SAN MIGUEL CORPORATION

November 14, 2011

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, 2011.

Very truly yours,

FERDINAND K. CONSTANTINO
Corporate Information Officer

COVER SHEET

P	W	-	2	7	7				

S. E. C. Registration Number

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(Company's Full Name)

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

Atty. Mary Rose S. Tan

Contact Person

(632) 632-3000

Company Telephone Number

SEC FORM

1	2

Month

3	1

Day

	1	7	-	Q		

FORM TYPE

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

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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, 2011**

2. Commission identification number **PW00000227**

3. BIR Tax Identification No **041-000-060-741**

4. Exact name of issuer as specified in its charter **SAN MIGUEL CORPORATION**

5. **Philippines**
   Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: [ ] (SEC Use Only)

7. **No. 40 San Miguel Avenue, Mandaluyong City** **1550**
   Address of issuer's principal office Postal Code

8. **(632) 632-3000**
   Issuer's telephone number, including area code

9. **N/A**
   Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

	Number of shares of common stock and Debt outstanding (as of September 30, 2011)
Common Shares	**2,361,420,643**
Preferred Shares	**970,506,353**
Total Liabilities	**P583,768 million**

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

    If yes, state name of such Stock Exchange and the class/es of securities listed herein.
    Common Shares and Series "1" Preferred Shares - Philippine Stock Exchange

12. Indicate by check mark whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months.
    Yes [x] No [ ]

    (b) has been subject to such filing requirements for the past ninety (90) days.
    Yes [x] No [ ]

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of San Miguel Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended September 30, 2011 (with comparative figures as of December 31, 2010 and for the period ended September 30, 2010) 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 14, 2011
Signature and Title	**BELLA O. NAVARRA** Comptrollership Manager/Authorized Signatory
Date	November 14, 2011

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2011 and December 31, 2010
(In Millions)

ASSETS

	2011 Unaudited	2010 Audited
Current Assets		
Cash and cash equivalents (Notes 8 and 9)	₱ **125,934**	₱ 125,188
Trade and other receivables - net (Notes 3, 8 and 9)	**81,053**	75,904
Inventories	**77,102**	57,442
Current portion of biological assets - net	**4,300**	3,267
Prepaid expenses and other current assets (Notes 8 and 9)	**21,785**	16,914
	310,174	278,715
Assets held for sale (Note 5)	**10**	823
Total Current Assets	**310,184**	279,538
Noncurrent Assets		
Investments and advances - net	**160,589**	152,814
Available-for-sale financial assets (Notes 8 and 9)	**1,848**	3,597
Property, plant and equipment - net (Note 4)	**314,134**	308,073
Investment properties - net	**2,950**	2,133
Biological assets - net of current portion	**1,779**	1,479
Goodwill - net	**30,259**	30,251
Other intangible assets - net	**10,895**	10,980
Deferred tax assets	**7,389**	7,134
Other noncurrent assets - net (Notes 3, 8 and 9)	**35,430**	33,801
Total Noncurrent Assets	**565,273**	550,262
	₱ **875,457**	₱ 829,800

LIABILITIES AND EQUITY

	2011 Unaudited	2010 Audited
Current Liabilities		
Drafts and loans payable (Notes 8 and 9)	₱ **75,864**	₱ 74,128
Accounts payable and accrued expenses (Notes 3, 8 and 9)	**67,083**	69,774
Finance lease liabilities - current portion (Notes 8 and 9)	**14,283**	10,946
Income and other taxes payable	**9,437**	10,001
Dividends payable	**2,858**	826
Current maturities of long-term debt - net of debt issue costs (Notes 8 and 9)	**18,318**	12,549
Total Current Liabilities	**187,843**	178,224
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 8 and 9)	**186,741**	156,378
Deferred tax liabilities	**12,140**	13,752
Finance lease liabilities - net of current portion (Notes 8 and 9)	**193,734**	197,461
Other noncurrent liabilities (Notes 8 and 9)	**3,310**	17,160
Total Noncurrent Liabilities	**395,925**	384,751
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common	**16,363**	16,343
Capital stock - preferred	**4,852**	4,852
Additional paid-in capital	**102,780**	101,406
Revaluation increment	**1,443**	1,391
Cumulative translation adjustments	**3,811**	5,365
Retained earnings:		
Appropriated	**18,570**	5,671
Unappropriated	**142,756**	150,544
Treasury stock	**(67,498)**	(69,541)
	223,077	216,031
Non-controlling Interests	**68,612**	50,794
Total Equity	**291,689**	266,825
	₱ **875,457**	₱ 829,800

