Making a Difference

SAN MIGUEL CORPORATION

2009 ANNUAL REPORT

SAN MIGUEL CORPORATION

BEVERAGES
- BEER
- HARD LIQUOR & NON-ALCOHOLIC BEVERAGES

FOOD
- AGRO-INDUSTRIAL
- MILLING
- PROCESSED MEATS
- DAIRY, OILS & FATS
- FOOD SERVICE
- EMERGING BUSINESS
- REGIONAL OPERATIONS

PACKAGING
- GLASS
- METALS/ ALUMINUM CANS
- PLASTICS (CASES, CRATES, PET)
- FLEXIBLE POUCHES & LAMINATES
- PAPER PRODUCTS
- REGIONAL OPERATIONS

OTHER BUSINESSES
- PROPERTIES
- POWER DISTRIBUTION
- OIL
- TELECOMMUNICATIONS
- INFRASTRUCTURE
- POWER
- BANKING
- MINING

Since 1890, when our first beer rolled off the production line, and continuing today, with hundreds of food, beverage and packaging products available to our consumers and business partners, Filipinos have come to see San Miguel as part of their daily lives.

Starting with our first factory in San Miguel district, Manila, we now have over 100 facilities in the Philippines and in Asia, plus numerous sales offices, distribution and management centers.

With our new businesses in the banking, telecommunications, energy, power, infrastructure, and mining sectors, we hope to become a source of social and economic growth in our country. Moving forward, we expect the Philippines to offer additional growth opportunities, as we expand operations and consolidate our businesses.

As we mark our 120th year, we commit ourselves to creating even more value for our customers, consumers and shareholders; to providing rewarding careers for thousands of our employees and associates; and to being a progressive force for our nation.

LETTER TO STOCKHOLDERS

A Company Unlike Any Other

In a year when the global economy remained mired in recession, San Miguel Corporation stood strong—investing heavily in a strategy to re-accelerate our growth and improve our margins.

We continue to achieve reasonably strong bottom-line growth and see positive trends in the face of a very difficult global economy. Of particular note, the profitability of our food, liquor and spirits businesses has improved greatly. Our domestic beer operations reported another solid year, while our packaging business achieved moderate growth in nearly all categories.

- San Miguel's net sales grew 4% to P174.2 billion;
- Consolidated operating income grew 33% to P19.7 billion; and,
- Consolidated net income rose 199% to P57.8 billion.

Both the news media and industry analysts may now be focused on our "new engines of growth." But we ourselves have never lost sight of the fundamentals so important to our core beverage, food and packaging businesses. Good execution of well-established strategies explains our success in the past year and points the way to future success.

That, despite the harsh operating environment, our different businesses have remained focused on these fundamentals, we owe to our business managers at the subsidiary level. Even as the prevailing economic conditions put pressure on our competitors, the beer, gin and certain segments of our food business have managed to strengthen their market positions.

We have also invested for greater efficiency through savings in our individual businesses and through our present holding company structure. Where appropriate and on the business level (our sprawling Food Group would be a good example), we have integrated in areas where our businesses share the same needs—purchasing, warehousing, distribution, manufacturing processes, and people resources.

On the corporate level, we have adopted a more decentralized structure. This has given our operating units more direct lines of responsibility and enabled us to reframe our business categories. Learning from the lessons of the 1997 Asian financial crisis, we've planned for tough economic times; and we're taking steps to stay fit during this current crisis. As a result, our core businesses are in very strong positions relative to our competitors.

One feature of our 2009 results is the good revenue and earnings growth of our traditional sectors. Another is our rapidly changing portfolio of investments. Over the last 18 months, we have changed the shape of San Miguel—channeling our resources toward what we believe are our most attractive growth opportunities.

From a starting point in October 2008 when the company bought up shares in power retailer Meralco, full-on activity has been your company's response to the economic crisis. In the intervening period, San Miguel has paid up for an option to acquire a controlling interest in oil refiner Petron and bought a stake in Liberty Telecom Holdings, a Filipino *telco* co-owned by our partner Qatar Telecom to build a WiMax network.

We have also acquired through public auction, four power plants with a combined generation capacity of 3,165 MW; taken a stake in a consortium constructing the 88-kilometer Tarlac-Pangasinan-La Union expressway; and increased our holdings in Bank of Commerce.

Just this March, we gained a foothold in the mining industry by acquiring through San Miguel Energy Corp., ownership of Daguma Agro-Minerals Inc., a mining firm with development and production rights in coal-rich Lake Sebu, South Cotabato. This acquisition is in line with plans to put up a coal-fired power plant in General Santos City, to help ease the country's looming power crisis.

In April, we executed a share sale agreement to acquire a majority stake in Caticlan International Airport and Development Corporation (CIADC). CIADC owns the right to upgrade, expand and redevelop the Caticlan Airport. The project will be carried out under a Build-Operate-and-Transfer scheme, with a 25-year concession period.

We have also taken steps to acquire a majority shareholding in a consortium behind the Metro Rail Transport-Line 7. This is a Build-Operate-Transfer project to develop, finance, operate and maintain a 22 km. metro rail transport system from the MRT 3 North EDSA terminal to San Jose Del Monte, Bulacan.

We have other targets for acquisition in our sights. San Miguel is looking to acquire a stake in the Philippine-Australian consortium, Ausphil Tollways Corporation, the company in charge of the North Luzon East Expressway Project.

Energy, power, infrastructure, telecommunications, mining and other utilities: These are all industries with strong demand fundamentals. Many of these industries are also undergoing restructuring and the current regime of liberalization and privatization provides great timing for companies who might be looking to invest, as we are.

In May 2009, we offered all shareholders the option to exchange their common shares for preferred shares that carry a dividend yield of P6.00 per share—over four times more than the dividend on common shares. Following this, we had acquired a 49% stake in Top Frontier to maintain the stability of our organization and ensure the continuity of our on-going business and growth strategy. These moves reflect your management's resolve to protect the interest of all stakeholders and continuously enhance shareholder value.

Recently, we announced that we are seeking approval from shareholders holding common shares to waive their preemptive rights.

With our diversification plans now gathering pace, we want to be able to bolster our company's capital base and gain flexibility when it comes to financing our own growth—whether this involves future acquisitions or investments. We are, in effect, asking you, our shareholders, to help us grow your company and your investment.

Specifically, we ask that you endorse an amendment which would allow us to sell down more than 51% of the company's stake in our core businesses. We will also ask you to approve a move to declassify San Miguel's outstanding capital stock from class "A" and class "B" common shares to common shares without distinction. Given that both sets of shares have essentially the same rights and privileges, and are trading at the same level, we believe it is an opportune time to declassify.

Fellow stockholders, we could choose to be the San Miguel of the last 120 years. But that would be choosing *not* to grow. Instead, as a result of your management's very deliberate moves, your company is in position to capture some of the biggest opportunities offered by our national economy today.

We are confident that this bear market will, in the end, reward companies looking for bold, new ways to deploy their resources. Our new portfolio of businesses—made up of heavy and basic industries as well as of fast-moving consumer goods—gives us confidence. Right now, our portfolio still favors our more established businesses; but, medium-term, we are working toward a more robust mix of revenue and operating income. Our diversification will enable us not only to gain access to wider markets and revenue streams. It will also enable us to shore up weaknesses in some industry segments.

We enter 2010 with a good strategy, revitalized businesses and healthy momentum. When we first started working for you in 1998, it was with the aim of building a company of reliable financial performance, one with rich growth possibilities. We believe we have delivered on those objectives. Moving forward, our job *now* is to deliver on the promise that the future now holds for San Miguel.

Eduardo M. Cojuangco, Jr.
Chairman & CEO

Ramon S. Ang
President & COO

Exactly where we want to be

It's been a really busy year for SMC. How would you characterize 2009 in terms of where you want to take the company?

RSA: I would say 2009 was a success. I think we've done really well, in terms of creating opportunities for ourselves. From Petron to Meralco to our power plants, particularly Sual in Pangasinan, we've put together a really good portfolio of investments.

The comments and criticism of San Miguel's new growth strategy has sort of died down in the last few months…

RSA: I think it's because we have a lot to show for ourselves. In 2007 when we first talked about diversifying our portfolio, we surprised a few people. That was to be expected. When you take a 100-plus-year-old company and make some big changes, it's going to rattle a few people, employees included.

Back then, people didn't understand our strategy. Maybe we didn't explain it well enough, or maybe it was just hard to grasp. But now that we have a good number of companies under our belt, people are starting to appreciate the synergies among our various businesses. People are starting to see the obvious tie-ups: for instance what we can do in retail via Petron's Treat convenience stores; or how we can use Bank of Commerce to help with our banking requirements as a Group, and how we can also grow the retail side of the bank through Petron. These are just small examples of why it makes sense to move into these businesses and why these businesses belong together.

San Miguel has been very aggressive at a time when other companies have been retreating from all the action. How is this possible?

RSA: There's nothing like a crisis to concentrate the mind. We saw that in 1997-98 Asian financial crisis. There were a lot of bargains up for grabs. This time around, the crisis created a lot of dislocation in many industries the world over. In the Philippines, the market was suddenly rich with opportunities. Government was also looking to deregulate and privatize its holdings in the power and energy sectors, offering all these big public enterprises to the private sector. Luckily, San Miguel was in good shape and prepared to get into the picture. Our core businesses were doing well and we had cash in hand from our divestments in National Foods, and the other businesses that we also exited. In other words, we had the financial flexibility to move on the opportunities coming up in the market.

It has been a very easy decision to diversify. The wrong thing to do would be to try more of the same, or simply refuse to explore other possibilities. We've worked very hard to make our businesses more efficient, working on raising productivity and cutting back on costs. But cutting costs isn't enough. Apart from reducing the complexity of our corporate structure, we've had to transform our business model.

If you look at what we're doing, we're also making our company less monolithic. San Miguel used to be composed of divisions, all under one roof. That was right for us a decade ago. Now we've spun our divisions off. Smaller companies are generally better run. People feel more empowered and connected to the decision-making process.

Is it the transformation that's leaving people unsettled? Particularly for the older businesses?

RSA: We're very happy with our core businesses, but there are obvious limitations to growth in them—and we really have bigger aspirations for ourselves as a company. But we've helped them by partnering with industry leaders whose focus is really on the targeted business. Kirin, Hormel Foods, Nihon Yamamura Glass—these are big, big players and they can help bring the business further in the sense that they operate in a far bigger arena.

From our existing portfolio, we can only hope for single-digit growth. In the new businesses, 20% ROE (return on equity) is *not* unheard of. At present, food, beverages and packaging constitute 50% of our total portfolio. In the medium- and long-term future, I'm looking to a more even distribution. Twenty percent from these traditional businesses and an equal share for power, energy, and infrastructure.

Is there any company or business out there that you think San Miguel should be in; are there any opportunities you think you've missed out on?

RSA: I'm not the type of person who thinks about missed opportunities. I'll take what comes our way. A few people said we missed out on some of the bigger power deals a few years ago; but I'm very happy with what we have in hand. Sual and San Roque are very good deals, major plays in the power and energy sector. We have a diesel plant, a coal plant and now a hydroelectric power plant. We're looking for a few more companies out there; and, this year, we're going to see a few more add-on companies. The tollways are big, too, and the Tarlac-to-La Union expressway project is underway. We're bidding for the new MRT project and we've won ownership of a coal mining company and a consortium behind Caticlan Airport.

We're in the investment mode, while it may take a little time before we realize the returns from our newer businesses, they will materialize. And the best part is we wouldn't have wasted time sitting on the sidelines. Today, we're exactly where we want to be.


DURANTE


Making a Difference

San Miguel Corporation is one of the Philippines' most diversified conglomerates. It generates close to 2% of the country's gross national product through its highly integrated operations in beverages, food, packaging, properties, banking, energy, power, mining and infrastructure.

With total assets now exceeding P438.5 billion, the company's operations strongly support national development—in particular, the regional dispersal of industries and employment. San Miguel Corporation provides livelihood and business opportunities in virtually every local community.

One of the nation's largest corporate taxpayers, the company's direct tax contribution amounted to P42.4 billion in 2009.

San Miguel is today one of the nation's largest employers, with a workforce of more than 14,500. For each job created within the San Miguel system, many additional jobs are created through suppliers, distributors, retailers and other business partners.

Since its establishment as a single-product brewery in 1890, the company has always identified with the aspirations and development goals of the Filipino people. Its philosophy of growth and diversification supports the basic needs of the Philippines as a developing economy. For San Miguel, there has never been a more hopeful time than the present to engage in industries that can contribute to our country's progress.

Even at 120 years old we are still, a growth company at heart.

MARCOS DURANTE
SAN MIGUEL BREWERY INC. DEALER

Fifteen years ago, Marcos Durante signed up for a dealership with San Miguel—and he has not looked back since. One of San Miguel Brewery Inc.'s ten dealers in Benguet province, Durante serves close to 730 outlets in six municipalities, La Trinidad, Kibungan, Kapangan, Sablan, Tuba and Atok Bali.

Named the company's top dealer for small businesses for two years running, Durante says he came into the business through sheer luck. His cousin knew some people at the local distributorship for San Miguel; and Durante, who was then working in the local office of the Bureau of Internal Revenue, asked if there were any business opportunities he might explore.

On the side, Durante had been operating a rolling store together with his wife. Essentially a *sari-sari* store on wheels, the rolling store sold dry goods and beverages—San Miguel Beer among them. A beer drinker himself, Durante saw how well San Miguel products were selling and instinct told him he had a sure thing on his hands.

As it turned out, Durante's cousin said that the company was looking to expand and reconfigure its dealership base, particularly in underserved regions like Benguet province. Durante jumped at the chance. "From my experience with the rolling store, San Miguel beer products were fairly easy products to carry," he says, "So I decided to limit my portfolio to brands that to me, were tried and tested."

Today Durante has 12 employees helping him with the dealership. He owns three route trucks, one ten-wheel hauler and a warehouse in Irisan, Benguet. As often as possible, from 7 a.m. to 5 p.m., Mondays to Saturdays, Durante goes route riding with his team, checking out each of his outlets and seeing that they have sufficient inventory. The margins are good and Durante says that his investment in the business has since been returned several times over. "When I was running the rolling store, it took me almost five years to recoup my investment. For the dealership it was much less than that."

Last year, Durante sold nearly 19,000 cases of beer and he says that if he's given an offer to expand his dealership, he would do so. "I know this business inside out," says Durante whose experience has all the makings of an inspirational life story: A man who believes that hard work today means a better life decades from now for the son who will inherit what he helped create: a company offering a compelling business proposition; and a brand that is so much a part of Filipino life.

As often as possible, from 7 a.m. to 5 p.m., Mondays to Saturdays, Durante goes route riding with his team, checking out each of his outlets and seeing that they have sufficient inventory.

Mira Mae and her brother are far better off than a year ago, when they were living under a bridge with dozens of other families along one of the many estuaries of the Pasig River.

MIRA MAE LAGO

BENEFICIARY, SAN MIGUEL CORPORATION VILLAGE, BAYANIJUAN SA CALAUAN

Mira Mae Lago is 13 years old and lives alone with her younger brother in San Miguel Corporation Village, BayaniJuan sa Calauan, Laguna—a housing project that is part of ABS-CBN Foundation's river-rehabilitation project. An aunt lives nearby and keeps an eye on the children, but for the most part the siblings are on their own. Their mother and father have gone elsewhere for work, and neither of the children knows when either parent will be back.

Still, Mira Mae and her brother are far better off than a year ago, when they were living under a bridge with dozens of other families along one of the many estuaries of the Pasig River. Then, home was dank and dark. For a bed, the children had a cardboard mat. Now they have a 30-square meter house and the watchful eyes of other people relocated from the Pasig River, who have formed a tight community in BayaniJuan sa Calauan. In the morning, Mira Mae and her brother attend the village school. In the afternoon she joins her aunt in the village market where they sell vegetables.

Thanks to ABS-CBN Foundation and a P21 million donation from San Miguel, San Miguel Corporation Village will be home to at least 300 families by mid-2010. Apart from shelter, San Miguel will provide livelihood and skills programs. It is setting up a cooperative for the relocated Pasig River settlers.

Mira Mae hopes to become a nurse one day so that she can work overseas and send money home to her family. With the future still far off, Mira Mae can now afford to dream—safe in her new home and her new village.

Orders have been steadily growing and Synergos' client base has grown to include some of the more established SMEs whose brands have grown into niche bestsellers.

MELISSA DE LEON

SAN MIGUEL YAMAMURA PACKAGING CORPORATION DISTRIBUTOR

When it came to looking for an idea to grow her fledgling business portfolio, entrepreneur Melissa de Leon didn't have to look very far. An employee of San Miguel's packaging products division from 1982-1995, de Leon heard of the SMC subsidiary's plans to outsource the distributorship of its glass bottles during one of her monthly reunions with a handful of her friends who are still working for what is now called San Miguel Yamamura Packaging Corporation.

De Leon applied for a distributorship—and her business credentials were good. An industrial engineer by training, she had worked at the management services department, handling quality and productivity programs of San Miguel's Manila Glass Plant.

On leaving San Miguel, de Leon had helped manage a cooperative of retirees that, for a time, oversaw the logistics requirements of the glass plant. She also managed a small petrol station. In February 2007, Synergos Management, Inc., de Leon's business, became the exclusive distributor of SMYPC's glass products. Today, the business pulls in P18-P20 million in revenues and operates with a full-time staff of five. During peak months, de Leon's teenaged children help their mother bundle orders and stack bottles. De Leon's customers are small-and-medium enterprises—mostly the sardines, salad dressing and jam, she says. Orders have been steadily growing and Synergos' client base has grown to include some of the more established SMEs whose brands have grown into niche bestsellers.

Apart from glass bottles, de Leon also sources her metal caps and plastic pallet requirements from San Miguel. The warehouse behind her gas station is filled to the rafters with boxes of glass jars and pharmaceutical bottles. Within days it would be empty, and a new batch of bottles in place. De Leon is determined to grow her volumes, chasing clients as far north as Baguio and the Ilocos. "There's a whole untapped market just waiting to be found," she says.

"Blessings" is a word both Trabajos use quite a lot. Each of their children is a blessing they say, but so too is San Miguel.

TACS & EVA TRABAJO

MONTEREY MEATSHOP FRANCHISE OWNERS

Tacs and Eva Trabajo met and married in San Miguel Corporation. She was with the HR Department and he was with the company's information technology unit. Today, more than two decades married, Tacs is still with San Miguel working as a SAP consultant. Eva left her job in executive services three years ago to take care of her children full time. "I loved my job in HR, but I love my children more."

The couple have four children, three of whom are autistic. Their oldest pair, twin girls Trixie and Nikki, now 21 years old, are "low-functioning" autistic, while their youngest,18-year old Paolo has been diagnosed "high-functioning" autistic. "When they were younger I would go on leave to take care of them; and my bosses were always very understanding. That's the best part about San Miguel; everyone is family."

With over close to forty years of combined service between them, the couple has turned again to San Miguel for means to augment their income. Together with another San Miguel retiree and friends from their religious community, the Trabajos have invested virtually all their savings in a Monterey Meatshop, using Eva's retirement funds as seed money. The shop, located in Kamuning, Quezon City, opened in October 2009. Business has been brisk so far. "I attended all the franchise training modules and the Monterey people have been very helpful," says Tacs. "It helps maybe that they know Eva and I are also connected with San Miguel."

Tacs and Eva take turns juggling their duties as the stores co-owners. But most days it's Tacs who will drop by after work to help close the store and monitor sales. By the time he gets home, it's past 9.00 pm, but he says, "It's a different kind of fulfillment having my own business."

On weekends, Eva will sometimes bring the kids to the shop. "It allows me to have something of my own while still staying close to them," she says. Eldest son Jolo is 19 and his mother hopes he will manage the store when he graduates from college. "Blessings" is a word both Trabajos use quite a lot. Each of their children is a blessing they say, but so too is San Miguel.

Growth Gathers Pace

Full-on activity has been San Miguel's response to the global financial crisis. Nearly three years after announcing plans to diversify into high-growth areas such as power generation, oil refining, telecoms, water, toll ways, mining and infrastructure, our company's new strategy to re-accelerate growth is rapidly bearing fruit.

In July 2009, San Miguel, through subsidiary Vega Telecom Inc., acquired a 32.7% stake in Liberty Telecom Holdings Inc., a joint venture with Qatar Telecommunications Co. By January 2010, Liberty had begun friendly-user trials for its WiMax network—the first salvo in a national cellular and broad-band project.

In August and December 2009, San Miguel also won, in separate public auctions, three major power plants with a combined generation capacity of 1,965 MW. Currently, the company operates the 620 MW Limay power plant and administers both the 1,000 MW Sual power plant and the 345MW San Roque multi-purpose hydro-power plant under the Independent Power Producer Administration (IPPA) agreement.

In its first foray into the infrastructure sector, San Miguel acquired a 35% stake in Private Infrastructure Development Corp. (PIDC), a consortium of construction companies behind the Tarlac-Pangasinan-La Union Toll Expressway. The 88.57-kilometer expressway will extend from La Paz, Tarlac, to Rosario, La Union.

In March 2010, San Miguel Energy Corp. acquired Daguma Agro-Minerals Inc., a mining firm based in South Cotabato. In April, the company executed a share sale agreement to acquire a majority stake in Caticlan International Airport and Development Corporation. Following that, the company won a bid for the 1,200 MW Ilijan Natural Gas combined-cycle power plant. San Miguel has also taken steps to buy a majority shareholding in Universal LRT Corporation; and in the Philippine-Australian consortium, Ausphil Tollways Corporation, that is developing the North Luzon East Expressway Project.

While our company has not been immune from the short-term impact of the global recession, we continue to invest in a diversification strategy that we believe will pay off in the long term.

2009

FEBRUARY

San Miguel subsidiary, San Miguel Bulk Water Co., submits an unsolicited proposal for the Laiban Dam project.

MAY

Japan's Kirin Holdings buys a 43.25% stake in San Miguel Brewery Inc. at P8.841 per share.

At the same time, we also recognize that we must balance our long-term strategy with our short-term need to manage the business through the downturn by being prudent where necessary. In the area of the company's core businesses, our company acted decisively to meet the challenges of the economic downturn and of the twin natural disasters, the monster-typhoons Ondoy and Pepeng.

Cost pressures caused by higher raw-material prices and operating expenses are an issue affecting the majority of our businesses. In 2009, we invested in programs to generate volume and to support our trade partners. We reduced our operating expenses and managed our cash flow and balance sheets tightly. Thanks to our improving business mix, particularly in our Food Group, and to our savings program, we were able to limit the impact on our margins of both higher input costs and of our increased investment in competitiveness.

These actions enabled us to deliver a relatively solid performance in 2009. Consolidated sales revenues amounted to P174.2 billion, 4% higher than in the previous year. With strong sales in the beer and hard liquor sectors, the recovery of our packaging and food businesses, and a reduction in fixed costs all across the Group, consolidated operating income reached P19.7 billion, 33% above 2008 levels.

The company's net financing charges amounted to P4.90 billion, with higher interest expenses and foreign exchange losses.

Other income amounted to P46.8 billion, the bulk of which derives from the sale of San Miguel's 43.25% stake in San Miguel Brewery Inc. to our longtime strategic partner, Kirin Holdings, in May 2009. Proceeds from the sale were used to pay down San Miguel Corporation's debt of $923 million. The balance has been earmarked for other investments, including the potential exercise of our option to buy 50.1% of Petron.

Consolidated net income for the year reached P57.8 billion, significantly higher than that of 2008.

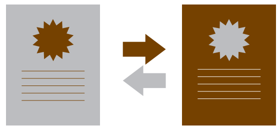
BEER

San Miguel Brewery Inc.

San Miguel Brewery Inc.'s P38.8 billion bond offering in January 2009 was record-breaking—the largest-ever domestic debt offering by a corporate issuer in the Philippines. In May 2009, SMC's longtime strategic partner, Japan's Kirin Holdings, acquired a 43.25% stake in San Miguel Brewery Inc. at P8.841 per share. Before the close of 2009, SMB signed a share-purchase agreement with San Miguel Corporation to acquire 100% of San Miguel Beer International Limited, which has an enterprise value of $300 million. The acquisition was concluded on 29 January 2010.

SMB Inc. ended the year with a sales volume of 174.6 million cases. The company's sales revenue of P51.0 billion grew by 5% over that of 2008, helped along by a price increase in November 2009. On-going efforts to stimulate volumes, improve cost efficiencies and manage fixed costs resulted in an operating income of P16.0 billion—3% higher than that of 2008. Net income was P10.0 billion.

Amid challenging market conditions, SMB's favorable performance was driven by the comprehensive and integrated implementation of consumer-focused advertising and promotional initiatives, as well as enhanced operational efficiencies. SMB continued to concentrate on perennially successful special events, notably Red Horse's "Musiklaban" and SanMig Light's sponsorship events. The company also invested in above-the-line initiatives, by installing electronic billboards for San Miguel's Premium All-Malt and by airing TV and radio advertisements. The National Beer-Drinking Contest, which celebrated its tenth run in 2010, raised the profile of SMB



MAY

Kirin announces it will sell its entire 19.9 percent stake in San Miguel Corporation. to Q Tech Alliance Holdings Inc.

The San Miguel board signs the approval of a share-swap agreement in which common shareholders can exchange their common shares to new "Series 1" preferred shares.

Inc.'s flagship, strengthening San Miguel Pale Pilsen's sales.

Beer International

The economic crisis and tough industry conditions in most of our markets weighed down Beer's international operations. Total volumes fell short of 2008 levels, with most markets retreating in terms of sales. Nevertheless, gains were evident in Thailand's domestic operations, which grew by 13% over 2008. Our Indonesian operations and export business also posted improvements, growing by 3% and 4% respectively.

Sales revenue amounted to US$275 million, 3% lower than that of 2008. Operating income stood at US$6.48 million—a significant improvement on last year's loss of US$1.57 million, driven by margin improvements, the reduction in discounts and fixed-cost management.

In Hong Kong, the company remains the No. 1 beer company, with our flagship San Miguel brand at the forefront. Our economy brands have maintained their growth momentum, even as full-year total domestic volumes ended lower than 2008 in the SAR's highly competitive beer market. San Miguel Brewery Hong Kong, Ltd. ended 2009 with positive operating income, following a strong fourth-quarter run that virtually wiped out losses posted in the first three quarters. Rationalization of discounts and the resumption of Hong Kong brewery operations all helped mitigate losses resulting from the decline in volumes.

Sales in South China remained sluggish, as our home base in Guangdong Province continued to suffer from the recession. Fierce competitive discounting in the wholesaler-served channel also affected sales results. Market penetration programs and trade and consumer incentives, however, resulted in improved sales, particularly during the holiday month of December.

In North China, sales volumes, too, fell behind 2008 levels amid tougher economic conditions, more stringent drunk-driving policies and heavy discounting at wholesale level. Higher selling prices and bigger fixed-cost savings helped offset the decline in volumes, pushing operating results to slightly above break-even point. Although it fell short of last year's results, North China turned in its second consecutive year of positive income in 2009.

In Indonesia, PT Delta Djakarta turned in a solid performance largely on the strength of Anker Bir volumes. It finished the year with a 3% growth in domestic volume. The company's operating income improved impressively on that of 2008, owing to strong volumes, rationalization of discounts and lower fixed costs.

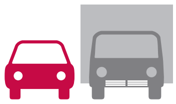
In Vietnam, sales of San Miguel brands ended the year 4% ahead of 2008, from successive months of continued growth. The increase in export volumes compensated for the decline in Bia Hoi sales, pushing total production volumes higher than last year's.

In Thailand, domestic volumes sustained the brewery's growth momentum, despite a contraction in the country's beer industry. Noteworthy was the performance of San Mig Light, which posted four consecutive quarters of double-digit growth in 2009. After three successive quarters of decline, sales of our flagship, San Miguel Pale Pilsen, began an upward trend. All these added up to a significant improvement in the over-all profitability of our Thai operations.

Our Beer Exports unit did well, bolstered by higher sales volumes in the Middle East and in South Asia. Aided by better volumes and higher margins, operating income for the year was significantly higher than that of 2008.

HARD LIQUOR AND SOFT BEVERAGES

Ginebra San Miguel Inc.'s performance for 2009 was strong and on target, bolstering its new market positioning as a total beverage company—one that markets both alcoholic and non-alcoholic beverages.



JULY

SMC acquires 32.7% of Liberty Telecom Holdings via Vega Telecom Inc.

AUGUST

Through subsidiary Rapid Thoroughfares, Inc., SMC acquires a 35% stake in Private Infrastructure Development Corp. (PIDC), a consortium of construction companies behind the Tarlac-Pangasinan-La Union Toll Expressway project.

Propelled by GSM Blue and Gran Matador Brandy, its domestic volumes posted impressive gains on those of 2008. GSM Blue and Gran Matador have consistently delivered double-digit volume gains, bringing total hard liquor domestic volumes to 36.9 million cases, 16% higher than 2008 volumes. Effective ad and promo programs such as the "Imagine" TVC, Bluniversity, Bluefest, "Tuloy ang Init, Part 2 UTC" and "Gin-u-win UTC" captured consumer interest. Continuing improvements in product distribution and trade-channel penetration have also translated into higher sales.

GSMI's sales revenues grew 27% to P19.5 billion, while operating income reached P1.09 billion, significantly higher than the prior year's. This was largely the result of high volumes, price increases and improved distillery operations—all of which offset the higher cost of packaging materials, the increase in specific tax and conversion costs.

Net income, combined with an increase in financing charges, rose to P701 million— turning around last year's loss of P279 million.

The year also saw the integration of San Miguel's non-alcoholic beverage subsidiary into GSMI. As a result, average volumes posted significant growth on those of 2008.

FOOD AND AGRI

The Food Group ended 2009 with a record-breaking performance in a highly competitive market driven primarily by the factors of price and affordability. The scale and breadth of San Miguel's food operations show the company's unique ability to operate across categories, with both branded and institutional products. In this respect, the Food Group's track record of service, successful product innovation and breadth of capability has served it well in a regime of economic hardship.

Consolidated revenues of the Food Group reached P77.1 billion, with year-on-year growth of 5%. The poultry, flour, dairy and feeds sectors were consistently the best performers, while favorable selling prices, softening raw-material prices across the commodity and dairy business units, improved efficiencies and effective cost management resulted in better margins than in the prior year. Operating income was P4.53 billion—more than double the P2.02 billion registered in 2008.

Another factor that contributed to this overall success were the Food Group's initiatives at business process outsourcing. These innovations resulted in a more streamlined, more cost-efficient organization. Business-model enhancements were also made in meat-retailing, while efforts to expand the Food Group's export base were largely successful. Given that the economic situation remains uncertain, the Food Group will continue to focus on margins, costs and cash flows, so that SMPFC will maximize profits in the short term, while also positioning itself to move forward in the medium to longer term.

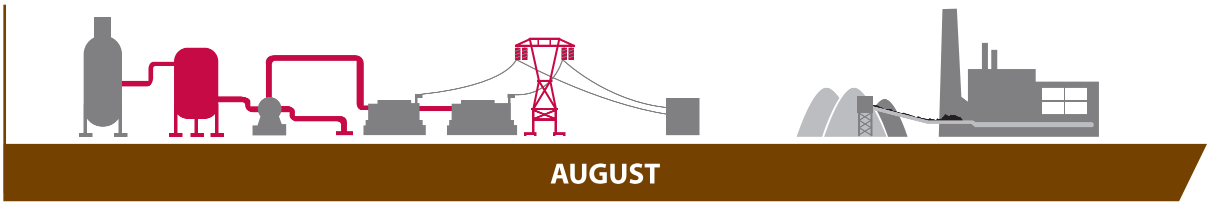
Agro-Industrial Cluster

Revenues of the agro-industrial cluster rose 10% to P53.6 billion, driven by volume growth and better selling prices in the poultry and basic meats sectors. Stable raw material costs brought operating income to P3.09 billion, nearly double that of the previous year.

For the Poultry sector, it was a record year that generated revenues of P25.8 billion— coming from growth in both volumes and in selling prices. The Magnolia Chicken Stations and wet- market sales delivered the biggest volume growth. Fully 107 new chicken station outlets opened in 2009 alone.

Continued expansion of the sector's breeding and growing facilities, using a climate-controlled system, helped to improve operational efficiencies, thus reducing production costs.

The Feeds business generated sales revenues of P20.5 billion, slightly higher compared with



SMC through San Miguel Energy Corp. wins the public bidding for the sale of the 620-megawatt Limay combined-cycle power plant in Bataan.

San Miguel Energy Corp. wins the public bidding for the 1,000 MW Sual, Pangasinan coal-fired power plant.

last year's. The increase is mainly due to the strong performance of the sector's premium product segments.

Feed's use of alternative raw materials— primarily cassava— resulted in substantial savings for the business. Its premium pricing strategy helped protect, and improve, profitability amid a weak market.

The Monterey meat business also improved significantly on 2008's losses, owing to steps taken to reduce costs and improve operational efficiency, as well as to cost breaks in raw materials. Sales revenue rose 15% higher than 2008's, to P7.30 billion.

Milling Cluster

The Food Group's flour operations, enjoying a respite from record-high wheat prices in 2008, ended the year with an 8% increase in volumes.

While sales revenues ended lower, at P7.93 billion due to lower selling prices, the cluster's good hedging position in wheat and freight charges, as well as in the use of cheaper Australian wheat, produced a strong growth of operating income. These initiatives enabled our flour operations to turn in a significantly higher operating income, compared with the loss that the segment suffered in 2008.

Value-Added Meats Cluster

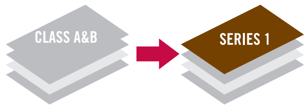
Our flagship brands for hotdog, canned meat, bacon, nuggets and whole ham remained market dominant in their categories. As trusted trade marks, these products proved resilient despite the consumer tendency to trade down to lower-priced meat products during the recession.

