	Capital Stock	Additional Paid-in Capital	Revaluation Increment	Cumulative Translation Adjustment	Retained Earnings		Treasury Stock	Total	Minority Interests	Total Equity
					Appropriated	Unappropriated				
Balance at December 31, 2007 (Audited)	**₱ 16,109**	**₱ 30,930**	**₱ 18**	**₱ 4,871**	**₱ 6,034**	**₱ 80,855**	**₱ (4,053)**	**₱ 134,764**	**₱ 11,329**	**₱ 146,093**
Changes in fair value of cash flow hedges, net of tax				**26**				**26**		**26**
Net effect of translation adjustments				**1,079**				**1,079**		**1,079**
Net income for the period						**20,861**		**20,861**	**647**	**21,508**
Total income for the period	**-**	**-**	**-**	**1,105**	**-**	**20,861**	**-**	**21,966**	**647**	**22,613**
Issuances of capital stock	**3**	**180**						**183**		**183**
Addition in minority interests								**-**	**6,834**	**6,834**
Appropriations - net					**169**	**(169)**		**-**		**-**
Cash dividends (Note 7)						**(3,312)**		**(3,312)**	**(221)**	**(3,533)**
Balance at September 30, 2008 (Unaudited)	**₱ 16,112**	**₱ 31,110**	**₱ 18**	**₱ 5,976**	**₱ 6,203**	**₱ 98,235**	**₱ (4,053)**	**₱ 153,601**	**₱ 18,589**	**₱ 172,190**
Balance at December 31, 2006 (Audited)	₱ 16,067	₱ 30,211	₱ 18	₱ 4,577	₱ 6,036	₱ 76,637	₱ (4,053)	₱ 129,493	₱ 21,604	₱ 151,097
Changes in fair value of cash flow hedges, net of tax				84				84		84
Net effect of translation adjustments				1,773				1,773		1,773
Net income for the period						7,073		7,073	189	7,262
Total income for the period	-	-	-	1,857	-	7,073	-	8,930	189	9,119
Issuances of capital stock	42	596						638		638
Reduction in minority interests								-	(9,335)	(9,335)
Appropriations -net					(60)	60		-		-
Cash dividends (Note 7)						(3,309)		(3,309)	(72)	(3,381)
Balance at September 30, 2007 (Unaudited)	₱ 16,109	₱ 30,807	₱ 18	₱ 6,434	₱ 5,976	₱ 80,461	₱ (4,053)	₱ 135,752	₱ 12,386	₱ 148,138

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 CASH FLOWS
For the Period Ended September 30, 2008 and 2007
(Amounts in Millions)

	2008 Unaudited	2007 Unaudited (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operations	₱ 20,751	₱ 8,827
Loss before income tax from discontinued operations	(17)	508
Income from disposal of discontinued operations	5,425	1,200
Income before income tax	26,159	10,535
Adjustments for :		
Depreciation, amortization and others - net	8,784	6,277
Interest expense and financing charges	4,382	7,312
Interest income	(5,303)	(978)
Equity in net earnings of associates	(48)	(168)
Gain from disposal of discontinued operations	(5,425)	(1,200)
Gain on sale of investments and property and equipment	(8,711)	(2,213)
Operating income before working capital changes	19,838	19,565
Changes in noncash current assets, certain current liabilities and others	(3,569)	13,956
Cash generated from operations	16,269	33,521
Interest paid	(4,507)	(8,010)
Income taxes paid	(5,554)	(3,447)
Net cash flows provided by operating activities	6,208	22,064
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to investments and advances	(1,250)	-
Additions to property, plant and equipment	(3,855)	(7,293)
Increase in other noncurrent assets and others	(1,874)	(9,099)
Advances to a related party	(6,562)	(31,772)
Proceeds from sale of investments and property and equipment	12,604	7,964
Proceeds from disposal of discontinued operation, net of cash disposed of	9,083	16,452
Interest received	5,264	1,118
Net cash flows provided by (used in) investing activities	13,410	(22,630)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from :		
Short-term borrowings	464,792	267,835
Long-term borrowings	214	56,360
Payment of:		
Short-term borrowings	(464,038)	(238,741)
Long-term borrowings	(13,242)	(80,904)
Cash dividends paid	(3,354)	(3,141)
Issuances of capital stock	183	638
Dividends paid to minority shareholders	(228)	(91)
Net cash flows provided by (used in) financing activities	(15,673)	1,956
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2,089	(605)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,034	785
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	93,281	24,280
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	₱ 99,315	₱ 25,065

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 (Parent Only)
ACCOUNTS RECEIVABLE - TRADE
AS OF SEPTEMBER 30, 2008

		TOTAL	CURRENT	1-30 DAYS	31-60 DAYS	OVER 60 DAYS
ACCOUNTS RECEIVABLE-TRADE	₱	2,182,961,831.99	1,185,409,023.63	453,085,588.03	101,185,956.35	443,281,263.98
ALLOW. FOR DOUBTFUL ACCOUNTS		(461,924,658.26)				
NET	₱	1,721,037,173.73				

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, 2008 and comparative financial statements for the same period in 2007 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, Interim Financial Reporting. The financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines as set forth in Philippine Financial Reporting Standards (PFRS).

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

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

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 and processed meats; and processing and marketing of basic and value-added meat products.

