



SAN MIGUEL CORPORATION

November 15, 2010

The Philippine Stock Exchange, Inc.
Disclosure Department
3rd Floor, Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Attention: **Ms. Janet A. Encarnacion**
Head - Disclosure Department

Gentlemen:

We submit herewith the attached quarterly report (SEC Form 17-Q) of the Company for the period ended September 30, 2010.

Very truly yours,



FERDINAND K. CONSTANTINO
Corporate Information Officer

COVER SHEET

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S. E. C. Registration Number

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(Company's Full Name)

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

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Contact Person

(632)	632-3000
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Company Telephone Number

1	2
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Month

3	1
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Day

SEC FORM-2010-3rd Quarter

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FORM TYPE

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Annual Meeting

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Secondary License Type, If Applicable

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Amended Articles Number/Section

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Total No. of Stockholders

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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

1. For the quarterly period ended September 30, 2010
2. Commission identification number PW00000227
3. BIR Tax Identification No **041-000-060-741**
4. Exact name of issuer as specified in its charter SAN MIGUEL CORPORATION
5. Philippines
Province, country or other jurisdiction
of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. **No. 40 San Miguel Avenue,**
Mandaluyong City **1550**
Address of issuer's principal office Postal Code
8. **(632) 632-3000**
Issuer's telephone number, including area code
9. N/A
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Number of shares of common stock and Total Liabilities (as of September 30, 2010)	
<u>Title of Each Class</u>	
Common Shares	2,310,282,326
Series "1" Preferred Shares	<u>970,506,353</u>
Total	3,280,788,679
Total Liabilities	<u>444,552 million</u>

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

If yes, state name of such Stock Exchange and the class/es of securities listed herein.
Common Shares - Philippine Stock Exchange
12. Indicate by check mark whether the registrant:
 - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months.
Yes ☒ No ☐
 - (b) has been subject to such filing requirements for the past ninety (90) days.

Yes ☒ No ☐

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes ☒ No ☐

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of San Miguel Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended September 30, 2010 (with comparative figures as of December 31, 2009 and for the period ended September, 2009) and Selected Notes to Consolidated Financial Statements is hereto attached as **Annex "A"**.

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

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

PART II--OTHER INFORMATION

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

NONE

SIGNATURES

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

Issuer **SAN MIGUEL CORPORATION**

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

Date November 15, 2010

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

Date November 15, 2010

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2010 and December 31, 2009
(In Millions)

ASSETS			LIABILITIES AND EQUITY		
	2010 Unaudited	2009 Audited		2010 Unaudited	2009 Audited
Current Assets			Current Liabilities		
Cash and cash equivalents (Notes 8 and 9)	P 94,672	P 209,411	Drafts and loans payable (Notes 8 and 9)	P 54,188	P 56,789
Trade and other receivables - net (Notes 3, 8 and 9)	71,311	49,082	Accounts payable and accrued expenses (Notes 3, 8 and 9)	62,045	31,404
Inventories	31,017	25,458	Income and other taxes payable	5,810	4,186
Current portion of biological assets - net	3,130	2,525	Dividends payable	710	573
Prepaid expenses and other current assets (Notes 8 and 9)	10,848	8,891	Current maturities of long-term debt - net of debt issue costs (Notes 8 and 9)	824	1,077
	210,978	295,367			
Asset held for sale (Note 5)	3,808	2,746	Total Current Liabilities	123,577	94,029
Total Current Assets	214,786	298,113			
Noncurrent Assets			Noncurrent Liabilities		
Investments and advances - net (Notes 8 and 9)	160,072	39,356	Long-term debt - net of current maturities and debt issue costs (Notes 8 and 9)	96,377	71,885
Property, plant and equipment - net (Note 4)	271,110	65,919	Deferred tax liabilities	11,273	12,037
Investment properties - net	1,852	1,867	Other noncurrent liabilities (Notes 8 and 9)	213,325	19,602
Biological assets - net of current portion	1,417	1,847	Total Noncurrent Liabilities	320,975	103,524
Goodwill - net	6,263	6,408	Equity		
Other intangible assets - net	11,607	3,630	Equity Attributable to Equity Holders of the Parent Company		
Deferred tax assets	7,232	8,883	Capital stock - common	16,245	16,150
Other noncurrent assets - net (Notes 3, 8 and 9)	7,911	12,468	Capital stock - preferred	4,852	4,852
			Additional paid-in capital	100,210	99,085
Total Noncurrent Assets	467,464	140,378	Revaluation increment	1,442	18
			Cumulative translation adjustments	5,262	5,845
			Retained earnings:		
			Appropriated	5,624	5,497
			Unappropriated	145,465	151,911
			Treasury stock	(69,541)	(69,541)
				209,559	213,817
			Non-controlling Interests	28,139	27,121
			Total Equity	237,698	240,938
	P 682,250	P 438,491		P 682,250	P 438,491

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

CERTIFIED CORRECT:

BELL A. NAVARRA
VP, Corporate Finance - Comptrollership

ANNEX "A"

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Period Ended September 30, 2010 and 2009 (Unaudited)
(In Millions, Except Per Share Data)

	2010		2009		For the Quarter Ended	
					2010	2009
SALES (Note 2)	P	161,820	P	126,528	P 69,928	P 41,675
COST OF SALES		115,477		91,322	53,084	29,737
GROSS PROFIT		46,343		35,206	16,844	11,938
SELLING AND ADMINISTRATIVE EXPENSES		(26,599)		(22,083)	(9,225)	(7,492)
INTEREST EXPENSE AND OTHER FINANCING CHARGES		(11,052)		(5,771)	(6,171)	(1,761)
INTEREST INCOME		2,373		3,686	636	1,218
EQUITY IN NET EARNINGS OF ASSOCIATES		853		1,564	(238)	667
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT		506		50,721	177	4
OTHER INCOME (CHARGES) - Net		11,684		(1,404)	9,386	(932)
INCOME BEFORE INCOME TAX		24,108		61,919	11,409	3,642
INCOME TAX EXPENSE		6,429		3,006	3,176	975
NET INCOME	P	17,679	P	58,913	P 8,233	P 2,667
Net Income Attributable to :						
Equity Holders of the Parent Company	P	12,696	P	57,031	P 6,418	P 1,406
Non-controlling Interests		4,983		1,882	1,815	1,261
	P	17,679	P	58,913	P 8,233	P 2,667
Basic Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 6):						
Common	P	3.61	P	18.05	P 2.15	P 0.43
Preferred	P	4.50	P	-	P 1.50	P -
Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 6):						
Common	P	3.59	P	17.98	P 2.14	P 0.43
Preferred	P	4.50	P	-	P 1.50	P -

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

CERTIFIED CORRECT:


BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Period Ended September 30, 2010 and 2009 (Unaudited)
(In Millions)

	2010	2009	For the Quarter Ended 2010	2009
NET INCOME	P 17,679	P 58,913	P 8,233	P 2,667
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	(912)	(355)	(141)	(245)
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	176	(116)	13	(116)
INCOME TAX BENEFIT (EXPENSE)	(18)	12	(2)	12
NET GAIN ON CASH FLOW HEDGES	-	181	-	38
INCOME TAX EXPENSE	-	(54)	-	(11)
SHARE IN COMPREHENSIVE INCOME OF AN ASSOCIATE	8	-	6	-
OTHER COMPREHENSIVE LOSS - NET OF TAX	(746)	(332)	(124)	(322)
TOTAL COMPREHENSIVE INCOME - NET OF TAX	P 16,933	P 58,581	P 8,109	P 2,345
Comprehensive Income Attributable to :				
Equity Holders of the Parent Company	P 12,113	P 56,583	P 6,664	P 1,080
Non-controlling Interests	4,820	1,998	1,445	1,265
	P 16,933	P 58,581	P 8,109	P 2,345

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

CERTIFIED CORRECT:


BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Period Ended September 30, 2010 and 2009
(In Millions)