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

CERTIFIED CORRECT:

BELLA C. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Period Ended September 30, 2011 and 2010 (Unaudited)
(In Millions, Except Per Share Data)

	For the Period Ended		For the Quarter Ended	
	2011	2010	**2011**	2010
SALES (Note 2)	₱ **393,442**	₱ 161,820	₱ **130,166**	₱ 63,460
COST OF SALES	**318,191**	115,477	**108,096**	48,437
GROSS PROFIT	**75,251**	46,343	**22,070**	15,023
SELLING AND ADMINISTRATIVE EXPENSES	**(33,300)**	(26,599)	**(11,597)**	(8,610)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	**(20,296)**	(11,052)	**(6,849)**	(6,171)
INTEREST INCOME	**3,447**	2,373	**1,040**	636
EQUITY IN NET EARNINGS OF ASSOCIATES	**1,822**	853	**555**	(238)
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	**776**	506	**709**	177
OTHER INCOME (CHARGES) - Net	**(55)**	11,684	**(697)**	10,592
INCOME BEFORE INCOME TAX	**27,645**	24,108	**5,231**	11,409
INCOME TAX EXPENSE	**7,423**	6,429	**1,635**	3,176
NET INCOME	₱ **20,222**	₱ 17,679	₱ **3,596**	₱ 8,233
Net Income Attributable to :				
Equity Holders of the Parent Company	₱ **11,947**	₱ 12,696	₱ **1,148**	₱ 6,418
Non-controlling Interests	**8,275**	4,983	**2,448**	1,815
	₱ **20,222**	₱ 17,679	₱ **3,596**	₱ 8,233
Basic Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 6)	₱ **3.23**	₱ 3.61	₱ **(0.14)**	₱ 2.15
Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 6)	₱ **3.21**	₱ 3.59	₱ **(0.14)**	₱ 2.14

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Period Ended September 30, 2011 and 2010 (Unaudited)
(In Millions)

			For the Quarter Ended	
	2011	2010	**2011**	2010
NET INCOME	**₱ 20,222**	₱ 17,679	**₱ 3,596**	₱ 8,233
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	**(160)**	(912)	**(77)**	(141)
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	**(1,517)**	176	**(279)**	13
INCOME TAX EXPENSE	**(1)**	(18)	**(7)**	(2)
SHARE IN COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES	**(1)**	8	**-**	6
OTHER COMPREHENSIVE LOSS - NET OF TAX	**(1,679)**	(746)	**(363)**	(124)
TOTAL COMPREHENSIVE INCOME - NET OF TAX	**₱ 18,543**	₱ 16,933	**₱ 3,233**	₱ 8,109
Comprehensive Income Attributable to :				
Equity Holders of the Parent Company	**₱ 10,393**	₱ 12,113	**₱ 830**	₱ 6,664
Non-controlling Interests	**8,150**	4,820	**2,403**	1,445
	₱ 18,543	₱ 16,933	**₱ 3,233**	₱ 8,109