Nevertheless, weak consumer spending, capacity limitations and logistical constraints due to typhoon Ondoy affected the overall performance of the value-added meat business. Sales revenues for 2009 amounted to P11.3 billion.

Our Value-Added Meats Cluster carried out consumer promotions to defend its status and its market shares. It also launched new products to offer more value to consumers and to strengthen the company's participation in the affordable-segment and food-service accounts.

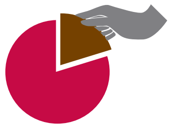
Dairy, Oils, and Fats

In 2009, Magnolia Inc. rebounded from weak sales in the previous year. Butter, margarine, cheese, milk and cooking oil all performed strongly, generating uniformly higher volumes versus those of 2008. Similarly, Magnolia's ice cream operations did well in 2009. Sales revenues registered a 10% increase over those of last year, reaching P5.3 billion.



OCTOBER

SMC completed the conversion of 476,296,752 common class A shares and 396,876,601 common class B shares which will be converted to Series "1" preferred shares.



NOVEMBER

Top Frontier Investment Holdings Inc. acquires a 26% stake equivalent to 857.12 million shares in San Miguel Corporation for P64.3 billion or P75 per share.

Cost breaks in raw material costs, higher selling prices and effective fixed-cost management were the key drivers of the business' good performance in 2009, enabling the business to post a significant turnaround from the previous year's loss.

New packaging for Star margarine was launched in 2009, while the new Magnolia Ice Cream plant in Sta. Rosa, Laguna, became operational in March 2010. The plant capacity is five million gallons of ice cream yearly.

Boxing champion Manny Pacquiao and his family became official endorsers of Magnolia Ice Cream and of Magnolia Ready-to-Drink Milk, to emphasize the brand's heritage and its affinity with the Filipino family.

Food Service

Great Food Solutions continued to gain ground in the food-service industry, posting sales revenue of P2.06 billion. Among GFS' partner-clients are the country's food-service giants—the Jollibee Group, Shakey's Pizza, 7-Eleven and the Bistro Restaurant Group among others. High quality, cost-efficient product customization and co-branding activities with key accounts continue to be the core strengths of our food-service business.

Emerging Business

Super Coffeemix registered sales revenues of P474 million in 2009—lower than 2008 revenues because of stiff competition from rival brands. But the tight rein on fixed costs raised the coffee business's operating income significantly higher than that of last year.

The Pro-Health Coffee line–Pro-Beauty, Pro-Fiber, Pro-Slim and Pro-Power were launched to tap into the growing popularity of wellness products. Efforts were also made to extend the distribution and reach of our ready-to-drink coffee products.

Regional Operations

San Miguel Pure Foods Vietnam's performance was adversely affected by hog-disease outbreaks that hit the region in 2009. Hogs sales volumes dropped significantly, resulting in slower growth for our feed products. Despite this, however, volumes of our feed products grew 7% versus those of 2008—the result of better distribution and quality improvements. Sales revenues ended the year at P2.10 billion.

Vietnam is now home to 32 of our meat-shop outlets. New products were launched in 2009, boosting the volumes for our Fresh Meats and value-added businesses.

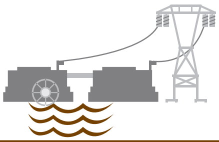
Despite relatively flat volumes, San Miguel Pure Foods Indonesia brought in sales revenues of P690 million. Point-of-purchase promotions pushed sales volumes, while tightly managed costs contributed to a positive operating income for 2009.

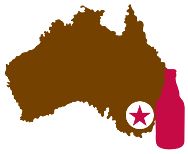
PACKAGING

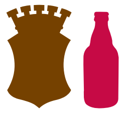
In December 2009, San Miguel Yamamura Packaging Group acquired, through its subsidiary San Miguel Yamamura Packaging International, a majority stake in JHK Investments Pty. Ltd—the holding company of the Cospak Group. The Cospak Group is the largest packaging trading company in Australasia, with sales offices in Australia, New Zealand and South Africa. The Group also has manufacturing operations in Australia, New Zealand and China. This acquisition gives SMYPG a foothold in an already developed yet still growing market that spans continents.

In 2009, SMYPG achieved total year revenues of P19.7 billion, as it broadened its market coverage both at home and in the export markets of Asia-Pacific, the Middle East, Africa, Europe and North America. Because of its cost-management initiatives and its significantly reduced working capital levels, SMYPG achieved an operating income of P1.62 billion in 2009, significantly higher than that of 2008.

In 2009, the company also secured long-term contracts with large multinational customers. It expanded its portfolio with new products, such as the anti-static







DECEMBER

SMC through Strategic Power Development Corporation submits the winning bid for the contract to manage the 345-megawatt San Roque multi-purpose hydroelectric plant.

SMC acquires a 65% stake in Sydney-based Cospak Group, a major packaging trading firm in Australasia, through subsidiary San Miguel Yamamura Packaging International Ltd. (SMYPIL).

SMC and San Miguel Brewery Inc. sign a share purchase agreement to acquire 100% of SMC's international Beer business.

(ESD) bags that have enabled it to enter the growing semiconductor and electronics industry. It also makes plastic buckets and pails; lug caps; shrink labels; mold inserts for plastic caps; 30mm plastic caps for bottled water; and the retortable aluminum can. SMYPG's metal container plant took the top prize in the two-piece beverage can category of the Asia Can Tech 2009 Conference.

PROPERTIES

In 2009, San Miguel Properties, Inc. turned in a remarkable performance. Its sales of residential properties posted a 137% growth. Total revenues amounted to P711.0 million, 17% higher compared to those of 2008. This record it achieved despite the downturn in the real estate industry at the start of 2009. SMPI reacted proactively to market needs by introducing innovative payment terms. In partnership with Bank of Commerce, it arranged easy access to home financing for prospective buyers. SMPI's net income in 2009 reached P978 million.

Its launch of a marketing campaign in April 2009 and other initiatives to generate customer leads resulted to higher sales conversion. SMPI also implemented saturation activities aimed at the OFW market, which contributed over 50% of its total sales. The introduction of affordable house and lot packages also contributed to the increase in sales.

The year was a milestone for SMPI, as it began work on a P3.0 billion luxury serviced-apartment project in Legaspi Village, Makati. The project is to build more than 400 residential units on a 2,615 sq. m. property located right across the Greenbelt shopping mall.

Moving forward, SMPI continues to diversify its products while remaining focused on its horizontal development. These include three other projects to be launched in 2010.

FINANCIAL POSITION PROFILE

The company's consolidated total assets as of December 2009 amounted to P438.5 billion, P99.1 billion higher than 2008 mainly due to the increase in cash balance and investments and advances.

Cash and cash equivalents increased by P92.5 billion from 116.9 billion in 2008, attributable to the proceeds from sale of SMB shares, proceeds from issuance of bonds by SMB and floating rate corporate notes by the parent company.

Investments and advances increased by P7.10 billion to P39.4 billion in 2009, representing the equity in earnings in Meralco and Bank of Commerce and additional investments in power plants, telecommunications and infrastructure.

On the liabilities side, long-term debt increased by P23.2 billion to P73.0 billion in 2009 mainly due to San Miguel Brewery Inc.'s bond issuance to purchase the beer brands and land from the parent company.

San Miguel's total consolidated interest bearing liabilities end-2009 amounted to P129.8 billion, while total consolidated cash ended at P209.4 billion resulting in consolidated net cash balance of P79.7 billion.

Other non-current liabilities decreased to P19.6 billion from 2008 level of P25.7 billion, the result of the unpaid balance of the purchase price for Meralco shares, net of the subscriptions payable related to the investment in LTHI and PIDC shares of stocks.

Stockholders' equity increased to P240.9 billion from P168.2 billion in 2008, primarily due to the net income attributable to equity holders of the company amounting to P57.8 billion, coupled with the issuance of 97 million preferred shares, net of cash dividends declared. The increase of P8.81 billion in Minority Interest was due to the recognition of additional non-controlling interests in SMB.

The company's current ratio was 3.17 and 2.35 at the end of December 31, 2009 and 2008, while indebtedness improved with a debt-to-equity ratio of 0.82 vs. 1.02. Considering only interest bearing debt, debt-to-equity ratio was 0.54 as of December 31, 2009, also an improvement from an end-2008 ratio of 0.58.

CORPORATE GOVERNANCE

San Miguel Corporation recognizes that good governance helps the business to deliver strategy, generate shareholder value and safeguard shareholders' long-term interests, and we are committed to the highest standards of corporate governance.

As a responsible corporate citizen, we want to do the right thing, and we have the policies and programs in place to help ensure that we do.

Our Board of Directors, led by our chairman Eduardo M. Cojuangco, Jr., believes in conducting our business affairs in a fair and transparent manner and in maintaining the highest ethical standards in all the company's business dealings.

SHAREHOLDERS' RIGHTS

The company recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors.

Voting rights

Each common share in the name of the shareholder entitles such shareholder to one vote which may be exercised in person or by proxy at shareholders' meetings, including the Annual General Stockholders' Meeting (AGSM). Common shareholders have the right to elect, remove and replace directors as well as vote on certain corporate acts in accordance with the Corporation Code.

Preferred shareholders have the right to vote on matters involving certain corporate acts in accordance with the Corporation Code and enjoy certain preferences over holders of common shares in terms of dividends and in the event of liquidation of the company.

Among the corporate actions approved by the shareholders in 2009 was to authorize the offer to exchange the Class "A" and Class "B" common shares for a new class of shares to be denominated as Series "1" Preferred Shares (the "Exchange Offer") and to reflect amendments in the Amended Articles of Incorporation of the company to provide for the creation of the preferred shares and its rights and privileges.

Pre-emptive rights

Unless denied in its articles of incorporation or an amendment thereto, stockholders have the right to subscribe to all issues of shares of the company in proportion to their shareholdings.

Under the company's amended articles of incorporation, shareholders do not have pre-emptive rights to the issuance of shares relating to equity-linked debt or other securities, any class of preferred shares, shares in payment of a previously contracted debt or shares in exchange for property needed for corporate purposes, to give the company greater flexibility in raising additional capital, managing its financial alternatives and issuing financing instruments. Subject to certain conditions, shareholders also do not have pre-emptive rights to shares issued, sold or disposed of by the company to its officers and/or employees pursuant to a duly approved stock option, stock purchase, stock subscription or similar plans.

Right to Information

Shareholders are provided, through the Investor Relations group, disclosures, announcements, and upon request, with periodic reports filed with the Securities and Exchange Commission (SEC).

Dividends

Shareholders are entitled to receive dividends as the Board, in its discretion, may declare from time to time. However, the company is required, subject to certain exceptions under the law, to declare dividends when its retained earnings equal to or exceed its paid-up capital stock.

In 2009, the company paid out cash dividends of P0.70 per common share and P1.50 per Series "1" Preferred Shares for shareholders of record as of October 5, 2009. For shareholders of record after October 5, 2009, the dividend rate was adjusted proportionately.

STAKEHOLDER RELATIONS

San Miguel Corporation exercises transparency when dealing with shareholders, customers, employees and trade partners. The company ensures that these transactions adhere to fair business practices in order to establish long-term and mutually-beneficial relationships.

Shareholder Meeting and Voting Procedures

Stockholders are informed at least 15 business days before the scheduled meeting of the date, time, and place of the validation of proxies. In 2009, Notices of the 2009 AGSM were sent to the stockholders on June 15, 2009. Voting procedures on matters presented for approval of the stockholders in the AGSM are set out in the Definitive Information Statement.

Shareholder and Investor Relations

San Miguel Corporation responds to information requests from the investing community and keeps shareholders informed through timely disclosures to the Philippine Stock Exchange (PSE), regular quarterly briefings, AGSMs, investor conferences, website, emails and telephone calls.

The company, through the Investor Relations group under Corporate Finance, holds regular briefings and meetings with investment and financial analysts.

DISCLOSURE AND TRANSPARENCY

San Miguel Corporation adheres to a high level of corporate disclosure and transparency regarding the company's financial condition and state of corporate governance on a regular basis.

Ownership Structure

The top 20 shareholders of the company, including the shareholdings of certain record and beneficial owners who own more than 5% of its capital stock, its directors and key officers, are disclosed annually in its Definitive Information Statement distributed to shareholders prior to the AGSM.

Financial Reporting

San Miguel Corporation provides the investing community with regular updates on operating and financial information through adequate and timely disclosures filed with the SEC and the PSE.

Consolidated audited financial statements are submitted to the SEC on or before the prescribed period and are distributed to the shareholders prior to the AGSM.

San Miguel Corporation's financial statements conform to Philippine Accounting Standards and Philippine Financial Reporting standards, which are all in compliance with International Accounting Standards.

Quarterly financial results on the other hand are released and are duly disclosed to the SEC and PSE in accordance with the prescribed rules. The results are also presented to financial and investment analysts through a quarterly analysts' briefing. These disclosures are posted on the company's corporate website.

In addition to compliance with structural reportorial requirements, the company discloses in a timely manner market-sensitive information such as dividend declarations, joint ventures and acquisitions, sale and divestment of significant assets that affect the share price performance.

Securities Dealing

The company has adopted a policy which regulates the acquisition and disposal of company shares by its directors, officers and employees, and the use and disclosure of price-sensitive information by such persons. Under the policy, directors, officers and employees who have knowledge or are in possession of material non-public information are prohibited from dealing in the company's securities prior to disclosure of such information to the public. The policy likewise prescribes the periods before and after public disclosure of structured and non-structured reports during which trading in the company's securities by persons who, by virtue of their functions and responsibilities, are considered to have knowledge or possession of material non-public information is not allowed.

ACCOUNTABILITY AND AUDIT

The Audit Committee provides oversight to external and internal auditors. The role and responsibilities of the Audit Committee are clearly defined in the company's Manual on Corporate Governance.

External Auditor

The accounting firm of Manabat Sanagustin & Company served as the company's external auditors for the fiscal years 2008 and 2009.

The external auditor is selected and appointed by the shareholders upon the recommendation of the Board and rotated every five years or earlier in accordance with SEC regulations. The external auditor's main function is to facilitate the environment of good corporate governance as reflected in the company's financial records and reports, through the conduct of an independent annual audit on the company's business and rendition of an objective opinion on the reasonableness of such records and reports.

The external auditors are expected to attend the AGSM of the company and respond to appropriate questions during the meeting. They also have the opportunity to make a statement if they so desire. In instances when the external auditor suspects fraud or error during its conduct of audit, they are required to disclose and express their findings on the matter.

The company paid the external auditor Audit Fees amounting to P10 million and P9 million in 2009 and 2008, respectively.

Internal Audit

Internal audit is carried out by the San Miguel Group Audit (SMGA) which helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. SMGA reports to the Audit Committee.

SMGA is responsible for identifying and evaluating significant risk exposures and contributes to the improvement of risk management and control systems by assessing adequacy and effectiveness of controls covering the organization's governance, operations and information systems. By evaluating their effectiveness and efficiency, and by promoting continuous improvement, the group maintains effective controls of their responsibilities and functions.

BOARD OF DIRECTORS

Compliance with the principles of good corporate governance starts with the company's Board of Directors. The Board is responsible for oversight of the business, affairs and integrity of the company; determination of the company's mission, long-term strategy and objectives; and management of the company's risks through evaluation and ensuring the adequacy of the company's internal controls and procedures.

It is the Board's responsibility to foster the long-term success of the company and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, exercised in the best interest of the company, its shareholders, and other stakeholders.

Composition

The Board consists of 15 members, each elected by the stockholders with voting rights during the AGSM. The Board members hold office for one year until successors are duly elected and qualified in accordance with the amended by-laws of the company.

The broad range of skills, expertise and experience of the directors in the fields of business, finance, accounting and law ensure comprehensive evaluation of and sound judgment on matters relevant to the company's businesses and related interests. The names and profiles of each director are found in the Board of Directors section of this Annual Report and in the Definitive Information Statement.

Independent and Non-Executive Directors

San Miguel Corporation complies with the legal requirement of having at least two independent directors or 20% of its board size, whichever is less but in no case less than two, on the Board. Of the 15 directors, Mr. Winston F. Garcia and Mr. Carmelo L. Santiago sit as independent and non-executive directors.

The Company defines an independent director as a person who, apart from his fees and shareholdings, has no business or relationship with the Corporation, which could, or could reasonably be perceived to materially interfere with the exercise of his independent judgment in carrying out his responsibilities as a director. An Independent Director shall submit to the Corporate Secretary a certification confirming that he possesses all the qualifications and none of the disqualifications of an Independent Director at the time of his election and/or re-election as an Independent Director.

Chairman/CEO and President/COO

The Chairman of the Board and Chief Executive Officer is Mr. Eduardo M. Cojuangco, Jr., while Mr. Ramon S. Ang holds the position of President and Chief Operating Officer. These positions are held by separate individuals with their respective roles clearly defined to ensure independence, accountability and responsibility in the discharge of their duties. The Chairman/CEO and the President/COO attended the last AGSM.

Board Performance

The Board holds regular meetings. To assist the directors in the discharge of their duties, each director is given access to the Corporate Secretary and Assistant Corporate Secretary, who serve as counsel to the board of directors and at the same time communicate with the Board, management, the company's shareholders and the investing public.

In 2009, the Board held twelve meetings. Below is the record of attendance of the directors at these meetings and at the AGSM:

SCHEDULE OF MEETINGS

Director's Name	Jan 27	Feb 20	Mar 26	May 11	May 21	Jun 25	Jul 23	Sep 01	Oct 15	Nov 05	Dec 03	Dec 18
Eduardo M. Cojuangco, Jr.	P	P	P	P	P	P	P	P	P	P	P	P
Ramon S. Ang	P	P	P	P	P	P	P	P	P	P	P	P
Estelito P. Mendoza	P	P	P	P	P	P	P	P	-	P	-	P
Iñigo Zobel	-	P	-	P	P	P	P	-	P	P	P	P
Winston F. Garcia	-	P	P	-	-	P	P	-	P	P	P	-
Leo S. Alvez	P	-	P	P	P	P	P	P	P	P	P	-
Egmidio de Silva Jose	P	P	P	P	P	-	P	P	P	P	P	P
Pacifico M. Fajardo	P	P	P	P	P	P	P	P	P	P	P	P
Menardo R. Jimenez	P	P	P	P	P	P	P	P	P	P	P	P
Hector L. Hofileña	P	P	P	P	P	P	P	P	P	P	P	P
Carmelo L. Santiago	P	P	P	P	P	P	P	P	P	-	P	P
Jesusa Victoria Hernandez-Bautista	P	P	P	P	P	P	P	-	-	P	P	-
Roberto V. Ongpin	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	P	P	P	-
Mirzan Mahathir	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-	-	P	-
Alexander J. Poblador *(Elected 1 September 2009)*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	P	P	P	P
Hirotake Kobayashi*	-	-	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A
Koichi Matsuzawa*	-	-	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A
Keisuke Nishimura*	-	-	P	P	P	-	-	N/A	N/A	N/A	N/A	N/A
Kazuhiro Tsukahara *(Resigned on 26 March 2009)*	P	P	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

** – Resigned on 23 July 2009*
P – Present

Board Remuneration

The amended by-laws of the company provides that the Board of Directors shall receive as compensation no more than 2% of the profits obtained during the year after deducting general expenses, remuneration to officers and employees, depreciation on buildings, machineries, transportation units, furniture and other properties. Such compensation shall be apportioned among the directors in such manner as the Board deems proper. A per diem of P10,000 for each Board and each Board committee meeting attended was approved by the Board.

Directors who are executive officers of the Company are likewise granted stock options under the company's Long-Term Incentive Plan for Stock Options, which plan is administered by the Executive Compensation Committee.

Board Committees

To assist the Board in complying with the principles of good corporate governance, the Board created four committees.

Executive Committee. The Executive Committee is currently composed of six directors, which includes the Chairman of the Board and CEO, Vice-Chairman of the Board, President and COO and an independent director in the person of Mr. Carmelo Santiago. Mr. Eduardo M. Cojuangco, Jr. sits as Chairman of the Committee. The Committee acts within the power and authority granted upon it by the Board and is called upon when the Board is not in session to exercise the powers of the latter in the management of the company, with the exception of the power to appoint any entity as general managers or management or technical consultants, to guarantee obligations of other corporations in which the company has lawful interest, to appoint trustees who, for the benefit of the company, may receive and retain such properties of the company or entities in which it has interests and to perform such acts as may be necessary to transfer ownership of such properties to trustees of the company, and such other powers as may be specifically limited by the Board or by law.

The Executive Committee held four meetings in 2009.

Nominations and Hearing Committee. The Nominations and Hearing Committee is currently composed of six voting directors—two of whom are independent, Mr. Carmelo Santiago and Mr. Winston F. Garcia—and one non-voting member in the person of the company's Corporate Human Resources' Head. Atty. Estelito P. Mendoza is the Chairman of the Committee.

Among others, the Nominations and Hearing Committee screens and shortlists candidates for Board directorship in accordance with the qualifications and disqualifications for directors set out in the company's Manual on Corporate Governance, the amended articles of incorporation and amended by-laws of the company and applicable laws, rules and regulations.

In 2009, the Nominations and Hearing Committee held three meetings primarily discussing the final list of nominees for directors for 2009-2010.

Executive Compensation Committee. Five directors currently comprise the Executive Compensation Committee, two of whom are independent in the persons of Mr. Winston F. Garcia and Mr. Carmelo L. Santiago. Mr. Menardo R. Jimenez is Chairman of the Committee. The Executive Compensation Committee advises the Board in the establishment of formal and transparent policies and practices on directors and executive remuneration and provides oversight over remuneration of senior management and other key personnel—ensuring consistency with the company's culture, strategy and control environment. In two meetings during 2009, the Committee, among others, designated the amount of remuneration for directors and reviewed promotions of certain executive officers.

Audit Committee. The Audit Committee is currently composed of five members with two independent directors as members, Mr. Carmelo L. Santiago, who also sits as Committee Chairman, and Mr. Winston Garcia.

The Audit Committee reviews and monitors, among others, the integrity of all financial reports and ensures their compliance with both the internal financial management manual and pertinent accounting standards, including regulatory requirements. It also performs oversight financial management functions and risk management, approves audit plans, directly interfaces with internal and external auditors, and elevates to international standards the accounting and auditing processes, practices, and methodologies of the company.

The Audit Committee held four meetings in 2009 wherein the Committee reviewed and approved, among others, the company's 2008 Consolidated Audited Financial Statements as prepared by the external auditors, and the company's unaudited financial statements for the first to the third quarters of the year.

Board Committee Members

The members of each Board Committee and their attendance at the Board Committee meetings in 2009 are set out in the table below. The Chairmen of each of the Board Committees attended the 2009 AGSM.

COMMITTEES

	Executive*	Audit	Executive Compensation	Nominations
Eduardo M. Cojuangco, Jr.	C (4/4)			
Ramon S. Ang	M (4/4)			M (3/3)
Estelito P. Mendoza	M (3/4)	M (3/4)	M (1/4)	C (3/3)
Leo S. Alvez	M (1/4)			M (3/3)
Menardo R. Jimenez	M (4/4)		C (2/2)	
Iñigo Zobel *(resigned as member of the Committees on 5 November 2009)*	M (1/4)	M (1/4)	M (1/2)	
Kazuhiro Tsukahara *(became member of Executive, Audit & Executive Compensation Committees on 24 July 2007) (resigned on 26 March 2009)*	M (1/4)	M (0/0)		
Carmelo L. Santiago *(became member of Executive & Nominations & Hearing Committees on 5 November 2009)*		C (3/4)	M (2/2)	
Winston F. Garcia *(became member of Audit and Executive Compensation Committees on 5 November 2009)*			M (1/2)	M (0/0)
Pacifico M. Fajardo		M (4/4)		
Egmidio de Silva Jose			M (1/2)	
Hector L. Hofileña		M (4/4)		
Silvestre H. Bello III *(term expired on 24 July 2009)*				M (2/3)
Jesusa Victoria Hernandez-Bautista *(became member on 24 July 2009)*				M (1/3)

M – Member
C – Chairman

MANAGEMENT
Management is primarily responsible for the day-to-day operations and business of the company. The annual compensation of the Chairman/CEO and the top eight senior executives of the company are set out in the Definitive Information Statement distributed to shareholders.

EMPLOYEE RELATIONS
Employees are provided an Employee Handbook which contains the policies, guidelines for the duties and responsibilities of an employee of San Miguel Corporation.

Through internal newsletters and company e-mails all facilitated by the Human Resources Department and the Corporate Affairs Office, employees are updated on material developments within the organization.

Career advancement and developments are also provided by the company through numerous training programs and seminars. The company has also initiated activities centered on the safety, health and welfare of its employees. Benefits and privileges accruing to all regular employees are similarly discussed in the Employee Handbook.

CODE OF ETHICS
The company's Code of Ethics sets out the fundamental standards of conduct and values consistent with the principles of good governance and business practices that shall guide and define the actions and decisions of the directors, officers and employees of the company.

Procedures were also established for the communication and investigation of concerns regarding the company's accounting, internal accounting controls, auditing, and financial reporting matters to the Audit Committee under its whistle blowing policy.

These policies are available on the company's website.

COMPLIANCE MONITORING
The Compliance Officer, Atty. Francis H. Jardeleza is responsible for monitoring compliance by the Company with the provisions and requirements of good corporate governance.

On April 14, 2010, the Board Directors amended its Manual of Corporate Governance in compliance with the Revised Code of Corporate Governance issued by the Securities and Exchange Commission under its Memorandum Circular No. 6, Series of 2009.

WEB SITE
Up-to-date information on the company's corporate structure, products and services, results of business operations, financial statements, career opportunities and other relevant information on the company may be found at its website www.sanmiguel.com.ph.

SOCIAL RESPONSIBILTY

"MALUSOG NA KATAWAN, MATALAS NA ISIPAN" SUPPLEMENTAL FEEDING

463 school kids from eight participating elementary schools and day care centers are graduated from malnourishment

SCHOLARSHIPS

30 scholars either graduated or continuing their tertiary education

14 scholars newly identified for 2009

SCHOLAR'S CONFERENCES

27 scholars attended effective communication and personal mastery conducted by the Foundation

LIVELIHOOD CAPABILITY BUILDING

11 enterprising individuals enrolled in entrepreneurship and management training courses

LIVELIHOOD

Five on-going livelihood programs

"LINIS KALAT, LINIS DAGAT" COASTAL CLEAN-UP

Two coastal clean-ups for two *purok/ barangay*

WATERSHED REHABILITATION

Six simultaneous tree planting activities in Mandaue, Davao del Sur, Cavite and La Mesa Eco Park

BARANGAY STRENGTHENING

68 local officials given training on resource mobilization and solid waste management

A Force for Good

For 2009, San Miguel Foundation implemented a total of 15 programs and projects benefiting close to 33,000 individuals and four communities. Seven of these programs are long-term projects with durations ranging from three or six months up to two years. Eight of these programs were short-term projects.

A majority of the Foundation's programs and projects fall under three distinct categories: Education, Enterprise (which includes community development) and the Environment.

Education

San Miguel Foundation supports literacy in the Philippines through scholarship assistance, supplemental feeding, book donation and functional literacy programs.

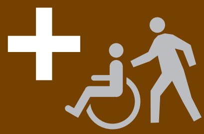
For 2009, a total of 20 activities with 507 beneficiaries were implemented through the *Malusog na Katawan, Matalas na Isipan* supplemental feeding, community scholarship and learning conferences which were conducted in Pampanga, Bacolod and Davao.

Enterprise/Community Development

The Foundation's support for enterprise and community development involves projects and livelihood programs, the majority of which are implemented in San Miguel's host communities. Last year, three livelihood projects and assistance programs were initiated, spilling over into 2010. These are:

Mandaue Homeless Multi-Purpose Cooperative Livelihood and Capacity Building Project. This project aims to augment the inventory of an existing cooperative store that was razed in a recent fire.

In addition, a micro-credit component has been added to provide financial assistance to enterprising cooperative members.



COMMUNITY CLINICS

Three community clinics have benefitted 5,600 patients

MEDICAL MISSION

18 medical missions serving 12,000 individuals from 14 different areas

COMMUNITY DATA SURVEY

Conducted a data survey participated in by two barangays

DOLE-WORKER'S INCOME AUGMENTATION PROGRAM

208 union members from two different unions are enrolled in the Department of Labor and Employment's worker's income augmentation program

Vermicompost Production Project. Through Philippine Business for Social Progress-Center for Rural Technology Development (PBSP-CRTD), this project aims to benefit members of the Multi Purpose Cooperative of Barangay Darong, Sta. Cruz, Davao del Sur. Skills training will also be conducted for the beneficiaries, with PBSP-CRTD helping with off-take.

Envelope Making Livelihood Project. A livelihood-skills building project in Davao del Sur undertaken with San Miguel Yamamura Packaging Corp.'s MINCORR plant. The beneficiaries of the project are out-of-school youths.

In addition to these livelihood projects, a capability-building and skills-training program focusing on food enterprise management was held last 2009 for the project implementors of a canteen concessionaire project in Davao del Sur.

Community development programs also under the Foundation's Enterprise thrust. For 2009, the Foundation was able to implement the following:

Barangay Strengthening Program. A capability-building program benefiting 28 barangay officials from Barangays Casuntingan, Tipolo and Cabangcalan in Mandaue City, Cebu. The training focused on resource management and mobilization. In addition, a solid waste management training workshop was conducted for the barangay officials of Barangay Granada, Bacolod.

Community Clinic. The Foundation underwrites the cost of free consultation and medicines to patients through clinics in Sumilao, Bukidnon; Sta. Cruz, Davao del Sur; and Polo, Malabon. An estimated 5,600 patients benefit from the program annually.

Medical Mission. Over 12,000 people benefited from 14 different medical missions that offered free consultation services and medicines. Missions were conducted in Metro Manila, Cavite, Laguna, Bataan, Batangas, Zambales, Pangasinan, Mandaue, Bacolod, Davao, and Bukidnon.

Environment

The environmental programs of the Foundation cover the protection of land, water, and air. On a smaller scale, the Foundation conducts tree-planting projects in areas identified by key San Miguel Corporation facilities.

Two environmental programs were implemented by the Foundation in 2009: the *Linis Kalat, Linis Dagat* coastal clean-up program in Davao, and Watershed Rehabilitation/Tree-Planting reforestation programs in Mandaue, Davao del Sur, Cavite, La Mesa Eco Park, Laguna and Pampanga.

Disaster Management

This project is divided into two components:

- ***Component 1: Disaster Immediate Relief***– involves the distribution of relief goods, soup kitchens and the conduct of medical missions for calamity stricken areas.

- ***Component 2: Disaster Rehabilitation***– involves the renovation of damaged infrastructures and the implementation of livelihood projects.

In response to typhoon Ondoy, the Foundation conducted a total of 17 activities, eight of which were medical missions. An estimated 6,000 patients benefited from the medical missions.

Soup kitchens were set up in Malabon, Valenzuela, Pasig,

DISASTER RELIEF

- Conducted eight medical missions in response to typhoon Ondoy benefitting 6,000
- Pitched seven soup kitchens for 7,000 evacuees in four hard-hit areas of Metro Manila
- Distributed 2,474 re-starter kits to school kids in Valenzuela and Pakil Laguna

DONATIONS

Donated P1.8 million worth of hospital equipment in Arayat, Pampanga

Marikina and Quezon City, reaching a total of 7,000 victims.

The Foundation also distributed re-starter kits to school children and teachers in a school in Pakil Laguna and Valenzuela City. A total of 2,474 re-starter kits were distributed in these schools.

All-in-all, the Foundation was able to offer relief to more than 15,474 individuals under its disaster management project.

Other Projects and Activities

The Department of Labor and Employment has an on-going program designed to benefit employees by augmenting their income through livelihood activities. The Foundation has partnered with DOLE and initiated two livelihood projects benefitting two employee unions operating within San Miguel Corporation.

Donations of Equipment (in-kind). The Foundation regularly receives requests for assistance and donations from social service and people's organizations. These requests are evaluated for their fit relative to the Foundation's three main thrusts and for merit particularly in terms of impact and the number of people reached. For 2009, the Foundation made a donation for hospital equipment amounting to P1.80 million. The hospital equipment was awarded to the Don Emigdio Memorial Hospital in Arayat, Pampanga.

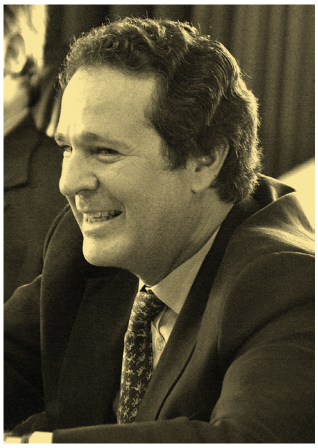
External Project Participation. The Foundation is fortunate to be invited by other foundations to help in their own CSR projects. For 2009, the Foundation partnered with the ABS-CBN Foundation Incorporated (AFI) for their relocation project in Calauan, Laguna. The relocation project is part of AFI's BayaniJuan project which seeks to relocate informal settlers living alongside the Pasig River.