	(in millions)																Non-controlling Interests	Total Equity								
	Equity Attributable to Equity Holders of the Parent Company																									
	Capital Stock		Additional Paid-in Capital	Revaluation Increment	Cumulative Translation Adjustments			Retained Earnings		Treasury Stock	Total															
	Common	Preferred			Translation Reserve	Hedging Reserve	Fair Value Reserve	Appropriated	Unappropriated																	
As of January 1, 2010 (Audited)	P	16,150	P	4,852	P	99,085	P	18	P	5,737	P	-	P	108	P	5,497	P	151,911	P	(69,541)	P	213,817	P	27,121	P	240,938
Foreign currency translation differences	-	-	-	-	-	(784)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(784)	-	(128)	-	(912)	
Share in comprehensive income of associates	-	-	-	-	-	8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8	-	-	-	8	
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	-	-	-	-	193	-	-	-	-	-	-	-	-	-	-	193	-	(35)	-	158	
Other comprehensive income (loss)	-	-	-	-	-	(776)	-	-	-	193	-	-	-	-	-	-	-	-	-	-	(583)	-	(163)	-	(746)	
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,696	-	-	12,696	-	4,983	-	17,679	
Total comprehensive income (loss) for the period	-	-	-	-	-	(776)	-	-	-	193	-	-	-	-	-	-	-	12,696	-	-	12,113	-	4,820	-	16,933	
Issuance of capital stock	95	-	908	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,003	-	-	-	1,003	
Stock options	-	-	217	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	217	-	-	-	217	
Addition to non-controlling interests	-	-	-	-	(24)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(24)	-	(308)	-	(332)	
Appropriations - net	-	-	-	-	-	-	-	-	-	-	-	-	127	-	(127)	-	-	-	-	-	-	-	-	-	-	
Cash dividends (Note 7):	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(14,771)	-	(3,494)	-	(18,265)	
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,244)	-	-	-	(4,244)	
Acquisition of a subsidiary and others	-	-	-	-	1,448	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,448	-	-	-	1,448	
As of September 30, 2010 (Unaudited)	P	16,245	P	4,852	P	100,210	P	1,442	P	4,961	P	-	P	301	P	5,624	P	145,465	P	(69,541)	P	209,559	P	28,139	P	237,698
As of January 1, 2009 (Audited)	P	16,112	P	-	P	31,183	P	18	P	4,882	P	(123)	P	78	P	5,522	P	96,298	P	(4,053)	P	149,917	P	18,307	P	168,224
Foreign currency translation differences	-	-	-	-	-	(466)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(466)	-	111	-	(355)	
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	-	-	-	-	-	-	105	-	-	-	-	-	-	-	-	-	-	105	-	22	-	127	
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	-	-	-	-	(87)	-	-	-	-	-	-	-	-	-	-	(87)	-	(17)	-	(104)	
Other comprehensive income (loss)	-	-	-	-	-	(466)	-	-	-	105	(87)	-	-	-	-	-	-	-	-	-	(448)	-	116	-	(332)	
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	57,031	-	-	57,031	-	1,882	-	58,913	
Total comprehensive income (loss) for the period	-	-	-	-	-	(466)	-	-	-	105	(87)	-	-	-	-	-	-	57,031	-	-	56,563	-	1,998	-	58,581	
Issuance of capital stock	24	-	299	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	323	-	-	-	323	
Addition to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,592	-	6,592	
Appropriations -net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Cash dividends - common (Note 7)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(25)	25	-	(2,211)	-	(381)	-	(2,592)	
As of September 30, 2009 (Unaudited)	P	16,136	P	-	P	31,482	P	18	P	4,416	P	(18)	P	(9)	P	5,497	P	151,143	P	(4,053)	P	204,612	P	26,516	P	231,128

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

CERTIFIED CORRECT:

BELLA C. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Period Ended September 30, 2010 and 2009 (Unaudited)
(In Millions)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 24,108	P 61,919
Adjustments for :		
Depreciation, amortization and others - net	8,075	7,523
Interest expense and other financing charges	11,052	5,771
Interest income	(2,373)	(3,686)
Equity in net earnings of associates	(853)	(1,564)
Income from investments and property and equipment transactions	(4,544)	(50,721)
Operating income before working capital changes	35,465	19,242
Changes in noncash current assets, certain current liabilities and others	(4,498)	(2,384)
Cash generated from operations	30,967	16,858
Interest paid	(7,925)	(3,873)
Income taxes paid	(5,407)	(4,797)
Net cash flows provided by operating activities	17,635	8,188
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of subsidiaries, net of cash acquired	(6,943)	-
Additions to investments and advances	(111,419)	(4,482)
Additions to property, plant and equipment	(7,254)	(4,112)
Increase in other noncurrent assets and others	(9,535)	(1,184)
Advances to related parties - net	(604)	(8,750)
Proceeds from sale of investments and property and equipment	983	55,041
Interest received	2,751	3,381
Net cash flows provided by (used in) investing activities	(132,021)	39,894
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from :		
Short-term borrowings	548,814	517,756
Long-term borrowings	53,726	39,347
Payments of:		
Short-term borrowings	(551,338)	(520,648)
Long-term borrowings	(29,123)	(44,603)
Cash dividends paid	(18,826)	(3,286)
Proceeds from issuance of capital stock	1,003	323
Dividends paid to non-controlling shareholders	(3,540)	(1,357)
Increase (decrease) in non-controlling interests - net	142	(38)
Net cash flows provided by (used in) financing activities	858	(12,506)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(1,211)	318
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(114,739)	35,894
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	209,411	116,939
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P 94,672	P 152,833

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION (Parent Only)
 ACCOUNTS RECEIVABLE - TRADE
 AS OF SEPTEMBER 30, 2010

		TOTAL	OVER 90 DAYS
ACCOUNTS RECEIVABLE-TRADE	P	269,368,310.17	<u>269,368,310.17</u>
ALLOW. FOR DOUBTFUL ACCOUNTS		<u>(269,368,310.17)</u>	
NET	P	<u>0.00</u>	

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SAN MIGUEL CORPORATION AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Millions, Except Per Share Data)

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its consolidated interim financial statements as of and for the period ended September 30, 2010 and comparative financial statements for the same period in 2009 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, Interim Financial Reporting. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements are presented in Philippine peso and all values are rounded to the nearest million (P000,000), except when otherwise indicated.

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

Adoption of New Standards, Amendments to Standards and Interpretations

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

Revised Standards, Amendments to Standard and Interpretations Adopted in 2010

Starting January 1, 2010, the Group adopted the following amended PAS and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC):

- 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 became mandatory for the 2010 consolidated financial statements, was 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 became 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 became 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.
- 2009 Annual Improvements to PFRS. The Financial Reporting Standards Council has adopted the Improvements to PFRS 2009. Among those improvements, only the following amendments were identified to be relevant but were also not expected to have any material effects on the Company's consolidated financial statements.
 - PAS 1 (Amendment), *Presentation of Financial Statements*. The amendments clarify that the classification of the liability component of a convertible instrument as current or noncurrent is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments.
 - PAS 7 (Amendment), *Statement of Cash Flows*. The amendment clarifies that only expenditures that result in recognition of an asset can be classified as part of cash flow investing activities.

- PAS 17 (Amendment), *Leases*. The amendment clarifies that when a lease includes both land and building elements, an entity should determine the classification of each element based on paragraphs 7-13 of PAS 17, taking into account of the fact that land normally has an indefinite economic life.
- PAS 36 (Amendment), *Impairment of Assets*. The amendment clarifies that the largest unit to which goodwill should be allocated is the operating segment level as defined in PFRS 8 before applying the aggregation criteria of PFRS 8.
- PAS 38 (Amendment), *Intangible Assets*. The amendments clarify the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets.
- PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement*. The amendment clarifies whether embedded prepayment options, in which the exercise price presented a penalty for early repayment of the loans are considered closely related to the host debt contract. It also clarifies the scope exemption which applies only to binding contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date. Gains and losses on hedging instruments should be reclassified from equity to profit or loss account as a reclassification adjustment.
- PFRS 8 (Amendment), *Operating Segments*. It clarifies that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker.
- Philippine Interpretation IFRIC 9, *Embedded Derivatives - Amendment to IFRIC 9 and PAS 39*. The amendment clarifies that IFRIC 9 does not apply to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture. Currently, the Company does not have such type of embedded transaction.