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, 2011 and 2010
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company										Non-controlling Interests	Total Equity
	Capital Stock		Additional Paid-in	Revaluation	Cumulative Translation Adjustments		Retained Earnings		Treasury			
	Common	Preferred	Capital	Increment	Translation Reserve	Fair Value Reserve	Appropriated	Unappropriated	Stock	Total		
As of January 1, 2011 (Audited)	₱ 16,343	₱ 4,852	₱ 101,406	₱ 1,391	₱ 5,241	₱ 124	₱ 5,671	₱ 150,544	₱ (69,541)	₱ 216,031	₱ 50,794	₱ 266,825
Foreign currency translation differences	-	-	-	-	(49)	-	-	-	-	(49)	(111)	(160)
Share in comprehensive loss of associates	-	-	-	-	-	(1)	-	-	-	(1)	-	(1)
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	(1,504)	-	-	-	(1,504)	(14)	(1,518)
Other comprehensive losses	-	-	-	-	(49)	(1,505)	-	-	-	(1,554)	(125)	(1,679)
Net income for the period	-	-	-	-	-	-	-	11,947	-	11,947	8,275	20,222
Total comprehensive income (loss) for the period	-	-	-	-	(49)	(1,505)	-	11,947	-	10,393	8,150	18,543
Issuance of capital stock	20	-	268	-	-	-	-	-	-	288	-	288
Reissuance of treasury stock	-	-	929	-	-	-	-	-	2,043	2,972	-	2,972
Stock options	-	-	177	-	-	-	-	-	-	177	-	177
Addition to non-controlling interests and others	-	-	-	52	-	-	-	-	-	52	14,925	14,977
Appropriations - net	-	-	-	-	-	-	12,899	(12,899)	-	-	-	-
Cash dividends (Note 7):												
Common	-	-	-	-	-	-	-	(2,469)	-	(2,469)	(3,942)	(6,411)
Preferred	-	-	-	-	-	-	-	(4,367)	-	(4,367)	(1,315)	(5,682)
As of September 30, 2011 (Unaudited)	₱ 16,363	₱ 4,852	₱ 102,780	₱ 1,443	₱ 5,192	₱ (1,381)	₱ 18,570	₱ 142,756	₱ (67,498)	₱ 223,077	₱ 68,612	₱ 291,689
As of January 1, 2010 (Audited)	₱ 16,150	₱ 4,852	₱ 99,085	₱ 18	₱ 5,737	₱ 108	₱ 5,497	₱ 151,911	₱ (69,541)	₱ 213,817	₱ 27,121	₱ 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)	-	(14,771)	(3,494)	(18,265)
Preferred	-	-	-	-	-	-	-	(4,244)	-	(4,244)	-	(4,244)
Acquisition of a subsidiary and others	-	-	-	1,448	-	-	-	-	-	1,448	-	1,448
As of September 30, 2010 (Unaudited)	₱ 16,245	₱ 4,852	₱ 100,210	₱ 1,442	₱ 4,961	₱ 301	₱ 5,624	₱ 145,465	₱ (69,541)	₱ 209,559	₱ 28,139	₱ 237,698

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 - NON-TRADE
AS OF SEPTEMBER 30, 2011

		TOTAL	OVER 90 DAYS
ACCOUNTS RECEIVABLE - NON-TRADE	₱	258,068,055.41	258,068,055.41
ALLOW. FOR DOUBTFUL ACCOUNTS		(258,068,055.41)	
NET	₱	0.00	

Prepared by: MCP Diancin

Noted by: R. A. Cruz

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Period Ended September 30, 2011 and 2010 (Unaudited)
(In Millions)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱ 27,645	₱ 24,108
Adjustments for :		
Depreciation, amortization and others - net	12,631	8,075
Interest expense and other financing charges	20,296	11,052
Interest income	(3,447)	(2,373)
Equity in net earnings of associates	(1,822)	(853)
Gain on sale of investments and property and equipment	(776)	(4,544)
Operating income before working capital changes	54,527	35,465
Changes in noncash current assets, certain current liabilities and others	(16,958)	(4,498)
Cash generated from operations	37,569	30,967
Interest and other financing charges paid	(9,864)	(7,925)
Income taxes paid	(9,815)	(5,407)
Net cash flows provided by operating activities	17,890	17,635
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of subsidiaries, net of cash acquired	(146)	(6,943)
Additions to investments and advances	(9,160)	(111,419)
Additions to property, plant and equipment	(18,237)	(7,254)
Payment of other liabilities	(24,485)	-
Advances to related parties - net	(4,277)	(604)
Increase in other noncurrent assets and others	(1,711)	(9,535)
Proceeds from sale of investments and property and equipment	281	983
Interest received	3,441	2,751
Dividends received from affiliates	725	-
Net cash flows used in investing activities	(53,569)	(132,021)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from :		
Short-term borrowings	334,793	548,814
Long-term borrowings	48,488	53,726
Payments of:		
Short-term borrowings	(333,119)	(551,338)
Long-term borrowings	(13,353)	(29,123)
Payment of finance lease liabilities	(8,826)	-
Cash dividends paid	(4,532)	(18,826)
Dividends paid to non-controlling shareholders	(5,528)	(3,540)
Proceeds from issuance of capital stock	288	1,003
Proceeds from reissuance of treasury stock	2,977	-
Increase in non-controlling interest and others	-	142
Net proceeds from issuance of preferred shares of a subsidiary	14,828	-
Net cash flows provided by financing activities	36,016	858
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	409	(1,211)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	746	(114,739)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	125,188	209,411
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	₱ 125,934	₱ 94,672