BOARD OF DIRECTORS

Eduardo Cojuanco Jr.
Executive Committee
(Chairman)

Ramon S. Ang
Executive Committee
Nominations Committee

Estelito P. Mendoza
Nominations Committee
(Chairman)
Executive Committee
Audit Committee
Executive Compensation



Iñigo Zobel

Pacifico M. Fajardo
Audit Committee

Jesusa Victoria
Hernandez - Bautista
Nominations Committee

Hector L. Hofileña
Executive Committee
Audit Committee

Carmelo L. Santiago
Audit Committee
(Chairman)
Executive Committee
Executive Compensation
Nominations Committee

Winston F. Garcia
Audit Committee
Executive Compensation
Nominations Committee

Menardo R. Jimenez
Executive Compensation
(Chairman)
Executive Committee

Leo S. Alvez
Nominations Committee

Egmidio de Silva Jose
Executive Compensation

Roberto V. Ongpin

Mirzan Mahatir

Alexander J. Poblador

KEY EXECUTIVES

Eduardo M. Cojuangco, Jr.
Chairman & Chief Executive Officer

Ramon S. Ang
Vice Chairman & President
& Chief Operating Officer

Ferdinand K. Constantino
Chief Finance Officer & Treasurer

Francis H. Jardeleza
Corporate Secretary & General Counsel

CORPORATE STAFF UNITS

CORPORATE AFFAIRS OFFICE

Vice President
Ramon A. Santiago

GROUP AUDIT

Vice President
Ramon R. Bantigue

OFFICE OF THE GENERAL COUNSEL

Vice President
Virgilio S. Jacinto

CORPORATE MERGERS & ACQUISITIONS

Head
Ma. Belen C. Buensuceso

Vice President
Cecile Caroline U. de Ocampo

CORPORATE FINANCE

Senior Vice President
Eduardo Sergio G. Edeza

Vice President
Jaime O. Lu
Bella O. Navarra
Joseph N. Pineda

CORPORATE HUMAN RESOURCES

Head
David S. Santos

CORPORATE INFORMATION SYSTEMS MANAGEMENT

Vice President
Manuel M. Agustin

SAN MIGUEL BREWERY INC.

President
Roberto N. Huang

Executive Vice President
Keisuke Nishimura

Executive Financial Advisor
Motoyasu Ishihara

Senior Vice President
M. L. Menlou B. Bibonia

Vice President
Mercy Marie L. Amador
Rosabel Socorro T. Balan
Debbie D. Namalata

SAN MIGUEL BREWERY INTERNATIONAL LTD.

Managing Director
Carlos Antonio M. Berba

Executive Vice President
Taro Matsunaga

Vice President
Jesus J. Bitanga, Jr.
Hercila M. Reyes
Ramon G. Torralba

SAN MIGUEL BREWERY HONG KONG, LTD.

Managing Director
Peter K. Y. Tam

GUANGZHOU SAN MIGUEL BREWERY CO., LTD.
SAN MIGUEL GUANGDONG BREWERY CO., LTD.

Managing Director
Herbert W. M. Chu

SAN MIGUEL BAODING BREWERY CO., LTD.

General Manager
Wilfredo R. Camaclang

SAN MIGUEL BREWERY VIETNAM LTD.

General Manager
Bienvenido S. Anonas

SAN MIGUEL BEER THAILAND LTD.

Plant Operations Manager
Ricardo L. Tablante

SAN MIGUEL MARKETING THAILAND LTD.

Vice President & Commercial Director
Querubin G. de Guzman, Jr.

P.T. DELTA DJAKARTA, TBK

President/Director
Raymundo Y. Albano

GINEBRA SAN MIGUEL, INC.

President
Gerardo C. Payumo

Vice President
Clemente O. Alburo
Nelson S. Elises
Cesar B. Gimena
Bernard D. Marquez
Lucia C. Unsay
Valentino G. Vega

SAN MIGUEL PURE FOODS COMPANY, INC.
President
Francisco S. Alejo, III

Vice President
Eliezer O. Capacio
Elenita D. Go
Noli L. Manalo
Ma. Soledad E. Olives
Zenaida M. Postrado
Jennifer T. Tan

SAN MIGUEL INTEGRATED SALES
Vice President & General Manager
Archie B. Gupalor

DIVISION LOGISTICS GROUP
Vice President & General Manager
Enrique A. Punsalang

AGRO-INDUSTRIAL CLUSTER
SAN MIGUEL FOODS, INC.
President & Cluster Head
Rita Imelda B. Palabyab

POULTRY BUSINESS
Vice President & General Manager
Leo A. Obviar

FEEDS BUSINESS
Vice President & General Manager
Norman C. Ramos

MONTEREY FOODS CORPORATION
Concurrent General Manager
Leo A. Obviar

MILLING & BRANDED PRODUCTS CLUSTER
SAN MIGUEL MILLS, INC.
President and Cluster Head
Florentino C. Policarpio

FLOUR MILLING BUSINESS
General Manager
Julio R. Gregorio

INDONESIA AND VIETNAM CLUSTER
Senior Vice President and Cluster Head
Rolando A. Cabredo

P.T. SAN MIGUEL PUREFOODS INDONESIA
General Manager
Gil R. Buensuceso

SAN MIGUEL PURE FOODS (VN) CO., LTD.
General Manager
Dinh Van Tin

DAIRY, OILS AND FATS CLUSTER
MAGNOLIA, INC.

BUTTER, MARGARINE, CHEESE, JELLIES, MILK, & SPECIALTY OILS BUSINESS
Vice President & General Manager
Reginald I. Baylosis

ICE CREAM BUSINESS
General Manager
Mauricio A. Alcon, Jr.

PROCESSED MEATS BUSINESS
THE PURE FOODS HORMEL COMPANY, INC.
Vice President & General Manager
Noel M. Tempongko, Jr.

COFFEE BUSINESS
San Miguel Super Coffeemix Co., Inc.
General Manager
Michael Allan N. Castro

RETAIL BUSINESS
Officer-In-Charge
Ma. Melinda S. Rendor

FOOD SERVICE BUSINESS
Great Food Solutions
General Manager
Helene Z. Pontejos

SAN MIGUEL YAMAMURA PACKAGING GROUP
President
Ferdinand A. Tumpalan

Executive Vice President
Motokazu Hiraiwa

Vice President
Francisco L. del Rosario
Elizabeth V. Mercado
Marivic R. Costales

GLASS, METAL CLOSURES & PLASTICS BUSINESS
Vice President and Business Manager
Renato Y. Cabrera, Jr.

GLASS OPERATIONS
SAN MIGUEL YAMAMURA ASIA CORPORATION
Plant Manager
Emmanuel R. Alcantara

SMC YAMAMURA FUSO MOLDS CORPORATION
Plant Manager
Rolando Nole L. Sarrosa

ZHAOQING SAN MIGUEL YAMAMURA GLASS CO., LTD. (China)
General Manager
Ramon Q. Pono

SAN MIGUEL YAMAMURA HAIPHONG GLASS CO.,
General Director
Antonio P. Dy, Jr.

METAL CLOSURE OPERATIONS
SAN MIGUEL YAMAMURA PHU THO PACKAGING CO., LTD. (Vietnam)
General Manager
Ronaldo M. Gorospe

PLASTIC OPERATIONS
FOSHAN SAN MIGUEL YAMAMURA PACKAGING CO., LTD. (China)
General Manager
Arnel A. Sarte

PET BUSINESS
Vice President & Business Manager
Enrico C. Wong

METAL CONTAINER, COMPOSITE & PAPER BUSINESS
Vice President and Business Manager
Geribern R. Abella

COMPOSITE OPERATIONS
SAN MIGUEL YAMAMURA PACKAGING & PRINTING SDN. BHD. (Malaysia)
General Manager & conc. Malaysia Operations Group Manager
Jose Antonio J. Menchaca

SAN MIGUEL YAMAMURA PLASTIC FILMS SDN. BHD. (Malaysia)
General Manager
Tang Han Lock

SAN MIGUEL YAMAMURA WOVEN PRODUCTS SDN. BHD. (Malaysia)
General Manager
Tan Teck Soon

PACKAGING RESEARCH CENTRE SDN. BHD. (Malaysia)
General Manager
Dr. Patrick Loi Suok Tee

PAPER OPERATIONS
MINDANAO CORRUGATED & FIBREBOARD, INC.
Officer-in-charge
Rey B. Gudian

COSPAK GROUP
Chief Executive Officer
David Driver

SAN MIGUEL PROPERTIES, INC.

President
Jeronimo U. Kilayko

Vice President and General Manager
Karlo Marco P. Estavillo

OTHER BUSINESSES

ANCHOR INSURANCE BROKERAGE CORPORATION
General Manager
Teresita V. Chikiamco

SMC RETIREMENT FUNDS OFFICE
General Manager
Amor C. Iliscupidez

SMC STOCK TRANSFER SERVICE CORPORATION
Vice President & General Manager
Enrique L. Yusingco

SMITS, INC.
General Manager
Dennis C. Demiar

ARCHEN TECHNOLOGIES, INC.
General Manager
Roscel R. Celestial

SAN MIGUEL SHIPPING & LIGHTERAGE CORPORATION
President
Thomas Tan

SELECTED FINANCIAL DATA

(In Millions, Except Per Share and Statistical Data)

	December 31		
	2009	2008	2007
For the Year			
Sales	**P174,213**	P168,041	P148,022
Net Income Attributable to Equity Holders of the Parent Company	**P57,799**	P19,348	P 8,630
Basic Earnings Per Share Attributable to Equity Holders of the Parent Company [A]	**P19.21**	P6.13	P2.74
Taxes	**P42,447**	P42,869	P41,779
Cash Dividends	**P2,211**	P4,417	P4,414
Cash Dividends Per Common Share [B]	**P0.70**	P1.40	P1.40
At Year-End			
Working Capital	**P204,084**	P117,375	P118,578
Total Assets	**P438,491**	P339,373	P288,109
Property, Plant and Equipment-net	**P65,919**	P68,313	P64,355
Equity Attributable to Equity Holders of the Parent Company	**P213,817**	P149,917	P134,764
Equity Per Share Attributable to Equity Holders of the Parent Company			
Common	**P61.22**	P47.49	P42.70
Preferred	**P75.77**	P -	P -
Number of Common Shares Outstanding - Net of Treasury Shares	**2,291,296,218**	3,156,993,077	3,156,344,707
Number of Preferred Shares Outstanding	**970,506,353**	-	-
Number of Common Stockholders	**41,396**	42,189	43,234
Number of Employees	**14,593**	15,344	15,252
Financial Statistics			
% Return on Average Equity Attributable to Equity Holders of the Parent Company	**31.78%**	13.59%	6.53%
Current Ratio	**3.17**	2.35	2.60
Debt to Equity Ratio [C]	**0.82**	1.02	0.97
Market Price			
Class "A" - High	**P71.50**	P61.50	P80.00
- Low	**P39.00**	P38.00	P42.50
Class "B" - High	**P71.50**	P62.00	P88.00
- Low	**P39.50**	P38.50	P43.00

[A] *Based on the weighted average number of shares outstanding during the year*
[B] *Based on the number of shares outstanding at the date of each declaration during the year*
[C] *Total debt to equity*

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

SAN MIGUEL CORPORATION

The management of San Miguel Corporation is responsible for all information and representations contained in the consolidated financial statements which comprise the consolidated statements of financial position as at December 31, 2009 and 2008, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009. The consolidated financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's Audit Committee and to its external auditors: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the Company.

Manabat Sanagustin & Co., CPAs, the independent auditors appointed by the stockholders, has examined the consolidated financial statements in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the stockholders.

EDUARDO M. COJUANGCO, JR.
Chairman and Chief Executive Officer

RAMON S. ANG
President and Chief Operating Officer

FERDINAND K. CONSTANTINO
Senior Vice President and
Chief Finance Officer / Treasurer

REPORT OF INDEPENDENT AUDITORS

KPMG

Manabat Sanagustin & Co., CPAs
The KPMG Center, 9/F
6787 Ayala Avenue
Makati City 1226, Metro Manila, Philippines

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Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
E-Mail manila@kpmg.com.ph

PRC-BOA Registration No. 0003
SEC Accreditation No. 0004-FR-2
BSP Accredited

The Board of Directors and Stockholders
San Miguel Corporation

We have audited the accompanying consolidated financial statements of San Miguel Corporation and Subsidiaries which comprise the consolidated statements of financial position as at December 31, 2009 and 2008, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of San Miguel Corporation and Subsidiaries as of December 31, 2009 and 2008, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2009, in accordance with Philippine Financial Reporting Standards.

Manabat Sanagustin & Co.

April 14, 2010
Makati City, Metro Manila

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008

(In Millions)

	Note	2009	2008
ASSETS			
Current Assets			
Cash and cash equivalents	*7, 35, 36*	**P209,411**	P116,939
Trade and other receivables - net	*4, 8, 35, 36*	**49,082**	50,814
Inventories	*4, 9*	**25,458**	25,836
Current portion of biological assets - net	*4, 13*	**2,525**	2,932
Prepaid expenses and other current assets	*30, 35, 36*	**8,891**	7,742
		295,367	204,263
Assets held for sale	*6, 10*	**2,746**	-
Total Current Assets		**298,113**	204,263
Noncurrent Assets			
Investments and advances - net	*4, 10, 35, 36*	**39,356**	32,253
Property, plant and equipment - net	*4, 11, 27*	**65,919**	68,313
Investment properties - net	*4, 12*	**1,867**	1,838
Biological assets - net of current portion	*4, 13*	**1,847**	1,814
Goodwill - net	*4, 10, 14, 27, 33*	**6,408**	5,201
Other intangible assets - net	*4, 14, 27*	**3,630**	3,812
Deferred tax assets	*4, 19*	**8,883**	7,638
Other noncurrent assets - net	*4, 10, 15, 27, 30, 35, 36*	**12,468**	14,241
Total Noncurrent Assets		**140,378**	135,110
		P438,491	P339,373
LIABILITIES AND EQUITY			
Current Liabilities			
Drafts and loans payable	*16, 35, 36*	**P56,789**	P48,560
Accounts payable and accrued expenses	*17, 30, 35, 36*	**31,404**	23,292
Income and other taxes payable	*19*	**4,186**	4,429
Dividends payable	*31*	**573**	1,563
Current maturities of long-term debt - net of debt issue costs	*18, 35, 36*	**1,077**	9,044
Total Current Liabilities		**94,029**	86,888
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*18, 35, 36*	**71,885**	40,719
Deferred tax liabilities	*19*	**12,037**	17,851
Other noncurrent liabilities	*29, 30, 35, 36*	**19,602**	25,691
Total Noncurrent Liabilities		**103,524**	84,261
Equity	*20, 31, 34*		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common		**16,150**	16,112
Capital stock - preferred		**4,852**	-
Additional paid-in capital		**99,085**	31,183
Revaluation increment		**18**	18
Cumulative translation adjustments		**5,845**	4,837
Retained earnings:			
Appropriated		**5,497**	5,522
Unappropriated		**151,911**	96,298
Treasury stock		**(69,541)**	(4,053)
		213,817	149,917
Non-controlling Interests	*2*	**27,121**	18,307
Total Equity		**240,938**	168,224
		P438,491	P339,373

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(In Millions, Except Per Share Data)

	Note	**2009**	2008	2007
SALES		**P174,213**	P168,041	P148,022
COST OF SALES	*21*	**124,295**	124,072	110,062
GROSS PROFIT		**49,918**	43,969	37,960
SELLING AND ADMINISTRATIVE EXPENSES	*22*	**(30,249)**	(29,151)	(26,333)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*16, 18, 25*	**(7,926)**	(6,032)	(7,117)
INTEREST INCOME	*26*	**5,989**	6,630	2,087
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES	*6, 10*	**2,816**	(1,132)	164
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	*10, 11*	**50,630**	8,746	2,224
OTHER INCOME (CHARGES) - Net	*27*	**(6,843)**	(2,262)	3,614
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS		**64,335**	20,768	12,599
INCOME TAX EXPENSE	*19*	**3,706**	6,098	4,520
INCOME FROM CONTINUING OPERATIONS		**60,629**	14,670	8,079
INCOME AFTER INCOME TAX FROM DISCONTINUED OPERATIONS	*6*	**-**	5,413	272
NET INCOME		**P60,629**	P20,083	P8,351
Attributable to:				
Equity holders of the Parent Company		**P57,799**	P19,348	P8,630
Non-controlling interests		**2,830**	735	(279)
		P60,629	P20,083	P8,351
Earnings Per Share From Continuing Operations, attributable to equity holders of the Parent Company	*32*			
Basic		**P19.21**	P4.41	P2.59
Diluted		**P19.10**	P4.40	P2.58

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(In Millions)

	Note	**2009**	2008	2007
NET INCOME		**P60,629**	P20,083	P8,351
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS		**521**	689	(3,022)
SHARE IN COMPREHENSIVE GAIN (LOSS) OF ASSOCIATES	*10*	**252**	(19)	-
NET GAIN (LOSS) ON CASH FLOW HEDGES	*36*	**222**	(221)	(17)
INCOME TAX BENEFIT (EXPENSE)		**(67)**	66	6
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS		**(33)**	(17)	190
INCOME TAX BENEFIT (EXPENSE)		**3**	2	(19)
OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX		**898**	500	(2,862)
TOTAL COMPREHENSIVE INCOME - NET OF TAX		**P61,527**	P20,583	P5,489
Comprehensive Income Attributable to:				
Equity holders of the Parent Company		**P58,807**	P19,314	P8,887
Non-controlling interests		**2,720**	1,269	(3,398)
		P61,527	P20,583	P5,489

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(In Millions)

		Equity Attributable to Equity Holders of the Parent Company											Non-controlling Interests	Total Equity
		Capital Stock		Additional Paid-in Capital	Revaluation Increment	Cumulative Translation Adjustments			Retained Earnings		Treasury Stock	Total		
	Note	Common	Preferred			Translation Reserve	Hedging Reserve	Fair Value Reserve	Appro-priated	Unappro-priated				
As of January 1, 2009		P16,112	P -	P31,183	P18	P4,882	(P123)	P78	P5,522	P96,298	(P4,053)	P149,917	P18,307	P168,224
Foreign currency translation differences		-	-	-	-	662	-	-	-	-	-	662	(141)	521
Share in comprehensive gain of associates	*10*	-	-	-	-	193	-	59	-	-	-	252	-	252
Effective portion of changes in fair value of cash flow hedges, net of tax	*36*	-	-	-	-	-	123	-	-	-	-	123	32	155
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	-	-	(29)	-	-	-	(29)	(1)	(30)
Other comprehensive income		-	-	-	-	855	123	30	-	-	-	1,008	(110)	898
Net income for the year		-	-	-	-	-	-	-	-	57,799	-	57,799	2,830	60,629
Total comprehensive income for the year		-	-	-	-	855	123	30	-	57,799	-	58,807	2,720	61,527
Issuance of capital stock	*20*	38	486	6,563	-	-	-	-	-	-	-	7,087	-	7,087
Exchange of capital stock	*20*	-	4,366	61,122	-	-	-	-	-	-	(65,488)	-	-	-
Stock options	*34*	-	-	217	-	-	-	-	-	-	-	217	-	217
Addition to non-controlling interests	*2, 10*	-	-	-	-	-	-	-	-	-	-	-	8,392	8,392
Appropriations - net	*20*	-	-	-	-	-	-	-	(25)	25	-	-	-	-
Cash dividends	*31*	-	-	-	-	-	-	-	-	(2,211)	-	(2,211)	(2,298)	(4,509)
As of December 31, 2009	*20*	P16,150	P4,852	P99,085	P18	P5,737	P -	P108	P5,497	P151,911	(P69,541)	P213,817	P27,121	P240,938

Forward

		Equity Attributable to Equity Holders of the Parent Company											Non-controlling Interests	Total Equity
		Capital Stock		Additional Paid-in Capital	Revaluation Increment	Cumulative Translation Adjustments			Retained Earnings		Treasury Stock	Total		
	Note	Common	Preferred			Translation Reserve	Hedging Reserve	Fair Value Reserve	Appro-priated	Unappro-priated				
As of January 1, 2008		P16,109	P -	P30,930	P18	P4,699	P -	P172	P6,034	P80,855	(P4,053)	P134,764	P11,329	P146,093
Foreign currency translation differences		-	-	-	-	183	-	-	-	-	-	183	506	689
Share in comprehensive loss of an associate	*10*	-	-	-	-	-	-	(19)	-	-	-	(19)	-	(19)
Effective portion of changes in fair value of cash flow hedges, net of tax	*36*	-	-	-	-	-	(123)	-	-	-	-	(123)	(32)	(155)
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	-	-	(75)	-	-	-	(75)	60	(15)
Other comprehensive income (loss)		-	-	-	-	183	(123)	(94)	-	-	-	(34)	534	500
Net income for the year		-	-	-	-	-	-	-	-	19,348	-	19,348	735	20,083
Total comprehensive income (loss) for the year		-	-	-	-	183	(123)	(94)	-	19,348	-	19,314	1,269	20,583
Issuance of capital stock	*20*	3	-	-	-	-	-	-	-	-	-	3	-	3
Stock options	*34*	-	-	253	-	-	-	-	-	-	-	253	-	253
Addition to non-controlling interests	*2, 10*	-	-	-	-	-	-	-	-	-	-	-	6,217	6,217
Appropriations - net	*20*	-	-	-	-	-	-	-	(512)	512	-	-	-	-
Cash dividends	*31*	-	-	-	-	-	-	-	-	(4,417)	-	(4,417)	(508)	(4,925)
As of December 31, 2008	*20*	P16,112	P -	P31,183	P18	P4,882	(P123)	P78	P5,522	P96,298	(P4,053)	P149,917	P18,307	P168,224

Forward

		Equity Attributable to Equity Holders of the Parent Company											Non-controlling Interests	Total Equity
		Capital Stock		Additional Paid-in Capital	Revaluation Increment	Cumulative Translation Adjustments			Retained Earnings		Treasury Stock	Total		
	Note	Common	Preferred			Translation Reserve	Hedging Reserve	Fair Value Reserve	Appro-priated	Unappro-priated				
As of January 1, 2007		P16,067	P -	P30,211	P18	P4,567	P9	P1	P6,036	P76,637	(P4,053)	P129,493	P21,604	P151,097
Foreign currency translation differences		-	-	-	-	95	-	-	-	-	-	95	(3,117)	(3,022)
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	-	-	-	(9)	-	-	-	-	(9)	(2)	(11)
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	-	-	171	-	-	-	171	-	171
Other comprehensive income (loss)		-	-	-	-	95	(9)	171	-	-	-	257	(3,119)	(2,862)
Net income for the year		-	-	-	-	-	-	-	-	8,630	-	8,630	(279)	8,351
Total comprehensive income (loss) for the year		-	-	-	-	95	(9)	171	-	8,630	-	8,887	(3,398)	5,489
Issuances of capital stock	*20*	42	-	461	-	-	-	-	-	-	-	503	-	503
Stock options	*34*	-	-	258	-	-	-	-	-	-	-	258	-	258
Addition to non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	2,061	2,061
Appropriations - net	*20*	-	-	-	-	-	-	-	(2)	2	-	-	-	-
Non-controlling interest associated with discontinued operations	*6*	-	-	-	-	-	-	-	-	-	-	-	(8,824)	(8,824)
Cash dividends	*31*	-	-	-	-	-	-	-	-	(4,414)	-	(4,414)	(114)	(4,528)
		16,109	-	30,930	18	4,662	-	172	6,034	80,855	(4,053)	134,727	11,329	146,056
Amounts recognized directly in equity relating to assets held for sale	*6*	-	-	-	-	37	-	-	-	-	-	37	-	37
As of December 31, 2007	*20*	P16,109	P -	P30,930	P18	P4,699	P -	P172	P6,034	P80,855	(P4,053)	P134,764	P11,329	P146,093

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(In Millions)

	Note	**2009**	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax from continuing operations		**P64,335**	P20,768	P12,599
Income (loss) before income tax from discontinued operations	*6*	**-**	(19)	2,681
Gain (loss) from disposal of discontinued operations	*6*	**-**	5,425	(1,235)
Income before income tax		**64,335**	26,174	14,045
Adjustments for:				
Depreciation, amortization and others - net	*5*	**14,724**	9,303	10,236
Interest expense and financing charges	*6, 25*	**7,926**	6,032	10,101
Interest income		**(5,989)**	(6,630)	(2,404)
Equity in net losses (earnings) of associates	*10*	**(2,816)**	1,132	(246)
Loss (gain) from disposal of discontinued operations	*6*	**-**	(5,425)	1,235
Gain on sale of investments and property and equipment		**(50,630)**	(8,746)	(2,219)
Operating income before working capital changes		**27,550**	21,840	30,748
Changes in noncash current assets, certain current liabilities and others	*33*	**(1,195)**	(1,291)	15,192
Cash generated from operations		**26,355**	20,549	45,940
Interest paid		**(6,348)**	(5,665)	(9,449)
Income taxes paid		**(6,651)**	(7,835)	(6,201)
Net cash flows provided by operating activities		**13,356**	7,049	30,290
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	*33*	**(1,494)**	-	-
Additions to investments and advances		**(5,771)**	(6,667)	-
Additions to property, plant and equipment	*11*	**(6,249)**	(6,437)	(9,310)
Increase in other noncurrent assets and others		**(950)**	(16,010)	(14,820)
Payments by (advances to) related parties		**3,243**	31,708	(35,721)
Proceeds from sale of investments and property and equipment		**55,127**	13,663	6,269
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	*6*	**-**	9,083	90,684
Interest received		**5,249**	6,558	2,374
Dividends received		**-**	-	59
Net cash flows provided by investing activities		**49,155**	31,898	39,535

Forward

	Note	2009	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		**P691,093**	P608,756	P345,789
Long-term borrowings		**67,786**	64	84,398
Payments of:				
Short-term borrowings		**(683,569)**	(605,088)	(337,512)
Long-term borrowings		**(44,657)**	(13,336)	(88,342)
Cash dividends paid	*31*	**(3,301)**	(4,463)	(3,228)
Proceeds from issuance of capital stock	*20*	**7,087**	3	503
Dividends paid to non-controlling shareholders		**(2,192)**	(393)	(123)
Increase in non-controlling interests		**315**	592	-
Net cash flows provided by (used in) financing activities		**32,562**	(13,865)	1,485
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(2,601)**	(1,424)	(1,016)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**92,472**	23,658	70,294
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**116,939**	93,281	24,280
CASH AND CASH EQUIVALENTS ASSOCIATED TO ASSETS HELD FOR SALE		**-**	-	(1,293)
CASH AND CASH EQUIVALENTS AT END OF YEAR	*7*	**P209,411**	P116,939	P93,281

See Notes to the Consolidated Financial Statements.

(Amounts in Millions, Except Per Share Data)

1. Reporting Entity

San Miguel Corporation (SMC or "Parent Company") was incorporated in the Philippines. The consolidated financial statements as at and for the year ended December 31, 2009 comprise the financial statements of the Parent Company and its Subsidiaries (collectively referred to as the "Group") and the Group's interest in associates and jointly controlled entities. The Parent Company is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed on the Philippine Stock Exchange (PSE). The Group is primarily engaged in the production, processing and marketing of beverage, food and packaging products. The Group is also engaged in the management and development of real estate properties. The Parent Company is authorized to invest corporate funds and/or engage in the power generation/transmission, water and other utilities, mining and infrastructure business. The registered office address of the Parent Company is No. 40 San Miguel Avenue, Mandaluyong City.

The consolidated financial statements as at and for the year ended December 31, 2009 were authorized for issue by the Board of Directors (BOD) on April 14, 2010.

2. Basis of Preparation

Basis of Measurement
The consolidated financial statements of the Group have been prepared on a historical cost basis, except for the following:

- derivative financial instruments are measured at fair value;
- available-for-sale (AFS) financial assets are measured at fair value;
- defined benefit asset is measured as the net total of the plan assets, less unrecognized actuarial gains and the present value of the defined benefit obligation; and
- agricultural produce are measured at fair value less estimated costs to sell at the point of harvest.

Functional and Presentation Currency
The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All values are rounded to the nearest million (P000,000), except when otherwise indicated.

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), issued by the Financial Reporting Standards Council (FRSC).

Basis of Consolidation
The consolidated financial statements include the accounts of the Parent Company and its Subsidiaries. The major subsidiaries include the following:

	Percentage of Ownership	Country of Incorporation
Beverage Business:		
San Miguel Brewery Inc. (SMB) [a, e] and subsidiary, Iconic Beverages, Inc. (IBI)	51.00	Philippines
San Miguel Brewing International Ltd. (SMBIL) and subsidiaries [including San Miguel Brewery Hong Kong Limited (SMBHK), PT Delta Djakarta Tbk (PT-Delta), San Miguel Bada (Baoding) Utility Co. Ltd. (SMBB), San Miguel (Baoding) Brewery Co. Ltd., San Miguel Brewery Vietnam Ltd. (SMBV) and San Miguel Beer (Thailand) Ltd. (SMHT)]	100.00	British Virgin Islands (BVI)
Ginebra San Miguel, Inc. (GSMI) and subsidiaries [including Distileria Bago, Inc. and Ginebra San Miguel International, Ltd. (GSMIL)]	79.53	Philippines
San Miguel Beverages, Inc. (SMBI) [c]	100.00	Philippines
San Miguel (Thailand) Co. Ltd.	100.00	Thailand
San Miguel (Guangdong) Foods & Beverages Co. Ltd.	100.00	China
San Miguel (Vietnam) Co. Ltd.	100.00	Vietnam
PT San Miguel Marketing Indonesia	100.00	Indonesia
San Miguel (Malaysia) Sdn. Bhd.	100.00	Malaysia
Food Business:		
San Miguel Foods and Beverage International Limited (SMFBIL) and subsidiaries [including PT San Miguel Indonesia Foods & Beverages (PTSMIFB) and San Miguel Pure Foods Investment (BVI) Limited (SMPFI) and subsidiary, San Miguel Pure Foods (Vn) Co. Ltd. (SMPFVN)]	100.00	BVI
Star Dari, Inc. (SDI)	100.00	Philippines
San Miguel Pure Foods Company, Inc. (SMPFC) and subsidiaries [including San Miguel Foods, Inc. (SMFI), San Miguel Mills, Inc. (SMMI),		

Forward

	Percentage of Ownership	Country of Incorporation
The Purefoods-Hormel Company, Inc., Magnolia Inc. (Magnolia), San Miguel Super Coffeemix Co., Inc. (SMSCCI), Monterey Foods Corporation (MFC) [f], RealSnacks Mfg. Corporation (RealSnacks) [b, d], P.T. San Miguel Pure Foods Indonesia (PTSMPFI) [b] and San Miguel Pure Foods International, Limited (SMPFIL) [d]]	99.92	Philippines
Packaging Business:		
San Miguel Yamamura Packaging Corporation (SMYPC) [e, k] and subsidiary, San Miguel Yamamura Fuso Molds Corporation (SYFMC) [h]	65.00	Philippines
San Miguel Yamamura Packaging International Limited (SMYPIL) [e, l] and subsidiaries [including San Miguel Yamamura Phu Tho Packaging Co. Ltd. [m], Zhaoqing San Miguel Yamamura Glass Co., Ltd. [n], Foshan San Miguel Yamamura Packaging Co. Ltd. [o], PT San Miguel Sampoerna Packaging Industries Ltd., San Miguel Yamamura Packaging & Printing Sdn. Bhd. [p], San Miguel Yamamura Woven Products Sdn. Bhd. [q], Packaging Research Centre Sdn. Bhd., San Miguel Plastic Films Sdn. Bhd. and JHK Investments Pty Ltd. (JHK Investments) [u]]	65.00	BVI
Mindanao Corrugated Fibreboard, Inc. (Mincorr) [b]	100.00	Philippines
San Miguel Paper Packaging Corporation (SMPPC) [b, x]	100.00	Philippines
San Miguel Yamamura Asia Corporation (SMYAC)	60.00	Philippines
Real Estate Business:		
San Miguel Properties, Inc. (SMPI) and subsidiaries [b]	99.68	Philippines
Brewery Properties Inc. (BPI) [i] and subsidiary, Brewery Landholdings, Inc. (BLI)	100.00	Philippines
Others:		
SMC Stock Transfer Service Corporation	100.00	Philippines
ArchEn Technologies, Inc.	100.00	Philippines
SMITS, Inc. [b]	100.00	Philippines
SM Bulk Water Company Inc. (SMBW) and subsidiary, Kaliwa Water Development Corp. (Kaliwa) [d, v]	100.00	Philippines
Anchor Insurance Brokerage Corporation (AIBC)	58.33	Philippines
Pacific Central Properties, Inc.	100.00	Philippines
Philippine Breweries Corporation (PBC)	99.52	Philippines
San Miguel Holdings Corp. (SMHC) [r] and subsidiaries [b] including Rapid Thoroughfares Inc. (Rapid)	100.00	Philippines
Seaside Industrial Estate, Inc. [b]	100.00	Philippines
Navotas Ridge Realty Corp. (NRRC) [b, d]	100.00	Philippines
SMC Shipping and Lighterage Corporation (SMCSLC)	70.00	Philippines
Vega Telecom, Inc. (Vega) [s]	100.00	Philippines
Challenger Aero Air Corp.	100.00	Philippines
San Miguel Distribution Co., Inc. (SMDCi) [g]	100.00	Philippines
San Miguel Kuok Food Security, Inc. (SMKFSI) [d, j]	100.00	Philippines
Strategic Power Devt. Corp. (SPDC) [t]	100.00	Philippines
Panasia Energy Holdings Inc. (Panasia)	100.00	Philippines
Northlink Toll Management, Inc. (Northlink) [w]	60.00	Philippines

(a) This was formerly the Domestic Beer Division of the Parent Company and was incorporated on July 26, 2007 (Note 10).
(b) The financial statements of these subsidiaries were audited by other auditors.
(c) Consolidated effective January 10, 2007.
(d) Not yet operating as of December 31, 2009.
(e) The Parent Company's percentage of ownership was 100% in 2007.
(f) Consolidated to SMPFC effective January 1, 2007.
(g) Consolidated effective June 18, 2007.
(h) Consolidated to SMYPC effective January 2008. As of December 31, 2007, SYFMC was 60% owned by the Parent Company.
(i) Consolidated effective December 16, 2008.
(j) Consolidated effective September 5, 2008.
(k) Formerly San Miguel Packaging Specialists, Inc. (SMPSI).
(l) Formerly San Miguel Packaging International Limited (SMPIL).
(m) Formerly San Miguel Phu Tho Packaging Co. Ltd.
(n) Formerly Zhaoqing San Miguel Glass Co. Ltd.
(o) Formerly Foshan San Miguel Packaging Co. Ltd.
(p) Formerly San Miguel Packaging & Printing Sdn. Bhd.
(q) Formerly San Miguel Woven Products Sdn. Bhd.
(r) Formerly San Miguel Logistics Asia Corporation.
(s) Formerly SM View Realty Corp.
(t) Formerly Big Bucks Realty Corp.
(u) Consolidated to SMYPIL effective December 17, 2009. JHK Investments was renamed "San Miguel Yamamura Knox Pty. Ltd." in February 2010.
(v) Consolidated effective November 6, 2009.
(w) Incorporated on December 15, 2009.
(x) Formerly San Miguel Rengo Packaging Corporation (SMRPC).