The packaging segment is involved in the production and marketing of metal closures, two-piece aluminum cans, plastic crates, pallets, corrugated cartons, composites, glass containers, glass molds and polyethelene terephthalate (PET) plastic bottles.

	Beverage		Food		Packaging		Others		Eliminations		Consolidated	
	2008	2007*	**2008**	2007*	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007*
REVENUES												
External sales	**₱56,905**	₱50,778	**₱53,297**	₱44,134	**₱11,982**	₱10,926	**₱–**	₱–	**₱–**	₱–	**₱122,184**	₱105,838
Inter-segment sales	**-**	–	**22**	185	**2,772**	2,734	**–**	–	**(2,794)**	(2,919)	**–**	–
Total Revenues from Continuing Operations	**₱56,905**	₱50,778	**₱53,319**	₱44,319	**₱14,754**	₱13,660	**₱–**	₱–	**(₱2,794)**	(₱2,919)	**₱122,184**	₱105,838

**As restated – Note 5*

3. Related Party Transactions

Transactions with related parties are made at normal market prices.

The Parent Company has outstanding advances (including interest) to San Miguel Corporation Retirement Plan amounting to ₱42,253, subject to interest of 6.5% per annum, included as part of "Trade and other receivables" account.

4. Property, Plant and Equipment

Property, plant and equipment consist of:

	Balance, January 1, 2008 (Audited)	Additions / (Transfer)	Disposals/ Reclassifications	Currency Translation Differences	**Balance, September 30, 2008 (Unaudited)**
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 ₱3,234 and ₱4,488 in September 2008 and 2007, respectively.

5. Discontinued Operations

The results of operations of Coca-Cola Bottlers Philippines, Inc. and subsidiaries, San Miguel Foods Australia Holdings Pty Ltd. and subsidiaries, San Miguel Australia Holdings Ltd. including J. Boag & Son Limited for the period ended September 30, 2007, and of Agribusiness Division for the period ended September 30, 2008 and 2007 were presented as a separate item under "Income after Income Tax from Discontinued Operations". Accordingly, the comparative figures in the consolidated statements of income for the period ended September 30, 2007 had been restated.

The results of discontinued operations are presented below:

	September	
	2008	2007
Net sales	**₱180**	₱69,143
Cost of sales	**167**	44,432
Gross profit	**13**	24,711
Selling and administrative expenses	**(31)**	(22,028)
Interest expense and financing charges	**1**	(2,239)
Interest income	**-**	188
Foreign exchange – net	**-**	(3)
Other charges	**-**	(121)
Income (loss) before income tax	**(17)**	508
Income tax expense (benefit)	**(6)**	21
Gain (loss) from discontinued operations	**(11)**	487
Gain on sale from disposal of investment – net of tax	**5,425**	1,200
Net income from discontinued operations	**₱5,414**	₱1,687
Attributable to:		
Equity holders of the Parent Company	**₱5,414**	₱1,882
Minority interest	**-**	(195)
	₱5,414	₱1,687

6. 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	
	2008	2007
Net income from continuing operations attributable to equity holders of the Parent Company (a)	**₱15,447**	₱5,191
Net income from discontinued operations attributable to equity holders of the Parent Company (b)	**5,414**	1,882
Net income attributable to equity holders of the Parent Company	**20,861**	7,073
Weighted average number of shares outstanding (in millions) (c)	**3,157**	3,152
Effect of dilution (in millions)	**1**	7
Weighted average number of shares outstanding (in millions) - diluted (d)	**3,158**	3,159
Basic EPS from continuing operations (a/c)	**₱4.89**	₱1.65
Basic EPS from discontinued operations (b/c)	**1.72**	0.59
	₱6.61	₱2.24
Diluted EPS from continuing operations (a/d)	**₱4.89**	₱1.65
Diluted EPS from discontinued operations (b/d)	**1.72**	0.59
	₱6.61	₱2.24

7. Dividends

Cash dividends declared amounted to ₱1.05 per share in September 2008 and 2007, respectively.

8. Financial Risk Management Objectives and Policies

Objectives and Policies

The Group's principal financial instruments other than derivatives include cash and cash equivalents, investments in shares of stock and 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 receivables and trade payables, 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 (BOD), through the Audit Committee, 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 9.

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 increased the Group's profit before tax (through the impact on floating rate borrowings) by ₱471 as of September 30, 2008. 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, 2008 and December 31, 2007, the Group's long-term debt, presented by maturity profile, are as follows:

September 30, 2008	**<1 year**	**1-<2 years**	**>2-<3 years**	**>3-<4 years**	**>4-<5 years**	**>5 years**	**Total**
Fixed rate							
Philippine peso	**₱ -**	**₱ -**	**₱ -**	**₱955**	**₱1,270**	**₱ -**	**₱2,225**
Interest rate				**6.50%**	**7.25%**		
Floating rate							
Foreign currency-denominated notes (expressed in Philippine peso)	**₱8,368**	**₱17,164**	**₱17,145**	**₱3,880**	**₱873**	**₱183**	**₱47,613**
Interest rate	HIBOR, 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; and discount from PBOC lending rate	THBFIX, VNIBOR +margin; and discount from PBOC lending rate	THBFIX, VNIBOR +margin; and discount from PBOC lending rate	
							₱49,838