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

ANNEX "A"

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, 2011 and comparative financial statements for the same period in 2010 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 (₱000,000), except when otherwise indicated.

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

Adoption of New Standards, Amendments to Standards and Interpretations
The Financial Reporting Standards Council (FRSC) approved the adoption of a number of new or revised standards, amendments to standards, and interpretations [based on International Financial Reporting Interpretation Committee (IFRIC) Interpretations] as part of PFRS.

Amendments to Standard and Interpretations Adopted in 2011

Starting January 1, 2011, the Group adopted the following PFRS:

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

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

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

- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC 14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction).* These amendments remove unintended consequences arising from the treatment of prepayments where there is a

minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011.

- *Improvements to PFRSs 2010* contain 11 amendments to 6 standards and 1 interpretation, of which only the following are applicable to the Group.

  - PFRS 3, *Business Combinations* (2008). The amendments: (i) clarify that contingent consideration arising in a business combination previously accounted for in accordance with PFRS 3 (2004) that remains outstanding at the adoption date of PFRS 3 (2008) continues to be accounted for in accordance with PFRS 3 (2004); (ii) limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and (iii) expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. The amendments are effective for annual periods beginning on or after July 1, 2010.

  - PAS 27, *Consolidated and Separate Financial Statements*. The amendments clarify that the consequential amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures*, resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010.

  - PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011.

  - PAS 1, *Presentation of Financial Statements*. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income also is required to be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011.

  - PAS 34. The amendments add examples to the list of events or transactions that require disclosure under PAS 34 and remove references to materiality in PAS 34 that describes other minimum disclosures. The amendments are effective for annual periods beginning on or after January 1, 2011.

  - Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*. The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendments are effective for annual periods beginning on or after January 1, 2011.

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.

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

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

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

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7)*, require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011.

- *Deferred Tax: Recovery of Underlying Assets (Amendments to PAS 12, Income Taxes)* introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with PAS 40, *Investment Property*. The exception also applies to investment properties acquired in a business combination accounted for in accordance with PFRS 3 provided the acquirer subsequently measure these assets applying the fair value model. The amendments integrated the guidance of Philippine Interpretation Standards Interpretation Committee (SIC) - 21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets* into PAS 12, and as a result Philippine Interpretation SIC - 21 has been withdrawn. The effective date of the amendments is for periods beginning on or after January 1, 2012 and is applied retrospectively.

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

- PFRS 9, *Financial Instruments* (2009) was issued as the first phase of the PAS 39 replacement project. The chapters of the standard released in 2009 only related to the classification and measurement of financial assets. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial asset. In October 2010, a new version of PFRS 9, *Financial Instruments* (2010) was issued which now includes all the requirements of PFRS 9 (2009) without amendment. The new version of PFRS 9 also incorporates

requirements with respect to the classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard is effective for annual periods beginning on or after January 1, 2013. PFRS 9 (2010) supersedes PFRS 9 (2009). However, for annual periods beginning before January 1, 2013, an entity may elect to apply PFRS 9 (2009) rather than PFRS 9 (2010).

The Group has decided not to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its 2011 annual financial reporting. The Group shall conduct in early 2012 another impact evaluation using the outstanding balances as of December 31, 2011. The Group's decision whether to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for the 2012 financial reporting shall be disclosed in the Group's interim financial statements as of March 31, 2012.

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's reportable segments are beverage, food, packaging, power, fuel and oil, infrastructure and telecommunications.

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 (Meralco), electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market (WESM).