A subsidiary is an entity controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The consolidated financial statements are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented in the consolidated statements of financial position, separately from equity attributable to equity holders of the Parent Company.

Non-controlling interests represent the interests not held by the Group in GSMI, SMPFC, SMYAC, SMPI, PBC, SMCSLC, AIBC, PT-Delta, SMHT, SMBHK, SMBB, SMBV, PTSMIFB, SMPFI, PTSMPFI, SMB, SMYPIL and SMYPC in 2009 and 2008 and also Mincorr and SMPPC in 2008.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in the consolidated financial statements, except for the changes as explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The FRSC approved the adoption of new or revised standards, amendments to standards, and interpretations as part of PFRS. Accordingly, the Group changed its accounting policies in the following areas:

Adopted effective 2009

- PFRS 8, *Operating Segments,* introduces the “management approach” to segment reporting.

  Starting January 1, 2009, the Group determined and presented operating segments based on the information internally provided to the BOD. Previously, operating segments were determined and presented in accordance with PAS 14, *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows:

  - Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on basic and diluted earnings per share (EPS).

  - An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. An operating segment’s operating results are reviewed regularly by the BOD to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

  - Segment results that are reported to the BOD include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of corporate assets (primarily the Parent Company’s headquarters), certain head office expenses, and deferred tax assets and liabilities.

  - Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

- Revised PAS 1, *Presentation of Financial Statements* (2007), introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the statement of income and all non-owner changes in equity in a single statement), or in a statement of income and a separate statement of comprehensive income.

  The Group applied Revised PAS 1, which became effective as of January 1, 2009. The Group presented all non-owner changes in equity in the consolidated statements of comprehensive income and consolidated statements of changes in equity.

  Comparative information has been re-presented to be also in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on basic and diluted EPS.

- Revised PAS 23, *Borrowing Costs*, removes the option to charge to expense borrowing costs and requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Prior to this revised standard, the Group already capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*, require disclosures relating to fair value measurements using a three-level fair value hierarchy that: reflects the significance of the inputs used in measuring fair values; provides more direction on the form of quantitative disclosures about fair value measurements; and requires information to be disclosed in a tabular format unless another format is more appropriate. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk.

  The said new required disclosures have been included in Note 36 to the consolidated financial statements. As allowed by the amendments, in the first year of application, comparative information is not required to be disclosed.

- *Embedded Derivatives* - Amendments to Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives* and PAS 39, *Financial Instruments: Recognition and Measurement*, clarify that on reclassification of a financial asset out of the "at fair value through profit or loss" category, all embedded derivatives have to be assessed and, if necessary, separately accounted for in the consolidated financial statements. The amendments are effective for annual periods ending on or after June 30, 2008.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. The interpretation takes effect for annual periods beginning on or after July 1, 2008.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*, applies to all entities using net investment hedging for investments in foreign operations and clarifies that net investment hedging can be applied only when the net assets of the foreign operation are included in the financial statements of the entity. The requirements in the interpretation do not apply to other forms of hedge accounting under PAS 39 and cannot be applied by analogy. IFRIC 16 provides guidance on the following issues: a) nature of the hedged risk and the amount of the hedged item for which a hedging relationship may be designated; b) where the hedging instrument can be held and assessing hedge effectiveness; and c) disposal of a foreign operation. The interpretation is effective for annual periods beginning on or after October 1, 2008.

- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*, provides additional guidance on the accounting for the contributed property, plant and equipment by "access providers" (i.e., by the entity receiving the contribution) from customers. The interpretation clarifies: the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services; the recognition of revenue; and the accounting for transfers of cash from customers. The interpretation is effective for all transfers on or after July 1, 2009.

- Amendments to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*, became effective for financial years beginning on or after January 1, 2009. The standards have been amended to require puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met.

- Amendments to PFRS 2, *Share-based Payment - Vesting Conditions and Cancellations*, became effective for financial years beginning on or after January 1, 2009. The standards have been amended: to clarify the definition of vesting conditions (which are service conditions and performance conditions only); introduce the concept of non-vesting conditions; require non-vesting conditions to be reflected in grant-date fair value; and provide the accounting treatment for non-vesting conditions and cancellations.

- Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, became effective for financial years beginning on or after January 1, 2009. The amendments to PAS 27 remove the definition of "cost method" currently set out in PAS 27, and instead require all dividend from a subsidiary, jointly controlled entity or associate to be recognized as income in the separate financial statements of the investor when the right to receive the dividend is established.

- *Improvements to PFRS 2008* - various standards (except as related to PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations)*, discusses 35 amendments and is divided into two parts: a) Part I includes 24 amendments that result in accounting changes for presentation, recognition or measurement purposes; and b) Part II includes 11 terminology or editorial amendments that the International Accounting Standards Board expects to have either no or only minimal effects on accounting. These improvements are effective for annual periods beginning on or after January 1, 2009.

- *Improvements to PFRS 2009* - Amendment to PAS 18, *Revenue, Determining whether an entity is acting as a principal or as an agent.* The appendix accompanying PAS 18 is amended to specify that an entity acts as a principal when it is exposed to the significant risks and rewards associated with the sale of goods or rendering of services. The amendments also include in the appendix to PAS 18 a number of indicators for consideration in assessing whether an entity is acting as a principal or as an agent. As this is an amendment to an appendix, there is no related effective date and therefore is applicable immediately.

The adoption of these foregoing new or revised standards, amendments to standards and Philippine Interpretations of IFRIC did not have a material effect on the consolidated financial statements. Additional disclosures required by the revised standards and improvements were included in the consolidated financial statements, where applicable.

New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

The Group will adopt the following new or revised standards, amendments to standards and interpretations in the respective effective dates:

- Revised PFRS 3, *Business Combinations* (2008), effective for annual periods beginning on or after July 1, 2009, incorporates the following changes that are likely to be relevant to the Group's operations:

    - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
    - Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
    - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
    - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in profit or loss.
    - Any non-controlling interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

    Revised PFRS 3, which becomes mandatory for the 2010 consolidated financial statements, will be applied prospectively.

- Revised PAS 27, *Consolidated and Separate Financial Statements* (2008), effective for annual periods beginning on or after July 1, 2009, requires accounting for changes in ownership interests by the Parent Company in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Parent Company loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in consolidated statements of income. Revised PAS 27 will become mandatory for the 2010 consolidated financial statements.

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*, provide for the following: a) new application guidance to clarify the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedge relationship; and b) additional application guidance on qualifying items, assessing hedge effectiveness, and designation of financial items as hedged items. The amendments are effective for annual periods beginning on or after July 1, 2009. Amendments to PAS 39 will become mandatory for the 2010 consolidated financial statements.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners,* provides guidance on the accounting for non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. It also applies to distributions in which the owners may elect to receive either the non-cash asset or a cash alternative. The liability for the dividend payable is measured at the fair value of the assets to be distributed. The interpretation is effective for annual periods beginning on or after July 1, 2009.

- *Improvements to PFRS 2008* - Amendments to PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in paragraphs 6 to 8 of PFRS 5 are met. This applies regardless of the entity retaining an interest (other than control) in the subsidiary. Disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. The amendments are effective for annual periods beginning on or after July 1, 2009.

- Amendments to PFRS 2, *Share-based Payment: Group Cash-settled Share-based Payment Transactions*, clarify the scope of PFRS 2, that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and regardless of whether the transaction is equity-settled or cash-settled; and the interaction of PFRS 2 and other standards, that in PFRS 2, a "group" has the same meaning as in PAS 27, *Consolidated and Separate Financial Statements,* that is, it includes only a parent and its subsidiaries. The amendments are effective for annual periods beginning on or after January 1, 2010.

- *Improvements to PFRS 2009*, include 15 amendments to 12 standards. Some of these amendments may have significant implications for current practice, in particular the amendments to PAS 17, *Leases*, may affect the classification of leases of land and buildings, particularly in jurisdictions in which such leases often are for a long period of time. The improvements are generally effective for annual periods beginning on or after January 1, 2010.

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants *pro rata* to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after February 1, 2010.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39 paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010.

- Revised PAS 24, *Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011.

- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC 14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)*. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. It provides guidance on the recognition of revenue among real estate developers for sales of units, such as apartments or houses, 'off plan'; i.e., before construction is completed. It also provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and the timing of revenue recognition. The interpretation is effective for annual periods beginning on or after January 1, 2012.

- PFRS 9, *Financial Instruments*, is the first standard issued as part of a wider project to replace PAS 39. PFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial asset. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard is effective for annual periods beginning on or after January 1, 2013.

The Group will assess the impact of the new or revised standards, amendments to standards and interpretations on the consolidated financial statements upon adoption.

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

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction costs.

The Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS financial assets, FVPL financial assets and loans and receivables. The Group classifies its financial liabilities as either FVPL financial liabilities or other liabilities. 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 and financial liabilities 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 reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there is no 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 the discounted cash flow method, 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 are 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.

<u>Financial Assets</u>
Financial Assets at FVPL. Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition as at FVPL and those classified under this category through the fair value option. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition as at FVPL or reclassified under this category through the fair value option, 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 which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using their fair values. Fair value changes and realized gains and losses are recognized in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented under the "Hedging reserve" account in equity. Any interest earned shall be recognized as part of "Interest income" in the consolidated statements of income. Any dividend income from equity securities classified as FVPL shall be recognized in the consolidated statements of income when the right of collection has been established.

The Group's derivative assets are classified under this category (Note 36).

The carrying values of financial assets under this category amounted to P202 and P191 as of December 31, 2009 and 2008, respectively (Note 36).

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables shall be recognized as part of "Interest income" in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" in the consolidated statements of income. Gains or losses are recognized in the consolidated statements of income when loans and receivables are derecognized or impaired, as well as through the amortization process.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of change in value.

The Group's cash and cash equivalents, trade and other receivables and noncurrent receivables and deposits are included in this category (Notes 7, 8 and 15).

The combined carrying values of financial assets under this category amounted to P264,426 and P175,192 as of December 31, 2009 and 2008, respectively (Note 36).

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 financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Any interest earned on the HTM investments shall be recognized as part of "Interest income" in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" in the consolidated statements of income. Gains or losses are recognized in the consolidated statements of income when the HTM investments are derecognized or impaired, as well as through the amortization process.

As of December 31, 2009 and 2008, the Group has no investments accounted for under this category.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified under any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are carried at fair value in the consolidated statements of financial position. The effective yield component of AFS debt securities is reported as part of "Interest income" in the consolidated statements of income. Any interest earned on AFS debt securities shall be recognized as part of "Interest income" in the consolidated statements of income on an accrual basis. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right of collection has been established. Any unrealized gains or losses for the period arising from the fair valuation of AFS financial assets are reported as part of other comprehensive income, while the accumulated unrealized gains or losses are reported as a separate component of the Group's equity. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in the consolidated statements of income.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

The Group's investments in equity securities included under "Investments and advances" account are classified under this category (Note 10).

The carrying values of financial assets under this category amounted to P351 and P590 as of December 31, 2009 and 2008, respectively (Note 36).

Financial Liabilities

Financial Liabilities at FVPL. Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented under the "Hedging reserve" account in equity. Any interest expense incurred shall be recognized as part of "Interest expense" in the consolidated statements of income.

The Group's derivative liabilities are classified under this category (Note 17).

The carrying values of financial liabilities under this category amounted to P111 and P2,353 as of December 31, 2009 and 2008, respectively (Notes 17 and 36).

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

Included in this category are the Group's liabilities arising from its trade or borrowings such as drafts and loans payable, accounts payable and accrued expenses, long-term debt and other noncurrent liabilities (Notes 16, 17, 18 and 36).

The combined carrying values of financial liabilities under this category amounted to P179,882 and P144,222 as of December 31, 2009 and 2008, respectively (Note 36).

Debt Issue Costs

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest rate method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are charged against current operations.

Derivative Financial Instruments and Hedging

Freestanding Derivatives

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

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

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

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

The Group discontinues fair value hedge accounting if the hedging instrument expires, is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

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

Cash Flow Hedge. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented under the "Hedging reserve" account in equity. 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 profit or loss 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. 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 December 31, 2009, the Group has no outstanding derivative accounted for as cash flow hedge. As of December 31, 2008, the Group has outstanding commodity options accounted for as cash flow hedge amounting to P208.

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

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

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 FVPL. 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.

Derecognition of Financial Assets and Financial Liabilities

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

- the rights to receive cash flows from the asset expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of income.

Impairment of Financial Assets

The Group assesses at reporting date whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For assets carried at amortized cost such as loans and receivables, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets pooled according to their credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in the consolidated statements of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets. If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of income, is transferred from equity to the consolidated statements of income. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income.

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument, for which its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows from the asset discounted using its historical effective rate of return on the asset.

<u>Classification of Financial Instruments Between Debt and Equity</u>
From the perspective of the issuer, a financial instrument is classified as debt instrument if it provides for a contractual obligation to:

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

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

<u>Offsetting Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

<u>Inventories</u>
Finished goods, goods in process and materials and supplies are valued at the lower of cost and net realizable value.

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

Finished goods and goods in process	-	at cost which includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; cost of goods in process includes unrealized gain (loss) on fair valuation of agricultural produce; costs are determined using the moving-average method;
Materials and supplies	-	at cost using the moving-average method.

Net realizable value of finished goods and goods in process is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Net realizable value of materials and supplies is the current replacement cost.

Containers (i.e., returnable bottles and shells) are stated at deposit values less any impairment in value. The excess of the acquisition cost of the containers over their deposit value is presented under deferred containers included under "Other noncurrent assets" account in the consolidated statements of financial position and is amortized over the estimated useful lives of two to ten years. Amortization of deferred containers is included under "Selling and administrative expenses" account in the consolidated statements of income.

Biological Assets and Agricultural Produce

The Group's biological assets include breeding, growing poultry livestock, hogs and cattle and goods in process which are grouped according to their physical state, transformation capacity (breeding, growing or laying), as well as their particular stage in the production process.

Growing hogs, cattle and poultry livestock and goods in process are carried at accumulated cost while breeding stocks are carried at accumulated cost net of amortization and any impairment in value. The costs and expenses incurred up to the start of the productive stage are accumulated and amortized over the estimated productive lives of the breeding stocks. The Group uses this method of valuation since fair value cannot be measured reliably. The Group's biological assets have no active market and no active market for similar assets prior to point of harvest are available in the Philippine poultry and hog industries. Further, the existing sector benchmarks are determined to be irrelevant and the estimates (i.e., revenues due to highly volatile prices, input costs, efficiency values, production) necessary to compute for the present value of expected net cash flows comprise a wide range of data which will not result to a reliable basis for determining the fair value.

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

The Group's agricultural produce, which consists of grown broilers and marketable hogs and cattle harvested from the Group's biological assets, are measured at their fair value less estimated costs to sell at the point of harvest. The fair value of grown broilers is based on the quoted prices for harvested mature grown broilers in the market at the time of harvest. For marketable hogs and cattle, the fair value is based on the quoted prices in the market at any given time.

The Group in general, does not carry any inventory of agricultural produce at any given time as these are either sold as live broilers, hogs and cattle or transferred to the different poultry or meat processing plants and immediately transformed into processed or dressed chicken and carcass.

Amortization is computed using straight-line method over the following estimated productive lives of breeding stocks:

	Number of Years
Hogs - sow	3 years or 6 births, whichever is shorter
Hogs - boar	2.5 - 3 years
Cattle	2.5 - 3 years
Poultry breeding stock	40 - 44 weeks

Investments in Shares of Stock of Associates

The Group's investments in shares of stock of associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Under the equity method, the investment in an associate is carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Group's share in net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. The consolidated statements of income include the Group's share of the total recognized earnings and losses of the associate on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate arising from changes in the associate's other comprehensive income. The Group's share of those changes is recognized in other comprehensive income. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

An investment in an associate is accounted for using the equity method from the date when it becomes an associate. Upon acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with PFRS 3, *Business Combinations*. Consequently:

a. goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

b. any excess of the Group's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share in the associate's profit or loss in the period in which the investment is acquired.

The Group discontinues applying the equity method when its investment in an associate is reduced to zero. Additional losses are provided only to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the Group has guaranteed or otherwise committed. If the associate subsequently reports profits, the Group resumes applying the equity method only after its share of the profits equals the share of net losses not recognized during the period the equity method was suspended.

The financial statements of the associates are prepared for the same reporting period as the Parent Company. The accounting policies of the associates conform to those used by the Group for like transactions and events in similar circumstances.

Interest in Joint Venture

The Group recognizes its interest in joint venture using proportionate consolidation. The Group combines its share in each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The joint venture is proportionately consolidated until the date when the Group ceases to have joint control over the joint venture.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation and interest incurred during the construction period on funds borrowed to finance the construction of the projects. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Construction in progress represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 50
Buildings and improvements	5 - 50
Machinery and equipment	3 - 40
Transportation equipment	5 - 7
Tools and small equipment	2 - 5
Office equipment, furniture and fixtures	2 - 6
Molds	2 - 5
Leasehold improvements	5 - 50 or term of the lease, whichever is shorter

The remaining useful lives, residual values, depreciation and amortization method are reviewed and adjusted, if appropriate, periodically to ensure that such periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization are credited or charged to current operations.

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising on the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of income in the period of retirement or disposal.

Investment Properties

Investment properties consist of properties held to earn rentals and/or for capital appreciation. Investment properties, except for land, are measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 50
Buildings and improvements	5 - 50
Machinery and equipment	3 - 40
Tools and small equipment	2 - 5

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

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains and losses on the retirement and disposal of investment property are recognized in the consolidated statements of income in the period of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sale.

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

Business Combinations

Business combinations are accounted for using the purchase method of accounting. The cost of acquisition is the aggregate of the fair values, at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer, in exchange for control over the net assets of the acquired company, plus any directly attributable costs. The identifiable assets, liabilities and contingent liabilities that satisfy certain recognition criteria have to be measured initially at their fair values at acquisition date, irrespective of the extent of any non-controlling interests.

Transfers of assets between commonly controlled entities are accounted for under historical cost accounting.

When a business combination involves more than one exchange transaction (occurs in stages), each exchange transaction is treated separately by the Group, using the cost of the transaction and fair value information at the date of each exchange transaction, to determine the amount of goodwill associated with that transaction. Any adjustment to fair values relating to the previously held interest is a revaluation and is accounted for as such.

When subsidiaries are sold, the difference between the selling price and the net assets plus goodwill is recognized in the consolidated statements of income.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment or determined in accordance with PFRS 8, *Operating Segments.*

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Negative goodwill which is not in excess of the fair values of acquired identifiable nonmonetary assets of subsidiaries and associates is charged directly to income.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is charged against profits in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

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

Amortization is computed using the straight-line method over the following estimated useful lives of other intangible assets with finite lives:

	Number of Years
Computer software	2 - 8
Franchise	13 - 20
Leasehold rights	20 or term of the lease, whichever is shorter
Land use rights	25 - 50 or term of the lease, whichever is shorter

The Group assessed the useful life of the trademarks and brand names to be indefinite because based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate cash inflows for the Group.

Trademarks and brand names with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statements of income when the asset is derecognized.

Impairment of Non-financial Assets
The carrying values of investments and advances, property, plant and equipment, investment properties, containers, biological assets, other intangible assets with definite useful lives and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses of continuing operations are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in consolidated statements of income. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Provisions

Provisions are recognized when the Group has: a) a present obligation (legal or constructive) as a result of past event; b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Share Capital

Common Shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Preferred Shares

Preferred shares are classified as equity if it is non-redeemable, or redeemable only at the Parent Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Parent Company's BOD.

Preferred shares are classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in the consolidated statements of income as accrued.

Treasury Shares

Own equity instruments which are reacquired are carried at cost and are deducted from equity. No gain or loss is recognized on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sales. Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably, which is normally upon delivery.

Agricultural Produce. Revenue from initial recognition of agricultural produce is measured at fair value less estimated costs to sell at the point of harvest. Fair value is based on the relevant market price at point of harvest.

Interest. Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

Dividend. Revenue is recognized when the Group's right as a shareholder to receive the payment is established.

Gain or Loss on Sale of Investments in Shares of Stock. Gain or loss is recognized if the Group disposes of its investment in a subsidiary or associate. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, if any.

Rent. Revenue from investment properties is recognized on a straight-line basis over the term of the lease. Rent income is included as part of other income.

Cost and Expense Recognition

Costs and expenses are recognized upon receipt of goods, utilization of services or at the date they are incurred.

Share-based Transactions

The cost of Long-term Incentive Plan for Stock Options (LTIP) is measured by reference to the option fair value at the date when the options are granted. The fair value is determined using Black-Scholes option pricing model. In valuing LTIP transactions, any performance conditions are not taken into account, other than conditions linked to the price of the shares of the Parent Company. The cost of Employee Stock Purchase Plan (ESPP) is measured by reference to the market price at the time of the grant less subscription price.

The cost of share-based transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for share-based transactions, at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as Lessee. Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased property, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the consolidated statements of income.

Leased asset is depreciated over its estimated useful life. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

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

Borrowing Costs
Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

Research and Development Costs
Research costs are expensed as incurred. Development costs incurred on an individual project are carried forward when their future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Retirement Costs
The Parent Company and majority of its subsidiaries have separate funded, noncontributory retirement plans, administered by the respective trustees, covering their respective permanent employees. Retirement costs are actuarially determined using the projected unit credit method. This method reflects service rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement cost includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains and losses, effect of asset limit and effect of any curtailments or settlements. Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to the plan, past service cost is recognized immediately as an expense. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceed the greater of 10% of the present value of the defined benefit obligation or the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The transitional liability as of January 1, 2005, the date of adoption of PAS 19, *Employee Benefits*, is recognized as an expense over five years from date of adoption.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service costs not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the resulting asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of reductions in the future contributions to the plan, net actuarial losses of the current period and past service costs of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service costs of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service costs of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service costs of the current period are recognized immediately.

Foreign Currency Transactions and Translations
The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange at reporting date. All differences are taken to the consolidated statements of income. Nonmonetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates as at the dates of the initial transactions. Nonmonetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency gains and losses are reported on a net basis.

The functional currency of the Group's foreign operations is United States (US) dollar. As at the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Parent Company at the rate of exchange ruling at the reporting date and their income and expense accounts are translated at the quarterly weighted average exchange rates for the year. The resulting translation differences are recognized in other comprehensive income and presented under the "Translation reserve" account in equity. On disposal of a foreign subsidiary, the accumulated exchange differences are recognized in the consolidated statements of income as a component of the gain or loss on disposal.

Taxes
Current Tax. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at reporting date.

Deferred Tax. Deferred income tax is provided using the balance sheet liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Current tax and deferred tax are recognized in the consolidated statements of income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Value Added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statements of financial position.

Assets Held for Sale
Noncurrent assets or disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to be completed within one year from classification and the asset is available for immediate sale in its present condition.

Assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

Discontinued Operations
A discontinued operation is a component of the Group's business that represents a separate major line of business that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative consolidated statements of income are re-presented as if the operation had been discontinued from the start of the comparative period and show the results of discontinued operation separate from the results of continuing operation.

Related Parties
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Basic and Diluted Earnings Per Common Share (EPS)
Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares, 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 ESPP and LTIP, respectively, which are assumed to be exercised at the date of grant.

Where the 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.

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

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

Events After the Reporting Date
Post year-end events that provide additional information about the Group's consolidated financial position at reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements at the reporting date. However, uncertainty about these estimates and assumptions could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Operating Leases. The Group has entered into various lease agreements as a lessee. The Group has determined that the lessor retains all significant risks and rewards of ownership of these properties which are leased out under operating lease arrangements.

Rent expense charged to operations amounted to P2,120, P1,796 and P1,450 in 2009, 2008 and 2007, respectively (Notes 21 and 22).

Contingencies. The Group currently has several tax assessments, legal and administrative claims. The Group's estimate of the probable costs for the resolution of these assessments and claims has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments, legal and administrative claims will have a material adverse effect on its consolidated financial position and consolidated financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (Note 38).

Estimates
The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Allowance for Impairment Losses on Trade and Other Receivables. Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience, and historical loss experience. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded selling and administrative expenses and decrease current assets.

The allowance for impairment losses amounted to P2,729 and P2,884 as of December 31, 2009 and 2008, respectively. The carrying values of trade and other receivables amounted to P49,082 and P50,814 as of December 31, 2009 and 2008, respectively (Note 8).

Allowance for Inventory Losses. The Group provides allowance for inventory losses whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after reporting date to the extent that such events confirm conditions existing at reporting date. The allowance account is reviewed periodically to reflect the accurate valuation in the financial records.

The allowance for inventory losses amounted to P1,149 and P901 as of December 31, 2009 and 2008, respectively. The carrying values of inventories amounted to P25,458 and P25,836 as of December 31, 2009 and 2008, respectively (Note 9).

Estimated Useful Lives of Investment Properties, Containers and Property, Plant and Equipment. The Group estimates the useful lives of investment properties, containers and property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties, containers and property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of investment properties, containers and property, plant and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of investment properties, containers and property, plant and equipment would increase recorded cost of sales and selling and administrative expenses and decrease noncurrent assets.

Accumulated depreciation and amortization of investment properties and property, plant and equipment amounted to P56,714 and P52,965 as of December 31, 2009 and 2008, respectively. Property, plant and equipment, net of accumulated depreciation and amortization amounted to P73,892 and P72,873 as of December 31, 2009 and 2008, respectively (Note 11). Investment properties, net of accumulated depreciation amounted to P2,263 and P2,253 as of December 31, 2009 and 2008, respectively (Note 12). Deferred containers net of accumulated amortization amounted to P4,446 and P3,708 as of December 31, 2009 and 2008, respectively (Note 15).

Estimated Useful Lives of Intangible Assets. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

Intangible assets with finite useful lives amounted to P1,491 and P1,561 as of December 31, 2009 and 2008, respectively (Note 14).

Impairment of Goodwill and Trademarks and Brand Names with Indefinite Lives. The Group determines whether goodwill, trademarks and brand names are impaired at least annually. This requires the estimation of the value in use of the cash-generating units to which the goodwill is allocated and the value in use of the trademarks and brand names. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and from the trademarks and brand names and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying values of goodwill as of December 31, 2009 and 2008 amounted to P6,408 and P5,201, respectively (Note 14).

The carrying values of trademarks and brand names amounted to P2,139 and P2,251 as of December 31, 2009 and 2008, respectively (Note 14).

Purchase Price Allocation in Business Combinations. Purchase method requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities at acquisition date. It also requires the acquirer to recognize goodwill. The Group's acquisitions have resulted in goodwill and trademarks and brand names with indefinite lives.

The total carrying values of goodwill and trademarks and brand names with indefinite useful lives arising from business combinations as of December 31, 2009 and 2008 amounted to P8,547 and P7,452, respectively (Note 14).

Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary difference and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P8,883 and P7,638 as of December 31, 2009 and 2008, respectively (Note 19).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on investments and advances, property, plant and equipment, investment properties, containers, biological assets, other intangible assets with definite useful lives and idle assets when events or changes in circumstances indicate that the carrying value may not be recoverable. Determining the recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Accumulated impairment losses of property, plant and equipment and investment properties amounted to P8,369 and P4,975 as of December 31, 2009 and 2008, respectively. The aggregate amount of investments and advances, property, plant and equipment, investment properties, biological assets, other intangible assets with definite useful lives, containers, and idle assets, amounted to P117,686 and P112,484 as of December 31, 2009 and 2008, respectively (Notes 10, 11, 12, 13, 14 and 15).

Present Value of Defined Benefit Obligation. The present value of the retirement obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 30 to the consolidated financial statements and include discount rate, expected return on plan assets and salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The assumption of the expected return on plan assets is determined on a uniform basis, taking into consideration the long-term historical returns, asset allocation and future estimates of long-term investment returns.

The Group determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

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

The Group has a net cumulative unrecognized actuarial gain (loss) amounting to P3,271 and (P268) as of December 31, 2009 and 2008, respectively (Note 30).

Fair Value of Agricultural Produce. The Group determines the fair value of its agricultural produce based on most recent market transaction price provided that there has been no significant change in economic circumstances between the date of transactions and reporting date. Costs to sell are estimated based on most recent transaction and is deducted from the fair value in order to measure the fair value of agricultural produce at point of harvest.

Unrealized gain (loss) on fair value adjustments included in the cost of inventories as of December 31, 2009 and 2008 amounted to P63 and (P2), respectively (Note 9).

Financial Assets and Financial Liabilities. The Group carries certain financial assets and financial liabilities at fair value, which requires extensive use of accounting estimates and judgments. Significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any change in the fair value of these financial assets and financial liabilities would affect profit and loss and equity.

Fair value of financial assets and financial liabilities are discussed in Note 36.

Asset Retirement Obligation. Determining asset retirement obligation requires estimation of the cost of dismantling property and equipment and other costs of restoring the leased properties to their original condition. The Group determined that there are no significant asset retirement obligations as of December 31, 2009 and 2008.

5. Segment Information

Operating Segments

The reporting format of the Group's operating segments is determined by the Group's risks and rates of return which 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 has three reportable segments, namely, beverage, food and packaging.

The beverage segment produces and markets alcoholic and nonalcoholic beverages.

The food segment includes, among others, poultry, feeds production and selling, livestock farming, processing and selling of basic meat products, processing and marketing of refrigerated and canned meat products, manufacturing and marketing of flour product, premixes and flour-based products, dairy-based products, breadfill, desserts, cooking oil, importation and marketing coffee and coffee-related products and processed meats.

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

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred income taxes.

Inter-segment Transactions

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

Major Customer

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

Operating Segments

Financial information about reportable segments follow:

For the Years Ended December 31, 2009, 2008 and 2007

	Continuing Operations																		Discontinued Operations		Total Operations		
	Beverage			Food			Packaging			Others			Eliminations			Total			(Note 6)				
	2009	2008	2007	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007	2008	2007	**2009**	2008	2007
Sales																							
External sales	**P82,735**	P78,599	P69,334	**P77,220**	P73,830	P63,516	**P14,258**	P15,612	P15,172	**P -**	P -	P -	**P -**	P -	P -	**P174,213**	P168,041	P148,022	P181	P93,948	**P174,213**	P168,222	P241,970
Inter-segment sales	**1,067**	-	425	**15**	50	10	**5,413**	4,246	3,605	**-**	-	-	**(6,495)**	(4,296)	(4,040)	**-**	-	-	-	-	**-**	-	-
Total sales	**P83,802**	P78,599	P69,759	**P77,235**	P73,880	P63,526	**P19,671**	P19,858	P18,777	**P -**	P -	P -	**(P6,495)**	(P4,296)	(P4,040)	**P174,213**	P168,041	P148,022	P181	P93,948	**P174,213**	P168,222	P241,970
Result																							
Segment result	**P14,035**	P14,556	P11,359	**P4,559**	P865	P2,341	**P1,562**	P1,315	P146	**(P2,769)**	(P2,216)	(P1,684)	**P2,282**	P298	(P535)	**P19,669**	P14,818	P11,627	(P10)	P5,522	**P19,669**	P14,808	P17,149
Interest expense and financing charges																**(7,926)**	(6,032)	(7,117)	-	(2,984)	**(7,926)**	(6,032)	(10,101)
Interest income																**5,989**	6,630	2,087	-	317	**5,989**	6,630	2,404
Equity in net earnings (losses) of associates																**2,816**	(1,132)	164	-	82	**2,816**	(1,132)	246
Gain (loss) on sale of investments and property and equipment																**50,630**	8,746	2,224	-	(5)	**50,630**	8,746	2,219
Other income (charges) - net																**(6,843)**	(2,262)	3,614	(9)	(251)	**(6,843)**	(2,271)	3,363
Income tax benefit (expense)																**(3,706)**	(6,098)	(4,520)	7	(1,174)	**(3,706)**	(6,091)	(5,694)
Gain (loss) from discontinued operations																**-**	-	-	5,425	(1,235)	**-**	5,425	(1,235)
Net income																**P60,629**	P14,670	P8,079	P5,413	P272	**P60,629**	P20,083	P8,351
Attributable to:																							
Equity holders of the Parent Company																**P57,799**	P13,935	P8,160	P5,413	P470	**P57,799**	P19,348	P8,630
Non-controlling interests																**2,830**	735	(81)	-	(198)	**2,830**	735	(279)
Net income																**P60,629**	P14,670	P8,079	P5,413	P272	**P60,629**	P20,083	P8,351

For the Years Ended December 31, 2009, 2008 and 2007

	Beverage			Food			Packaging			Others			Eliminations			Consolidated		
	2009	2008	2007	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007
Other Information																		
Segment assets	**P76,816**	P100,242	P76,617	**P43,126**	P71,122	P63,300	**P33,689**	P33,021	P34,787	**P315,548**	P241,782	P210,355	**(P91,069)**	(P154,247)	(P115,834)	**P378,110**	P291,920	P269,225
Investments in and advances to associates	**-**	-	-	**-**	-	-	**-**	-	-	**39,005**	31,663	220	**-**	-	-	**39,005**	31,663	220
Goodwill, trademarks and brand names																**8,547**	7,452	7,310
Other assets																**1,200**	700	6,381
Assets held for sale																**2,746**	-	-
Deferred tax assets																**8,883**	7,638	4,973
Consolidated total assets																**P438,491**	P339,373	P288,109
Segment liabilities	**P9,722**	P26,443	P22,438	**P23,337**	P24,095	P16,767	**P7,714**	P7,659	P16,178	**P96,547**	P146,348	P84,594	**(P87,690)**	(P155,935)	(P119,603)	**P49,630**	P48,610	P20,374
Drafts and loans payable																**56,789**	48,560	44,231
Long-term debt and redeemable preferred shares																**72,962**	49,763	55,834
Income and other taxes payable																**4,186**	4,429	3,327
Dividends payable and others																**1,949**	1,936	5,529
Deferred tax liabilities																**12,037**	17,851	12,721
Consolidated total liabilities																**P197,553**	P171,149	P142,016
Capital expenditures	**P1,399**	P3,471	P4,851	**P781**	P215	P1,065	**P1,010**	P1,354	P2,550	**P3,059**	P1,397	P844	**P -**	P -	P -	**P6,249**	P6,437	P9,310
Depreciation and amortization of property, plant and equipment	**2,415**	2,251	2,372	**940**	868	2,260	**1,533**	1,491	1,144	**366**	323	304	**-**	-	-	**5,254**	4,933	6,080
Noncash items other than depreciation and amortization of property, plant and equipment	**763**	795	1,037	**1,167**	966	806	**172**	(81)	103	**2,612**	2,368	466	**-**	-	-	**4,714**	4,048	2,412
Loss on impairment of goodwill, property, plant and equipment and other noncurrent assets	**3,705**	-	1,461	**54**	-	-	**695**	-	283	**302**	322	-	**-**	-	-	**4,756**	322	1,744

6. Discontinued Operations and Assets Held for Sale

a. Bank of Commerce (BOC) (Note 10)

On February 15, 2010, SMPI's BOD authorized the divestment of SMPI's 31.23% interest in BOC. The carrying amount of the investment as of December 31, 2009 of P2,746 representing 16,396,689 common shares is presented as "Assets held for sale" in the consolidated statements of financial position.

b. Agribusiness Division of the Parent Company

In 2008, the Parent Company ceased the operations of its Agribusiness Division, in particular the operations of its Iligan Coconut Oil Mill.

c. San Miguel Australia Holdings Ltd. (SMAH)

On November 8, 2007, the Parent Company through San Miguel Beverages (L) Pte. Ltd. signed a definitive agreement to sell its SMAH shares including its premium Tasmanian brewer, J. Boag, to Lion Nathan Australia Pty. Ltd., an Australian alcoholic beverages company, for which enterprise value amounted to Australian Dollar (A$)325.