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 interim consolidated financial statements.

2. 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 four reportable segments, namely, beverage, food, packaging and power.

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.

The power segment is engaged in power generation and mining. The Power Generation assets supply electricity to a variety of customers, including The Manila Electric Company, electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market.

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.

Financial information about reportable segments follow:

	For the period ended September 30, 2010 and 2009													
	Beverage		Food		Packaging		Power		Others		Eliminations		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Sales														
External sales	P65,570	P60,239	P57,714	P55,911	P13,774	P10,378	P24,762	P -	P -	P -	P -	P -	P161,820	P126,528
Inter-segment sales	136	633	2	6	3,307	4,042	-	-	-	-	(3,445)	(4,681)	-	-
Total sales	P65,706	P60,872	P57,716	P55,917	P17,081	P14,420	P24,762	P -	P -	P -	(P3,445)	(P4,681)	P161,820	P126,528
Results														
Segment results	P13,994	P11,342	P4,173	P2,221	P1,489	P1,320	P2,240	P -	(P2,315)	(P2,231)	P163	P471	P19,744	P13,123

3. Related Party Transactions

Transactions with related parties are made at normal market prices.

- The Parent Company has advances to San Miguel Corporation Retirement Plan amounting to P3,559 and P2,785 as of September 30, 2010 and December 31, 2009, respectively, subject to interest, included as part of "Trade and other receivables" account.
- The significant transactions of the Group and the Manila Electric Company include the following:

Year	Sale of electricity	Purchases of utilities	Included under "Trade and other receivables" account	Included under "Noncurrent receivables and deposits" account	Included under "Accounts payable and accrued expenses" account
September 2010	P 6,291	P247	P4,484	P88	P31
December 2009	P -	P692	P72	P68	P32

- c. The significant transactions of the Group and Petron Corporation include the following:

Year	Purchases of fuel	Included under "Trade and other receivables" account	Included under "Accounts payable and accrued expenses" account
September 2010	P1,425	P52	P3,997

4. Property, Plant and Equipment

Property, plant and equipment consist of:

September 30, 2010

	January 1, 2010	Additions and Transfers	Disposals, Reclassifications and Acquisition of a Subsidiaries	Currency Translation Adjustments	September 30, 2010
Cost:					
Land and land improvements	P10,627	P61	P77	P62	P10,827
Buildings and improvements	24,406	180	(147)	(435)	24,004
Power plants	-	3,087	211,812	-	214,899
Machinery and equipment	78,891	2,243	136	(743)	80,527
Transportation equipment	3,305	178	158	(9)	3,632
Tools and small equipment	2,354	156	(210)	(14)	2,286
Office equipment, furniture and fixtures	2,542	79	30	(12)	2,639
Molds	657	168	(192)	(5)	628
Leasehold improvements	921	69	49	-	1,039
Construction in progress	5,674	1,033	(796)	(8)	5,903
	129,377	7,254	210,917	(1,164)	346,384
Accumulated depreciation and amortization:					
Land improvements	1,154	75	(47)	1	1,183
Buildings and improvements	6,731	529	(303)	(110)	6,847
Power plants	-	3,315	6,350	-	9,665
Machinery and equipment	40,884	2,661	(369)	(240)	42,936
Transportation equipment	1,987	155	(128)	(8)	2,006
Tools and small equipment	1,668	148	(188)	(12)	1,616
Office equipment, furniture and fixtures	2,178	119	11	(7)	2,301
Molds	511	81	(111)	(3)	478
Leasehold improvements	372	37	40	-	449
	55,485	7,120	5,255	(379)	67,481
Accumulated impairment losses:					
Land improvements	208	-	204	-	412
Buildings and improvements	2,313	-	(4)	(86)	2,223
Machinery and equipment	5,410	-	(107)	(185)	5,118
Transportation equipment	6	-	-	-	6
Tools and small equipment	13	-	-	-	13
Office equipment, furniture and fixtures	20	-	3	(2)	21
Molds	3	-	(3)	-	-
	7,973	-	93	(273)	7,793
Net book value	P65,919	P134	P205,569	(P512)	P271,110

September 30, 2009

	January 1, 2009	Additions and Transfers	Disposals and Reclassifications	Currency Translation Differences	September 30, 2009
Cost:					
Land and land improvements	P9,189	P1,255	(P85)	P67	P10,426
Buildings and improvements	23,973	668	(142)	65	24,564
Machinery and equipment	77,345	2,369	(398)	191	79,507
Transportation equipment	2,920	157	(320)	12	2,769
Tools and small equipment	1,854	102	(74)	(9)	1,873
Office equipment, furniture and fixtures	2,606	98	(113)	11	2,602
Molds	527	118	(72)	5	578
Leasehold improvements	840	125	(14)	1	952
Construction in progress	5,379	(780)	(232)	2	4,369
	124,633	4,112	(1,450)	345	127,640
Accumulated depreciation and amortization:					
Land improvements	1,054	62	(2)	11	1,125
Buildings and improvements	6,199	517	(35)	6	6,687
Machinery and equipment	38,076	2,769	(627)	62	40,280
Transportation equipment	2,027	165	(238)	9	1,963
Tools and small equipment	1,510	89	(88)	(9)	1,502
Office equipment, furniture and fixtures	2,157	137	(111)	10	2,193
Molds	403	111	(54)	3	463
Leasehold improvements	334	34	(6)	1	363
	51,760	3,884	(1,161)	93	54,576
Accumulated impairment losses:					
Buildings and improvements	1,090	634	-	(2)	1,722
Machinery and equipment	3,442	983	(5)	(6)	4,414
Transportation equipment	1	3	-	-	4
Tools and small equipment	10	1	-	-	11
Office equipment, furniture and fixtures	15	2	-	-	17
Molds	2	-	-	-	2
	4,560	1,623	(5)	(8)	6,170
Net book value	P 68,313	(P1,395)	(P284)	P260	P66,894

Depreciation and amortization charged to operations amounted to P7,120 and P3,884 in September 2010 and 2009, respectively.

5. Asset Held for Sale

On February 15, 2010, San Miguel Properties, Inc.'s (SMPI) Board of Directors (BOD) authorized the divestment of SMPI's interest in Bank of Commerce (BOC).

In April 2010, SMPI acquired additional 5,117,059 BOC common shares held by College Assurance Plan stockholders at P180 per share.

The carrying amount of the investment as of September 30, 2010 of P3,808 representing 38,008,071 common shares is presented as "Assets held for sale" in the consolidated statements of financial position.

6. Earnings Per Share

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

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

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

Basic and Diluted EPS is computed as follows:

	September	
	2010	2009
Income attributable to equity holders of the Parent Company	P12,696	P57,031
Less dividends on preferred shares for the period † (a)	4,367	-
Net income attributable to common shareholders of the Parent Company (b)	P8,329	P57,031
Weighted average number of common shares outstanding (in millions) - basic (c)	2,304	3,159
Effect of dilution - common	17	12
Weighted average number of common shares outstanding (in millions) - diluted (d)	2,321	3,171
Weighted average number of preferred shares outstanding (in millions) (e)	971	-
Common:		
Basic EPS (b/c)	P3.61	P18.05
Diluted EPS (b/d)	P3.59	P17.98
Preferred:		
Basic/Diluted EPS (a/e)	P4.50	P -

7. Dividends

Cash dividends declared by the Parent Company's BOD to common shareholders amounted to P6.40 per share as of September 2010 and P0.70 per share as of September 2009.

Cash dividends declared by the Parent Company's BOD to preferred shareholders amounted to P4.5 per share as of September 2010.

On October 8, 2010, the Parent Company's BOD declared cash dividends to preferred shareholders at P1.50 per share and for common shareholders at P0.35 per share. The cash dividends for the Series "1" preferred shares are payable on November 15, 2010 to all preferred shareholders of record as of October 22, 2010. The cash dividends for common shares are payable on November 22, 2010 to all common shareholders of record as of November 2, 2010.