The fuel and oil segment is engaged in refining and marketing of petroleum products.

The infrastructure segment is engaged in the business of construction and development of various infrastructure projects such as roads, highways, toll roads, freeways, skyways,

flyovers, viaducts and interchanges.

The telecommunications segment is engaged in rendering all types of domestic and international telecommunications services.

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, 2011 and 2010

	Beverage		Food		Packaging		Power		Fuel and Oil	Infra-structure	Telecommu-nications	Others		Eliminations		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	**2011**	**2011**	**2011**	2010	**2011**	2010	**2011**	2010
Sales																	
External sales	**₱63,749**	₱65,570	**₱64,265**	₱57,714	**₱14,318**	₱13,774	**₱53,006**	₱24,762	**₱198,104**	**₱–**	**₱–**	**₱–**	₱ –	**₱–**	₱–	**₱393,442**	₱161,820
Inter-segment sales	**6**	136	**21**	2	**3,410**	3,307	**528**	-	**3,825**	**–**	**–**	**–**	–	**(7,790)**	(3,445)	**–**	–
Total sales	**₱63,755**	₱65,706	**₱64,286**	₱57,716	**₱17,728**	₱17,081	**₱53,534**	₱24,762	**₱201,929**	**₱–**	**₱–**	**₱–**	₱ –	**(₱7,790)**	(₱3,445)	**₱393,442**	₱161,820
Results																	
Segment results	**₱13,583**	₱13,994	**₱4,254**	₱4,173	**₱1,574**	₱1,489	**₱10,986**	₱2,240	**₱13,114**	**(₱45)**	**(₱117)**	**₱303**	(₱2,315)	**(₱1,701)**	₱163	**₱41,951**	₱19,744

3. **Related Party Transactions**

Transactions with related parties are made at normal market prices.

a. The Parent Company has advances to San Miguel Corporation Retirement Plan (SMCRP) amounting to ₱5,708 and ₱3,997 as of September 30, 2011 and December 31, 2010, respectively, subject to interest of 5.75% per annum included as part of "Trade and other receivables" account.

b. The Parent Company has advances to Top Frontier Investment Holdings, Inc. amounting to ₱2,562 and ₱2,543 as of September 30, 2011 and December 31, 2010, included as part of "Trade and other receivables" account.

c. San Miguel Properties, Inc. (SMPI) has fully paid as of September 30, 2011 its advances from SMCRP amounting to ₱1,800 which is included as part of "Accounts payable and accrued expenses" account as of December 31, 2010. SMPI used the proceeds of the advances mainly for the acquisition of additional Bank of Commerce (BOC) shares of stock. As of September 30, 2011 and December 31, 2010, the Group also has outstanding receivables from SMCRP amounting ₱2, included as part of "Trade and other receivables" account.

d. The significant transactions of the Group and Meralco include the following:

	Sales	Purchases of Utilities	Included under "Trade and other receivables" account	Included under "Accounts payable and accrued expenses" account
September 30, 2011	**₱25,434**	**₱358**	**₱5,493**	**₱35**
December 31, 2010	₱17,103	₱490	₱4,548	₱43

As of September 30, 2011 and December 31, 2010, the Group has noncurrent receivables from and deposits to Meralco amounting to ₱87, included as part of "Other noncurrent assets - net" account.

e. As of September 30, 2011 and December 31, 2010, the Group has outstanding receivables from Liberty Telecommunications Holdings, Inc. amounting to ₱273 and ₱145, respectively, included as part of "Trade and other receivables" account.

f. As of September 30, 2011 and December 31, 2010, the Group has outstanding receivables from BOC amounting to ₱2 and ₱4, respectively, included as part of "Trade and other receivables" account.

g. As of September 30, 2011 and December 31, 2010, Petron Corporation (Petron) has noncurrent receivables of ₱22,668 and ₱22,435 from Petron Corporation Employee Retirement Plan, included as part of "Other noncurrent assets - net" account. Such advance is subject to interest of 4% per annum.

h. As of September 30, 2011, Petron has current and noncurrent receivables of ₱172 and ₱529, respectively, from Petrochemical Asia (HK) Limited. The noncurrent receivables were included as part of "Other noncurrent assets - net" account.