The closing audit was completed on January 2, 2008 and the Parent Company received A$277 as payment of purchase price, net of adjustments. The Group recognized a gain of P5,425, net of deferred income tax in 2008.

d. San Miguel Foods Australia Holdings Pty. Ltd. (SMFAH)

On November 8, 2007, the Parent Company through San Miguel Foods (L) Pte. Limited reached an agreement with Kirin Holdings (Australia) Pty. Ltd. to sell its Australian dairy and juice business, SMFAH, for a purchase price of A$752 (net of external debt and shareholder loans) subject to adjustments at completion of closing audit. The sale also includes National Foods Limited's shares in Berri Ltd., King's Creameries (S) Pte. and Lactos Pty. Ltd.

On December 27, 2007, the Parent Company received A$2,090 representing payment of the purchase price and settlement of shareholder loans.

Based on the results of the closing audit on April 30, 2008, an adjustment in the purchase price of A$28 was received by the Parent Company five (5) business days after completion of the closing audit. The loss realized from the sale amounted to P513, net of P1,922 net income of SMFAH in 2007.

e. Coca-Cola Bottlers Philippines, Inc. (CCBPI)

On February 22, 2007, the Parent Company and Coca-Cola South Asia Holdings, Inc. (CCSAHI) executed a Deed of Sale of Shares of Stock covering the Parent Company's 65% equity in CCBPI consisting of 766,121 common shares and 172,942 Class "A" preferred shares for US$590. The payments to the Parent Company are scheduled on various dates over a five-year period subject to fulfillment of specific conditions attached to each and every payment due. Receivable from CCSAHI amounting to P4,620 and P4,752 as of December 31, 2009 and 2008, respectively are presented as part of "Noncurrent receivables and deposits" under "Other noncurrent assets" account (Note 15).

On August 23, 2007, the closing audit for the sale transaction was completed and the selling price was adjusted to US$520. The gain realized from the sale amounted to P824, net of P376 net loss of CCBPI (from January 1 to February 22, 2007).

The adjustment in selling price from US$590 to US$520 (net of the assigned receivables amounting to US$17) is a result of a compromise agreement between the Parent Company and CCSAHI.

As required by PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, the financial performance of Agribusiness in 2008 and 2007, SMFAH and SMAH in 2007 and CCBPI for the period ended February 22, 2007, were presented as a separate item under "Income After Income Tax from Discontinued Operations" in the consolidated statements of income.

The results of discontinued operations are presented below:

	Note	2008	2007
Net sales		P181	P93,948
Cost of sales		168	59,568
Gross profit		13	34,380
Selling and administrative expenses		(23)	(28,858)
Interest expense and financing charges	*25*	-	(2,984)
Interest income	*26*	-	317
Equity in net earnings of associates		-	82
Gain on sale of investments and property and equipment		-	(5)
Other charges - net		(9)	(251)
Income (loss) before income tax		(19)	2,681
Income tax expense (benefit)	*19*	(7)	1,174
Income (loss) from discontinued operations		(12)	1,507
Gain (loss) on sale from disposal of investment - net of tax of P2,921 and P4,596 in 2008 and 2007, respectively	*19*	5,425	(1,235)
Net income from discontinued operations		P5,413	P272
Attributable to:			
Equity holders of the Parent Company	*32*	P5,413	P470
Non-controlling interests		-	(198)
		P5,413	P272

Basic and diluted earnings per share from discontinued operations, attributable to equity holders of the Parent Company, are presented in Note 32.

Cash flows provided by discontinued operations are presented below:

	2008	2007
Net cash flows provided by operating activities	P1,312	P4,173
Net cash flows provided by investing activities	7,786	97,762
Net cash flows used in financing activities	-	(11,221)
Net cash flows provided by discontinued operations	P9,098	P90,714

The effect of disposal on the consolidated financial position follows:

	2008
Assets held for sale	P5,324
Liabilities directly associated with assets held for sale	(3,642)
Amounts recognized directly in equity relating to assets held for sale	(37)
Net assets disposed of	P1,645
Cash consideration received	P9,083

7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2009	2008
Cash in banks and on hand	**P25,926**	P8,220
Short-term investments	**183,485**	108,719
	P209,411	P116,939

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates.

8. Trade and Other Receivables

	Note	**2009**	2008
Trade		**P17,188**	P18,668
Amounts owed by related parties	*28*	**3,170**	6,491
Non-trade	*29, 34*	**31,453**	28,539
		51,811	53,698
Less allowance for impairment losses		**2,729**	2,884
		P49,082	P50,814

Trade receivables are non-interest bearing and are generally on a 30 to 45-day term.

The movements in the allowance for impairment losses are as follows:

	2009	2008
Balance at beginning of year	**P2,884**	P2,541
Charges for the year	**398**	604
Amounts written off	**(257)**	(283)
Reversals and others	**(296)**	22
Balance at end of year	**P2,729**	P2,884

As at December 31, 2009 and 2008 the aging of receivables is as follows:

2009	**Total**	**Trade**	**Owed by related parties**	**Non-trade**
Current	**P43,988**	**P11,142**	**P3,170**	**P29,676**
Past due				
Less than 30 days	**2,609**	**2,334**	**-**	**275**
30-60 days	**789**	**613**	**-**	**176**
61-90 days	**804**	**729**	**-**	**75**
Over 90 days	**3,621**	**2,370**	**-**	**1,251**
	P51,811	**P17,188**	**P3,170**	**P31,453**

2008	Total	Trade	Owed by related parties	Non-trade
Current	P44,831	P11,610	P6,491	P26,730
Past due				
Less than 30 days	3,633	3,245	-	388
30-60 days	1,078	814	-	264
61-90 days	629	437	-	192
Over 90 days	3,527	2,562	-	965
	P53,698	P18,668	P6,491	P28,539

The Parent Company has outstanding advances to San Miguel Corporation Retirement Plan (SMCRP) amounting to P2,785 and P6,323 (Note 28) as of December 31, 2009 and 2008, respectively, subject to interest of 6.5% per annum. Interest pertaining to the said advances amounted to P639, P2,310 and P1,148 for the years ended December 31, 2009, 2008 and 2007, respectively (Note 26).

SMCRP used the proceeds of the advances mainly for the purchase of the Parent Company's common shares. Such investment accounts for more than 46% of the total plan assets as of December 31, 2008.

On December 27, 2007, SMCRP entered into a Stock Purchase Agreement (the Agreement) with a third party (Buyer) for the sale of the SMC common shares (857,115,914 shares). The contract provides among others, that the shares be sold at an agreed price, payable on or before December 31, 2008, extendible for additional three months up to March 31, 2009, subject to interest.

Under the terms of the Agreement, all rights to, interests and title in and ownership of the shares shall remain with SMCRP provided that upon receipt of the agreed downpayment, the voting rights shall be transferred to the Buyer. All dividends and other benefits, except for stock dividends, declared by the Parent Company in relation to the shares shall accrue fully to SMCRP. All stock dividends declared by the Parent Company in relation to the shares shall accrue to SMCRP and the Buyer proportionately based on the consideration paid by the Buyer.

On November 25, 2008, SMCRP and the Buyer through amendments to the Agreement, agreed to extend the maturity of the contract up to December 31, 2009, subject to a partial payment. Upon remittance of the partial payment, interest at 7% per annum shall accrue on the remaining balance of the contract.

On November 27, 2009, the Buyer paid the remaining balance of the contract.

9. Inventories

Inventories at net realizable value consist of:

	2009	2008
Finished goods and goods in process	**P8,547**	P8,073
Materials and supplies	**15,355**	16,392
Containers	**1,556**	1,371
	P25,458	P25,836

The cost of finished goods and goods in process amounted to P8,877 and P8,257 as of December 31, 2009 and 2008, respectively.

The cost of materials and supplies as of December 31, 2009 and 2008 amounted to P15,879 and P16,733, respectively.

Containers at deposit value amounted to P1,851 and P1,747 as of December 31, 2009 and 2008, respectively.

Finished goods and goods in process include net unrealized gain of P63 and net unrealized loss of P2 on fair valuation of agricultural produce as of December 31, 2009 and 2008, respectively (Note 4). The fair value of agricultural produce less costs to sell, which formed part of finished goods inventory, amounted to P287 and P557 as of December 31, 2009 and 2008, respectively, with corresponding cost at point of harvest amounting to P224 and P559, respectively.

10. Investments and Advances

Investments in Shares of Stock of Subsidiaries

The following are the developments relating to the Parent Company's investments in shares of stock of subsidiaries in 2009 and 2008:

a. SMB

On July 24, 2007, the stockholders of the Parent Company, during the annual stockholders' meeting, approved the transfer of the Parent Company's domestic beer business assets (excluding land and brands) to a wholly-owned subsidiary of the Parent Company, in exchange for shares of stock. The transfer of such assets to a wholly-owned subsidiary is pursuant to the listing with the PSE and the public offering of the shares of SMB.

On July 26, 2007, the Parent Company incorporated SMB, a wholly-owned subsidiary with an initial authorized capital stock of P100 and paid-up capital of P6.25. Pursuant to the stockholders approval obtained on July 24, 2007, the Parent Company's domestic beer business net assets as of June 30, 2007, excluding land, brands and certain payables were transferred to SMB in exchange for additional shares of stock effective October 1, 2007.

On September 27, 2007, the Securities and Exchange Commission (SEC) approved the transfer of the domestic beer business net assets to SMB and the increase in SMB's authorized capital stock from P100 to P25,000.

Shares totaling 15,308,416,960, were issued to the Parent Company pursuant to such transfer under a tax-free asset-for-share agreement, as confirmed by the Bureau of Internal Revenue (BIR) in its certification No. SN-300-2007.

As a standard condition of the SEC for approval of applications for increase in authorized capital stock, where the payment for the shares issued pursuant to such increase is made in the form of motor vehicles and receivables, 2,557,573,242 common shares that were issued by SMB to the Parent Company in exchange for motor vehicles and receivables, out of the 15,308,416,960 common shares issued by SMB, are being held in escrow by the SEC pending the transfer of ownership of those motor vehicles in the name of SMB and proof of collection of receivables.

On November 5, 2008, SMB submitted to the SEC the required documentation for the transfer of ownership of motor vehicles and proof of collection of receivables. This is still being reviewed by the SEC as of April 14, 2010.

On May 12, 2008, SMB listed its shares in the PSE pursuant to its listing application approved on March 26, 2008. SMB sold 77,052,000 shares to the public by way of a primary offer, and the Parent Company sold to the public 809,050,000 shares of its existing shares in SMB (including shares to cover for over-allotments) by way of a secondary offer, pursuant to a registration statement rendered effective by the SEC on April 28, 2008. The total shares offered represents 5.75% stake in SMB. The Group recognized a net gain of P5,650 from the transaction.

On February 20, 2009, the Parent Company signed a share purchase agreement for the acquisition by Kirin Holdings Company, Limited ("Kirin"), of a 43.2499% stake in SMB. Under the terms of the agreement, purchase price of the shares amounted to P8.841 per share, implying a total acquisition price at P58,924. Further to the agreement, the Parent Company, Kirin and SMB negotiated exclusively for SMB's purchase of shares in Parent Company's overseas beer business.

On April 30 and May 22, 2009, the Parent Company sold its 2,185,402,491 and 4,479,621,199 common shares, respectively, representing 43.2499% stake in SMB to Kirin at P8.841 per share for a total purchase price of P58,924. The Group recognized a net gain of P50,537 from the sale.

b. SMBIL

On August 17, 2009, the Parent Company assigned its international trademarks, trade dress, know-how, copyrights, patents and other intellectual property rights ("International IP Rights") used in connection with the international beer business of the Parent Company and its international subsidiaries valued at US$31.5 to SMIL. Common shares totaling 2,863,636 were issued to the Parent Company under a tax-free asset-for-share agreement, as confirmed by the BIR in its certification No. SN-233-2009.

On December 18, 2009, SMB's BOD approved the purchase of the international beer and malt-based beverages business of the Parent Company through the purchase of the shares of San Miguel Holdings Ltd. (SMHL) in SMBIL, comprising 100% of the issued and outstanding capital stock of SMBIL (SMBIL Shares), with an enterprise value of US$300. The BOD of the Parent Company likewise approved the sale of its international beer and malt-based beverage business to SMB, through the sale by SMHL, its wholly-owned subsidiary, of the SMBIL Shares to SMB, on the same day. On the same date, the Parent Company, SMB and SMHL entered into a Share Purchase Agreement (SPA) for the SMBIL Shares.

On December 21, 2009, SMIL's BOD approved the assignment of International IP Rights to SMHL valued at US$31.5 in exchange for 286,363 SMHL common shares. The assignment was also approved by SMHL's BOD on the same date.

Also on the same date, SMHL's BOD approved the assignment of International IP Rights to SMBIL valued at US$31.5 in exchange for 2,863,636 SMBIL shares. The assignment was also approved by SMBIL's BOD on the same date.

On January 28, 2010, SMB entered into a US$300 unsecured loan facility agreement. Proceeds of the loan were used to finance SMB's acquisition of SMBIL Shares. The sale was completed on January 29, 2010, with SMB acquiring the SMBIL Shares for a purchase price of US$302, after adjustments in accordance with the terms of the SPA.

c. IBI

On December 8, 2008, the BOD of the Parent Company approved the transfer of its domestic beer and malt-based beverages brands, including related trademarks, copyrights, patents and other intellectual property rights and know-how ("Domestic IP Rights") to a wholly-owned subsidiary, in exchange for shares of stock.

On December 16, 2008, the Parent Company formed IBI, a wholly-owned subsidiary, with an authorized capital stock of P1. IBI was incorporated primarily to engage in the manufacturing, buying, selling (on wholesale) and dealing in alcoholic and non-alcoholic beverages and to own, purchase, license and/or acquire such trademarks and other intellectual property rights necessary for the furtherance of its business. On the same date, the BOD and stockholders of IBI approved the increase in its authorized capital stock from P1 to P10,000 divided into 100,005,000 shares at P100.00 par value per share. To fund such increase, the Parent Company and IBI executed a Deed of Assignment of Domestic Intellectual Rights dated December 16, 2008 as supplemented for the transfer of the Domestic IP Rights in exchange for common shares in IBI.

On January 27, 2009, the Parent Company's BOD approved the sale of its Domestic IP Rights to SMB, through the sale of all its interests in IBI. On the same date, the BOD of SMB approved the purchase of the IP Rights through the purchase of all of the Parent Company's interests in IBI after the completion of such transfer by the Parent Company of the IP Rights to IBI.

On February 27, 2009, the SEC approved the increase in the authorized capital stock of IBI. With such approval, the SEC likewise approved the transfer of the Domestic IP Rights by the Parent Company to IBI in exchange for 100,000,000 shares in IBI. The said shares were issued to the Parent Company under a tax-free asset-for-share agreement, as confirmed by the BIR in its certification No. SN-405-2008.

On April 29, 2009, the Parent Company sold its 100% interest in IBI to SMB for a total purchase price of P32,000. Following such sale, IBI became a wholly-owned subsidiary of SMB.

d. BPI

On December 8, 2008, the BOD of the Parent Company approved the transfer of certain parcels of land used in the domestic beer operations to a wholly-owned subsidiary, in exchange for shares of stock.

On December 16, 2008, the Parent Company formed BPI, a wholly-owned subsidiary, with an authorized capital stock of P1. BPI was incorporated primarily to own, use, improve, develop, sell, exchange, lease and hold investment or otherwise, real estate of all kinds, including buildings and other structures.

On January 27, 2009, the BOD of the Parent Company approved the sale of certain parcels of land used in the domestic beer operations, partly to BLI, a wholly-owned subsidiary of San Miguel Brewery Inc. Retirement Plan (SMBRP) at P239, and the rest to SMB, through the sale of all its interests in BPI, the company to which the rest of such parcels of land will be transferred at the purchase price of P6,829, corresponding to the appraised value of the land transferred by the Parent Company to BPI.

On the same date, SMB's BOD likewise approved the purchase of all of SMC's interests in BPI after: (i) SMC has transferred certain parcels of land used in the domestic beer operations to BPI in exchange for common shares: and (ii) SMBRP has transferred its shares in BLI to BPI in exchange for preferred shares. The acquisition will be financed using part of the proceeds of the bond offering of SMB.

The sale by the Parent Company of its interests in BPI to SMB will be implemented after obtaining all the required approvals from the appropriate regulatory agencies.

On January 28, 2009, the BOD of BPI approved the increase in the par value of its common shares from P100.00 to P350.00 per share and the increase in its authorized capital stock from P1 divided into 10,000 shares with a par value of P100.00 per share to P800 divided into 2,400,000 preferred shares and 1,600,000 common shares with a par value of P100.00 and P350.00 per share, respectively. To fund the increase in BPI's authorized capital stock, SMC transferred certain parcels of land used in the domestic beer business of SMB to BPI in exchange for 1,592,281 common shares, out of its existing unissued capital stock and the increase in its authorized capital stock, and SMBRP transferred its 2,389,494 common shares (with a par value of P100.00 per share) in BLI as payment for its subscription to 2,389,494 preferred shares of BPI (with a par value of P100.00 per share).

On February 25, 2009, the Parent Company sold certain parcels of land to BLI for a total consideration of P239 and recognized a gain of P232.

On September 10, 2009, the SEC approved the increase in the par value of BPI's common shares and the increase in its authorized capital stock. With such approval, the transfer of: (i) the certain parcels of land (used in the domestic beer business of SMB) of the Parent Company to BPI in exchange for additional common shares from the existing unissued authorized capital stock of BPI and increase in authorized capital stock: and (ii) the common shares of SMBRP in BLI to BPI as payment for SMBRP's subscription to BPI preferred shares were also approved by the SEC. The transfer was under a tax-free asset-for-share agreement, as confirmed by the BIR in its certification No. SN-121-2009. Following the approval, BLI became a subsidiary of BPI.

BLI and BPI started commercial operations on February 25, 2009 and September 10, 2009, respectively.

e. Packaging Businesses

On April 12, 2007, the BOD approved the sale of up to 40% of the Parent Company's interests in its domestic packaging businesses under SMPSI and in its regional packaging businesses under SMPIL.

On April 27, 2007, the Parent Company executed the SMPSI Stock Purchase Agreement (SMPSI SPA) with Nihon Yamamura Glass Co., Ltd. (NYG), a leading Japanese manufacturer of glass and plastics packaging, for the sale of the Parent Company's 35% stake in its domestic packaging businesses, subject to the completion of the closing terms and conditions under the SMPSI SPA. On the same date, the Parent Company and its wholly-owned foreign subsidiary, SMHL, also executed the SMPIL Stock Purchase Agreement (SMPIL SPA) with NYG for the sale of SMHL's 35% stake in its regional packaging businesses, subject to the completion of the closing terms and conditions under the SMPIL SPA.

On November 16, 2007, the Parent Company and NYG entered into the SMPSI Shareholder's Agreement and, together with SMHL, also entered into the SMPIL Shareholder's Agreement, in compliance with the requirements of the SMPSI SPA and the SMPIL SPA. The shareholders' agreements provide the terms and conditions that govern the relationship among the Parent Company, SMHL and NYG as shareholders.

Also on the same date, the authorized capital stock of SMPIL was increased from US$0.001 to US$100. And pursuant to a written resolution of the BOD of SMPIL dated November 23, 2007, SMPIL approved, among others, the conversion of SMHL's shareholder advances in the amount of US$64.3 into 64,281,176 fully paid shares in SMPIL.

On December 18, 2007, the Parent Company entered into several deeds of assignment with SMPSI for the following assignments by the Parent Company in favor of SMPSI: (i) its receivables of P187.5 as full payment of the Parent Company's incorporation subscription payables; (ii) its receivables of P6,083 as full payment of the Parent Company's additional subscription of 5,294,180 SMPSI shares; (iii) effective January 1, 2008, its 60% equity in SYFMC with an aggregate book value of P68 as full payment of the Parent Company's additional subscription of 58,977 SMPSI shares; and (iv) certain fixed assets with an aggregate carrying value of P123 as full payment of the Parent Company's additional subscription of 106,627 SMPSI shares, subject to the approval by the SEC of SMPSI's applications for confirmation of valuation in respect of the issuances of shares from its existing unissued capital stock and the increase in its authorized capital stock.

On January 21, 2008, the SEC approved the increase in the authorized capital stock of SMPSI from P10,000 divided into 10,000,000 shares to P11,000 divided into 11,000,000 shares with the same par value of P1,000 each and the valuation of the assets assigned by the Parent Company in favor of SMPSI as consideration for the issuance by SMPSI of shares from its existing unissued capital stock.

On January 30, 2008, effective on the closing of the SMPSI SPA on January 31, 2008, the Parent Company and NYG entered into a deed of assignment of shares of stock pursuant to which the Parent Company assigned, transferred and ceded all its rights, interest and/or title over the Parent Company's 3,756,501 shares in SMPSI for P4,317. On the same date, and effective on the closing of the SMPIL SPA on January 31, 2008, SMHL and NYG entered into a deed of assignment of shares of stock pursuant to which SMHL assigned, transferred and ceded all its rights, interest and/or title over SMHL's 20,726,119 shares in SMPIL for US$21.

Also on January 30, 2008, effective on the closing of the SMPSI SPA on January 31, 2008, SMPSI and NYG entered into a deed of assignment of shares pursuant to which NYG assigned its 20% stake in SYFMC with an aggregate book value of P23 as full payment for its subscription of 19,659 SMPSI shares. On March 14, 2008, the SEC approved the valuation of NYG's shares in SYFMC. The relevant Certificate of Approval of Valuation was amended on April 23, 2008 to rectify the typographical error in the corporate name of SMPSI from "San Miguel Packaging Specialist, Inc." to "San Miguel Packaging Specialists, Inc."

On the closing of the SMPSI SPA and the SMPIL SPA both on January 31, 2008, the Parent Company and SMHL received P3,691 and US$17, respectively, from NYG. The Group recognized a gain of P154 from the sale of 35% interest in SMPSI and SMPIL.

In connection with the sale, SMPSI changed its corporate name to "San Miguel Yamamura Packaging Corporation" as approved by the SEC on June 4, 2008. In addition, the BOD of SMPIL likewise approved the change in the corporate name of SMPIL to "San Miguel Yamamura Packaging International Limited" on January 3, 2008, and such change became effective on June 11, 2008.

f. JHK Investments

On December 3, 2009, SMYPIL's BOD approved the increase in the authorized capital stock of SMYPIL from US$100 to US$120. The proposed increase in capital stock would cover the additional capital to be issued by SMYPIL to finance the acquisition of JHK Investments and its subsidiaries.

On December 14, 2009, an amendment to the Articles of Association increasing SMYPIL's authorized capital from US$100 to US$120 was filed with the Registrar of Corporate Affairs of BVI.

Subsequently, while maintaining their respective ownership interests, SMHL and NYG made additional investments in SMYPIL amounting to US$23.6 and US$12.7, respectively.

On December 17, 2009, the Parent Company through its offshore subsidiary, SMYPIL, acquired from James Huntly Knox 60,705,521 shares in JHK Investments, the parent company of the Cospak Group, for up to a maximum amount of Australian Dollar A$34.65 (US$31.64). SMYPIL paid A$24.74 (US$22.59) for the shares. The balance of the purchase price in the amount of A$9.91 (US$9.05) will be paid by SMYPIL through an earn-out scheme based on the attainment by JHK Investments of an agreed Earnings Before Interests, Taxes, Depreciation and Amortization (EBITDA) for the period ended December 31, 2009 and for the six months period ending June 30, 2010.

On the same date, SMYPIL also subscribed to an additional 12,269,939 shares in JHK Investments for A$5 (US$4.57).

SMYPIL owns an aggregate of 65% of the outstanding shares of JHK Investments.

In February 2010, JHK Investments was renamed "San Miguel Yamamura Knox Pty. Ltd."

The following summarizes the major classes of consideration transferred, and the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

Cash	US$27.16
Contingent consideration	9.05
	US$36.21

Contingent Consideration
As disclosed above, the contingent consideration will be paid through an earn-out scheme based on the attainment by JHK Investments of an agreed EBITDA for certain periods. As of the date of acquisition, the SMYPIL believes that it is probable that JHK Investments will achieve the agreed EBITDA.

Identifiable assets acquired and liabilities assumed as a result of acquisition are disclosed in Note 33.

g. SMPPC and Mincorr

On April 17, 2009, the Parent Company acquired Rengo Co. Ltd.'s 30% and 20% stake in SMPPC (then SMRPC) and Mincorr, respectively, for a total purchase price of P250. Subsequently, on April 29, 2009, the Parent Company acquired all the interests of Macondray Fibreboard Corporation in Mincorr for P27.1.

The acquisitions of the said interests by the Parent Company resulted in SMPPC and Mincorr becoming wholly-owned subsidiaries of the Parent Company in 2009.

SMRPC was renamed "San Miguel Paper Packaging Corporation", as approved by the SEC on September 3, 2009.

h. Highbreed Livestock Corporation (HLC)

In April 2009, MFC, a majority-owned subsidiary of SMPFC, acquired the subscription rights of certain individuals in HLC, a Philippine company engaged in livestock farming, processing, selling meat products (mainly pork and beef) and leasing of properties. As such, HLC became a subsidiary of MFC and was consolidated into SMPFC through MFC. On June 22, 2009, the respective BOD and stockholders of MFC and HLC approved the merger of HLC into MFC, with MFC as the surviving corporation. The consideration of the assignment of the subscription, net of the effect of the merger, amounted to P6.25. The SEC approved the merger on October 22, 2009. The BIR confirmed the tax-free merger of HLC into MFC in its certification No. S40-052-2009.

i. SMFI

On May 1, 2009, the Parent Company ceased the operations of Centralized Key Accounts Group and transferred its receivables, inventories and fixed assets to SMFI for a total consideration of P2,353.

j. SMMI

Pursuant to the Deed of Assignment executed by SMFI and SMMI in 2005 transferring certain assets and liabilities of SMFI's Flour Division at historical book value of P1,646 in exchange for SMMI's shares to be effective January 1, 2006, and the SEC's approval of such transfer and SMMI's increase in its authorized capital stock on March 27, 2007, SMMI issued to SMFI 16,454,816 of its common shares on April 10, 2007 in exchange for the transfer of said assets and liabilities. SMFI subsequently declared as property dividend its shares in SMMI in favor of the Parent Company.

In January 2008, the Parent Company executed a Deed of Assignment assigning its 16,454,816 shares in SMMI to SMPFC effective December 28, 2007. Following the Parent Company's transfer of its interest, SMFI became a wholly-owned subsidiary of SMPFC.

As of April 14, 2010, the declaration of the SMFI's shares in SMMI as property dividend in favor of the Parent Company is still pending issuance of a certificate of filing of property dividend declaration by SEC.

k. RealSnacks

As of December 31, 2009, RealSnacks has not yet started commercial operations.

l. SMPI

In 2009, SMPI executed the Deed of Absolute Sale completing the purchase of all the interests of certain individuals in Maison 17 Properties, Inc. (MPI) for a total purchase price of P311, including related taxes. SMPI fully paid the balance of the purchase price for the acquisition of shares of stock of MPI amounting to P157 (net of P154 advanced in 2008). As a result, MPI became a wholly-owned subsidiary of SMPI.

In 2009, SMPI acquired certain parcels of land at Boracay Island, Barangay Yapak, Malay, Aklan, with a total area of about 35,515 square meters, for a total consideration of P269.

In January 2009, SMPI acquired certain parcels of land located in Cauayan, Isabela (the Cauayan Property) for a total consideration of P128. The Cauayan Property has a total lot area of about 80,346 square meters.

Certain subsidiaries of SMPI acquired several parcels of land located in Metro Manila in 2009 and in Palawan in 2008 for a total consideration of P324 and P91, respectively.

m. Panasia

On September 11, 2009, the Power Sector Assets and Liabilities Management Corporation (PSALM) issued the Notice of Award to San Miguel Energy Corporation (SMEC) as the winning buyer of the 620 MW Limay Combined Cycle Power Plant (the "Limay Power Plant"). SMEC and PSALM entered into the Asset Purchase Agreement and Land Lease Agreement (collectively, the "Limay Agreements") with Effective Date of September 18, 2009.

On November 3, 2009, as part of the corporate restructuring of the Parent Company's power and energy business cluster, Panasia became a direct wholly-owned subsidiary of the Parent Company as a result of SMEC's sale of its 100% equity ownership interest in Panasia in favor of the Parent Company for P2.5. On November 13, 2009, SMEC and Panasia entered into an Assignment Agreement with Assumption of Obligations, wherein Panasia assumed all the rights and obligations of SMEC under the Limay Agreements subject to the written consent of PSALM to such assignment. PSALM's consent to the assignment was secured by SMEC and Panasia, as set out in the Amendment, Accession and Assumption Agreement executed by the parties on January 11, 2010.

On January 18, 2010, the physical possession of the Limay Power Plant was turned over and transferred to Panasia. Panasia started operations of the Limay Power Plant on February 16, 2010.

n. Kaliwa

On November 6, 2009, the Parent Company's wholly-owned subsidiary SMBW, incorporated Kaliwa with an authorized capital stock of P1. Kaliwa's primary purpose is to construct, maintain, and operate dams, reservoirs, conduits, aqueducts, tunnels, conveyance water lines, hydropower stations, water treatment plants, water mains, pipes, pumping stations, storage facilities, off-take facilities, machineries, equipment, facilities and other waterworks necessary or required for the storage, treatment and supply of potable water in areas such as, but not limited to, the Kaliwa River Basin; to develop physical infrastructure and other amenities such as roads, water supply, drainage systems and sewerage facilities; and to purchase, acquire or lease property, machinery, equipment and operating facilities for the pursuit of the aforesaid objectives. Kaliwa has not yet started commercial operations as of April 14, 2010.

o. SPDC

Following the December 15, 2009 bidding conducted by PSALM for the Appointment of the IPP Administrator for the Contracted Capacity of the 345 MW San Roque Multi-Purpose Hydroelectric Power Plant located at Barangay San Roque, San Miguel, Pangasinan (the "San Roque Power Plant"), PSALM issued on December 28, 2009 the Notice of Award to SPDC as the winning bidder thereof. As of January 26, 2010, SPDC assumed the administration of the Contracted Capacity of the San Roque Power Plant in accordance with the provisions of the IPP Administration Agreement for the Contracted Capacity of the San Roque Power Plant with Execution Date of December 29, 2009.

On February 11, 2010, SPDC's BOD approved the following: (i) subscription by the Parent Company and Global 5000 Investment Inc. (Global) of 1,500 and 6,000 shares, respectively, of SPDC's remaining unissued capital stock; and (ii) increase in the authorized capital stock of SPDC from P1 divided into 10,000 shares with par value of P100.00 per share to P100 divided into 1,000,000 shares with par value of P100.00 per share, with the Parent Company and Global subscribing to 396,000 and 594,000 shares of SPDC, respectively, out of the increase in the authorized capital stock, at P100.00 per share. The aforementioned increase in the authorized capital stock of SPDC was likewise approved by the stockholders of SPDC in a meeting held on the same date. The application for the increase in authorized capital stock of SPDC is yet to be filed with the SEC as of April 14, 2010.