December 31, 2007	<1 year	1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total
Fixed rate							
Philippine peso	₱ -	₱ -	₱ -	₱ -	₱955	₱1,270	₱2,225
Interest rate					6.50%	7.25%	
Floating rate							
Foreign currency-denominated notes (expressed in Philippine peso)	₱1,225	₱8,012	₱15,165	₱15,124	₱14,721	₱159	₱54,406
Interest rate	HIBOR, 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; and discount from PBOC lending rate	THBFIX, VNIBOR +margin; and discount from PBOC lending rate	THBFIX, VNIBOR +margin; and discount from PBOC lending rate	
							₱56,631

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, 2008		December 31, 2007	
	U.S. Dollar	**Peso Equivalent**	U.S. Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$1,917**	**₱90,173**	US$1,978	₱81,649
Accounts receivable	**90**	**4,248**	119	4,930
Noncurrent receivables	**118**	**5,561**	20	826
	2,125	**99,982**	2,117	87,405
Liabilities				
Accounts payable and accrued expenses	**111**	**5,201**	105	4,315
Loans payable and current maturities of long-term debt	**102**	**4,785**	121	5,002
Long-term debt - net of current maturities	**1,000**	**47,060**	1,273	52,550
	1,213	**57,046**	1,499	61,867
Net foreign currency-denominated monetary assets (liabilities)	**US$912**	**₱42,936**	US$618	₱25,538

With the translation of these foreign currency-denominated assets and liabilities, the Group reported net foreign exchange gains amounting to ₱3,363 and ₱4,683 in September 30, 2008 and December 31, 2007, respectively. 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, 2006	49.03
September 30, 2007	45.04
December 31, 2007	41.28
September 30, 2008	47.05

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, 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	**(1,702)**	**(1,320)**	**1,702**	**1,320**
Trade and other receivables	**(11)**	**(87)**	**11**	**87**
Derivative assets	**(123)**	**-**	**123**	**-**
Noncurrent receivables	**(100)**	**(83)**	**100**	**83**
	(1,936)	**(1,490)**	**1,936**	**1,490**
Drafts and loans payable	**55**	**82**	**(55)**	**(82)**
Accounts payable and accrued expenses	**6**	**109**	**(6)**	**(109)**
Derivative liabilities	**583**	**1**	**(583)**	**(1)**
Long-term debt (including current maturities)	**923**	**677**	**(923)**	**(677)**
	1,567	**869**	**(1,567)**	**(869)**
	(369)	**(621)**	**369**	**621**

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, wheat, kraft paper and freight.

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, 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 including accrued interest payable	**₱45,820**	**₱46,020**	**₱46,020**	**₱-**	**₱-**	**₱-**
Accounts payable and accrued expenses	**23,262**	**23,262**	**23,262**	**-**	**-**	**-**
Dividends payable	**1,446**	**1,446**	**1,446**	**-**	**-**	**-**
Long-term debt (including current maturities)	**49,365**	**59,146**	**9,282**	**20,654**	**25,226**	**3,984**

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, 2008, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

Cash and cash equivalents	**₱99,315**
Trade and other receivables - net	**70,532**
Derivative assets	**228**
Other noncurrent assets	
Available-for-sale investments	**592**
Noncurrent receivables	**7,746**
	₱178,413

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 competent 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 maintain 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 to it, 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, retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock and translation 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 equivalent to notes payable, long-term debt and other liabilities. Total equity comprises of equity including capital stock, additional paid-in capital, cumulative translation adjustments, retained earnings and minority interests.

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.

9. **Financial Assets and Liabilities**

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated balance sheets 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 balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

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

Day 1 Profit. Where the transaction price in a non-active market is different from the fair value of 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 recorded.

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 held-to-maturity as of June and September 30, 2008 and December 31, 2007.

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 balance sheets. Changes in the fair value of such assets are reported in the equity section of the consolidated balance sheets until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in 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 and long-term debt.

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, 2008 and December 31, 2007:

	September 30, 2008		December 31, 2007	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**₱99,315**	**₱99,315**	₱93,281	₱93,281
Trade and other receivables - net	**70,532**	**70,532**	61,879	61,879
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts in the consolidated balance sheets amounting to ₱222 and ₱6, respectively in September 30, 2008 and ₱902 and ₱19, respectively in December 31, 2007.)	**228**	**228**	921	921
Available-for-sale investments (included under "Investments and advances" account in the consolidated balance sheets)	**592**	**592**	551	551
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated balance sheets)	**7,746**	**7,746**	7,437	7,437
Financial Liabilities				
Drafts and loans payable	**45,565**	**45,565**	44,231	44,231
Accounts payable and accrued expenses	**19,851**	**19,851**	19,419	19,419
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts in the consolidated balance sheets amounting to ₱3,666 and ₱33, respectively in September 30, 2008 and "Accounts payable and accrued expenses" account amounting to ₱892 and ₱3, respectively in December 31, 2007)	**3,699**	**3,699**	895	895
Long-term debt (including current maturities)	**49,365**	**49,312**	55,834	56,005

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

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

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

The fair values of commodity derivatives 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.