4. Property, Plant and Equipment

Property, plant and equipment consist of:

September 30, 2011

	January 1, 2011	Additions and Transfers	Disposals and Reclassifications	Currency Translation Adjustments	September 30, 2011
Cost:					
Land and land improvements	**₱15,277**	**₱886**	**(₱426)**	**(₱54)**	**₱15,683**
Buildings and improvements	**32,224**	**793**	**5,706**	**93**	**38,816**
Power plants	**214,899**	**596**	**(1,175)**	**-**	**214,320**
Refinery and plant equipment	**37,286**	**89**	**6**	**-**	**37,381**
Service stations and other equipment	**5,319**	**230**	**26**	**-**	**5,575**
Machinery and equipment	**86,765**	**1,792**	**(4,024)**	**182**	**84,715**
Transportation equipment	**8,615**	**1,154**	**(339)**	**1**	**9,431**
Tools and small equipment	**2,327**	**168**	**(49)**	**(25)**	**2,421**
Office equipment, furniture and fixtures	**4,194**	**332**	**(1,253)**	**(5)**	**3,268**
Molds	**702**	**172**	**(55)**	**(2)**	**817**
Leasehold improvements	**1,237**	**38**	**252**	**-**	**1,527**
Construction in progress	**6,097**	**11,987**	**(1,282)**	**13**	**16,815**
	414,942	**18,237**	**(2,613)**	**203**	**430,769**
Accumulated depreciation and amortization:					
Land improvements	**2,462**	**106**	**4**	**(2)**	**2,570**
Buildings and improvements	**10,732**	**775**	**(3,975)**	**7**	**7,539**
Power plants	**5,611**	**4,130**	**(410)**	**-**	**9,331**
Refinery and plant equipment	**16,545**	**1,539**	**(8)**	**-**	**18,076**
Service stations and other equipment	**3,742**	**358**	**(3)**	**-**	**4,097**
Machinery and equipment	**47,330**	**2,926**	**1,611**	**(38)**	**51,829**
Transportation equipment	**2,389**	**464**	**263**	**2**	**3,118**
Tools and small equipment	**1,691**	**164**	**(56)**	**(26)**	**1,773**
Office equipment, furniture and fixtures	**3,585**	**215**	**1,305**	**(3)**	**5,102**
Molds	**510**	**146**	**(24)**	**-**	**632**
Leasehold improvements	**555**	**99**	**(17)**	**-**	**637**
	95,152	**10,922**	**(1,310)**	**(60)**	**104,704**
Accumulated impairment losses:					
Land improvements	**412**	**-**	**(28)**	**1**	**385**
Buildings and improvements	**3,829**	**6**	**(6)**	**90**	**3,919**
Machinery and equipment	**7,403**	**-**	**(62)**	**213**	**7,554**
Transportation equipment	**12**	**-**	**-**	**-**	**12**
Tools and small equipment	**20**	**-**	**-**	**-**	**20**
Office equipment, furniture and fixtures	**41**	**-**	**-**	**-**	**41**
	11,717	**6**	**(96)**	**304**	**11,931**
Net book value	**₱308,073**	**₱7,309**	**(₱1,207)**	**(₱41)**	**₱314,134**

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	₱10,627	₱61	₱77	₱62	₱10,827
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

(forward)

	January 1, 2010	Additions and Transfers	Disposals, Reclassifications and Acquisition of a Subsidiaries	Currency Translation Adjustments	September 30, 2010
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	₱65,919	₱134	₱205,569	(₱512)	₱271,110

Depreciation and amortization charged to operations amounted to ₱10,922 and ₱7,120 in September 2011 and 2010, respectively.

5. Assets Held for Sale

Petron has an investment property consisting of office units located at Petron Mega Plaza which has a floor area of 21,216 square meters covering the 28th - 44th floors and 206 parking lots. On December 1, 2010, Petron's Board of Directors (BOD) approved the sale of these properties to provide cash flows for various projects. On May 2, 2011, Petron sold the 32nd floor (with total floor area of 1,530 square meters) and 10 parking lots with a carrying amount of ₱57 to International Committee of the Red Cross. In September 2011, it was reverted back to "Investment properties" account in view of the fact that the remaining floors have already been tenanted. The carrying amount of the investment property as of September 30, 2011 and December 31, 2010 of ₱10 and ₱823, respectively, is presented as "Assets held for sale" in the consolidated statements of financial position.