8. 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, available-for-sale (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 9 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 P563 and P41 in September 30, 2010 and 2009, 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 September 30, 2010 and December 31, 2009, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

September 30, 2010	<1 year	1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total
Fixed rate							
Philippine peso-denominated	P -	P14,759	P429	P24,098	P429	P2,810	P42,525
Interest rate	-	6.50% - 8.30%	8.30%	7.25% - 8.875%	8.30%	10.50%	
Floating rate							
Philippine peso-denominated	200	1,400	400	400	600	-	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	PDST-F for 3 months +margin	-	
Foreign currency-denominated (expressed in Philippine peso)	626	615	191	62	51,778	-	53,272
Interest rate	THBFIX, VNIBOR +margin;	THBFIX, VNIBOR +margin	THBFIX, VNIBOR +margin	THBFIX +margin	LIBOR +margin	-	
							P98,797
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

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:

	September 30, 2010		December 31, 2009	
	US	Peso	US	Peso
	Dollar	Equivalent	Dollar	Equivalent
Assets				
Cash and cash equivalents	US\$905	P39,704	US\$2,817	P130,134
Trade and other receivables	126	5,513	96	4,413
Noncurrent receivables	-	-	101	4,656
	1,031	45,217	3,014	139,203
Liabilities				
Drafts and loans payable	76	4,953	137	6,332
Accounts payable and accrued expenses	255	11,175	98	4,528
Long-term debt (including current maturities)	1,214	53,272	664	30,675
Other noncurrent liabilities	2,471	108,411	-	-
	4,016	177,811	899	41,535
Net foreign currency-denominated monetary assets	(US\$2,985)	(P132,594)	US\$2,115	P97,668

The Group reported net foreign exchange gains amounting to P6,274 and P335 in September 30, 2010 and 2009, 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, 2008	47.52
September 30, 2009	47.39
December 31, 2009	46.20
September 30, 2010	43.88

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 September 30, 2010 and December 31, 2009:

<u>September 30, 2010</u>	<u>P1 decrease in the US dollar exchange rate</u>		<u>P1 increase in the US dollar exchange rate</u>	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(784)	(P672)	P784	P672
Trade and other receivables	(23)	(118)	23	118
	(807)	(790)	807	790
Drafts and loans payable	35	103	(35)	(103)
Accounts payable and accrued expenses	146	232	(146)	(232)
Long-term debt (including current maturities)	1,180	860	(1,180)	(860)
Other noncurrent liabilities	2,487	2,482	(2,487)	(2,482)
	3,848	3,677	(3,848)	(3,677)
	P3,041	P2,887	(P3,041)	(P2,887)
<hr/>				
<u>December 31, 2009</u>	<u>P1 decrease in the US dollar exchange rate</u>		<u>P1 increase in the US dollar exchange rate</u>	
	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

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 September 30, 2010 and December 31, 2009.

September 30, 2010

	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	P94,672	P94,672	P94,672	P -	P -	P -
Trade and other receivables - net	71,311	71,311	71,311	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	1,311	1,311	1,311	-	-	-
AFS financial assets (included under "Investments and advances" account in the consolidated statements of financial position)	361	361	-	361	-	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	1,375	1,375	-	-	1,375	-
Financial Liabilities						
Drafts and loans payable	54,188	54,365	54,365	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities)	60,046	60,046	60,046	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	1,196	1,196	1,196	-	-	-
Long-term debt (including current maturities)	97,201	120,772	6,239	22,391	88,298	3,844
Other noncurrent liabilities (excluding noncurrent retirement liabilities)	213,205	322,462	-	56,286	59,692	206,484

December 31, 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	-

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 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 September 30, 2010 and December 31, 2009, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	September 30, 2010	December 31, 2009
Cash and cash equivalents	P94,672	P209,411
Trade and other receivables - net	71,311	49,082
Derivative assets	1,311	202
AFS financial assets	361	351
Noncurrent receivables and deposits - net	1,375	5,933
	P169,030	P264,979

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 period.

The Group is not subject to externally imposed capital requirements.

9. Financial Assets and Financial Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition 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.

Financial Assets

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.

The carrying values of financial assets under this category amounted to P1,311, P439 and P202 as of September and June 30, 2010 and December 31, 2009, respectively.

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.

The combined carrying values of financial assets under this category amounted to P167,358, P181,707 and P264,426 as of September and June 30, 2010 and December 31, 2009, respectively.

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 September and June 30, 2010 and December 31, 2009, 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.

The carrying values of financial assets under this category amounted to P361, P350 and P351 as of September and June 30, 2010 and December 31, 2009, respectively.

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.

The carrying values of financial liabilities under this category amounted to P1,196, P376 and P111 as of September and June 30, 2010 and December 31, 2009, respectively.

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.

The combined carrying values of financial liabilities under this category amounted to P424,640, P261,146 and P179,882 as of September and June 30, 2010 and December 31, 2009, respectively.

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.

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.

Classification of Financial Instruments Between Debt and Equity

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.

Offsetting Financial Instruments

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.

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of September 30, 2010 and December 31, 2009:

	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P94,672	P94,672	P209,411	P209,411
Trade and other receivables - net	71,311	71,311	49,082	49,082
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	1,311	1,311	202	202
AFS financial assets (included under "Investments and advances" account in the consolidated statements of financial position)	361	361	351	351
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	1,375	1,375	5,933	5,933
Financial Liabilities				
Drafts and loans payable	54,188	54,188	56,789	56,789
Accounts payable and accrued expenses (excluding current retirement liabilities)	60,046	60,046	30,721	30,721
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	1,196	1,196	111	111
Long-term debt (including current maturities)	97,201	103,375	72,962	77,773
Other noncurrent liabilities (excluding noncurrent retirement liabilities)	213,205	212,312	19,410	17,871

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 September 30, 2010 and December 31, 2009, discount rates used range from 4.1% to 6.1% and 4.3% to 8.0%, respectively. The carrying values of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments and Hedging

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

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

Derivative Instruments Accounted for as Hedges

Freestanding Derivatives

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

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

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

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

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 September and June 30, 2010 and December 31, 2009, 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 September and June 30, 2010 and December 31, 2009, the Group has no outstanding derivatives accounted for as cash flow hedge.

Net Investment Hedge. As of September and June 30, 2010 and December 31, 2009, the Group has no hedge of a net investment in a foreign operation.

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

Freestanding Derivatives

Currency Forwards

As of September and June 30, 2010, the Group has outstanding non-deliverable foreign currency forward contracts to hedge existing and anticipated US\$-denominated receivables. These forwards have an aggregate notional amount of US\$1,360 and US\$460 as of September and June 30, 2010, respectively, with various maturities up to December 2010. As of September and June 30, 2010, the net positive (negative) fair value of these currency forwards amounted to (P36) and P166, respectively.

The Group has no outstanding currency forward contracts as of December 31, 2009.

Currency Options

The Group entered into short-term currency options to manage its foreign currency exposure on US\$-denominated receivables and obligations with an aggregate notional amount of US\$102 and US\$269 as of September and June 30, 2010, respectively. The net negative fair value of these options as of September and June 30, 2010 amounted to P42 and P108, respectively.

As of December 31, 2009, the Group has no outstanding currency option agreements.

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2010 and 2011. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps as of September and June 30, 2010 and December 31, 2009 is 900, 900 and 1,875 metric tons, respectively. As of September and June 30, 2010 and December 31, 2009, the positive fair value of these swaps amounted to P28, P14 and P60, respectively.

Commodity Options

The Group has outstanding bought and sold options covering its wheat requirements with notional quantities as of September and June 30, 2010 and December 31, 2009 of 33,747, 26,943 and 59,874 metric tons, respectively. These options can be exercised at various calculation dates in 2010 and 2011 with specified quantities on each calculation date. As of September and June 30, 2010 and December 31, 2009, the net negative fair value of these options amounted to P5, P10 and P6, respectively.