Accounts Payable and Accrued Expenses and Drafts and Loans Payable. The carrying amount of accounts payable and drafts and loans payable 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 balance sheet date. As of September 30, 2008 and December 31, 2007, discount rates used are from 6.9% to 7.7% and 4.8% to 6.6%, respectively. The carrying values of floating rate loans with quarterly repricing approximate fair value.

Derivative Financial Instruments and Hedging

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.

Freestanding Derivatives

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, wheat, coconut oil, kraft paper and freight.

Derivative Instruments Accounted for as Hedges

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, 2008 and December 31, 2007, the Group has no outstanding derivatives accounted for as fair value hedges.

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

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

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

As of September and June 30, 2008, the Group has outstanding commodity options accounted for as cash flow hedge. The effective fair value changes, net of tax, on the Group's cash flow hedges that were deferred in equity as of September and June 30, 2008 amounted to ₱21 and ₱46, respectively.

As of December 31, 2007, the Group has no outstanding derivatives accounted for as cash flow hedge.

Commodity Options
As of September and June 30, 2008, the Group has outstanding bought and sold options covering its fuel oil requirements with notional quantities of 21,150 and 18,300 metric tons, respectively. These options can be exercised at various calculation dates in 2008 and 2009 with specified quantities on each calculation date. The net unrealized fair value change (after tax) deferred under "Cumulative translation adjustments" account on these call options as of September and June 30, 2008 amounted to ₱21 and ₱46, respectively.

As of December 31, 2007, the Group has no outstanding options designated as hedge on the purchase of commodity.

Net Investment Hedge. As of September and June 30, 2008 and December 31, 2007, 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 these instruments are accounted for directly in the 2008 and 2007 consolidated statements of income. Details are as follows:

Currency Forwards
As of September 30, 2008, 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$70, US$280 and US$196 as of September and June 30, 2008 and December 31, 2007, respectively, to mature in the last quarter of 2008. As of September and June 30, 2008, the net negative fair value of these currency forwards amounted to ₱391 and ₱983, respectively, while the net positive fair value as of December 31, 2007 amounted to₱211.

As of September 30, 2008, the Group has outstanding forward contracts to buy US$ and sell PhP to hedge existing and anticipated US$-denominated payables. The Group also has outstanding forward contracts to buy A$ and sell US$ to hedge foreign exposures on A$-denominated investments. These forwards have an aggregate notional amount of US$34, US$255 and US$63 as of September and June 30, 2008 and December 31, 2007, respectively, to mature in the last quarter of 2008. As of September 30, 2008, the net negative fair value of these currency forwards amounted to ₱166 while the net positive fair value amounted to ₱561 and ₱81 as of June 30, 2008 and December 31, 2007.

As of September 30, 2008, the Group has outstanding structured forward contracts to buy PhP and sell US$ to manage its foreign currency exposure on US$-denominated receivables. These forwards have an aggregate notional amount of US$248, US$594 and US$63 in September and June 30, 2008 and December 31, 2007, respectively. As of September and June 30, 2008, the net negative fair value of these structured forwards amounted to ₱1,716 and ₱1,958, respectively, while as of December 31, 2007, the net positive fair value amounted to ₱81.

As of September and June 30, 2008 and December 31, 2007, the Group has outstanding structured forward contract to buy US$ and sell A$ to manage its foreign currency exposure on A$-denominated receivables amounting to US$64, US$438 and US$54, respectively. This forward has a negative fair value of ₱4 and ₱250 as of September and June 30, 2008, respectively and a positive fair value of ₱37 as of December 31, 2007.

Short-term Currency Swaps
As of September and June 30, 2008 and December 31, 2007, the Group has outstanding short-term currency swap agreements with an aggregate notional amount of US$130, US$118 and US$560, respectively. The net positive fair value of these currency swaps as of September and June 30, 2008 was ₱89 and ₱48, respectively, while as of December 31, 2007, the net negative fair value amounted to ₱764.

Currency Options
As of September and June 30, 2008 and December 31, 2007, the Group has outstanding sold US$ call options to manage its foreign currency exposure on US$-denominated receivables. These options have an aggregate notional amount of US$138, US$747 and US$79, respectively. As of September and June 30, 2008, the net negative fair value of these options amounted to ₱689 and ₱1,966, respectively, while as of December 31, 2007, the net positive fair value of these options amounted to ₱27.

Commodity Swaps
As of June 30, 2008 and December 31, 2007, the Group has outstanding swap agreement, combined with bought and sold options, covering its aluminum requirements, maturing in 2008. 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 and options as of June 30, 2008 and December 31, 2007 is 800 and 4,800 metric tons, respectively, which has various maturities up to August 2008. The positive fair value of these swaps amounted to ₱20 as of June 30, 2008 while the negative fair value amounted to ₱10 as of December 31, 2007.

As of September 30, 2008, the Group has no outstanding swaps on the purchase of commodity.

Commodity Options
As of September and June 30, 2008 and December 31, 2007, the Group has outstanding bought and sold options covering its fuel oil requirements with notional quantities of 78,450, 6,900 and 28,800 metric tons, respectively. These options can be exercised at various calculation dates in 2009, 2008 and 2007 with specified quantities on each calculation date. The net negative fair value of these options as of September and June 30, 2008 amounted to ₱286 and ₱58, respectively, while the net positive fair value as of December 31, 2007 amounted to ₱34.