6. Basic and Diluted Earnings Per Share (EPS)

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

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

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

Basic and Diluted EPS is computed as follows:

	September	
	2011	2010
Income attributable to equity holders of the Parent Company	**₱11,947**	₱12,696
Less dividends on preferred shares for the period (a)	**4,367**	4,367
Net income attributable to common shareholders of the Parent Company (b)	**₱7,580**	₱8,329
Weighted average number of common shares outstanding (in millions) - basic (c)	**2,348**	2,304
Effect of dilution - common	**14**	17
Weighted average number of common shares outstanding (in millions) - diluted (d)	**2,362**	2,321
Weighted average number of preferred shares outstanding (in millions) (e)	**971**	971
Common:		
Basic EPS (b/c)	**₱3.23**	₱3.61
Diluted EPS (b/d)	**₱3.21**	₱3.59
Preferred:		
Basic/Diluted EPS (a/e)	**₱4.50**	₱4.50

7. Dividends

Cash dividends declared by the Parent Company's BOD to common shareholders amounted to ₱1.05 per share as of September 30, 2011 and ₱6.40 per share as of September 30, 2010.

Cash dividends declared by the Parent Company's BOD to preferred shareholders amounted to ₱4.50 per share as of September 30, 2011 and 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, finance lease liabilities 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's 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 acquired 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 profit or loss.

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 ₱844 and ₱563 in September 30, 2011 and 2010, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

As at September 30, 2011 and December 31, 2010, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

September 30, 2011	**<1 year**	**1-<2 years**	**>2-<3 years**	**>3-<4 years**	**>4-<5 years**	**>5 years**	**Total**
Fixed rate							
Philippine peso-denominated	₱15,140	₱502	₱29,408	₱476	₱6,812	₱22,810	₱75,148
Interest rate	6.5% - 10%	7.25% - 10%	7.25% - 10%	7.25% - 9.33%	6.145% - 10%	7% - 10.5%	
Foreign currency-denominated (expressed in Philippine peso)	-	-	34,976	-	13,116	-	48,092
Interest rate	-	-	2.519%	-	7%	-	
Floating rate							
Philippine peso-denominated	1,167	1,000	550	600	11,550	-	14,867
Interest rate	PDST-F + margin	PDST-F + margin	PDST-F + margin	PDST-F + margin	PDST-F + margin		
Foreign currency-denominated (expressed in Philippine peso)	2,191	3,569	3,509	60,285	-	-	69,554
Interest rate	LIBOR, THBFIX and VNIBOR + margin	LIBOR and THBFIX + margin	LIBOR and THBFIX + margin	LIBOR + margin			
	₱18,498	**₱5,071**	**₱68,443**	**₱61,361**	**₱31,478**	**₱22,810**	**₱207,661**

December 31, 2010	<1 year	1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total
Fixed rate							
Philippine peso-denominated	₱6,963	₱15,004	₱476	₱29,249	₱1,234	₱27,322	₱80,248
Interest rate	6.73% - 9.33%	6.5% - 9.33%	7.25% - 9.33%	7.25% - 9.33%	5.4885% - 9.33%	7% - 10.5%	
Floating rate							
Philippine peso-denominated	1,667	2,000	1,000	800	11,550	-	17,017
Interest rate	PDST-F + margin	PDST-F + margin	PDST-F + margin	PDST-F + margin	PDST-F + margin		
Foreign currency-denominated (expressed in Philippine peso)	4,092	4,080	3,583	3,520	58,721	-	73,996
Interest rate	LIBOR, THBFIX and VNIBOR +margin	LIBOR, THBFIX and VNIBOR +margin	LIBOR and THBFIX +margin	LIBOR and THBFIX +margin	LIBOR +margin		
	₱12,722	₱21,084	₱5,059	₱33,569	₱71,505	₱27,322	₱171,261

Foreign Currency Risk

The Group's functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. 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, options or swaps to manage its foreign currency risk exposure.