Embedded Derivatives

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

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at 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.

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

Embedded Currency Forwards

As of September and June 30, 2010 and December 31, 2009, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$110, US\$126 and US\$112, 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 September and June 30, 2010 and December 31, 2009, the net positive fair value of these embedded currency forwards amounted to P178, P17 and P73, respectively.

Embedded Currency Options

As of September and June 30, 2010 and December 31, 2009, the total outstanding notional amount of currency options embedded in non-financial contracts amounted to US\$33, US\$35 and US\$36, 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 September and June 30, 2010 and December 31, 2009, the net negative fair value of these embedded currency options amounted to P7, P12 and P36, respectively.

For the periods ended September and June 30, 2010 and September and June 30, 2009, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P224, P20, P202, and (P118), respectively.

Fair Value Hierarchy

The table below analyzes financial instruments carried at fair value, by valuation method as of September 30, 2010 and 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.

September 30, 2010

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	P1,108	P203	P1,311
AFS financial assets	-	361	361
Financial Liabilities			
Derivative liabilities	1,164	32	1,196

December 31, 2009

	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 September 30, 2010 and December 31, 2009, the Group has no financial instruments valued based on Level 3. During the period, 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.

10. Events After the Reporting Date

a. *Acquisition of 10.1% stake in Indophil Resources NL (Indophil)*

On October 8, 2010, the Parent Company entered into a share placement agreement with Indophil. Indophil owns a 37.5% stake in Saguitarius Mines, Inc. (SMI), which has the rights to the Tampakan gold and copper mine in South Cotabato.

Pursuant to the terms and conditions of the Placement, 48,016,960 ordinary shares of Indophil were issued on the same date in the name of Coastal View Exploration Corporation, a subsidiary of the Parent Company (the "Placement Shares"); the total consideration for the placement Shares was AUS\$41.3 million (approximately US\$ 40 million) or AUS\$ 0.86 per Placement Share; and the Placement Shares are listed and traded in the Australian Stock Exchange, Inc., and comprise approximately 10.1% of the currently issued ordinary shares of Indophil, on a fully diluted basis.

On October 14, 2010, the Parent Company completed the acquisition of 10.1% stake in Indophil at A\$0.86 per share.

11. Other Matters

- a. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Performance.
- b. There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.
- c. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- d. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.
- e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual statements of financial position date, except for Note 20 (c) of the 2009 Audited Consolidated Financial Statements that remain outstanding as of September 30, 2010. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- f. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended September 30, 2010.
- g. The effects of seasonality or cyclicity on the interim operations of the Group's businesses are not material.

- h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end of September 30, 2010. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.



SAN MIGUEL CORPORATION

ANNEX “B”

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND PERFORMANCE

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Corporation (“SMC” or “Parent Company”) and its subsidiaries (collectively referred to as the “Group”) as of and for the period ended September 30, 2010 (with comparative figures as of December 31, 2009 and for the period ended September 30, 2009). All necessary adjustments to present fairly the consolidated financial position, performance and cash flows of the Group as at September 30, 2010, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. 2010 TRANSACTIONS

POWER AND MINING

- Acquisition of 100% ownership interest in Global 5000 Investment Inc.(Global) (now named, SMC Global Power Holdings Corp. as approved by the SEC on October 15, 2010 - SMC Global), comprising of:
 - a. Subscription by the Parent Company of all the remaining unissued common shares of SMC Global on August 13, 2010 equivalent to 75% ownership interest for ₱3,240 million.
 - b. Acquisition by the Parent Company on September 3 and 8, 2010 of the entire remaining 25% ownership interest in SMC Global for ₱1,080 million from its existing stockholders.
- On September 21, 2010, the Parent Company sold its entire 40% ownership interests in San Miguel Energy Corp. (SMEC) and Strategic Power Devt. Corp. (SPDC) and 100% ownership interests in PanAsia Energy Holdings Inc. (PanAsia) and South Premiere Power Corp. (SPPC), for a total purchase price of ₱7.15 million. Following such sale, SMEC, SPDC, PanAsia and SPPC became wholly-owned subsidiaries of Global.

A. POWER

- On January 18, 2010, the physical possession of the Limay Power Plant was turned over and transferred to PanAsia. PanAsia started the commercial operations of the Limay Power Plant on February 16, 2010.
- On March 15, 2010, the Parent Company and Global 5000 Investment Inc. (Global) executed the Subscription Agreement, under which they subscribed to 1,500 and 6,000 shares, respectively to SPDC. 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.

- On June 26, 2010, SPPC assumed administration of the 1,200-megawatt Ilijan natural-gas fired power plant under the IPP Administration Agreement with the Power Sector Assets and Liabilities Management Corporation.

B. MINING

- On January 29, 2010, SMEC acquired 100% of the outstanding capital stock of : (i) Daguma-Agro Minerals Inc. (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 DOE, and (ii) Bonanza Energy Resources, Inc. (BERI), a coal mining company with coal property located at Tuburan, Tulali, Bagumbayan, Sultan Kudarat, Barangay Ned, Lake Sebu, South Cotabato and Tuanadatu, Maitum, Sarangani Province covered by a Coal Operating Contract with the DOE consisting of 8 coal blocks with a total area of 8,000 hectares.
- On May 13, 2010, SMEC acquired 100% of the outstanding capital stock of Sultan Energy Phils. Corp. (Sultan). Sultan is a coal mining company with a valid and existing Coal Operating Contract with the Department of Energy (DOE) consisting of 7 coal blocks located in Daguma, Sultan Kudarat and South Cotabato with a total area of 7,000 hectares.

TELECOM

A. BELLTEL

- Acquisition of indirect ownership interest in Bell Telecommunication Philippines, Inc. (BellTel) through stock subscriptions in Two Cassandra-CCI Conglomerates, Inc. (TCCI), Perchpoint Holdings Corp. (PHC) and Power Smart Capital Limited (PSCL).

BellTel is a grantee of a franchise to install, operate and maintain local exchange networks and wireless local loop (WLL) in several areas including special economic zones, inter-exchange networks, nationwide VSAT network, international gateway facilities, and cellular mobile telecommunications network.

On July 30, 2010, the Parent Company through its wholly-owned subsidiary, Vega Telecom, Inc. (Vega), subscribed to unissued shares of stock of TCCI, PHC and PSCL, equivalent to 75% equity interests in each of said companies. TCCI, PHC and PSCL, in turn, collectively own 100 percent of the outstanding capital stock of BellTel.

On August 1, 2010, Vega acquired the remaining 25% ownership interest in TCCI, PHC and PSCL from its existing shareholders, making TCCI, PHC and PSCL wholly-owned subsidiaries.

As of September 30, 2010, the total investment in TCCI, PHC and PSCL shares of stock amounted to ₱4,715 million. Licenses amounting to ₱5,221 million was recognized upon acquisition.

B. LIBERTY TELECOMS

- On January 5, 2010, Vega paid ₱588 million for the subscription to Liberty Telecoms Holdings, Inc.'s (LTHI) 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 ₱441 million.

INFRASTRUCTURE

A. The Metro Rail Transit Phase 7 Project (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.

On April 6, 2010, the Parent Company disclosed that it has signed a memorandum of understanding with Mr. Salvador B. Zamora II for the acquisition of a majority stake in the MRT-7 Project.

On October 28, 2010, the Parent Company, through San Miguel Holdings Corp. (SMHC) signed a share sale and purchase agreement (the Agreement) with Universal LRT Corporation Limited (ULC), a company owned by the group of Mr. Zamora, pursuant to the authority of the Board of Directors of the Parent Company on March 15, 2010. Under the terms of the Agreement, SMHC shall acquire up to 51% equity interest in Universal LRT Corporation (BVI) (ULC BVI), the corporation which holds the exclusive right, obligation and privilege to finance, design, construct, supply, complete and commission the MRT-7 Project by virtue of the Concession Agreement dated June 18, 2008 with the Republic of the Philippines, through the Department of Transportation and Communications.

The Parent Company advanced ₱ 692 million for future stock subscription as of September 30, 2010.