The Group has outstanding bought and sold options covering its wheat requirements with notional quantities as of September and June 30, 2008 and December 31, 2007 of 87,634, 123,014 and 76,748 metric tons, respectively. These options can be exercised at various calculation dates in 2009 and 2008 with specified quantities on each calculation date. As of September 30, 2008, the net negative fair value of these options amounted to ₱124, while the net positive fair value as of June 30, 2008 and December 31, 2007 amounted to ₱52 and ₱132, respectively.

The Group entered into digital path dependent options covering its soybean meal requirements with notional quantities of 7,620, 15,241 and 68,584 metric tons as of September and June 30, 2008 and December 31, 2007, respectively. The net positive fair value of these options amounted to ₱6, ₱14 and ₱64 as of September and June 30, 2008 and December 31, 2007, respectively.

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 embedded in non-financial contracts.

Embedded Currency Forwards
As of September and June 30, 2008 and December 31, 2007, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$179, US$168 and US$102, respectively. These non-financial contracts consist mainly of foreign currency- denominated purchase orders, sales agreements and capital expenditures. As of September and June 30, 2008 and December 31, 2007, the net positive fair value of these embedded currency forwards amounted to ₱34, ₱2 and ₱443, respectively.

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

10. **Subsequent Events**

a. In October 2008, the Parent Company entered into a sale and purchase agreement with the Government Service Insurance System (GSIS) to acquire GSIS's 27% stake in the Manila Electric Company (Meralco) at ₱90 per share, the total amount will be payable in three years.

b. On October 31, 2008, Ginebra San Miguel, Inc. entered into an asset purchase agreement with San Miguel Beverages, Inc. (SMBI) for the purchase of ₱920 million worth of equipment, container and inventories and ₱118 million worth of receivables of SMBI.

11. **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 balance sheet date, except for Note 21 (d) of the 2007 Audited Consolidated Financial Statements that remain outstanding as of September 30, 2008. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

f. There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended September 30, 2008.

g. The effects of seasonality or cyclicality 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, 2008. 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.

ANNEX "B"

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 (the "Group") as of and for the period ended September 30, 2008 (with comparative figures as of December 31, 2007 and for the period ended September 30, 2007). All necessary adjustments to present fairly the consolidated financial position, results of operations, and cash flows of the Group as at September 30, 2008, 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. 2008 TRANSACTIONS

- In July 2008, San Miguel Properties, Inc. (SMPI) sold its Aurora, Quezon City property to Robinsons Land Corp. (RLC) for a total consideration of ₱1,620 million.

  As of September 30, 2008, the Group thru SMPI recognized a gain of ₱1,230 million and subsequently collected the proceeds on October 24, 2008 upon completion of the registration and transfer of title.

- As of September 30, 2008, the Company recognized a significant net forex gain of ₱7,499 million from the restatement of its foreign currency denominated cash and cash equivalents and long-term debt. However, this amount was offset by the marked-to-market loss of ₱8,106 million recognized mainly on the Company's currency forwards, swaps and options.

- The sale of the San Miguel Australia Holdings Ltd. (SMAH) shares including J. Boag & Son Limited (J. Boag) to Lion Nathan Ltd. was completed on January 2, 2008. The Group received A$277 million as payment of purchase price and recognized a gain of ₱5,425 million, net of deferred income tax.

- On January 14, 2008, SMPI finalized the sale of its 354,862 common shares (equivalent to 29.38% ownership) in KSA Realty Corporation (KSA) to Shang Properties, Inc. for a total consideration of ₱1,812 million. The Group recognized a gain of ₱1,179 million, net of capital gains tax of ₱162 million.

- On January 30, 2008, the Parent Company sold its 35% stake in its domestic packaging businesses to Nihon Yamamura Glass (NYG) for ₱4,317 million. Also, on the same day, San Miguel Holdings Ltd. (SMHL) sold its 35% stake in the regional packaging businesses to NYG for US$21 million. As of September 30, 2008, the Group recognized a total gain of ₱155 million subject to adjustments, pending completion of the closing audit. In June 2008, following the sale of the Parent Company's interests in the packaging businesses, San Miguel Packaging Specialists, Inc. and San Miguel Packaging International Limited, the companies under which the Parent Company carries out its domestic and regional packaging

businesses, were renamed San Miguel Yamamura Packaging Corporation (SMYPC) and San Miguel Yamamura Packaging International Limited (SMYPIL), respectively.

- On May 12, 2008, San Miguel Brewery Inc. (SMB) listed its shares in the Philippine Stock Exchange pursuant to its listing application approved on March 26, 2008. SMB sold 77 million shares to the public by way of a primary offer, pursuant to a registration statement rendered effective by the Securities and Exchange Commission on April 28, 2008. Also, the Parent Company sold to the public its existing 809 million shares in SMB (including shares to cover for over-allotments). The total shares offered represents 5.75% stake in SMB. The Group recognized a gain of ₱5,650 million.

- On April 21, 2008, after the payment of the remaining balance of the subscription price, Bank of Commerce (BOC) issued stock certificates to SMPI and SMC Retirement Plan (SMCRP) for their initial investment of ₱1,749 million and ₱251 million equivalent to approximately 30% and 4% ownership, respectively.