On March 15, 2010, the Parent Company and Global executed the Subscription Agreement setting forth their aforementioned subscription of the remaining unissued capital stock of SPDC. On March 19, 2010, the Parent Company paid in full its remaining unpaid subscription to the 2,495 common shares of stock in SPDC amounting to P0.1875.

With the new subscription, Global owns an aggregate of 60% equity ownership interest in SPDC, while the Parent Company retains an aggregate of 40% equity ownership interest in SPDC.

p. Northlink

Northlink was incorporated on December 15, 2009, with an authorized capital stock of P1 divided into 1,000,000 shares with the par value of P1.00 per share. Northlink is a joint venture company formed by the Parent Company and Star Tollway Corporation (STC), under a 60-40 equity arrangement. The Parent Company and STC have subscribed to 149,997 and 99,998 shares of stock of Northlink, respectively.

q. SMBI

On November 1, 2008, GSMI entered into an Asset Purchase Agreement with SMBI for the purchase of SMBI's assets at net book value totaling P1,039, subject to adjustments as may be warranted by circumstances transpiring prior to closing date and which affect the value of the assets. Twenty-five percent (25%) of the purchase price was settled upon execution of the agreement, and thereafter the remaining balance shall be payable in six (6) equal monthly installments. On December 8, 2008, GSMI also entered into a service agreement with SMBI whereby the latter rendered various services to GSMI related to the production, promotion, sale and distribution of non-alcoholic beverages products as well as the operation of beverage assets. In consideration of the services rendered by SMBI, GSMI paid a monthly service fee in the amount of P21. The term of the agreement is for six (6) months commencing on November 1, 2008 and expired on April 30, 2009.

On December 31, 2008, the closing date of the transaction, the purchase price was adjusted to P1,117.

r. SMDCi

On December 31, 2009, SMDCi ceased its commercial operations.

s. SMKFSI

On July 3, 2008, the Parent Company, the Kuok Group and the Philippine government, acting through several agencies, signed a Memorandum of Understanding on the Philippine Food Security Program (MOU) for the development and cultivation of up to one (1) million hectares of land for the purpose of producing basic food staples. Under the MOU, the Philippine government will identify and make available for cultivation or food production suitable tracts of land under its control, possession or ownership. In turn, the Parent Company and Kuok Group will, after conducting an evaluation and review of the suitability of the identified tracts of land, provide financing, technical support and management for agricultural crop production determined to be suitable for the identified areas, which will include, but will not be limited to, irrigation, access roads, post-harvest investments, and ready market for the agricultural produce.

On September 2008, SMKFSI was incorporated with the primary purpose to develop a sustainable food security program for the Philippines by harnessing idle lands of the government and private parties for the production of rice, corn, cassava, banana and other commercial agricultural products. The Parent Company intends to use SMKFSI as the corporate vehicle for the implementation of the project described in the MOU.

SMKFSI is currently undertaking site suitability assessments, feasibility studies and planning activities for prospective project areas in the Philippines. Land use arrangements are being worked out with the concerned government agencies.

Investments in Shares of Stock of Associates and Advances to Associates and Other Investments

Investments in shares of stock and advances to associates and other investments consist of:

	Note	**2009**	2008
Investments in associates - at equity:			
Acquisition cost			
Balance at beginning of year		**P32,826**	P232
Additions		**6,794**	32,594
Transferred to assets held for sale	*6*	**(3,159)**	-
		36,461	32,826
Accumulated equity in net earnings (losses):			
Balance at beginning of year		**(1,163)**	(12)
Equity in net earnings (losses) during the year		**2,816**	(1,132)
Share in comprehensive gains (losses)		**252**	(19)
Impairment loss and others	*27*	**(178)**	-
Dividends		**(752)**	-
Accumulated equity on investments transferred to assets held for sale	*6*	**413**	-
Balance at end of year		**1,388**	(1,163)
		37,849	31,663
Advances		**1,156**	-
AFS financial assets	*35, 36*	**351**	590
		P39,356	P32,253

The carrying values of investments in shares of stock of associates are as follows:

		2009		2008	
	Country of Incorporation	**Percentage of Ownership**	**Amount**	Percentage of Ownership	Amount
Manila Electric Company (Meralco)	Philippines	**27.00**	**P32,029**	27.00	P30,971
BOC	Philippines	**31.23**	**-**	30.00	465
Northpine Land, Inc.	Philippines	**20.00**	**237**	20.00	227
SMEC	Philippines	**40.00**	**294**	-	-
Liberty Telecoms Holdings, Inc. (LTHI)	Philippines	**32.70**	**3,714**	-	-
Private Infra Dev Corporation (PIDC)	Philippines	**35.00**	**1,575**	-	-
			P37,849		P31,663

Following are the unaudited condensed and combined financial information of the associates:

	2009	2008	2007
Current assets	**P100,853**	P93,633	P1,678
Current liabilities	**140,332**	131,582	889
Noncurrent assets	**297,501**	172,880	8,079
Noncurrent liabilities	**182,838**	82,829	2,808
Revenue	**194,795**	198,577	735
Net income (loss)	**8,262**	(3,493)	515

a. Meralco

On October 27, 2008, the Parent Company entered into a sale and purchase agreement with the Government Service Insurance System (GSIS) to acquire the latter's 300,963,189 shares in Meralco for a total consideration of P27,087 plus an additional fixed term interest of P3,758. On November 10, 2008, the Parent Company paid P5,417 representing downpayment for said shares with the balance payable in three (3) years. The current portion of the Parent Company's outstanding payable as of December 31, 2009 amounted to P6,527 (included under "Accounts payable and accrued expenses" account). The noncurrent portion of P18,148 and P25,428 as of December 31, 2009 and 2008, respectively, is reported as part of "Other noncurrent liabilities" account.

The fair value of the Parent Company's investment in Meralco amounted to P61,396 and P16,553 as of December 31, 2009 and 2008, respectively.

b. BOC

In October 2007, SMPI and SMCRP entered into a subscription agreement pursuant to which SMPI and SMCRP agreed to subscribe, subject to certain terms and conditions, to 10,000,000 unissued and unsubscribed common shares of BOC with an aggregate par value of P1,000 (P100.00 per share) for P2,000 (P200.00 per share), equivalent to 34% of the total outstanding capital stock of BOC, with SMPI and SMCRP holding 30% and 4% equity ownership interest, respectively.

In April 2008, SMPI and SMCRP paid the balance of its payable to BOC for its subscription amounting to P1,500, of which P1,249 and P251 were paid by SMPI and SMCRP, respectively.

In May 2008, SMPI and SMCRP entered into a subscription agreement with BOC for a total of 10,000,000 additional shares in BOC, wherein SMPI subscribed to an additional 3,001,779 shares, from the increase in the authorized capital stock of BOC with an aggregate par value of P300 (P100.00 per share) for P600 (P200.00 per share) to maintain its 30% stake in BOC, while SMCRP increased its holdings in BOC to 21%. As of December 31, 2008, SMPI has made an advance payment of P150 which is presented as part of noncurrent receivables and deposits under "Other noncurrent assets" account (Note 15).

Pursuant to the second subscription agreement for a total consideration of P600, SMPI appropriately applied the advance payment as of December 31, 2008 and fully paid the remaining subscription payable in April 2009 amounting to P150 and P450, respectively. On July 2, 2009, SMPI exercised its pre-emptive right and subscribed an additional 4,001,197 shares (equivalent to 30% ownership interest) for P694. Such subscription was fully settled on August 8, 2009. On August 14, 2009, SMPI subscribed to portion of unexercised pre-emptive rights of certain stockholders acquiring additional 4% interest (equivalent to 596,898 shares) in BOC for P104 thereby increasing equity ownership interest from 30% to 34% starting September 30, 2009. On October 1, 2009, SMPI acquired additional 50,000 shares from existing stockholder of BOC with a selling price of US$4.68 per share or about US$0.234 (equivalent to P11). Also in the same month, the remaining unexercised pre-emptive rights were exercised by other existing stockholders thus, decreasing equity ownership interest from 34% to 31.23%. As of December 31, 2009, SMPI fully paid all of its subscriptions payable to BOC.

BOC is required to meet certain ratios under Bangko Sentral ng Pilipinas (BSP) regulations to manage the risks inherent in the banking business. As of December 31, 2009 and 2008, BOC has complied with the statutory and regulatory capital requirements which were computed based on the regulatory accounting policies that differ from PFRS in some aspects.

Certain accounting policies applied by BOC in the preparation of its financial statements are not in accordance with PFRS. In computing for the equity in net earnings (losses) and comprehensive income (losses) of BOC, SMPI made adjustments to the 2009 and 2008 audited financial statements of BOC to conform BOC's accounting policies with PFRS and make them consistent with the Group's accounting policies. The adjustments made by SMPI relate to the correction of: (a) inadequate reserves on non-performing assets, investment properties and financial assets; and (b) deferral of losses on sale of non-performing loans.

Based on the adjusted account balances of BOC as of December 31, 2009, management determined that the carrying amount of the investment is not fully recoverable thus, an impairment loss on the investment amounting to P163 was recognized and is included in "Other income (charges)" account (Note 27). No impairment loss on the investment was recognized in 2008.

On February 15, 2010, SMPI's BOD authorized the divestment of SMPI's 31.23% interest in BOC. The carrying amount of the investment as of December 31, 2009 amounted to P2,746, representing 16,396,689 common shares (Note 6).

c. SMEC

As a result of the bidding conducted by PSALM on August 28, 2009 for the Appointment of the IPP Administrator for the Contracted Capacity of the Sual 2x500 MW Coal Fired Power Station ("Sual Power Plant"), SMEC was declared the winning bidder thereof as set out in the Notice of Award issued by PSALM on September 1, 2009. As of November 6, 2009, SMEC assumed the administration of the Contracted Capacity of the Sual Power Plant in accordance with the provisions of the IPP Administration Agreement for the Contracted Capacity of the Sual Power Plant with Execution Date of September 8, 2009.

On October 26, 2009, SMEC's BOD approved the following: (i) subscription by the Parent Company and Global of 15,000 and 60,000 shares, respectively, of SMEC's remaining unissued capital stock; and (ii) increase in the authorized capital stock of SMEC from P10 divided into 100,000 shares with par value of P100.00 per share to P300 divided into 3,000,000 shares with par value of P100.00 per share, with the Parent Company and Global subscribing to 1,160,000 and 1,740,000 shares of SMEC, respectively, out of the increase in the authorized capital stock, at P100.00 per share. The aforementioned increase in the authorized capital stock of SMEC was likewise approved by the stockholders of SMEC in a meeting held on the same date. The application for the increase in authorized capital stock of SMEC is yet to be filed with the SEC as of April 14, 2010.

The Parent Company, on November 16, 2009, and Global, on November 17, 2009, executed the Subscription Agreement setting forth their aforementioned subscription of the remaining unissued capital stock of SMEC. On November 26, 2009, the Parent Company paid in full its remaining unpaid subscription to the 24,995 common shares of stock in SMEC amounting to P1.835.

With the new subscription, Global owns an aggregate of 60% equity ownership interest in SMEC, while the Parent Company retains an aggregate of 40% equity ownership interest in SMEC.

d. LTHI

On July 8, 2009, Vega, a wholly-owned subsidiary of the Parent Company, acquired 579,111,669 common shares (approximately 32.7% of the outstanding capital stock) of LTHI from LTHI's existing stockholders for a total consideration of P2,041.

On July 21, 2009, Vega entered into a subscription agreement with LTHI for the subscription of 587,951,737 voting, nonredeemable and participating preferred shares of LTHI at an issue price of P3.00 per share or approximately P1,764. As of December 31, 2009, Vega paid P735 as deposit for the subscription.

On January 5, 2010, Vega paid P588 as additional deposit for the subscription of LTHI's preferred shares.

The preferred shares will be issued from the increase in the authorized capital stock of LTHI. The application for the increase in the authorized capital stock of LTHI was approved by the SEC on January 18, 2010.

On April 8, 2010, Vega paid the remaining subscription payable on LTHI's preferred shares amounting to P441.

The fair value of the Group's capital stock investment in LTHI amounted to P1,564 as of December 31, 2009.

e. PIDC

On September 11, 2009, Rapid, a wholly-owned subsidiary of the Parent Company, acquired 35% stake in PIDC, a consortium of construction companies behind the Tarlac-Pangasinan-La Union Expressway Project. Rapid subscribed to 1,575,000 common shares of PIDC amounting to P1,575 and paid a portion of the subscription price amounting to P561 on September 11, 2009.

f. KSA Realty Corporation (KSA)

On December 14, 2007, the Parent Company through SMPI entered into a Share Purchase Agreement to sell its 354,862 common shares (equivalent to 29.38% ownership) in KSA with carrying amount equivalent to its acquisition cost plus accumulated equity in net earnings of P468 to Shang Properties, Inc. for a total consideration of P1,812. The Group recognized a gain of P1,182, net of capital gains tax of P162. The transaction was completed on January 14, 2008.

g. NutriAsia Pacific San Miguel Holdings Ltd. (NSMH)

In April 2007, the Parent Company, through San Miguel Foods Asia Limited (SMFAL), entered into a Share Purchase Agreement with Well Grounded Limited for the sale of SMFAL's 42.22% equity and other interest in NSMH for US$150. NSMH is the holding company of Nutri Asia Pacific Limited, which in turn is the parent company of Del Monte Pacific Ltd. The amount of US$130 was received on April 25, 2007 as partial payment for the transaction. The balance of US$20 shall be subject to interest of 7.2% per annum. The principal amount and all interest accrued were paid on April 24, 2009. The Group recognized a gain from the said transaction amounting to US$46 (P2,149).

h. Thai San Miguel Liquor Co. Ltd. (TSML) and Thai Ginebra Trading Co. Ltd. (TGT)

On August 27, 2008 and September 11, 2008, GSMI incorporated Global Beverage Holdings, Limited (GBHL) and Siam Holdings Limited (SHL), respectively, as wholly-owned subsidiaries. GSMI subscribed to 1,000 shares of GBHL at par value of US$1.00 per share for a total subscription value of US$0.001 (P0.05) and 1,000 shares of SHL at par value of US$1.00 per share for a total subscription value of US$0.001 (P0.05). Both entities are established as holding companies for the acquisition of additional investment in TSML and TGT, both a joint venture by GSMI with Thai Life Group of Companies.

On October 14, 2008, GSMI, through SHL, acquired 24,500 shares representing 49% ownership of the outstanding shares of Siam Wine and Liquor Limited (SWL), a limited company organized under the laws of Thailand, for Thailand Baht THB2 (P3). On the same date, SWL acquired 1,000,000 shares representing 10% ownership of the outstanding capital stock of TSML for THB106.48 (P148). SHL's share on the share purchase is THB52.2 (P72) for 490,000 shares at THB108.68 per share representing 4.9% ownership. Accordingly, GSMI group's share in TSML increased from 40% to 44.9%.

On October 14, 2008, GSMI advanced a total amount of US$3 (P147) to GBHL. On October 10, 2008, GBHL ("Lender") entered into a loan agreement with SWL ("Borrower") for the same amount, to finance the latter's working capital requirements and purchase of additional shares in TSML and TGT.

On March 6, 2009, the BOD of TSML approved the increase in the capital stock of TSML from THB1,000 to THB1,250. On the same date, GSMIL, a wholly-owned subsidiary of GSMI, subscribed to 40% of the said increase for a total subscription price of THB100 (P134.6) to maintain its 40% stake in TSML. On March 9, 2009, GSMIL remitted to TSML THB60 (P81.5), representing 60% of the subscription price as deposit for future stock subscription.

On March 6, 2009, SWL subscribed to 10% of the increase in capital stock of TSML for a total of THB25 (P33.6) to retain its 10% stake in TSML. On March 9, 2009, SWL remitted to TSML THB15 (P20.2) representing 60% of the subscription as deposit for future stock subscription. With the subscriptions of GSMIL and SWL in TSML, the GSMI group's interest in TSML remained at 44.9%.

On December 11, 2009, GSMIL and SWL remitted to TSML THB40 (P57.3) and THB10 (P14.2), respectively, representing 40% of the subscription in the increase in the capital stock of TSML on March 6, 2009. The payment made by SWL was financed by the proceeds of the loan agreement dated December 11, 2009 entered into by SHL and SWL in the amount of THB10 (P14.2).

On February 25, 2010, GSMIL acquired additional shares to retain the 40% ownership of the outstanding shares of TSML for THB40 (P56). On the same date, SHL ("Lender") entered into a loan agreement with SWL ("Borrower") for THB10 to purchase additional shares in TSML.

Presented below is the Group's share in the assets, liabilities, income and expenses of the joint venture as of and for the years ended December 31, 2009, 2008 and 2007 of TSML which is included in the Group's consolidated financial statements:

	2009	2008	2007
Current assets	**P556**	P459	P323
Noncurrent assets	**896**	911	843
Current liabilities	**409**	288	86
Noncurrent liabilites	**416**	526	526
Revenue	**474**	402	-
Cost of sales	**397**	398	-
Operating expenses	**136**	70	34
Other income	**1**	1	1
Net loss	**58**	65	33

The Group's share in the cash flows of TSML for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Net cash flows provided by (used in) operating activities	**(P69)**	P88	(P62)
Net cash flows provided by (used in) investing activities	**17**	(70)	(483)
Net cash flows provided by (used in) financing activities	**(111)**	(20)	536

On October 14, 2008, SWL acquired 5,000 shares representing 10% ownership of the outstanding capital stock of TGT for THB0.5 (P0.7). SHL's share on the share purchase is THB0.2 (P0.3) for 2,450 shares at THB100.00 per share representing 4.9% ownership. Accordingly, the GSMI group's share in TGT increased from 40% to 44.9%.

Presented below is the Group's share in the assets, liabilities, income and expenses of the joint venture as of and for the years ended December 31, 2009 and 2008 of TGT which is included in the Group's consolidated financial statements:

	2009	2008	2007
Current assets	**P102**	P142	P3
Noncurrent assets	**30**	44	1
Current liabilities	**237**	219	2
Noncurrent liabilities	**16**	29	-
Revenue	**228**	153	-
Cost of sales	**206**	121	-
Operating expenses	**80**	92	2
Other income	**2**	1	-
Net loss	**56**	59	2

The Group's share in the cash flows of TGT for the periods ended December 31, 2009 and 2008 is as follows:

	2009	2008	2007
Net cash flows provided by (used in) operating activities	**P1**	P18	(P7)
Net cash flows provided by (used in) investing activities	**14**	(43)	(1)
Net cash flows provided by (used in) financing activities	**(13)**	29	-

TSML and TGT both started commercial operations in March 2008.

i. SMPI Advances

In 2009, SMPI provided US dollar-denominated non-interest bearing cash advances to Primeria Commercio Holdings, Inc. (PCHI), a future investee of SMPI, amounting to US$17 (P794) as of December 31, 2009. These advances will be applied against future subscriptions of SMPI to the shares of stock of PCHI.

In June 2009, SMPI entered into a Joint Venture Agreement (JVA) with certain individuals and corporations (collectively referred to as Co-Venturer) to transfer title of the properties and develop and later operate the properties into a mixed commercial and residential estate. On July 28, 2009, as part of the terms of the JVA, Integrated Geosolutions Inc. (IGI) was incorporated with an authorized capital stock of P1,000 divided into 1,000,000,000 common shares with a par value of P1.00 per share. On the same date, the Co-Venturer subscribed to 600,000,000 common shares of IGI for P600.

Pursuant to the terms and conditions of the JVA, SMPI made cash advances in favor of the Co-Venturer amounting to P311 as of December 31, 2009. Under a Deed of Assignment, such advances will be applied as payment for SMPI's subscription to sufficient number of IGI shares of stock to give SMPI a 51% ownership interest, pending its execution.

On October 31, 2007, SMPI entered into a JVA with the GSIS to establish a Joint Venture Corporation (JVC). The JVC will hold ownership to the real property owned by GSIS, develop the property into a first class high-rise service apartment and manage and operate the same. The JVC will have an authorized capital stock of P600 divided into 600,000,000 shares with a par value of P1.00 per share. The parties agreed to an equal equity participation wherein the real estate property owned by GSIS is valued at P300 while SMPI has committed to contribute P300 to the JVC. On October 23, 2008, SMPI-GSIS JVC was incorporated.

Under the JVA, SMPI grants GSIS the option to sell to SMPI all the shares of stock of the JVC issued in the name of GSIS and its nominees under certain terms and conditions. As of December 31, 2009, SMPI has made unsecured non-interest bearing cash advances to the JVC amounting to P51. The JVC has not yet started commercial operations as of April 14, 2010. SMPI is yet to complete its subscription to the JVC's shares of stock with the assignment of its investment in MPI as part of the consideration.

j. Philippine Nutrition Technologies, Inc. (PNTI)

In 2007, SMPFC provided full allowance for the impairment in value of its investment in PNTI, a joint venture between SMPFC and the Great Wall Group of Taiwan. Application with the SEC for the dissolution of PNTI, through shortening of its corporate term, which was approved by the BOD and stockholders of PNTI in August 2005, will be filed by SMPFC following the receipt on February 4, 2010 of the tax clearance from the BIR and the completion of other SEC requirements necessary for such filing.

k. AFS financial assets pertain to various investments in shares of stock carried at fair value.

11. Property, Plant and Equipment

Property, plant and equipment consist of:

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Tools and Small Equipment	Office Equipment, Furniture and Fixtures	Molds	Leasehold Improvements	Construction in Progress	Total
Cost:										
December 31, 2007	P8,881	P21,214	P68,696	P2,701	P1,932	P2,451	P395	P825	P7,461	P114,556
Additions	350	1,234	5,143	406	115	97	140	24	(1,072)	6,437
Disposals/reclassifications	(187)	(50)	(7)	(226)	(282)	(4)	(17)	(9)	(1,623)	(2,405)
Currency translation adjustments	145	1,575	3,513	39	89	62	9	-	613	6,045
December 31, 2008	9,189	23,973	77,345	2,920	1,854	2,606	527	840	5,379	124,633
Additions	424	897	2,766	729	210	126	144	115	838	6,249
Disposals/reclassifications	977	(245)	(781)	(349)	315	(190)	(17)	(35)	(513)	(838)
Currency translation adjustments	37	(219)	(439)	5	(25)	-	3	1	(30)	(667)
December 31, 2009	**10,627**	**24,406**	**78,891**	**3,305**	**2,354**	**2,542**	**657**	**921**	**5,674**	**129,377**
Accumulated depreciation and amortization:										
December 31, 2007	1,074	5,279	33,977	1,888	1,559	2,005	288	309	-	46,379
Additions	90	663	3,511	231	121	169	108	40	-	4,933
Disposals/reclassifications	(124)	(97)	(704)	(122)	(249)	(57)	1	(15)	-	(1,367)
Currency translation adjustments	14	354	1,292	30	79	40	6	-	-	1,815
December 31, 2008	1,054	6,199	38,076	2,027	1,510	2,157	403	334	-	51,760
Additions	83	721	3,696	226	139	182	161	46	-	5,254
Disposals/reclassifications	7	(132)	(732)	(270)	42	(166)	(55)	(9)	-	(1,315)
Currency translation adjustments	10	(57)	(156)	4	(23)	5	2	1	-	(214)
December 31, 2009	**1,154**	**6,731**	**40,884**	**1,987**	**1,668**	**2,178**	**511**	**372**	-	**55,485**

Forward

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Tools and Small Equipment	Office Equipment, Furniture and Fixtures	Molds	Leasehold Improvements	Construction in Progress	Total
Accumulated impairment losses:										
December 31, 2007	P -	P918	P2,884	P1	P11	P6	P2	P -	P -	P3,822
Disposals/reclassifications	-	-	(46)	-	(3)	8	-	-	-	(41)
Currency translation adjustments	-	172	604	-	2	1	-	-	-	779
December 31, 2008	-	1,090	3,442	1	10	15	2	-	-	4,560
Additions	208	1,571	1,852	6	3	6	-	-	-	3,646
Disposals/reclassifications	-	(280)	210	-	-	(1)	-	-	-	(71)
Currency translation adjustments	-	(68)	(94)	(1)	-	-	1	-	-	(162)
December 31, 2009	**208**	**2,313**	**5,410**	**6**	**13**	**20**	**3**	**-**	**-**	**7,973**
Net book value:										
December 31, 2008	P8,135	P16,684	P35,827	P892	P334	P434	P122	P506	P5,379	P68,313
December 31, 2009	**P9,265**	**P15,362**	**P32,597**	**P1,312**	**P673**	**P344**	**P143**	**P549**	**P5,674**	**P65,919**

Depreciation, amortization and impairment losses charged to operations amounted to P8,900, P4,933 and P7,824 in 2009, 2008 and 2007, respectively. Of the said amounts, P1,659 in 2007 was presented as part of discontinued operations and P1,461 was presented as part of loss on impairment of property, plant and equipment and idle assets under "Other income (charges)" account in 2007 (Notes 6, 23 and 27). These amounts include annual amortizations of capitalized interest amounting to P2, P2 and P23 in 2009, 2008 and 2007, respectively. No interest was capitalized in 2009 and 2008.

In 2008, the Group, through SMPI, sold its parcel of land, including improvements located along Aurora Boulevard, Quezon City for a total consideration of P1,616. The gain recognized by the Group relating to the sale amounting to P1,562, is presented as part of "Gain on sale of investments and property and equipment".

Land and land improvements include a 144-hectare property in Bukidnon, acquired by SMFI in 2002, which later became the subject of a petition for revocation of conversion order filed by MAPALAD, a group of Sumilao farmers, with the Department of Agrarian Reform (DAR), and appealed to the Office of the President (OP). Total acquisition and development costs included in the account as of December 31, 2008 amounted to P37.

To settle the land dispute, a Memorandum of Agreement (MOA) was executed between SMFI, MAPALAD, OP and DAR on March 29, 2008. The MOA provided for the release of a 50-hectare portion of the property to qualified farmer-beneficiaries, and the transfer of additional 94 hectares outside of the property to be negotiated with other Sumilao landowners. Under the MOA, SMFI shall retain ownership and title to the remaining portion of the property for the completion and pursuit of the hog farm expansion. Implementation of the MOA provisions is ongoing.

The cost of farm improvements, buildings, machinery and equipment and construction in progress incurred for Monterey's hog farm expansion project situated in Sumilao amounted to P676 and P481 in 2009 and 2008, respectively.

12. Investment Properties

The movements in investment properties, including the effects of currency translation adjustments are as follows:

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Tools and Small Equipment	Total
Cost:					
December 31, 2007	P1,591	P537	P633	P9	P2,770
Additions/reclassifications	59	64	380	-	503
Disposals	(12)	(15)	-	-	(27)
Currency translation adjustments	127	85	-	-	212
December 31, 2008	1,765	671	1,013	9	3,458
Additions/reclassifications	71	7	-	-	78
Disposals	(2)	(38)	-	-	(40)
Currency translation adjustments	7	(11)	-	-	(4)
December 31, 2009	**1,841**	**629**	**1,013**	**9**	**3,492**
Accumulated depreciation:					
December 31, 2007	56	143	541	9	749
Additions	7	13	7	-	27
Disposals/reclassifications	23	33	353	-	409
Currency translation adjustments	(13)	33	-	-	20
December 31, 2008	73	222	901	9	1,205
Additions	8	11	15	-	34
Disposals/reclassifications	-	(7)	-	-	(7)
Currency translation adjustments	-	(3)	-	-	(3)
December 31, 2009	**81**	**223**	**916**	**9**	**1,229**
Accumulated impairment losses:					
December 31, 2007	335	38	-	-	373
Additions	5	-	-	-	5
Disposals	-	(13)	-	-	(13)
Currency translation adjustments	2	48	-	-	50
December 31, 2008	342	73	-	-	415
Additions	3	-	-	-	3
Disposals	-	(24)	-	-	(24)
Currency translation adjustments	4	(2)	-	-	2
December 31, 2009	**349**	**47**	**-**	**-**	**396**
Net book value:					
December 31, 2008	P1,350	P376	P112	P -	P1,838
December 31, 2009	**P1,411**	**P359**	**P97**	**P -**	**P1,867**

The fair value of investment properties as of December 31, 2009 and 2008 amounted to P2,886 and P2,758, respectively, which were determined based on valuations performed by independent appraisers.

13. Biological Assets

This account consists of poultry, hogs and cattle as follows:

	2009	2008
Current:		
Growing stocks	**P2,309**	P2,707
Goods in process	**216**	225
Total Current	**2,525**	2,932
Noncurrent breeding stocks - net	**1,847**	1,814
	P4,372	P4,746

The amortization of breeding stocks charged to operations amounted to P909 in 2009, P863 in 2008 and P754 in 2007.

Growing stocks pertain to growing broilers, hogs and cattle and goods in process pertain to hatching eggs and carcass.

The movements in biological assets, including the effects of foreign exchange adjustments are as follows:

	2009	2008
Gross:		
Balance at beginning of year	**P6,767**	P5,054
Increase (decrease) due to:		
Purchases	**13,391**	14,608
Production	**11,147**	33,540
Mortality	**(492)**	(31)
Sales	**(7,535)**	(2,745)
Harvest	**(15,957)**	(43,593)
Currency translation adjustments	**(21)**	(66)
Balance at end of year	**7,300**	6,767
Accumulated amortization:		
Balance at beginning of year	**2,021**	1,411
Additions	**909**	863
Disposals and others	**(2)**	(253)
Balance at end of year	**2,928**	2,021
Net book value	**P4,372**	P4,746

The Group harvested approximately 348.1 million kgs. and 322.9 million kgs. of grown broilers, in 2009 and 2008, respectively, and 784,689 and 674,458 heads of marketable hogs and cattle, in 2009 and 2008, respectively.

14. Goodwill and Other Intangible Assets

The movements in goodwill, including effects of currency translation adjustments are as follows:

	Note	2009	2008
Balance at beginning of year		**P5,201**	P5,348
Additions	*33*	**1,296**	-
Impairment	*27*	**(33)**	(322)
Currency translation adjustments		**(56)**	175
Balance at end of year		**P6,408**	P5,201

The movements in other intangible assets, including the effects of currency translation adjustments are as follows:

	Note	Trademarks and Brand Names	Others	Total
Cost:				
December 31, 2007		P1,962	P2,027	P3,989
Additions		78	73	151
Disposals and reclassifications		-	241	241
Currency translation adjustments		211	273	484
December 31, 2008		2,251	2,614	4,865
Additions		-	92	92
Disposals and reclassifications		-	118	118
Currency translation adjustments		21	(49)	(28)
December 31, 2009		**2,272**	**2,775**	**5,047**
Accumulated amortization and impairment losses:				
December 31, 2007		-	787	787
Additions		-	92	92
Disposals and reclassifications		-	102	102
Currency translation adjustments		-	72	72
December 31, 2008		-	1,053	1,053
Additions	*27*	133	131	264
Disposals and reclassifications		-	119	119
Currency translation adjustments		-	(19)	(19)
December 31, 2009		**133**	**1,284**	**1,417**
Net book value:				
December 31, 2008		P2,251	P1,561	P3,812
December 31, 2009		**P2,139**	**P1,491**	**P3,630**

Goodwill acquired through business combinations and trademarks and brand names with indefinite lives have been allocated to individual cash-generating units, which are also reportable segments, for impairment testing as follows:

	2009		2008	
	Goodwill	**Trademarks and Brand Names**	Goodwill	Trademarks and Brand Names
Beverage	**P1,265**	**P1,906**	P1,311	P2,012
Food	**2,943**	**233**	2,950	239
Packaging	**2,139**	**-**	879	-
Others	**61**	**-**	61	-
Total	**P6,408**	**P2,139**	P5,201	P2,251

The recoverable amount of goodwill has been determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash flows beyond the five year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections ranged from 6% to 14% in December 31, 2009 and 2008. The discount rates also impute the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the following assumptions:

Gross Margins. Gross margins are based on average values achieved in the period immediately before the budget period. These are increased over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.

Discount Rates. The Group uses the weighted average cost of capital as the discount rates, which reflect management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investments proposals.

Raw Material Price Inflation. Forecast consumer price are obtained from indices during the budget period from which raw materials are purchased. Value assigned to key assumption is consistent with external sources of information.

Impairment loss on goodwill amounting to P33 and P322 was recognized and is included in "Other income (charges)" account in 2009 and 2008, respectively (Note 27). No impairment loss on goodwill was recognized in 2007.

15. Other Noncurrent Assets

	Note	**2009**	2008
Noncurrent receivables and deposits - net	*6, 10, 29, 34, 35, 36*	**P5,933**	P7,439
Deferred containers - net	*4*	**4,446**	3,708
Others	*30, 35, 36*	**2,089**	3,094
		P12,468	P14,241

Noncurrent receivables and deposits include advances to Meralco and SMEC amounting to P68 and P2, respectively as of December 31, 2009 (Note 28).

Idle assets included under "Others" amounted to P235 and P65 as of December 31, 2009 and 2008, respectively (Note 27).

As of December 31, 2009, the Group has no derivative assets included under "Other noncurrent assets". Derivative assets included under "Others" amounted to P1 as of December 31, 2008 (Notes 35 and 36).

16. Drafts and Loans Payable

This account consists of:

	Note	**2009**	2008
Parent Company			
Peso-denominated		**P34,331**	P22,700
Foreign currency-denominated		**3,188**	6,605
Subsidiaries			
Peso-denominated		**16,125**	16,783
Foreign currency-denominated		**3,145**	2,472
	35, 36	**P56,789**	P48,560

Drafts and loans payable mainly represent unsecured peso and foreign currency-denominated amounts payable to local and foreign banks. Interest rates for peso-denominated loans range from 3.10% to 6.79% and 7.25% to 9.75% in 2009 and 2008, respectively. Interest rates for foreign currency-denominated loans range from 1.32% to 12.08% and 2.69% to 15.77% in 2009 and 2008, respectively.