Closing of the Agreement was held on November 8, 2010. However, completion of the acquisition is subject to the satisfaction of certain mandatory conditions by the counterparty.

B. CATICLAN INTERNATIONAL AIRPORT

- 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 Caticlan International Airport Development Corporation (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. As of September 30, 2010, the SMHC paid ₱675 million for the acquisition of CIADC’s shares of stock.

As approved by the SEC on September 23, 2010, CIADC was renamed to Trans Aire Development Holdings Corp.

FOOD GROUP

- On April 12, 2010, the SEC approved the de-classification of San Miguel Pure Foods Company, Inc.’s (SMPFC) common shares and the amendment of its Amended Articles of Incorporation.

On May 21, 2010, the SEC approved the increase in SMPFC’s authorized capital stock by virtue of the issuance of the Certificate of Approval of Increase of Capital Stock and the Certificate of Filing of Amended Articles of Incorporation.

On July 6, 2010, the Philippine Stock Exchange, Inc. approved the application of SMPFC to list additional 25,423,746 common shares, with a par value of ₱10.00 per share, to cover the 18% stock dividend declaration to stockholders to be issued from the increase in authorized capital stock of SMPFC. Stock dividends payout took place on July 26, 2010.

- On September 15, 2010, SMPFC’s BOD approved among others, the (i) reclassification of a portion of SMPFC’s authorized and unissued common shares into non-voting, cumulative and non-participating preferred shares with other features determined by management, (ii) issuance of such preferred shares, under terms and conditions determined by management, and the listing thereof at the appropriate exchanges, and (iii) amendment of the Company’s Articles of Incorporation to reflect the reclassification of certain common shares to preferred shares and the denial of pre-emptive rights of shareholders for the issuance of said preferred shares. Proceeds from the issuance of the preferred shares will be used by SMPFC to finance various expansion-related activities.
- On July 21, 2010, the Parent Company and SMPFC entered into an Intellectual Property Rights Transfer Agreement (Agreement) for the transfer to SMPFC of the food-related brands and intellectual property rights at a purchase price of ₱3,200 million. Following the provision of the Agreement between the Parent Company and SMPFC, 10% of the purchase price was paid in July 30, 2010 and the balance payable (i) upon change in controlling interest of SMPFC to any third person other than an affiliate or (ii) two years from July 30, 2010, subject to floating interest rate based on 1 year PDSTF plus an agreed margin after one year, whichever comes first.

- On February 2, 2010, SMPFC's BOD approved the proposal of SMPFC management to acquire, through San Miguel Pure Foods International Limited (SMPFIL), a British Virgin Islands company and a wholly-owned subsidiary of SMPFC, the Parent Company's 51% interest, through San Miguel Foods and Beverage International Limited (SMFBIL), in SMPFI Limited at book value. San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited) owns 100% of San Miguel Pure Foods Vietnam (SMPFVN).

On July 21, 2010, SMFBIL and SMPFIL entered into an Agreement relating to the sale and purchase of 51% of the issued share capital of SMPFI Limited at a purchase price of US\$18.6 million effective July 30, 2010, subject to floating interest rate based on 1 year LIBOR plus an agreed margin after one year.

On July 30, 2010, SMPFC made an additional investment in SMPFIL amounting to US\$1.9 million intended to be used for the acquisition of SMPFI Limited by SMPFIL.

- On August 29, 2010, the SEC approved the merger of Monterey Foods Corporation (MFC) into San Miguel Foods, Inc. (SMFI), with SMFI as the surviving corporation, following the approvals of the merger by the respective BOD and stockholders of MFC and SMFI in June 2010 and July 2010, respectively. The merger became effective September 1, 2010 in accordance with the Plan of Merger between the parties. SMFI's request for confirmation of the tax-free merger, filed in September 2010, is still pending with the BIR as at November 15, 2010.

SAN MIGUEL BREWERY INC.

- On January 29, 2010, San Miguel Brewery Inc. (SMB) completed the acquisition of the international beer and malt-based beverages business of the Parent Company through its purchase of San Miguel Holdings Limited's (SMHL) shares in San Miguel Brewing International Limited (SMBIL) comprising 100% of the issued and outstanding capital stock of SMBIL for a price of US\$302 million, after adjustments pursuant to the terms of the Share Purchase Agreement between the Parent Company, SMB and SMHL executed on December 18, 2009. SMHL is a wholly-owned subsidiary of the Parent Company. As a result of the acquisition, SMBIL became a wholly-owned subsidiary of SMB.
- On January 28, 2010, SMB entered into a US\$300 million unsecured loan facility agreement. Proceeds of the loan were used to finance SMB's acquisition of SMBIL.

GINEBRA SAN MIGUEL, INC.

- On May 25, 2010, Ginebra San Miguel, Inc. (GSMI) entered into a long-term credit agreement with a local bank for the contracted amount of ₱1,500 million, for the purpose of funding its permanent working capital requirements. The credit facility is available for drawdown in lump sum or staggered basis within six months from the date of signing of the said agreement. On May 31, 2010, ₱300 million was drawn down by GSMI from the credit facility.

On August 25, 2010, the remaining ₱1,200 million was drawn down by GSMI from the said credit facility.

PROPERTIES

- On February 15, 2010, San Miguel Properties Inc.'s (SMPI) BOD authorized the divestment of SMPI's 31.23% interest in Bank of Commerce (BOC).

In April 2010, SMPI acquired additional 5,117,059 BOC common shares held by College Assurance Plan stockholders at ₱180 per share.

The carrying amount of the investment as of September 30, 2010 of ₱3,808 million representing 38,008,071 common shares is presented as "Assets held for sale" in the consolidated statements of financial position.

- On October 31, 2007, SMPI entered into a Joint Venture Agreement with Government Service Insurance Service (GSIS) to establish a Joint Venture Corporation (JVC). The JVC will hold ownership and title to the real property owned by GSIS, develop the property into a first class high-rise service apartment and manage and operate the same.

In May 2010, SMPI and GSIS agreed to increase the authorized capital stock of the JVC to ₱625 million divided into 625,000,000 shares at ₱1 par value per share where, SMPI will own 52% ownership interest.

Under the joint venture agreement, 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 September 30, 2010, SMPI advanced ₱320 million to the JVC.

In May 2010, SMPI paid ₱181 million for the subscription of JVC shares of stock. On June 22, 2010, SMPI assigned its equity ownership interest in Maison Properties to the JVC in exchange for its 144,224,232 common shares, to complete the acquisition.

The JVC has not yet started commercial operations as of the reporting period.

PETRON CORPORATION

- The Parent Company conducted a tender offer (the "Tender Offer") as a result of its intention to exercise the option to acquire 100% of SEA Refinery Corporation (SRC) from SEA Refinery Holdings B.V. (SEA BV) under the Option Agreement between the Parent Company and SEA BV dated December 24, 2008, as amended on March 4, 2010 (the "Option Agreement"), consisting of : (i) 16,000,000 common shares of SRC, representing 40% of the outstanding capital stock of SRC on or before April 30, 2010; and (ii) 24,000,000 common shares of SRC, representing 60% of the outstanding capital stock of SRC on or before December 23, 2010, and considering that SRC owns 4,696,885,564 common shares of Petron Corporation (Petron) (representing approximately 50.1% of the outstanding common stock of Petron). The Tender Offer was conducted for the remaining common shares of Petron at the price of ₱6.85 per common share. The tender offer period ended on June 2, 2010 with a total of 184,702,538 Petron common shares tendered (the "Tendered Petron Shares"). On June 8, 2010, the Tendered Petron Shares were crossed at the PSE. As such, SMC acquired direct ownership

of the Tendered Petron Shares, which is equivalent to 1.95% of the total outstanding capital stock of Petron.

On June 15, 2010, the Parent Company executed the Deed of Absolute Sale of Shares covering its purchase of above-mentioned 16,000,000 common shares of SRC from SEA BV at ₱16 million.

On August 31, 2010, the Parent Company purchased 1,517,637,398 common shares of stock of Petron from SEA BV at ₱7.20 per share through a special block sale crossed at the PSE. Said shares comprise approximately 16% of the outstanding capital stock of Petron.