  In May 2008, SMPI together with SMCRP, entered into a subscription agreement with BOC for a total of 10 million additional shares in BOC, wherein SMPI subscribed to the increase in the capital stock of BOC to maintain its 30% stake in BOC while SMCRP increased its holdings in BOC to 21% under BOC's increased authorized capital stock. As of September 2008, SMPI paid ₱150 million as partial payment for the subscription price.

  The Group through SMPI recognized equity in earnings of BOC amounting to ₱41 million, representing its share in BOC's net income from the period April 21 to September 30, 2008.

- In May 2008, SMPI completed the acquisition of certain parcels of land in Boracay Island with a total area of 281,566 square meters for a total consideration of ₱704 million pursuant to the Asset Purchase Agreement entered into by SMPI and Boracay Property Holdings, Inc. in October 2007.

- The Parent Company partially paid off US$277 million of its long-term debt, decreasing its balance from US$1,200 million to US$923 million.

- At the annual stockholders' meeting held on July 24, 2008, the stockholders authorized (i) the Parent Company to pursue and implement a corporate restructuring plan which may require, among others, the divestment of the Parent Company's interest in its major subsidiaries, such as beer, food and packaging subsidiaries, with the Parent Company retaining controlling interests/ownership of at least 51% in each of these major subsidiaries, and (ii) the Board of Directors to approve the implementing transactions of such corporate restructuring plan after evaluation and study by Management, subject to applicable laws.

II. RESULTS OF OPERATIONS

2008 vs. 2007

The comparable 2007 consolidated statement of income was restated to reflect the sale of San Miguel Foods Australia Holdings Pty Ltd. (SMFAH) and subsidiaries (including National Foods Limited, King's Creameries (S) Pte. Ltd., Berri Ltd. and Lactos Pty Ltd.), San Miguel Australia Holdings (SMAH), including J. Boag & Son Limited (J. Boag) and Coca-Cola Bottlers Philippines, Inc. and subsidiaries (CCBG) and the discontinuance of the Parent Company's Agribusiness Division operations. The line by line consolidation of SMFAH, SMAH, CCBG and Agribusiness Division were presented under "Income after Income Tax from Discontinued Operations".

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

This resulted to a consolidated operating income of ₱ 11,747 million, 26% higher than last year. 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 the slowdown in food's operating income performance with the higher costs of operations.

September year-to-date net financing income is ₱ 8,420 million with the interest income and foreign exchange gains on the Group's cash balance. However, these foreign exchange gains were offset by marked-to-market losses on foreign currency hedges reported under other charges.

With this, profit from continuing operations as of September amounted to ₱16,094 million, significantly higher than last year. Combined with the gain from discontinued operations, September year-to-date consolidated net income amounted to ₱20,861 million, significantly higher than last year.

Without the non-recurring gains on sale of investments and properties, September year-to-date net income would have been ₱ 7,134 million, significantly higher than the comparable net income in 2007.

2007 vs. 2006

Consolidated sales revenue for September 2007 reached ₱105,838 million, 9% above the same period in 2006.

This resulted to consolidated operating income of ₱9,327 million, 7% behind 2006 but an improvement from first semester 2007 results as businesses continue to perform favorably. The Company's domestic beer and food businesses ended the third quarter with significant year-on-year income growth. The Company's international beer income contribution for the quarter amounted to ₱221 million, enabling the business to report September 2007 income of ₱194 million. The improvements in the liquor and packaging businesses also continued in September.

September 2007 consolidated net financing charges amounted to ₱ 2,731 million, 21% higher than 2006 with lower foreign exchange gains reported in 2007. With other income representing mainly the gain on sale of the NutriAsia San Miguel Holdings Limited (NSMH) shares and gain on the discontinued CCBPI operations, September 2007 consolidated net income is ₱7,073 million, 15% higher than 2006.

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

CONTINUING OPERATIONS

1. BEVERAGES

2008 vs. 2007

a. Beer

San Miguel Brewery Inc. (SMB)
SMB posted a 6% volume increase as of September. This resulted in revenue of ₱ 35,225 million, 10% higher than last year.

Robust sales, continuing efforts to improve execution, efficiencies and better managed fixed costs resulted to year-to-date operating income of ₱10,762 million, 23% above last year.

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

To create more excitement in the market, the Octoberfest Beer celebration was launched in early September. A special edition San Miguel Octoberfest brew—a low alcohol and calorie beer, was launched at the event which will be available during the 120 days celebration.

Also launched in August was the San Miguel All Malt Premium Beer. SMB's newest brand comes in an attractive long necked green bottle and is now available in selected upscale on-premise outlets in Metro Manila. Plans are currently underway to extend its reach.

San Miguel Brewing International Ltd. (SMBIL)
Beer International operations ended the nine-month period generating volume sales of 1% higher than the previous year with corresponding revenue of $213 million, 25% growth over last year. This resulted to an operating income of US$1.32 million, a rebound from last year'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 year-to-date hard liquor domestic volumes of 12% higher than last year. 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.

Year-to-date operating income ended at ₱621 million, 14% above last year's level.

2007 vs. 2006

a. Beer

San Miguel Brewery Inc. (SMB)
SMB revenues as of September 2007 amounted to ₱31,181 million, 7% higher than last year.

September 2007 operating income reached ₱8,589 million, 31% above 2006. This resulted from lower cost of raw materials, fuel and fixed costs, as cost containment measures continued to be implemented.