17. Accounts Payable and Accrued Expenses

	Note	**2009**	2008
Trade	*35, 36*	**P8,791**	P9,061
Non-trade	*35, 36*	**18,076**	8,985
Amounts owed to related parties	*28, 35, 36*	**32**	24
Others	*30, 35, 36*	**4,505**	5,222
		P31,404	P23,292

Derivative liabilities included under "Others" amounted to P111 and P2,353 as of December 31, 2009 and 2008, respectively (Notes 35 and 36).

Non-trade payables consist of freight payable, contract growers/breeders' fee, guarantee deposits, expense payable and the unpaid balance due next year related to the acquisition of Meralco shares of stock.

Others include payroll-related accruals and accrued interest payable.

18. Long-term Debt

	2009	2008
Parent Company		
Unsecured term notes:		
Foreign currency-denominated:		
Floating interest rate based on LIBOR plus an agreed margin, with maturities up to 2012 (a)	**P26,397**	P -
Floating interest rate based on LIBOR plus an agreed margin, with maturities up to 2012 (b)	**-**	43,454
Peso-denominated:		
Floating interest rate based on 3month PDST-F plus an agreed margin with maturities up to 2012 and 2014 (c)	**2,982**	-
	29,379	43,454
Subsidiaries		
Unsecured term notes:		
Peso-denominated:		
Fixed interest rate of 8.25%, 8.875% and 10.5% maturing in 2012, 2014 and 2019, respectively (d)	**38,416**	-
Fixed interest rate of 6.50% and 7.25% maturing in 2012 and 2014, respectively (e)	**2,214**	2,211
Foreign currency-denominated:		
Floating interest rate based on VNIBOR, THBFIX and discount from PBOC lending rate, plus an agreed margin (f)	**2,953**	4,098
	43,583	6,309
	72,962	49,763
Less current maturities	**1,077**	9,044
	P71,885	P40,719

a. The amount represents drawdown by the Parent Company in 2009 from the US$600 loan facility for general working capital purposes. Unamortized debt issue costs related to this loan facility amounted to P1,323 as of December 31, 2009.

b. The amount represents drawdown by the Parent Company from the US$1,200 loan facility to refinance a portion of its short-term loans and the remaining balance of its long-term loans. Unamortized debt issue costs related to this loan facility amounted to P407 as of December 31, 2008.

   On June 3, 2009, the Parent Company paid off the remaining balance of US$923 from the proceeds of the 6,665,023,690 shares sold by the Parent Company to Kirin representing 43.2499% stake in SMB.

c. The amount represents drawdown by the Parent Company in 2009 from the P2,000 five-year term loan and from the P1,000 floating rate corporate notes issued by the Parent Company for general financing and corporate requirements. Unamortized debt issue costs related to this loan amounted to P18 as of December 31, 2009.

d. SMB offered for sale and subscription to the public Philippine peso-denominated fixed rate bonds in the aggregate principal amount of P38,800 (Bonds) on April 3, 2009 (Issue Date). The Bonds was issued in three (3) series: Series A Bonds with an aggregare principal amount of P13,590 having a term of 3 years beginning on Issue Date and ending on April 3, 2012, with a fixed interest rate of 8.25% per annum; Series B Bonds with an aggregate principal amount of P22,400 having a term of 5 years and 1 day beginning on Issue Date and ending on April 4, 2014, with a fixed interest rate of 8.875% per annum; and Series C Bonds with an aggregate amount of P2,810 having a term of 10 years beginning on Issue Date and ending on April 3, 2019, with a fixed interest rate of 10.50% per annum. Proceeds from the issuance of the bonds was used to finance SMB's acquisition of the interest of the Parent Company in IBI for P32,000 and the balance will be used to acquire the interest of the Parent Company in BPI. Unamortized debt issue costs related to these bonds amounted to P384 as of December 31, 2009.

   On November 17, 2009, the Philippine Dealing & Exchange Corp. (PDEX) approved SMB's application to list its peso-denominated fixed rate bonds for trading on the PDEX.

e. The amount represents syndicated loans obtained by SMYAC which were used for capital expenditures. Unamortized debt issue costs related to these loans amounted to P11 and P14 as of December 31, 2009 and 2008, respectively.

f. The amount includes loan obtained by SMFBIL's subsidiaries and SMYHG, which was used to finance their capital expenditures. It also includes the 44.9% share of the loan of TSML in 2009 and 2008 to finance its plant constructions and start up operations. Unamortized debt issue costs related to these loans amounted to P2 and P3 as of December 31, 2009 and 2008, respectively.

The debt agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements, restrictions on loans and guarantees, disposal of a substantial portion of assets, significant changes in the ownership or control of subsidiaries, payments of dividends and redemption of capital stock.

As of December 31, 2009 and 2008, the Group is in compliance with the covenants of the debt agreements.

The movements in debt issue costs are as follows:

	Note	**2009**	2008
Balance at beginning of year		**P424**	P797
Additions		**1,889**	1
Amortization	*25*	**(575)**	(374)
Balance at end of year		**P1,738**	P424

Repayment Schedule
As of December 31, 2009, the annual maturities of long-term debt are as follows:

Year	**Gross Amount**	**Debt Issue Costs**	**Net**
2010	P1,081	P4	P1,077
2011	1,481	954	527
2012	44,280	511	43,769
2013	519	4	515
2014	24,529	235	24,294
2019	2,810	30	2,780
	P74,700	**P1,738**	**P72,962**

19. Income Taxes

Deferred tax assets and liabilities arise from the following:

	2009	2008
Unrealized intercompany charges and others	**P4,998**	P2,752
Allowance for impairment losses on trade and other receivables and inventories	**1,163**	1,136
MCIT	**1,145**	916
NOLCO	**753**	775
Undistributed earnings of foreign subsidiaries - net	**(11,213)**	(15,792)
	(P3,154)	(P10,213)

The above amounts are reported in the consolidated statements of financial position as follows:

	Note	2009	2008
Deferred tax assets	4	**P8,883**	P7,638
Deferred tax liabilities		**(12,037)**	(17,851)
		(P3,154)	(P10,213)

The undistributed earnings of foreign subsidiaries and cumulative translation adjustments for which deferred tax liabilities have not been recognized totaled P11,425 and P10,100 as of December 31, 2009 and 2008, respectively.

As of December 31, 2009, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
2007	December 31, 2010	P954	P388
2008	December 31, 2011	566	410
2009	December 31, 2012	990	347
		P2,510	**P1,145**

The components of income tax expense are shown below:

	Note	2009	2008	2007
Current		**P10,254**	P7,907	P435
Deferred		**(6,548)**	(1,809)	4,085
Income tax expense from continuing operations		**3,706**	6,098	4,520
Income tax expense (benefit) from ordinary activities of discontinued operations	6	**-**	(7)	1,174
Income tax expense from gain on disposal of discontinued operations	6	**-**	2,921	4,596
		P3,706	P9,012	P10,290

The reconciliation between the statutory income tax rate on income before income tax from continuing operations and the Group's effective income tax rates are as follows:

	2009	2008	2007
Statutory income tax rate	**30.00%**	35.00%	35.00%
Increase (decrease) in income tax rate resulting from:			
Gain on sale of investments subject to final or capital gains tax	**(23.52)**	(12.05)	(6.03)
Interest income subject to final tax	**(2.79)**	(11.17)	(5.80)
Equity in net losses (earnings) of associates	**(1.31)**	1.91	(0.46)
Loss (gain) on derivatives	**(0.45)**	18.06	4.44
Others, mainly income subject to different tax rates and change in tax rate - net	**3.83**	(2.38)	8.73
Effective income tax rate	**5.76%**	29.37%	35.88%

20. Stockholders' Equity

a. On July 24, 2007, the stockholders of the Parent Company approved the increase in the Parent Company's authorized capital stock from P22,500 to P37,500, which will be made up of 3,600,000,000 Class "A" common shares, 2,400,000,000 Class "B" common shares and 1,500,000,000 preferred shares, all with a par value of P5.00 per share.

   On July 23, 2009, during the Parent Company's annual stockholders' meeting, the stockholders approved amendments to the Parent Company's Articles of Incorporation providing for the reclassification of the common shares comprising the authorized capital stock of P22,500. The authorized capital stock of the Parent Company was divided into 2,034,000,000 Class "A" common shares, 1,356,000,000 Class "B" common shares and 1,110,000,000 Series "1" preferred shares, and defined the terms and features of the Series "1" preferred shares. The preferred shares shall be peso-denominated, perpetual, cumulative and non-voting Series "1" preferred shares with an issue price of P75.00 per share and a dividend rate of 8% per annum computed in reference to the issue price. The SEC approved these amendments to the Amended Articles of Incorporation of the Parent Company on August 20, 2009. The stockholders also approved in the same stockholders' meeting, further amendments to the resolutions on the increase in the authorized capital stock of the Parent Company which were passed during the 2007 annual stockholders' meeting to provide for the division of the increased authorized capital stock of the Parent Company into common shares and two series of preferred shares. The proposed increase in the authorized capital stock of the Parent Company has not been submitted to the SEC for approval.

Also, on July 23, 2009, the stockholders of the Parent Company approved the Offer by the Parent Company to exchange existing common shares of up to approximately 35% of the issued and outstanding capital stock of the Parent Company with Series "1" preferred shares. The exchange ratio was one (1) common share for one (1) Series "1" preferred share and the qualified shareholders of record as of July 2, 2009, were vested with the right to participate on the exchange.

On October 5, 2009, the Parent Company completed the exchange of 476,296,752 Class "A" common shares and 396,876,601 Class "B" common shares for Series "1" preferred shares.

On October 15, 2009, the Parent Company's BOD approved the issuance, through private placement, of up to 226,800,000 Series "1" preferred shares.

On December 22, 2009, the Parent Company issued 97,333,000 Series "1" preferred shares to qualified buyers and by way of private placement to not more than 19 non-qualified buyers at the issue price of P75.00 per Series "1" preferred share.

b. *Capital Stock*

Common Stock

Class "A" common shares and Class "B" common shares have the same rights and privileges. Only Philippine citizens or corporations or associations that are at least 60% owned by Filipino citizens can own Class "A" common shares.

The movements in the number of issued and outstanding shares of common stock are as follows:

	2009	2008
Class "A"		
Balance at beginning of year	**1,975,940,615**	1,975,292,245
Issuances during the year	**4,652,540**	648,370
Issued shares at end of year	**1,980,593,155**	1,975,940,615
Less treasury shares	**530,959,512**	54,662,760
Issued and outstanding shares at end of year	**1,449,633,643**	1,921,277,855
Class "B"		
Balance at beginning of year	**1,246,527,833**	1,246,527,833
Issuances during the year	**2,823,954**	-
Issued shares at end of year	**1,249,351,787**	1,246,527,833
Less treasury shares	**407,689,212**	10,812,611
Issued and outstanding shares at end of year	**841,662,575**	1,235,715,222

Preferred Shares

Series "1" preferred shares has a par value of P5.00 per share and are entitled to receive cash dividends upon declaration by and at the sole option of the Parent Company's BOD at a fixed rate of 8% per annum calculated in respect of each Series "1" preferred share by reference to the Issue Price thereof in respect of each dividend period. Unless the Series "1" preferred shares are redeemed by the Parent Company, the dividend rate shall be adjusted at the end of the fifth year after the date of issue.

Series "1" preferred shares do not carry the right to vote. The Series "1" preferred shares are redeemable in whole or in part, at the sole option of the Parent Company, at the end of three years from the issue date at P75.00 plus any accumulated and unpaid cash dividends.

All shares rank equally with regard to the Parent Company's residual assets, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

As of December 31, 2009, the Parent Company has 970,506,353 outstanding Series "1" preferred shares.

c. Treasury shares, totaling 65,475,371 Class "A" and "B" common shares, are stated at acquisition cost, while 873,173,353 Class "A" and "B" common shares were acquired through the exchange of common shares to preferred shares on a one-for-one basis at P75.00 per share.

Out of the total treasury shares, 25,450,000 common shares (15,274,484 Class "A" common shares and 10,175,516 Class "B" common shares), with an acquisition cost of P481, [net of the cost of the 1,000,000 shares paid to Presidential Commission on Good Government (PCGG) as arbitral fee pursuant to the Compromise Agreement, as herein defined] were reverted to treasury in 1991 upon implementation of the Compromise Agreement and Amicable Settlement (Compromise Agreement) executed by the Parent Company with the United Coconut Planters Bank (UCPB) and the Coconut Industry Investment Fund (CIIF) Holding Companies in connection with the purchase of the Parent Company shares under an agreement executed on March 26, 1986.

Certain parties have opposed the Compromise Agreement. The right of such parties to oppose, as well as the propriety of their opposition, has been the subject matters of cases before the Sandiganbayan and the Supreme Court.

On September 14, 2000, the Supreme Court upheld a Sandiganbayan resolution requiring the Parent Company to deliver the 25,450,000 common shares that were reverted to treasury in 1991 to the PCGG and to pay the corresponding dividends on the said shares.

On October 10, 2000, the Parent Company filed a motion for reconsideration with the Supreme Court to be allowed to comply with the delivery and payment of the dividends on the treasury shares only in the event that another party, other than the Parent Company, is declared owner of the said shares in the case for forfeiture (Civil Case) filed by the Philippine government (Government).

On April 17, 2001, the Supreme Court denied the motion for reconsideration.

On September 19, 2003, the PCGG wrote the Parent Company to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan resolution upheld by the Supreme Court. The Parent Company referred the matter to its external financial advisor and external legal counsel for due diligence and advice. The external financial advisor presented to the BOD on December 4, 2003 the financial impact of compliance with the resolution considering "with and without due compensation" scenarios, and applying different rates of return to the original amount paid by the Parent Company. The financial advisor stated that if the Parent Company is not compensated for the conversion of the treasury shares, there will be: (a) a negative one-off EPS impact in 2003 of approximately 17.5%; (b) net debt increase of approximately P2,100; and (c) a negative EPS impact of 6.9% in 2004. The external legal counsel at the same meeting advised the BOD that, among others, the facts reviewed showed that: (a) the compromised shares had not been validly sequestered; (b) no timely direct action was filed to nullify the transaction; (c) no rescission can be effected without a return of consideration; and (d) more importantly, requiring the Parent Company to deliver what it acquired from the sellers without a substantive ground to justify it, and a direct action in which the Parent Company is accorded full opportunity to defend its rights, would appear contrary to its basic property and due process rights. The external legal counsel concluded that the Parent Company has "legal and equitable grounds to challenge the enforcement" of the Sandiganbayan resolution.

On January 29, 2004, the external legal counsel made the additional recommendation that the Parent Company should file a Complaint-in-Intervention in the Civil Case (now particularly identified as SB Case No. 033-F), the forfeiture case brought by the Government involving the so-called CIIF block of the Parent Company shares of stock of which the treasury shares are a portion. The Complaint-in-Intervention would pray that any judgment in the Civil Case forfeiting the CIIF block of the Parent Company shares of stock should exclude the treasury shares.

At its January 29, 2004 meeting, the BOD of the Parent Company unanimously decided to (a) deny the PCGG demand of September 19, 2003, and (b) authorize the filing of the Complaint-in-Intervention. Accordingly, the external legal counsel informed the PCGG of the decision of the Parent Company and the Complaint-in-Intervention was filed in the Civil Case.

In a Resolution dated May 6, 2004, the Sandiganbayan denied the Complaint-in-Intervention. The external legal counsel filed a Motion for Reconsideration, which was denied by the Sandiganbayan in its Decision dated November 28, 2007.

The external legal counsel advised that because the Sandiganbayan had disallowed the Parent Company's intervention, the Sandiganbayan's disposition of the so-called CIIF block of the Parent Company shares in favor of the Government cannot bind the Parent Company, and that the Parent Company remains entitled to seek the nullity of that disposition should it be claimed to include the treasury shares.

The external legal counsel also advised that the Government has, in its own court submissions, (i) recognized the Parent Company's right to the treasury shares on the basis that the Compromise Agreement is valid and binding on the parties thereto; and (ii) taken the position that the Parent Company and UCPB had already implemented the Compromise Agreement voluntarily, and that the PCGG had conformed to the Agreement and its implementation. The Executive Committee of the Parent Company approved the recommendation of external legal counsel on January 18, 2008 which was ratified by the BOD on March 6, 2008.

The Supreme Court affirmed its resolution, issued on September 17, 2009, allowing the PCGG to convert the 24% sequestered shares of the Parent Company in the name of CIIF into Series "1" preferred shares. The Court held that the conversion is necessary to preserve the value of the 753,848,312 common shares.

On February 11, 2010, the Supreme Court amended its Resolution dated September 17, 2009 and authorized the PCGG to exercise discretion in depositing on escrow, the net dividend earnings on, and/or redemption proceeds from, the Series "1" preferred shares of SMC, either with the Development Bank of the Philippines/Land Bank of the Philippines or with the UCPB, having in mind the greater interest of the government and the coconut farmers.

In the meantime, the Parent Company has available cash and shares of stock for the dividends payable on the treasury shares.

The movements in the number of acquired shares of treasury stock are as follows:

	2009	2008
Class "A"		
Balance at beginning of year	**54,662,760**	54,662,760
Acquisition through exchange of common shares to preferred shares during the year	**476,296,752**	-
Balance at end of year	**530,959,512**	54,662,760
Class "B"		
Balance at beginning of year	**10,812,611**	10,812,611
Acquisition through exchange of common shares to preferred shares during the year	**396,876,601**	-
Balance at end of year	**407,689,212**	10,812,611

d. The Group's unappropriated retained earnings include its accumulated equity in net earnings of subsidiaries and associates amounting to P18,184, P57,482 and P44,199 in 2009, 2008 and 2007, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

   The Parent Company's unappropriated retained earnings as of December 31, 2009 and 2008 is restricted in the amount of P69,541 and P4,053, respectively, representing the cost of shares held in treasury.

e. The BOD of certain subsidiaries approved additional appropriations amounting to P15, P176 and P273 in 2009, 2008 and 2007, respectively, to finance future capital expenditure projects. Reversal of appropriations in 2009, 2008 and 2007 amounted to P40, P688 and P275, respectively.

21. Cost of Sales

Cost of sales consists of:

	Note	2009	2008	2007
Inventories		**P75,051**	P76,205	P68,727
Taxes and licenses		**21,515**	19,703	18,878
Depreciation, amortization and impairment losses	*23*	**4,994**	4,660	4,461
Contracted services		**4,682**	4,296	3,206
Freight, trucking and handling		**4,392**	4,230	2,511
Personnel	*24*	**3,802**	3,815	2,926
Communications, light and water		**3,662**	4,232	4,260
Fuel and oil		**2,170**	3,267	2,150
Repairs and maintenance		**1,827**	1,584	1,786
Rent	*4*	**455**	550	648
Others		**1,745**	1,530	509
		P124,295	P124,072	P110,062

22. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2009	2008	2007
Selling	**P12,905**	P13,518	P10,331
Administrative	**17,344**	15,633	16,002
	P30,249	P29,151	P26,333

Selling expenses consist of:

	Note	2009	2008	2007
Advertising and promotions		**P4,980**	P5,697	P4,258
Personnel	*24*	**3,635**	3,251	2,592
Freight, trucking and handling		**2,021**	2,049	1,357
Rent	*4*	**1,060**	995	446
Supplies		**251**	281	447
Taxes and licenses		**249**	213	207
Depreciation, amortization and impairment losses	*23*	**221**	248	305
Communications, light and water		**218**	169	536
Professional fees		**45**	43	86
Others		**225**	572	97
		P12,905	P13,518	P10,331

Administrative expenses consist of:

	Note	2009	2008	2007
Personnel	*24*	**P7,385**	P6,771	P5,900
Depreciation, amortization and impairment losses	*23*	**2,110**	1,859	1,750
Professional fees		**2,383**	1,283	1,150
Repairs and maintenance		**952**	867	1,669
Advertising and promotion		**822**	1,614	2,071
Supplies		**711**	710	433
Taxes and licenses		**673**	617	603
Communications, light and water		**644**	692	706
Rent	*4*	**605**	251	356
Others		**1,059**	969	1,364
		P17,344	P15,633	P16,002

23. Depreciation, Amortization and Impairment Losses

Depreciation, amortization and impairment losses are distributed as follows:

	Note	2009	2008	2007
Cost of sales:				
Property, plant and equipment	*11*	**P3,852**	P3,604	P3,434
Deferred containers, biological assets and others		**1,142**	1,056	1,027
	21	**4,994**	4,660	4,461
Selling and administrative expenses:				
Property, plant and equipment	*11*	**1,402**	1,329	1,270
Deferred containers and others		**929**	778	785
	22	**2,331**	2,107	2,055
		P7,325	P6,767	P6,516

"Others" include amortization of computer software, land use rights, licenses and investment properties.

Depreciation expense amounting to P1,659 in 2007 was presented as part of discontinued operations (Note 6).

24. Personnel Expenses

	Note	2009	2008	2007
Salaries and wages		**P7,205**	P6,440	P4,530
Retirement costs	*30*	**594**	857	1,236
Other employee benefits		**7,023**	6,540	5,652
		P14,822	P13,837	P11,418

Personnel expenses are distributed as follows:

	Note	2009	2008	2007
Cost of sales	*21*	**P3,802**	P3,815	P2,926
Selling expenses	*22*	**3,635**	3,251	2,592
Administrative expenses	*22*	**7,385**	6,771	5,900
		P14,822	P13,837	P11,418

25. Interest Expense and Other Financing Charges

	2009	2008	2007
Interest expense	**P6,780**	P5,370	P5,442
Other financing charges	**1,146**	662	1,675
	P7,926	P6,032	P7,117

Amortization of debt issue costs in 2009, 2008 and 2007 included in other financing charges amounted to P575, P374 and P904, respectively (Note 18).

Interest expense on drafts and loans payable and long-term debt are as follows:

	2009	2008	2007
Drafts and loans payable	**P2,916**	P2,960	P2,165
Long-term debt	**3,864**	2,410	3,277
	P6,780	P5,370	P5,442

Interest expense and other financing charges amounting to P2,984 in 2007 was presented as part of discontinued operations (Note 6).

26. Interest Income

	Note	2009	2008	2007
Interest from short-term investments, cash in banks and others	*7*	**P5,350**	P4,320	P939
Interest on amounts owed by a related party	*8*	**639**	2,310	1,148
		P5,989	P6,630	P2,087

Interest income amounting to P317 in 2007 was presented as part of discontinued operations (Note 6).

27. Other Income (Charges)

	2009	2008	2007
Foreign exchange gains (losses)	**(P3,364)**	P8,684	P6,587
Loss on impairment of goodwill, trademarks and brand names, property, plant and equipment and idle assets [see (a), (b), (c), (d) and (e) below and Note 10]	**(4,756)**	(322)	(1,744)
Gains (losses) on derivatives - net	**962**	(10,718)	(1,598)
Others	**315**	94	369
	(P6,843)	(P2,262)	P3,614

a. In 2009, the Group reduced the carrying value of certain assets of SMPPC by a total of P694 after the latter ceased its commercial operations on July 27, 2009.

b. In 2009, the Group recognized impairment loss against certain noncurrent assets of operations in mainland China, comprising mainly the production plant located in Shunde, Guangdong Province, trademarks, other tangible assets and goodwill. Over the past two years, the Group's business performance in mainland China had been adversely affected by factors including economic downturn, fierce market competition, counterfeit products and poor weather conditions. In view of this, a cash flow projection was prepared to estimate the recoverable amount of the cash-generating unit to which these assets belong ("the cash-generating unit") using a value-in-use calculation. This calculation uses the discounted value of the projected cash flows to be generated over the remaining useful life of the cash-generating units. Pre-tax discount rates ranging from 11.45% to 13.17% were applied to the projected cash flows. As of December 31, 2009, the Group recognized impairment loss amounting to HK$590 (P3,705) against these assets.

   On September 30, 2007, the Yuen Long plant of SMBHK has temporarily ceased operations. SMBHK reviewed the recoverable amount of the fixed assets of its plant and the carrying amount of such assets was written down by P1,461 to the value in use (Note 11). Value in use was calculated using the discounted value of the projected future cash flows to be generated over the remaining useful life of the plant. A pre-tax discount rate of 9.91% was applied to the projected future cash flows of the plant.

c. In 2009, the Group recognized provisions for impairment loss on land and idle assets (included under "Other noncurrent assets") amounting to P54, computed as the difference between the carrying amount of the assets and their fair value based on reports by qualified property appraisers, less costs to sell (Note 15).

d. On December 31, 2008, the Group reviewed the recoverable amount of its investment in shares of stock of SDI. It was determined that the carrying amount of the investment is higher than its value in use and an impairment loss of P322 was recognized. The discount rate applied to after tax cash flow projections of SDI was 12%. The impairment loss was allocated fully to goodwill (Note 14).

e. In 2007, SMPSI ceased operating two of its plants and one of its furnaces. The corresponding building, machinery and equipment with an aggregate net book value of P405 have been reclassified from "Property, plant and equipment" account to "Other noncurrent assets" account (Note 15). These assets have been written down to their net realizable value based on reports by qualified property appraisers. The impairment charges relating to these assets amounted to P283.

28. Related Party Disclosures

Transactions with related parties are made at normal market prices. For the periods ended December 31, 2009, 2008 and 2007, the Group did not provide any allowance for impairment losses relating to amounts owed by related parties. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

a. The Parent Company has advances to SMCRP amounting to P2,785 and P6,323 as of December 31, 2009 and 2008, respectively, included as part of "Trade and other receivables" account (Note 8).

b. The significant transactions of the Group and Meralco include the following:

Year	Purchases of Utilities	Included under "Trade and other receivables" account (Note 8)	Included under "Accounts payable and accrued expenses" account
2009	**P692**	**P72**	**P32**
2008	277	168	24

   In 2009, the Group has noncurrent receivables and deposits from Meralco amounting to P68 (Note 15).

c. As of December 31, 2009, the Parent Company has advances to SMEC which amounted to P313 and P2 included as part of "Trade and other receivables" and "Other noncurrent assets" accounts, respectively (Notes 8 and 15).

d. The compensation of key management personnel of the Group, by benefit type, follows:

	2009	2008	2007
Short-term employee benefits	**P378**	P200	P262
Retirement costs	**37**	19	49
Share-based payments	**56**	53	58
	P471	P272	P369

Some of the personnel performing key management functions in certain subsidiaries are employed by the Parent Company. This is covered by a management agreement executed by and between the Parent Company and the subsidiaries. The salaries and benefits of these personnel are billed to the subsidiaries through management fees, with details as follows:

	Note	**2009**	2008	2007
Short-term employee benefits		**P46**	P118	P259
Retirement costs		**1**	9	87
Share-based payments		**43**	55	23
	24	**P90**	P182	P369

29. Leasing Agreements

Finance Leases

Leases as Lessee
The Group's finance leases cover automobiles needed for business operations. The agreements do not allow subleasing. Some leases provide the Group with the option to purchase the equipment at a beneficial price. As of December 31, 2009 and 2008, the net carrying amount of leased transportation equipment was P30 and P90, respectively.

The Group's share in the minimum lease payments for these finance lease liabilities are as follows:

	Minimum lease payable	Interest	Principal
Within one year	P13	P1	P12
After one year but not more than five years	17	2	15
	P30	P3	P27

Leases as Lessor
The Group's lease receivable under finance lease as of December 31, 2009 and 2008 are as follows:

2009	**Minimum lease payable**	**Interest**	**Principal**
Less than one year	**P5**	**P-**	**P5**
2008			
Less than one year	P6	P1	P5
Between one and five years	5	-	5
	P11	P1	P10

Operating Leases

Leases as Lessor
The Group has entered into various property leases. These non-cancellable leases will expire up to year 2014. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

As of December 31, 2009, 2008 and 2007, the future minimum lease receipts under non-cancellable operating leases are as follows:

	2009	2008	2007
Within one year	**P78**	P94	P278
After one year but not more than five years	**62**	114	280
	P140	P208	P558

Rent income recognized in the consolidated statements of income amounted to P545, P402 and P256 in 2009, 2008 and 2007, respectively.

Leases as Lessee
The Group leases a number of office, warehouse and factory facilities under operating leases. The leases typically run for a period of two to seven years. Some leases provide an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals.

As of December 31, 2009, 2008 and 2007, non-cancellable operating lease rentals are payable as follows:

	2009	2008	2007
Within one year	**P35**	P290	P118
After one year but not more than five years	**109**	748	151
More than five years	**409**	35	124
	P553	P1,073	P393

30. Retirement Plans

The Parent Company and majority of its subsidiaries have funded, noncontributory retirement plans covering all of their permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. Majority of the Group's latest actuarial valuation date is December 31, 2009. Valuations are obtained on a periodic basis.

Retirement costs charged by the Parent Company to operations amounted to P65, P422 and P975 in 2009, 2008 and 2007, respectively, while those charged by the subsidiaries amounted to P529, P435 and P383 in 2009, 2008 and 2007, respectively. The Group's annual contribution to the retirement plans consists of payments covering the current service cost and amortization of past service costs.

The components of retirement costs recognized in the consolidated statements of income in 2009, 2008 and 2007 and the amounts recognized in the consolidated statements of financial position as of December 31, 2009 and 2008 are as follows:

	2009	2008	2007
Current service cost	**P486**	P532	P493
Interest cost	**992**	834	796
Expected return on plan assets	**(868)**	(772)	(894)
Net actuarial loss (gain)	**(64)**	49	397
Past service costs	**6**	41	-
Effect of curtailment	**(24)**	-	772
Effect of asset limit	**-**	-	(102)
Amortization of transitional liability	**66**	173	120
Others	**-**	-	(224)
Net retirement costs	**P594**	P857	P1,358
Actual return on plan assets	**P6,099**	P477	P3,614

The retirement costs are recognized in the following line items in the consolidated statements of income:

	Note	2009	2008	2007
Cost of sales		**P123**	P144	P120
Selling and administrative expenses		**471**	713	1,116
Retirement costs of continuing operations	*24*	**594**	857	1,236
Reclassified to discontinued operations		**-**	-	122
		P594	P857	P1,358

The reconciliation of the assets and liabilities recognized in the consolidated statements of financial position is as follows:

	Note	2009	2008
Present value of defined benefit obligation		**P12,362**	P11,080
Fair value of plan assets		**15,178**	10,232
		(2,816)	848
Unrecognized actuarial gain (loss)	*4*	**3,271**	(268)
Unrecognized net transitional liability		**-**	(66)
Unrecognized past service costs		**(1)**	(2)
Net retirement liabilities		**P454**	P512

Net retirement assets and liabilities in 2009 are included as part of "Prepaid expenses and other current assets" and "Others" under "Other noncurrent assets" accounts amounting to P150 and P160, respectively, and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts amounting to P572 and P192, respectively (Notes 15 and 17).

Net retirement assets and liabilities in 2008 are included as part of "Others" under "Other noncurrent assets" accounts amounting to P219 and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts amounting to P613 and P118, respectively (Notes 15 and 17).

The movements in the present value of defined benefit obligation are as follows:

	2009	2008
Balance at beginning of year	**P11,080**	P11,332
Interest cost	**992**	834
Current service cost	**486**	532
Past service costs	**4**	41
Benefits paid	**(1,817)**	(1,496)
Actuarial losses (gains)	**1,628**	(163)
Effect of curtailment	**(11)**	-
Balance at end of year	**P12,362**	P11,080

The movements in the fair value of the plan assets are as follows:

	2009	2008
Balance at beginning of year	**P10,232**	P10,726
Expected return	**868**	772
Contributions by employer	**660**	525
Benefits paid	**(1,813)**	(1,496)
Actuarial gains (losses)	**5,231**	(295)
Balance at end of year	**P15,178**	P10,232

Plan assets consist of the following:

	In Percentages	
	2009	2008
Stock trading portfolio	**4**	20
Fixed income portfolio	**62**	40
Others	**34**	40

The plan assets include 10,000 and 751,362,391 Class "A" common shares and 20,000 and 153,609,529 Class "B" common shares of the Parent Company as of December 31, 2009 and 2008, respectively. The fair market values per share were P68.50 and P40.50 for Class "A" common shares and P68.50 and P42.50 for Class "B" common shares as of December 31, 2009 and 2008, respectively.

On October 5, 2009, SMCRP exchanged on a one-for-one basis its 6,715,543 Class "A" common shares and 78,606,542 Class "B" common shares to Series "1" preferred shares of the Parent Company at an issue price of P75.00 per share.

SMCRP's 21% and 4% investment in shares of stock of BOC as of December 31, 2009 and 2008, respectively, is presented in the above list of plan assets under "Others".

The overall expected rate of return is determined based on historical performance of investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2009	2008
Discount rate	**8 - 11**	7 - 11
Salary increase rate	**8**	6
Expected return on plan assets	**10**	9

The historical information for the current and previous four annual periods is as follows:

	2009	2008	2007	2006	2005
Present value of the defined benefit obligation	**P12,362**	P11,080	P11,332	P14,236	P15,045
Fair value of plan assets	**15,178**	10,232	10,726	10,241	11,873
Deficit (excess) in the plan	**(2,816)**	848	606	3,995	3,172
Experience adjustments on plan liabilities	**927**	6	933	(188)	-

The Group expects to contribute P594 to its defined benefit plans in 2010.

31. Cash Dividends

Cash dividends declared by the Parent Company's BOD to common shareholders amounted to P0.70 per share in 2009 and P1.40 per share in 2008.