The Parent Company acquired from the public a total of 530,624 common shares of stock of Petron, representing approximately 0.006% of the outstanding capital stock of Petron, for which stock certificates were issued by Petron in the name of SMC on October 18, 2010. The prices at which said shares were purchased are as follows: 6,000 common shares at ₱6.50 per share, 61,639 common shares at ₱6.55 per share, 258,479 common shares at ₱6.80 per share, and 204,506 common shares at ₱6.90 per share.

Upon the exercise by the Parent Company of the option to acquire 60% of the outstanding capital stock of SRC above mentioned, the Parent Company will have up to approximately 68% equity interest in Petron.

TOP FRONTIER

- On January 6, 2010, the Parent Company acquired a 49% stake via equity infusion in Top Frontier Holdings, Inc. (Top Frontier). The investment consists of: (i) subscription of 2,401,960 common shares of Top Frontier from its unissued capital stock; (ii) deposit for future subscription amounting to ₱48,324 million, with the option granted to the Parent Company to apply the same to the issuance of 2,598,040 non-voting, redeemable, cumulative, 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 September 30, 2010, the total investment in Top Frontier amounted to ₱93,233 million and recognized equity in net loss of ₱2,026 million.

The stock certificates covering the investment by the Parent Company in 2,598,040 million preferred shares of Top Frontier were issued in the name of the Parent Company on October 22, 2010.

- Top Frontier accepted a total of 49,629,119 Class "A" shares and 31,773,965 Class "B" shares tendered by the Parent Company's shareholders at the offer price of ₱75.00 per share, for a total consideration of ₱6,105 million. On April 13, 2010, Top Frontier acquired 327,000,000 common Class "B" shares of the Parent Company held by Q-Tech at the price of ₱66.00 per share. As of April 14, 2010, Top Frontier had total shareholdings of 1,265,518,998 common shares of the Parent Company.

OTHERS

- On July 27, 2010, the Parent Company's (Board of Directors) BOD approved the offer to issue approximately 1,000,000,000 common shares (from unissued capital stock and treasury shares) at a price of not less than ₱75 per share. The proceeds will be used to finance investments and acquisitions of the Parent Company.
- On July 26, 2010, the Parent Company entered into a US\$880 million unsecured loan facility agreement. Proceeds of the loan were used to prepay the US\$600 million loan and to finance the diversification projects of the Group.

II. FINANCIAL PERFORMANCE

2010 vs. 2009

San Miguel Corporation's September year-to-date consolidated sales revenue amounted to ₱161,820 million, 28% higher than last year. The line by line consolidation of the power business beginning August brought in incremental revenue of ₱24,762 million. The packaging and food businesses outperformed their first semester performance and registered higher growths in the third quarter while Ginebra San Miguel and Domestic Beer sustained their revenue growths versus last year. The corresponding September year-to-date consolidated operating income ended at ₱19,744 million, 50% above last year.

The Group's net financing charges, on the other hand, amounted to ₱8,679 million with comparatively higher interest expenses this year.

Equity in net earnings of associates primarily represents the Group's share in the unaudited net income/losses of The Manila Electric Company (Meralco), Petron, BOC, Top Frontier and LTHI.

With other income from investments and favorable foreign exchange gains, the Group's resulting net income attributable to equity holders of the Parent Company is ₱12,696 million.

2009 vs. 2008

The Group's September 2009 consolidated sales revenue amounted to ₱126,528 million, 4% above 2008. The beverage business led the sustained growth versus 2008 with hard liquor continuing to post strong double-digit volume growth and the domestic beer maintaining its volume growth momentum starting in the second quarter.

With the sustained sales performance and managed fixed costs, consolidated operating income reached ₱13,123 million, 12% above 2008.

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

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

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

Consolidated net income as of September 2009 reached ₱57,031 million, significantly higher than 2008's net income.

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

1. BEVERAGES

2010 vs. 2009

a. Beer

San Miguel Brewery, Inc.'s September year-to-year revenues ended at ₱40,127 million, 9% higher than last year. This was on sales volume of 132 million equivalent cases, surpassing year-ago level by 3%. With increased volumes and favorable margins, September year-to-date operating income reached ₱13,477 million, 20% higher than last year's level.

San Miguel Beer International volumes in North China improved with a 13% growth in the third quarter. However, SMBIL's consolidated volumes as of September of 29 million cases are still 11% behind last year as South China operations continued to experience tough market conditions. Corresponding revenue of \$198 million is 2% below last year's level.

With the income contribution of North China and the continued strong performance of Indonesia and Exports offsetting the losses in other markets, the business managed to post a year-to-date operating income of \$1 million.

b. Ginebra San Miguel, Inc. (GSMI)

Ginebra San Miguel, Inc. brought in positive results for the first nine months with domestic liquor volume reaching 29 million cases, 7% above last year's level. This resulted to consolidated sales revenue of ₱16,642 million, 18% higher than last year.

With higher revenues and stable fuel and molasses costs, September year-to-date consolidated operating income reached ₱1,189 million, 36% higher than last year's level.

2009 vs. 2008

a. Beer

SMB registered a 7% volume growth during the third quarter bringing September 2009 volume of about 128 million cases. Revenues of about ₱36,950 million as of September

2009 were 5% higher than 2008. Correspondingly, operating income improved to ₱11,268 million, 5% increase versus 2008.

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

b. GSMI

GSMI continued to exhibit strong results in the third quarter with September 2009 consolidated revenues ending at ₱14,121 million, higher than 2008's level by 27%. This was driven by strong domestic hard liquor sales volume of about 27 million cases, 13% above 2008.

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

2. PACKAGING

2010 vs. 2009

The San Miguel Yamamura Packaging Group delivered a strong performance for the third quarter of 2010 with Glass and Plastics businesses showing strong volume growths. Coupled with the consolidation of Cospak, this brought in consolidated year to date revenues of ₱17,081 million, 18% higher than last year's level. Likewise, third quarter operating income posted a remarkable 44% increase versus last year resulting to consolidated September year-to-date operating income of ₱1,489 million, 8% above last year.

2009 vs. 2008

Consolidated September 2009 sales revenue for the Packaging group is ₱14,420 million, 2% lower than 2008. Higher sales volume, cheaper raw materials, and lower production costs all contributed to garner a consolidated operating income of ₱1,379 million as of September 2009. This is significantly higher than 2008's performance.

3. FOOD

2010 vs. 2009

The Food Group delivered consistent performance as of September 2010, with consolidated sales revenue of ₱57,720 million, 3% higher than last year. Continued volume growth was felt in poultry, flour, coffee, Vietnam's feeds and Indonesia's processed meat businesses. However, this was partly offset by lower price of flour and lower volumes of basic and processed meat.

The Food Group turned in consolidated operating income for the nine month period of ₱4,173 million, greatly surpassing last year's results. This is on the back of cost breaks from favorable raw material prices in poultry, basic meats, flour, and dairy.

2009 vs. 2008

The San Miguel Food Group's consolidated revenues reached ₱55,906 million, a 5% increase from 2008's level as most business units - poultry, basic meats, flour, milk and ice cream businesses, continued to post higher volumes. Consolidated operating income ended at ₱2,308 million, surpassing 2008's level by 51%. This is driven by lower cost of direct materials of flour and dairy businesses; higher selling prices for feeds, poultry, value-added meats and dairy business; and improvement in performance of P.T. San Miguel Pure Foods Indonesia Ltd. (PTSMPFI) operations.

4. POWER

The four power plants – Sual, Limay, San Roque and Ilijan dispatched energy totaling almost 7.4 million MWH as of September 2010 which contributed ₱24,762 million and ₱2,240 million of revenue and operating income, respectively, to the Group for the third quarter.

On net income level, the four power plants' contribution to the Group amounted to ₱3,842 million.