San Miguel Brewing International Ltd. (SMBIL)

Beer International operations sales revenue of US$236 million was 8% above 2006.

Beer International made a remarkable performance reaching September 2007 operating income of US$4.29 million, significantly turning around from the reported operating loss in the first semester.

For the third quarter, the business registered US$ 4.81 million in operating income, more than double 2006's profit performance. This was due to cost savings associated with the restructuring of South China's operations, higher selling prices and lower discounts in Indonesia and volume gains in North China and Exports.

b. Ginebra San Miguel, Inc. (GSMI)

GSMI posted strong results for the third quarter despite a usually lean season. September 2007 sales revenue of ₱9,492 million is 2% above 2006.

Improvement in the product mix which gives more emphasis to Ginebra San Miguel products in the third quarter led to the improvement in contribution margin to 24% from 22% in the first semester. However, the effect of high material costs, absorption of 8% excise tax and increased advertising and promotional expenses continued to affect business operating income which ended 32% lower than 2006 at ₱543 million.

2. PACKAGING

2008 vs. 2007

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

2007 vs. 2006

September 2007 sales revenue ended at ₱13,660 million, 7% lower than 2006, as a result of lower domestic glass demand. Glass business' efforts to continuously look for customers outside the country helped grow glass revenue in the third quarter by 15% versus 2006. Likewise, strong crown sales increased third quarter revenue of the metal business by 13%. This brought September 2007 operating income to ₱366 million.

3. FOOD

2008 vs. 2007

Food Group continues 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 last year.

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

Despite this, the Food Group's operating income fell short of last year, ending 14% lower at P1,526 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 savings 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 last year.

b. Value-Added Meats

Value added business brought in revenue of ₱7,782 million, 13% higher than last year 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 last year.

c. Flour Milling

Milling operation's revenue reached ₱6,257 million, 31% higher than last year 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. (Magnolia)

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 the previous year.

2007 vs. 2006

The Food Group's consolidated revenues reached ₱43,466 million, exceeding 2006's level by 7% as most of the businesses registered higher volume and better average selling prices.

Consolidated operating income ended at ₱1,764 million, 15% higher than 2006. This is driven by the significant income improvements in Value Added Meats, Flour, Dairy and Vietnam operations.

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

a. Agro-Industrial

The Agro-industrial cluster delivered consolidated revenues of ₱30,510 million, 10% higher than 2006 mainly due to better selling prices and higher volume of poultry and feeds.

b. Value-Added Meats

Value Added meats business posted September 2007 revenue at ₱6,857 million, 3% above 2006 due to favorable average selling prices.

c. Flour Milling

The milling cluster posted a nine-month revenue of ₱ 4,774 million, 11% higher than 2006, due to higher flour selling prices and volume growth.

d. Magnolia Inc. (Magnolia)

Magnolia, Inc. contributed revenues of ₱3,573 million, 12% higher than 2006, due to higher selling prices and volume growth.

4. PROPERTY

2008 vs. 2007

SMPI's revenue of ₱416 million, ₱41 million higher than last year, was due to the increase in sale of real estate projects.

Year-to-date 2008 net income amounted to ₱2,454 million, significantly higher than last year, mainly due to the gain on sale of its KSA shares and Aurora, Quezon City property.

2007 vs. 2006

SMPI's September 2007 rental income amounted to ₱355 million, 8% higher than 2006, primarily due to the increase in occupancy rates of San Miguel Properties Centre and the leasing of the 38th floor of The Enterprise and our property in Sucat, Parañaque to San Miguel Rengo Packaging Corporation.

The 31% growth in net income for the third quarter of 2007 is attributable to the higher interest income, increased share in equity earnings of associates, higher rental income and lower operating expenses.

DISCONTINUED OPERATIONS

NATIONAL FOODS LIMITED / BERRI LIMITED

2007 vs. 2006

Consolidated National Foods sales revenue amounted to AU$1,459 million, 9% above 2006. With the cost increases associated with raw milk, dairy commodities and large increases in

imported juice concentrates year on year, operating income ended 38% below 2006 at AU$64 million.

III. FINANCIAL CONDITIONS

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, 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 others 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 others 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 Pure Foods Company, Inc. (SMPFC), Magnolia and SMB; and higher production volume of GSMI.

Current biological assets increased by 15% to ₱2,673 million 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 SMYPC's plant and upgrade of various plant machineries) and translation adjustments of the Group's international facilities, 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 Food and Beverage Corp., 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.

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 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.

Minority 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 SMYPIL to NYG and 5.75% stake in SMB.

2007 vs. 2006

Trade and other receivables increased by 50% from ₱43,275 million in 2006 to ₱64,751 million in 2007 due to following: (a) increase in non-trade receivable by ₱30,402 million due to advances to the SMCRP and receivable for the sale of CCBG shares, net of (b) decrease in trade receivables by ₱8,924 million due to deconsolidation of CCBG and SMC collection efficiency.

Inventories decreased by ₱7,237 million from ₱42,627 million in 2006 mainly due to deconsolidation of CCBG.

Current biological assets increased by 26% to ₱4,509 million in 2007 due to SMPFC increase in volume and higher feed costs.