On January 6, 2010, the Parent Company's BOD declared cash dividend of P0.35 per share to common shareholders and P1.50 per share to preferred shareholders of record as of October 5, 2009 (issue date). For preferred shareholders of record after issue date, dividend rate was adjusted proportionately. These dividends were paid on February 15, 2010 to all stockholders of record as of January 22, 2010.

On February 2, 2010, the Parent Company's BOD declared cash dividend of P0.35 per share to common shareholders, paid on March 8, 2010 to all common stockholders of record as of February 19, 2010.

On March 15, 2010, the Parent Company's BOD declared cash dividend of P0.35 per share to common shareholders, paid on April 12, 2010 to all common stockholders of record as of March 29, 2010.

32. Basic and Diluted Earnings Per Share

	Note	**2009**	2008	2007
Income from continuing operations attributable to equity holders of the Parent Company		**P57,799**	P13,935	P8,160
Dividends on preferred shares for the period		**(1,281)**	-	-
Net income from continuing operations attributable to common shareholders (a)		**56,518**	13,935	8,160
Income from discontinued operations attributable to equity holders of the Parent Company (b)	*6*	**-**	5,413	470
Net income attributable to common shareholders of the Parent Company		**P56,518**	P19,348	P8,630
Weighted average number of shares outstanding (in millions) - basic (c)		**2,942**	3,157	3,153
Effect of dilution		**17**	12	7
Weighted average number of shares outstanding (in millions) - diluted (d)		**P2,959**	P3,169	P3,160
Basic EPS from continuing operations (a/c)		**19.21**	4.41	2.59
Basic EPS from discontinued operations (b/c)		**-**	1.72	0.15
		P19.21	P6.13	P2.74
Diluted EPS from continuing operations (a/d)		**19.10**	4.40	2.58
Diluted EPS from discontinued operations (b/d)		**-**	1.71	0.15
		P19.10	P6.11	P2.73

33. Supplemental Cash Flow Information

Supplemental information with respect to the consolidated statements of cash flows is presented below:

a. Changes in noncash current assets and certain current liabilities and others are as follows (amounts reflect actual cash flows rather than increases or decreases of the accounts in the consolidated statements of financial position):

	2009	2008	2007
Trade and other receivables	**P558**	P728	(P4,402)
Inventories	**1,085**	(4,100)	3,001
Prepaid expenses and other current assets	**(874)**	759	(2,550)
Accounts payable and accrued expenses	**6,381**	1,779	23,341
Income and other taxes payable and others	**(8,345)**	(457)	(4,198)
	(P1,195)	(P1,291)	P15,192

b. Acquisitions of subsidiaries - JHK Investments and HLC (Note 10)

	Note	**2009**
Cash and cash equivalents		**P193**
Trade and other receivables - net		**1,243**
Inventories		**664**
Prepaid expenses and other current assets		**23**
Property, plant and equipment - net		**1,430**
Other intangible assets - net		**20**
Deferred tax assets		**72**
Accounts payable and accrued expenses		**(2,076)**
Drafts and loans payable		**(839)**
Deferred tax liabilities		**(40)**
Other noncurrent liabilities		**(88)**
Non-controlling interests		**(211)**
Net assets		**391**
Cash and cash equivalents		**(193)**
Goodwill in a subsidiary	*14*	**1,296**
Net cash flows		**P1,494**

34. Share-Based Transactions

<u>ESPP</u>
Under the ESPP, 80,396,659 shares (inclusive of stock dividends declared) of the Parent Company's unissued shares have been reserved for the employees of the Group until 2009 (as amended and approved by the SEC in 2001 and 2003, respectively). A participating employee may acquire at least 100 shares of stock through payroll deductions.

On December 5, 2002, the Parent Company's BOD approved amendments to the ESPP. Under the amended ESPP, all permanent Philippine-based employees of the Group, who have been employed for a continuous period of one year prior to the subscription period, will be allowed to subscribe at 15% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. The amendments to the ESPP are prospective in application. Existing subscriptions shall not be entitled to the rights granted under the amendments. The amendments of the ESPP were approved by the SEC on February 20, 2003.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to the Parent Company until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from the exercise date. The current portion of subscriptions receivable as of December 31, 2009 and 2008 amounted to P147 and P269, respectively, presented as part of "Others" under "Trade and other receivables" account (Note 8). The noncurrent portion of P363 and P259 as of December 31, 2009 and 2008, respectively, is reported as part of "Noncurrent receivables and deposits" under "Other noncurrent assets" account (Note 15).

The number of subscribed shares under the ESPP as of December 31, 2009 and 2008 are as follows:

	2009	2008
Class "A"		
Paid subscribed shares	**28,263,285**	26,787,935
Unpaid subscriptions	**8,461,300**	6,365,600
Class "B"		
Paid subscribed shares	**10,386,120**	9,070,020
Unpaid subscriptions	**8,803,550**	7,053,700
Total shares subscribed	**55,914,255**	49,277,255

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions. The shares pertaining to withdrawn or cancelled subscriptions shall remain issued shares and shall revert to the pool of shares available under the ESPP.

The table below shows the number and weighted average exercise prices of grants:

	2009		2008		2007	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Class "A"						
Subscribed during the year	**2,189,450**	**P42.46**	3,745,100	42.36	4,045,100	P56.14
Cancelled during the year	**(248,100)**	**(50.62)**	(3,125,900)	(53.07)	(876,750)	(55.71)
Class "B"						
Subscribed during the year	**2,688,750**	**44.92**	2,602,450	41.53	3,970,300	63.26
Cancelled during the year	**(383,700)**	**(60.18)**	(2,602,450)	(62.10)	(1,010,650)	(67.06)

The average market prices of the shares granted were P49.95, P52.84 and P70.40 per share in 2009, 2008 and 2007, respectively, for Class "A" common shares and P49.83, P48.86 and P74.14 per share in 2009, 2008 and 2007, respectively, for Class "B" common shares.

The average remaining contractual life of the ESPP was 1.04, 0.60 and 1.06 years as of December 31, 2009, 2008 and 2007, respectively, for Class "A" common shares and 1.72, 0.46 and 1.06 years as of December 31, 2009, 2008 and 2007, respectively, for Class "B" common shares.

LTIP

The Parent Company also maintains LTIP for executives of the Group. The options are exercisable at the fair market value of the Parent Company shares as of date of grant, with adjustments depending on the average stock prices of the prior three months. A total of 54,244,905 shares, inclusive of stock dividends declared, are reserved for the LTIP over its 10-year life. The LTIP is administered by the Executive Compensation Committee of the Parent Company's BOD.

On June 26, 2008, the Parent Company approved the grant of stock options to 742 executives consisting of 7,456,452 shares based on the closing price of the Parent Company's share, computed in accordance with the provisions of LTIP. Also on June 25, 2009, the Parent Company approved the grant of stock options to 755 executives consisting of 5,750,941 shares.

Options to purchase 5,750,941 shares and 7,456,452 shares in 2009 and 2008, respectively, were outstanding at the end of each year. Options which were exercised and cancelled totaled about 3,230,094 shares and 29,170 shares in 2009 and 2008, respectively.

The stock options granted under the LTIP cannot be assigned or transferred by a participant and are subject to a vesting schedule. After one complete year from the date of the grant, 33% of the stock option becomes vested. Another 33% is vested on the second year and the remaining option lot is fully vested on the third year.

Vested stock options may be exercised at any time, up to a maximum of eight years from the date of grant. All unexercised stock options after this period are considered forfeited.

A summary of the status of the outstanding share stock options and the related weighted average exercise price under the LTIP is shown below:

	2009		2008		2007	
	Number of Share Stock Options	**Weighted Average Exercise Price**	Number of Share Stock Options	Weighted Average Exercise Price	Number of Share Stock Options	Weighted Average Exercise Price
Class "A"						
Balance at beginning of year	**20,203,940**	**P56.71**	16,056,434	P62.36	6,917,048	P59.69
Granted during the year	**4,922,958**	**58.05**	5,219,517	40.50	10,987,673	63.50
Exercised during the year	**(2,711,190)**	**(52.61)**	(29,170)	(56.53)	(1,743,868)	(58.93)
Expired during the year	**(360,924)**	**(62.58)**	(1,042,841)	(62.58)	(104,419)	(62.97)
Balance at end of year	**22,054,784**	**P57.39**	20,203,940	P56.71	16,056,434	P62.36
Class "B"						
Balance at beginning of year	**11,911,370**	**P69.94**	10,359,853	P76.79	3,663,962	P78.39
Granted during the year	**843,627**	**58.05**	2,236,935	40.50	7,325,109	75.50
Exercised during the year	**(518,904)**	**(41.30)**	-	-	(527,510)	(68.42)
Expired during the year	**(237,160)**	**(84.71)**	(685,418)	(77.39)	(101,708)	(84.97)
Balance at end of year	**11,998,933**	**P70.21**	11,911,370	P69.94	10,359,853	P76.79

The shares covered by the LTIP are offered for subscription to the participants for three years from approval of the LTIP by the SEC.

The fair value of equity-settled share options granted is estimated as at the date of grant using Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted.

The inputs to the model used to measure the fair value of the shares granted in 2009 and 2008 are as follows:

	2009 Grant		2008 Grant	
	Class "A"	**Class "B"**	Class "A"	Class "B"
Dividend yield	**2.41%**	**2.41%**	3.46%	3.46%
Expected volatility	**53%**	**43%**	54%	43%
Historical volatility	**53%**	**43%**	54%	43%
Risk-free interest rate	**5.15% to 7.76%**	**5.15% to 7.76%**	6.33% to 9.18%	6.33% to 9.18%
Expected life option	**1 to 8 years**	**1 to 8 years**	1 to 8 years	1 to 8 years
Weighted average share price	**58.05**	**58.05**	40.50	40.50

The weighted average fair value of options granted in 2009 and 2008 was P19.24 and P12.31, respectively, for Class "A" common shares and P16.19 and P10.60, respectively, for Class "B" common shares.

The range of exercise prices for options outstanding was P58.05 to P40.50 as of December 31, 2009 and 2008 for Class "A" common shares and P58.05 to P40.50 as of December 31, 2009 and 2008 for Class "B" common shares.

The average remaining contractual life of the LTIP was 1.11, 1.43 and 1.99 years as of December 31, 2009, 2008 and 2007, respectively, for Class "A" common shares and 0.63, 1.30 and 1.99 years as of December 31, 2009, 2008 and 2007, respectively, for Class "B" common shares.

Share-based payment charged to operations, included under "Administrative expenses" account, amounted to P217, P253 and P258 in 2009, 2008 and 2007, respectively.

35. Financial Risk Management Objectives and Policies

Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Interest rate risk
- Foreign currency risk
- Commodity price risk
- Liquidity risk
- Credit risk

This note presents information about the Group's exposure to each of the foregoing risks, the Group's objectives, policies and processes for measuring and managing these risks, and the Group's management of capital.

The Group's principal non-trade related financial instruments include cash and cash equivalents, AFS financial assets, short-term and long-term loans, and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The Group's trade-related financial assets and financial liabilities such as trade and other receivables, noncurrent receivables and deposits, accounts payable and accrued expenses and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The Group's outstanding derivative instruments such as commodity and currency options, forwards and swaps are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency, interest rate and commodity price risks arising from the Group's operating and financing activities.

The BOD has the overall responsibility for the establishment and oversight of the Group's risk management framework. The BOD has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the BOD on its activities.

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, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group's accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the Group's long-term borrowings and investment securities. Investment acquired or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investment securities or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

On the other hand, the Group's investment policy is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the Group's operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

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

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any;
- fair value reserves arising from increases or decreases in fair values of AFS financial assets reported as part of other comprehensive income; and
- hedging reserves arising from increases or decreases in fair values of hedging instruments designated in qualifying cash flow hedge relationships reported as part of other comprehensive income.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P301 and P474 in 2009 and 2008, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

As at December 31, 2009 and 2008, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

December 31, 2009	**<1 year**	**1-<2 years**	**>2-<3 years**	**>3-<4 years**	**>4-<5 years**	**>5 years**	**Total**
Fixed rate							
Philippine peso-denominated	**P -**	**P -**	**P14,545**	**P -**	**P23,670**	**P2,810**	**P41,025**
Interest rate			6.50% - 8.25%		7.25% - 8.875%	10.50%	
Floating rate							
Philippine peso-denominated	**-**	**400**	**1,400**	**400**	**800**	**-**	**3,000**
Interest rate		PDST-F for 3 months +margin	PDST-F for 3 months +margin	PDST-F for 3 months +margin	PDST-F for 3 months +margin		
Foreign currency-denominated (expressed in Philippine peso)	**1,081**	**1,081**	**28,335**	**119**	**59**	**-**	**30,675**
Interest rate	THBFIX, VNIBOR +margin; and discount from PBOC lending rate	THBFIX, VNIBOR +margin; and discount from PBOC lending rate	LIBOR, THBFIX, VNIBOR +margin	THBFIX +margin	THBFIX +margin		
							P74,700

December 31, 2008	<1 year	1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total
Fixed rate							
Philippine peso - denominated	P -	P -	P -	P955	P -	P1,270	P2,225
Interest rate				6.50%		7.25%	
Floating rate							
Foreign currency-denominated (expressed in Philippine peso)	9,233	17,411	17,391	3,751	117	59	47,962
Interest rate	LIBOR, THBFIX, VNIBOR +margin; and discount from PBOC lending rate	LIBOR, THBFIX, VNIBOR +margin; and discount from PBOC lending rate	LIBOR, THBFIX, VNIBOR +margin; and discount from PBOC lending rate	LIBOR, THBFIX, VNIBOR +margin	THBFIX +margin	THBFIX +margin	
							P50,187

Foreign Currency Risk
The Group's exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The Group's risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using a combination of non-derivative and derivative instruments such as foreign currency forwards or swaps to manage its foreign currency risk exposure.

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 borrowings.

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

	2009		2008	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$2,817**	**P130,134**	US$1,845	P87,660
Trade and other receivables	**96**	**4,413**	88	4,159
Noncurrent receivables	**101**	**4,656**	118	5,616
	3,014	**139,203**	2,051	97,435
Liabilities				
Drafts and loans payable	**137**	**6,332**	191	9,077
Accounts payable and accrued expenses	**98**	**4,528**	102	4,853
Long-term debt (including current maturities)	**664**	**30,674**	1,009	47,961
	899	**41,534**	1,302	61,891
Net foreign currency-denominated monetary assets	**US$2,115**	**P97,669**	US$749	P35,544

The Group reported net foreign exchange gains (losses) amounting to (P2,256), (P7,298) and P4,683 in 2009, 2008 and 2007, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Peso to US Dollar
December 31, 2007	41.28
December 31, 2008	47.52
December 31, 2009	46.20

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios. Foreign exchange movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in unrealized and realized foreign exchange gains or losses;
- translation reserves arising from increases or decreases in foreign exchange gains or losses recognized directly as part of other comprehensive income; and
- hedging reserves arising from increases or decreases in foreign exchange gains or losses of the hedged item and the hedging instrument.

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 foreign operations) as of December 31, 2009 and 2008:

2009	**P1 decrease in the US dollar exchange rate**		**P1 increase in the US dollar exchange rate**	
	Effect on Income before Income Tax	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P2,685)**	**(P1,743)**	**P2,685**	**P1,743**
Trade and other receivables	**(7)**	**(93)**	**7**	**93**
Noncurrent receivables	**(100)**	**(61)**	**100**	**61**
	(2,792)	**(1,897)**	**2,792**	**1,897**
Drafts and loans payable	**69**	**109**	**(69)**	**(109)**
Accounts payable and accrued expenses	**8**	**95**	**(8)**	**(95)**
Long-term debt (including current maturities)	**600**	**424**	**(600)**	**(424)**
	677	**628**	**(677)**	**(628)**
	(P2,115)	**(P1,269)**	**P2,115**	**P1,269**

2008	P1 decrease in the US dollar exchange rate		P1 increase in the US dollar exchange rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P1,623)	(P1,276)	P1,623	P1,276
Trade and other receivables	(12)	(83)	12	83
Noncurrent receivables	(99)	(82)	99	82
	(1,734)	(1,441)	1,734	1,441
Drafts and loans payable	140	142	(140)	(142)
Accounts payable and accrued expenses	6	100	(6)	(100)
Long-term debt (including current maturities)	923	686	(923)	(686)
	1,069	928	(1,069)	(928)
	(P665)	(P513)	P665	P513

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in market prices. 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 position is offset by the resulting lower physical raw material cost.

The Parent Company enters into commodity derivative transactions on behalf of its subsidiaries and affiliates to reduce cost by optimizing purchasing synergies within the Group and managing inventory levels of common materials.

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 pertains to the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group's objectives to manage its liquidity risk are as follows: 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 Group constantly monitors and manages its liquidity position, liquidity gaps or surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of December 31, 2009 and 2008.

2009

	Carrying Amount	Contractual Cash Flow	1year or less	> 1 year - 2 years	> 2 years - 5 years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P209,411	P209,411	P209,411	P -	P -	P -
Trade and other receivables - net	49,082	49,082	49,082	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	202	202	202	-	-	-
AFS financial assets (included under "Investments and advances" account in the consolidated statements of financial position)	351	351	-	351	-	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	5,933	5,933	-	-	5,933	-
Financial Liabilities						
Drafts and loans payable	56,789	56,925	56,925	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities)	30,721	30,721	30,721	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	111	111	111	-	-	-
Long-term debt (including current maturities)	72,962	89,747	4,836	5,318	75,526	4,067
Other noncurrent liabilities (excluding noncurrent retirement liabilities)	19,410	19,410	-	7,817	11,593	-

2008

	Carrying Amount	Contractual Cash Flow	1year or less	> 1 year - 2 years	> 2 years - 5 years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P116,939	P116,939	P116,939	P -	P -	P -
Trade and other receivables - net	50,814	50,814	50,814	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts in the consolidated statements of financial position amounting to P190 and P1, respectively)	191	191	190	1	-	-
AFS financial assets (included under "Investments and advances" account in the consolidated statements of financial position)	590	590	-	590	-	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	7,439	7,439	-	-	7,439	-
Financial Liabilities						
Drafts and loans payable	48,560	48,790	48,790	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities)	20,326	20,326	20,326	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	2,353	2,353	2,353	-	-	-
Long-term debt (including current maturities)	49,763	53,241	10,151	18,402	23,127	1,561
Other noncurrent liabilities (excluding noncurrent retirement liabilities)	25,573	25,573	-	7,425	18,148	-

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables and investment securities. The Group also manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures. Goods are subject to retention of title clauses so that in the event of default, the Group would have a secured claim. Where appropriate, the Group obtains collateral or arranges master netting agreements.

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on the credit risk.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments
The Group recognizes provision for impairment losses based on specific and collective impairment tests, when objective evidence of impairment has been identified either on an individual account or on a portfolio level.

Financial information on the Group's maximum exposure to credit risk as of December 31, 2009 and 2008, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	Note	**2009**	2008
Cash and cash equivalents	*7*	**P209,411**	P116,939
Trade and other receivables - net	*8*	**49,082**	50,814
Derivative assets	*36*	**202**	191
AFS financial assets	*10*	**351**	590
Noncurrent receivables and deposits - net	*15*	**5,933**	7,439
		P264,979	P175,973

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

Financial and Other Risks Relating to Livestock
The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling prices of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces of supply and demand, and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed 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 regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken in all dressing plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.

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

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

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

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

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

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

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

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

The Group is not subject to externally imposed capital requirements.

36. Financial Assets and Financial Liabilities

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

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P209,411	P209,411	P116,939	P116,939
Trade and other receivables - net	49,082	49,082	50,814	50,814
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position amounting to P202 and P190 in 2009 and 2008, respectively, and "Other noncurrent assets" account in the consolidated statements of financial position amounting to P1 in 2008)	202	202	191	191
AFS financial assets (included under "Investments and advances" account in the consolidated statements of financial position)	351	351	590	590
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	5,933	5,933	7,439	7,439
Financial Liabilities				
Drafts and loans payable	56,789	56,789	48,560	48,560
Accounts payable and accrued expenses (excluding current retirement liabilities)	30,721	30,721	20,326	20,326
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	111	111	2,353	2,353
Long-term debt (including current maturities)	72,962	77,773	49,763	49,826
Other noncurrent liabilities (excluding noncurrent retirement liabilities)	19,410	17,871	25,573	22,087

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 maturities 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 based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

AFS Financial Assets. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets. Unquoted equity securities are carried at cost less impairment.

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

Long-term Debt and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. As of December 31, 2009 and 2008, discount rates used range from 4.3% to 8.0% and 5.7% to 6.9%, respectively. The carrying values of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

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

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

Derivative Instruments Accounted for as Hedges

Cash Flow Hedges

Commodity Options
As of December 31, 2008, the Group has outstanding bought and sold options designated as hedge of forecasted purchases of fuel oil with a notional quantity of 12,000 metric tons. The call and put options can be exercised at various calculation dates in 2009 with specified quantities on each calculation date. The net unrealized fair value change (after tax) reported in equity and the amount charged to profit and loss on these call and put options as of December 31, 2008 amounted to P123 and P9, respectively.

As of December 31, 2009, the Group has no outstanding options designated as hedge on the purchase of commodity. However, the amount charged to profit and loss in 2009 amounted to P159.

These option contracts were used to hedge the commodity price risk of the Group's commitments. There was no ineffective portion on these hedges.

Other Derivative Instruments Not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the 2009 and 2008 consolidated statements of income. Details are as follows:

Freestanding Derivatives

Freestanding derivatives consist of commodity derivatives and currency derivatives entered into by the Group.

Short-term Currency Swaps
As of December 31, 2008, the Group has outstanding short-term currency swap agreements with an aggregate notional amount of US$881. The net negative fair value of these currency swaps amounted to P905 as of December 31, 2008. These swaps matured in 2009.

As of December 31, 2009, the Group has no outstanding short-term currency swap agreements.

Commodity Swaps
The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2009, 2010 and 2011. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps as of December 31, 2009 and 2008 is 1,875 and 450 metric tons, respectively. As of December 31, 2009 and 2008, the positive (negative) fair value of these swaps amounted to P60 and (P19), respectively.

Commodity Options
As of December 31, 2008, the Group has outstanding bought and sold options covering its fuel oil requirements with notional quantity of 58,800 metric tons. These options have monthly maturities in 2009 with specified quantities on each maturity date. The net negative fair value of these options as of December 31, 2008 amounted to P920. As of December 31, 2009, there were no outstanding options on the purchase of fuel oil.

The Group has outstanding bought and sold options covering its wheat requirements with notional quantities as of December 31, 2009 and 2008 of 59,874 and 34,292 metric tons, respectively. These options can be exercised at various calculation dates in 2009 and 2010 with specified quantities on each calculation date. As of December 31, 2009 and 2008, the net negative fair value of these options amounted to P6 and P94, respectively.

Embedded Derivatives

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

Embedded Currency Forwards
As of December 31, 2009 and 2008, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$112 and US$73, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. As of December 31, 2009 and 2008, the net positive (negative) fair value of these embedded currency forwards amounted to P73 and (P26), respectively.

Embedded Currency Options
As of December 31, 2009 and 2008, the total outstanding notional amount of currency options embedded in non-financial contracts amounted to US$36 and US$15, respectively. These non-financial contracts consist mainly of sales agreements. These embedded options are not clearly and closely related to their host contracts. As of December 31, 2009 and 2008, the net positive (negative) fair value of these embedded currency options amounted to (P36) and P10, respectively.

For the years ended December 31, 2009, 2008 and 2007, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P962, (P10,718) and (P1,726), respectively.

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Balance at beginning of year	**(P2,162)**	P29
Net changes in fair value of derivatives:		
Designated as accounting hedges	**77**	(245)
Non-accounting hedges	**914**	(10,832)
	(1,171)	(11,048)
Less fair value of settled instruments	**(1,262)**	(8,886)
Balance at end of year	**P91**	(P2,162)

Hedge Effectiveness Results

The effective fair value changes, net of tax, on the Group's cash flow hedges that were deferred in equity as of December 31, 2008 amounted to P123. As of December 31, 2009, the Group has no outstanding derivatives designated as hedge.

Fair Value Hierarchy

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2009. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

	Level 1	**Level 2**	**Total**
Financial Assets			
Derivative assets	**P65**	**P137**	**P202**
AFS financial assets	**-**	**351**	**351**
Financial Liabilities			
Derivative liabilities	**11**	**100**	**111**

As of December 31, 2009, the Group has no financial instruments valued based on Level 3. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

37. Events After the Reporting Date

a. *Investment in Top Frontier Holdings, Inc. (Top Frontier)*

On January 6, 2010, the Parent Company's BOD approved an investment in Top Frontier through the acquisition of a 49% stake via equity infusion. Said investment consists of the Parent Company's: (i) subscription of 2,401,960 common shares of Top Frontier from its unissued capital stock; (ii) deposit for future subscription amounting to P48,324, with the option granted to the Parent Company to convert the same to non-voting, redeemable, participating preferred shares upon the amendment by Top Frontier of its Articles of Incorporation and Top Frontier's compliance of its obligations related to the aforementioned investment. As of April 14, 2010, no such conversion has been effected.

b. *SMPFC*

On February 2, 2010, the Parent Company's BOD approved the following corporate actions:

- Sale to SMPFIL, a wholly-owned subsidiary of SMPFC, of the Parent Company's 51% interest in SMPFI at book value.
- Potential subscription of up to P5,200 worth of new SMPFC shares.
- Sale of the Parent Company's food-related brands and intellectual property rights to SMPFC at a purchase price of P3,200.
- Sale of up to 40% of the Parent Company's interest in SMPFC, by way of a trade sale or marketed placements to investors, which may include investors outside the United States (Reg S) or and to not more than 19 non-qualified buyers domestically to be determined by Management.

On February 2, 2010, the BOD of SMPFC approved the proposal of SMPFC management to a) purchase food-related brands and intellectual property rights from the Parent Company at a purchase price of P3,200, and b) acquire, through SMPFIL, a

BVI company and a wholly-owned subsidiary of SMPFC, the Parent Company's 51% interest, through SMFBIL, in SMPFI at book value. SMPFI owns 100% of SMPFVN.

On February 2, 2010 and March 12, 2010, SMPFC's stockholders approved, among others, the following corporate actions, subject to the necessary approvals of the SEC:

- Potential issuance of up to 75,000,000 new SMPFC shares to the Parent Company or third parties.

- Amendment of Amended Articles of Incorporation of SMPFC to reflect the following:

  i. de-classification of SMPFC's common shares;
  ii. increase in SMPFC's authorized capital stock by P1,000 or 100,000,000 shares at P10.00 par value; and
  iii. denial of Pre-emptive rights to the proposed issuance of shares of up to 75,000,000 new SMPFC shares to the Parent Company or third parties.

- Declaration of 18% stock dividend based on the issued and outstanding shares to be taken out of the proposed increase in authorized capital stock.

c. *Investment in Universal LRT Corporation (BVI) Limited (ULC) and ULCOM Company, Inc. (ULCOM)*

The Parent Company has been offered a majority stake in ULC and ULCOM. ULC is the company undertaking the Metro Rail Transit System - Line 7 Project (MRT 7 Project), while ULCOM is the entity designated by ULC to operate and maintain the MRT 7 Project. The MRT 7 Project involves the development, financing, operation and maintenance of an integrated transportation system consisting of: (i) a 22-kilometer rail transit system which shall be built from the North Avenue Station in EDSA to San Jose del Monte, Bulacan; (ii) an Intermodal Transportation Terminal (ITT); and (iii) a 22-kilometer, 6-lane highway from the Bocaue interchange of the North Luzon Expressway to the ITT.

d. *Investment in Daguma-Agro Minerals Inc. (Daguma)*

On January 28, 2010, SMEC acquired 100% of the outstanding capital stock of Daguma, a coal mining company with coal property located at Lake Sebu, South Cotabato, consisting of 2 coal blocks with a total area of 2,000 hectares covered by a Coal Operating Contract with the Department of Energy.

e. *Investment in Caticlan International Airport Development Corp. (CIADC)*

On April 8, 2010, the Parent Company, through its wholly-owned subsidiary, SMHC, executed a share sale purchase agreement with the consortium of certain individuals and a corporation (the "Agreement"). Under the terms of the Agreement, SMHC shall acquire, initially, a majority interest in CIADC. CIADC holds the exclusive rights, obligations and privileges to finance, design, construct, operate and maintain the Caticlan Airport by virtue of the Concession Agreement, dated June 22, 2009, with the Republic of the Philippines, through the Department of Transportation and Communications and the Civil Aviation Authority.

38. Other Matters

a. *Contingencies*

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

On April 12, 2004 and May 26, 2004, the Parent Company was assessed by the BIR for deficiency excise tax on one of its beer products. The Parent Company contested the assessments before the Court of Tax Appeals (CTA) under CTA case numbers 7052 and 7053. In the opinion of management and its legal counsel, the Parent Company has strong legal grounds to contest the assessments.

In relation to the aforesaid contested assessments, the Parent Company, on January 31, 2006, filed with the CTA, under CTA case number 7405, a claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it. An independent Certified Public Accountant (CPA) commissioned by the CTA to conduct an examination, verification and audit to validate the documents supporting the claim for refund has submitted a report stating, among other things, that the claim is properly supported by the relevant documents.

On November 27, 2007, the Parent Company filed with the CTA, under CTA case number 7708, a second claim for refund, also in relation to the contested assessments, as it was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate. An independent CPA was likewise commissioned by the CTA in this case for the purpose of conducting an examination, verification and audit of the documents supporting the aforesaid claim. In a report recently submitted to the CTA, the independent CPA stated that the second claim is properly supported by the relevant documents. This case is now deemed submitted for decision by the CTA.

On January 11, 2008, the BIR addressed a letter to the Parent Company, appealing to the Parent Company to settle its alleged tax liabilities subject of CTA case numbers 7052 and 7053 "in order to obviate the necessity of issuing a Warrant of Distraint and Garnishment and/or Levy." The Parent Company's external legal counsel responded to the aforesaid letter and met with appropriate officials of the BIR and explained to the latter the unfairness of the issuance of a Warrant of Distraint and Garnishment and/or Levy against the Parent Company, especially in view of the Parent Company's pending claims for refund. As of April 14, 2010, the BIR has taken no further action on the matter.

On July 24, 2009, the Parent Company filed its third claim for refund with the CTA, under CTA case number 7953, also in relation to the contested assessments. This case is now undergoing pre-trial.

b. *Restructuring Plan*

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 BOD to approve the implementing transactions of such corporate restructuring plan after evaluation and study by Management, subject to applicable laws.

c. *Top Frontier*

On November 27, 2009, Top Frontier acquired 857,115,914 common shares of the issued and outstanding common shares of the Parent Company from SMCRP at P75.00 per share for a total of P64,284. In addition, Top Frontier plans to acquire the 327,000,000 common Class "B" shares of the Parent Company held by Q-Tech Alliance Holdings, Inc. ("Q-Tech") and an option over the 301,666,000 common shares. The purchase will raise Top Frontier's current equity ownership interest beyond the 35% threshold under tender offer rules.

Top Frontier offered to buy 235,141,533 Class "A" and 85,797,844 Class "B" common shares of the Parent Company at the price of seventy five pesos (P75.00) per share. The tender offer period was from March 10 and expired at 12:00 pm of April 8, 2010. Out of the total Tender Offer shares, a total of 47,700,679 Class "A" shares and 31,759,499 Class "B" shares were tendered by the Parent Company's shareholders and accepted for purchase by Top Frontier. At the offer price of P75.00 per share, the total consideration of the shares tendered amounted to P5,959, inclusive of taxes, brokers' commissions and other fees. On April 13, 2009, Top Frontier acquired 327,000,000 common Class "B" shares of the Parent Company held by Q-Tech at the price of P66.00 per share. The tendered shares and the 327,000,000 common Class "B" shares were crossed in the PSE on April 13, 2010. As of April 14, 2010, Top Frontier had a total shareholdings of 1,263,576,092 common shares of the Parent Company.

d. *Commitments*

The outstanding purchase commitments of the Group as of December 31, 2009 amounted to P13,468.

Amount authorized but not yet disbursed for capital projects as of December 31, 2009 is approximately P4,251.

e. *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries and associates to Philippine peso were closing rates of P46.20 in 2009 and P47.52 in 2008 for statement of financial position accounts; and average rates of P47.64 in 2009, P44.47 in 2008 and P46.18 in 2007 for income and expense accounts.

f. *Option Agreement with Sea Refinery Holdings B.V. (SEA BV)*

On December 24, 2008, the Parent Company entered into an option agreement with SEA BV pursuant to which SEA BV granted to the Parent Company an option to acquire and purchase up to 100% of its interests in SEA BV's wholly-owned subsidiary, SEA Refinery Corporation (SRC), consisting of 40,000,000 shares of stock with a par value of P1.00 per share (Option Shares). SRC owns 50.1% stake in Philippine oil refinery, Petron Corporation. The option may be exercised by the Parent Company within a period of two (2) years from December 24, 2008. The exercise price for the Option Shares will be the sum of (a) the paid-up capital of SEA BV in SRC amounting to P40 and (b) the value of the shares acquired by SRC in Petron Corporation plus the assumption of, if any, liability or obligation and expenses incurred by SRC for the acquisition of the said shares. The Parent Company and SEA BV have agreed that during the option period the Parent Company shall have representation in the board and management of Petron Corporation. As of April 14, 2010, the Parent Company has not yet exercised the Option Shares.

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The Company's common stock is listed and traded at the Philippine Stock Exchange. Authorized common stock is divided into 60% Class A and 40% Class B shares, with the same rights and privileges. However, only Filipino citizens or corporations or associations at least 60% of the capital of which is owned by Filipino citizens can own Class A shares. SMC American Depositary Receipts are traded over-the-counter in the United States. Morgan Guaranty and Trust Company of New York serves as the depository bank.

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