III. FINANCIAL POSITION

2010 vs. 2009

Cash and cash equivalents decreased by 55% from ₱209,411 million in 2009 mainly due to investment in shares of stock of Top Frontier, Petron, Telecom, SMC Global and CIADC; advances for future stock subscription in shares of stock of Top Frontier and Universal LRT Corp.; payment of dividends; additional advances to a related party; payment of short-term loans and forex restatement, net of the proceeds from loan availment of the Parent Company and SMB and the consolidation of SMC Global's cash balance.

Trade and other receivables increased by 45% to ₱71,311 million in 2010 due to consolidation of SMC Global's balance, additional advances to a related party and others, net of collection of trade receivables.

Inventories increased by 22% to ₱31,017 million in 2010 due to consolidation of SMC Global's fuel and coal inventory balances, increase in GSMI's inventory of raw alcohol and production volume of liquor products and build up of inventory for the Christmas season of SMPFC, SMYPC and SMB.

Current biological assets increased by 24% to ₱3,130 million in 2010 due to the increase in volume of growing poultry livestock and hogs in anticipation of the peak season and the reclassification to current portion of SMPFVN's biological assets.

Prepaid expenses and other current assets increased by 22% to ₱10,848 million in 2010 due to increase in derivative assets of the Parent Company, attributable to new contracts on currency forwards and the increase in level of creditable input tax and withholding taxes of SMPFC.

Assets held for sale pertains to the carrying amount of the investment in BOC. The increase in assets held for sale by ₱1,062 million was primarily due to additional investment of ₱921 million.

Investments increased from ₱39,356 million to ₱160,072 million in 2010 mainly due to investment in shares of stock of Top Frontier, Petron and Sea Refinery Corp., consolidation of SMC Global's investment in shares of stock of Meralco; advances for future stock subscription in shares of stock of Top Frontier, Universal LRT Corp. and SMPI-GSIS JVC; equity in net earnings of Meralco, Petron and SMEC, net of equity in net loss of Top Frontier and Liberty Telecoms; dividend declared by Meralco and Petron; and the sale of the investment in shares of stock of SPDC and SMEC to SMC Global.

Property, plant and equipment increased from ₱65,919 million to ₱271,110 million in 2010 mainly due to consolidation of the assets of Sual, Limay, San Roque and Ilijan power plants under IPPA agreements with PSALM.

Noncurrent biological assets decreased by 23% to ₱1,417 million in 2010 mainly due to the reclassification to current portion of SMPFVN's biological assets.

Other intangible assets increased by 220% from ₱3,630 million in 2009 mainly due to the licenses of BellTel recognized by Vega, acquisition of the franchise to operate and manage the Caticlan International Airport by SMHC and the mining rights recognized by SMEC from the acquisition of Sultan, Daguma and BERI.

Deferred tax assets decreased by 19% from ₱8,883 million in 2009 mainly due to the effect of recognition of unrealized foreign exchange gains.

Other noncurrent assets decreased by 37% from ₱12,468 million in 2009 mainly due to the sale of the long-term receivables from Coca-cola South Asia Holdings.

Drafts and loans payable decreased by 5% from ₱56,789 million in 2009 mainly due to net payments and translation adjustments.

Accounts payable and accrued expenses increased by 98% from ₱31,404 million in 2009 mainly due to consolidation of SMC Global's balance, attributable to the current portion of finance lease liability related to the acquisition of the Sual, Limay, San Roque and Ilijan power plants, current portion of liability related to the acquisition of Meralco shares of stock and trade and other payables of the Power Group; reclassification to current liabilities of the unpaid balance due next year of the Parent Company, related to the acquisition of Meralco shares of stock; increase in derivative liabilities of the Parent Company, attributable to new contracts on currency forwards; net of the payment of subscriptions payable related to the investment in shares of stock of LTHI.

The increase in income and other taxes payable from ₱4,186 million in 2009 to ₱5,810 million in 2010, was mainly due to the consolidation of income tax payable balance of SMC Global.

Dividends payable increased by 24% mainly due to declaration by the Parent Company of dividends to its preferred and common shareholders in 2010 amounting to ₱19,014 million, net of payments of ₱18,826 million.

Long-term debt increased by ₱24,239 million from ₱72,962 million in 2009 mainly due to availments made by the Parent Company, SMB and GSMI, net of payments made by the Parent Company, SMFBIL and GSMI and translation adjustments.

Deferred tax liabilities decreased by 6% from ₱12,037 million in 2009 mainly due to the effect of recognition deferred income tax on the lower undistributed net earnings of foreign subsidiaries during the period.

Other noncurrent liabilities increased by ₱193,723 million in 2010 mainly due to the consolidation of noncurrent portion of finance lease liability of SMC Global, attributable to the acquisition of the Sual, Limay, San Roque and Ilijan power plants and the noncurrent portion of liability related to the acquisition of Meralco shares of stock by SMC Global; net of the reclassification to current portion of the unpaid balance due next year related to the acquisition of Meralco shares of stock of the Parent Company.

Revaluation increment increased by ₱1,424 million in 2010 mainly due to the consolidation of SMC Global.

Cumulative translation adjustments decreased by 10% from ₱5,845 million in 2009 mainly due to the translation of foreign subsidiaries' net assets. The exchange rates used for net assets in September 30, 2010 is ₱43.88 to US\$1 (₱46.2 in December 31, 2009).

2009 vs. 2008

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

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

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

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

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

Deferred tax assets increased by 55% from ₱7,638 million in 2008 to ₱11,819 million in 2009 due to the effect of recognition of additional deferred tax on the NOLCO of the Parent Company

and unrealized gross profit mainly from the sale of IBI to SMB, net of the effect of recognition of unrealized foreign exchange gains.

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

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

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

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

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

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

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

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

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

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

Equity

The increase (decrease) in equity is due to:

<i>(In millions)</i>	September 30	
	2010	2009
Income during the period	₱17,679	₱58,913
Acquisition of subsidiaries	1,448	-
Issuance of capital stock	1,220	323
Cash dividends	(22,509)	(3,446)
Effect of translation adjustments	(936)	(469)
Addition to non-controlling interests	(142)	7,583
	(₱3,240)	₱62,904

Current ratio was 1.74 in 2010 and 3.17 in 2009. Debt to equity ratio was 1.87 and 0.82 as of 2010 and 2009, respectively.

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	September 30	
	2010	2009
Net cash flows provided by operating activities	₱17,635	₱8,188
Net cash flows provided by (used in) investing activities	(132,021)	39,894
Net cash flows provided by (used in) financing activities	858	(12,506)

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

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

<i>(In millions)</i>	September 30	
	2010	2009
Interest received	₱2,751	₱3,381
Proceeds from sale of investments and property and equipment	983	55,041
Additions to investments and advances	(111,419)	(4,482)
Additions to property, plant and equipment	(7,254)	(4,112)
Acquisition of subsidiaries, net of cash acquired	(6,943)	-
Advances to related parties	(604)	(8,750)
Increase in other noncurrent assets and others	(9,535)	(1,184)

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

<i>(In millions)</i>	September 30	
	2010	2009
Proceeds from (payments of) long-term debt - net	₱24,603	(₱5,256)
Proceeds from issuance of capital stock	1,003	323
Increase (decrease) in non-controlling interests	142	(38)
Payments of dividends	(22,366)	(4,643)
Net payments of short-term loan	(2,524)	(2,892)

The effect of exchange rate changes on cash and cash equivalents amounted to (₱1,211 million) and ₱318 million in September 30, 2010 and 2009, respectively.

V. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year. Please refer to Item II “Financial Performance” of the MD&A for the discussion of the computed certain Key Performance Indicators.

	September 2010	December 2009
<u>Liquidity:</u>		
Current Ratio	1.74	3.17
<u>Solvency:</u>		
Debt to Equity Ratio	1.87	0.82
<u>Profitability:</u>		
Return on Average Equity	7.29%	31.78%

	Period Ended September 30	
	2010	2009
<u>Operating Efficiency:</u>		
Volume Growth	2%	1%
Revenue Growth	28%	4%
Operating Margin	12.20%	10.37%

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

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

* Annualized for quarterly reporting

KPI	Formula
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior period Net Sales}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$