Prepaid expenses and other current assets increased by 14% to ₱5,973 million in 2007 due to the following: increase in (a) Parent Company's derivative assets and prepaid insurance and (b) San Miguel Insurance Company, Ltd. deferred reinsurance premium, net of decrease due to deconsolidation of CCBG.

Investments and advances decreased by ₱4,789 million from ₱5,989 million in 2006 mainly due to the sale of the equity holdings and other interest in NSMH, the holding company of Nutri Asia Pacific Ltd., which in turn is the parent company of Del Monte Pacific, Ltd.

Property, plant and equipment decreased by ₱11,392 million from ₱97,986 million in 2006 as a result of the deconsolidation of CCBG.

Noncurrent biological assets increased by 10% to ₱1,392 million in 2007 mainly due to SMPFC purchases, net of amortization, and effect of San Miguel Pure Foods (VN) Co. Ltd. foreign exchange translation.

Goodwill decreased by 6% from ₱72,899 million in 2006 to ₱68,889 million in 2007 mainly due to deconsolidation of CCBG.

Deferred tax assets decreased by 43% from ₱6,653 million in 2006 due to deconsolidation of CCBG.

Other noncurrent assets decreased by 14% from ₱15,952 million in 2006 to ₱13,650 million in 2007 mainly due to deconsolidation of CCBG, net of increase due to receivable for the sale of shares in CCBG and NSMH.

Drafts and loans payable increased by 61% to ₱68,337 million in 2007 due to availments made by National Foods and SMPFC, net of decrease due to deconsolidation of CCBG and payment of loan by GSMI and San Miguel Yamamura Asia Corporation.

Accounts payable and accrued expenses increased by ₱2,314 million in 2007 due to the increase in other payables, net of deconsolidation of CCBG.

Income and other taxes payable increased by ₱847 million to ₱3,863 million in 2007 mainly due to higher income tax due.

Long-term debt decreased by 32% from ₱95,915 million in 2006 mainly due to payments made.

Deferred tax liabilities decreased by 16% from ₱13,974 million in 2006 to ₱11,746 million in 2007 due to the payment made by San Miguel Foods Australia Holdings Ltd. and deconsolidation of CCBG.

Other noncurrent liabilities decreased by ₱783 million to ₱1,374 million in 2007 mainly due to decrease in retirement liability as a result of the deconsolidation of CCBG.

Stockholders' Equity

The increase (decrease) in stockholders' equity is due to:

(In millions)	**2008**	2007
Income during the period	**₱21,508**	₱7,262
Increase (decrease) in minority interests	**6,834**	(9,335)
Issuance of capital stock	**183**	638
Effect of translation adjustments	**1,079**	1,773
Cash dividends	**(3,533)**	(3,381)
Changes in fair value of cash flow hedges	**26**	84
	₱26,097	(₱2,959)

Current ratio was 2.57 in 2008 and 2.60 in 2007. Debt to equity ratio was 0.82 and 0.97 as of 2008 and 2007, respectively.

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	**September 30**	
	2008	**2007**
Net cash flows from operating activities	₱6,208	₱22,064
Net cash flows provided by (used in) investing activities	13,410	(22,630)
Net cash flows provided by (used in) financing activities	(15,673)	1,956

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

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

(In millions)	**September 30**	
	2008	**2007**
Additions to investments and advances	(₱1,250)	₱-
Additions to property, plant and equipment	(3,855)	(7,293)
Proceeds from sale of investments and property and equipment	12,604	7,964
Proceeds from sale of discontinued operations, net of cash disposed of	9,083	16,452
Interest received	5,264	1,118
Advances to related parties	(6,562)	(31,772)
Increase in other noncurrent assets and others	(1,874)	(9,099)

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

(In millions)	**September 30**	
	2008	**2007**
Proceeds of short-term loans – net	₱754	₱29,094
Payments of long-term debt – net	(13,028)	(24,544)
Payments of dividends	(3,582)	(3,232)
Issuances of capital stock	183	638

The effect of exchange rate changes on cash and cash equivalents amounted to ₱2,089 million and (₱605 million) in September 30, 2008 and 2007, respectively. The exchange rates used for net assets in September 30, 2008 are ₱47.05 to US$1 (₱41.28 in December 31, 2007) and ₱45.57 to US$1 as of September 30, 2008 (₱45.91 as of September 30, 2007) for income and expense items.

V. ADDITIONAL INFORMATION ON UNAPPROPRIATED RETAINED EARNINGS

The following items are not available for declaration as dividends:

(In millions)	**September 2008**	December 2007
Accumulated equity in net earnings of subsidiaries and associates (included in the unappropriated retained earnings balance)	₱56,011	₱44,208
Treasury stock	(4,053)	(4,053)

VI. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group 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 Items II "Results of Operations" and III "Financial Conditions" of this report for the discussion of the computed certain Key Performance Indicators.

	September 2008	December 2007
Liquidity:		
Current Ratio	**2.57**	2.60
Solvency:		
Debt to Equity Ratio	**0.82**	0.97
Profitability:		
Return on Average Stockholders' Equity	**16.12%**	6.50%

	Period Ended September 30	
	2008	2007
Operating Efficiency:		
Volume Growth	**6%**	3%
Revenue Growth	**15%**	9%
Operating Margin	**9.61%**	8.81%

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

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

* *Annualized for quarterly reporting*