Short-term currency forward contracts (deliverable and non-deliverable) and options 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, 2011		December 31, 2010	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$1,570**	**₱68,629**	US$1,456	₱63,812
Trade and other receivables	**936**	**40,885**	297	13,042
AFS financial assets	**15**	**665**	50	2,188
Noncurrent receivables	**5**	**230**	4	151
	2,526	**110,409**	1,807	79,193
Liabilities				
Drafts and loans payable	**622**	**27,177**	139	6,065
Accounts payable and accrued expenses	**1,195**	**52,205**	965	42,290
Long-term debt (including current maturities)	**2,191**	**95,786**	1,688	73,995
Finance lease liabilities	**2,580**	**112,818**	2,636	115,556
Other noncurrent liabilities	**3**	**130**	1	35
	6,591	**288,116**	5,429	237,941
Net foreign currency-denominated monetary liabilities	**(US$4,065)**	**(₱177,707)**	(US$3,622)	(₱158,748)

The Group reported net foreign exchange gains (loss) amounting to (₱234) and ₱6,804 in September 30, 2011 and 2010, 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, 2009	46.20
September 30, 2010	43.88
December 31, 2010	43.84
September 30, 2011	43.72

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 changes in the fair value of monetary assets and liabilities, net of tax and due to translation of results and financial position of foreign operations) as of September 30, 2011 and December 31, 2010:

September 30, 2011	**P1 decrease in the US dollar exchange rate**		**P1 increase in the US dollar exchange rate**	
	Effect on Income before Income Tax	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(₱1,407)**	**(₱1,147)**	**₱1,407**	**₱1,147**
Trade and other receivables	**(307)**	**(842)**	**307**	**842**
AFS financial assets	**-**	**(87)**	**-**	**87**
Noncurrent receivables	**-**	**(6)**	**-**	**6**
	(1,714)	**(2,082)**	**1,714**	**2,082**
Drafts and loans payable	**538**	**461**	**(538)**	**(461)**
Accounts payable and accrued expenses	**594**	**1,017**	**(594)**	**(1,017)**
Long-term debt (including current maturities)	**2,183**	**1,536**	**(2,183)**	**(1,536)**
Finance lease liabilities	**2,580**	**1,806**	**(2,580)**	**(1,806)**
Other noncurrent liabilities	**2**	**2**	**(2)**	**(2)**
	5,897	**4,822**	**(5,897)**	**(4,822)**
	₱4,183	**₱2,740**	**(₱4,183)**	**(₱2,740)**

December 31, 2010	P1 decrease in the US dollar exchange rate		P1 increase in the US dollar exchange rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(₱1,245)	(₱1,046)	₱1,245	₱1,046
Trade and other receivables	(105)	(263)	105	263
AFS financial assets	-	(10)	-	10
Noncurrent receivables	-	(4)	-	4
	(1,350)	(1,323)	1,350	1,323
Drafts and loans payable	7	151	(7)	(151)
Accounts payable and accrued expenses	915	486	(915)	(486)
Long-term debt (including current maturities)	1,665	1,189	(1,665)	(1,189)
Finance lease liabilities	2,636	1,845	(2,636)	(1,845)
Other noncurrent liabilities	-	1	-	(1)
	5,223	3,672	(5,223)	(3,672)
	₱3,873	₱2,349	(₱3,873)	(₱2,349)

Exposures to foreign exchange rates vary during the period depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity 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, crude oil, aluminum, soybean meal and wheat.

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

Liquidity Risk

Liquidity risk 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, 2011 and December 31, 2010.

September 30, 2011

	Carrying Amount	Contractual Cash Flow	1 year or less	>1 year - 2 years	>2 years - 5 years	Over 5 years
Financial Assets						
Cash and cash equivalents	**₱125,934**	**₱125,934**	**₱125,934**	**₱ -**	**₱ -**	**₱ -**
Trade and other receivables - net	**81,053**	**81,053**	**81,053**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**430**	**430**	**430**	**-**	**-**	**-**
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**184**	**184**	**184**	**-**	**-**	**-**
AFS financial assets	**1,848**	**1,848**	**-**	**1,848**	**-**	**-**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**25,802**	**25,802**	**-**	**25,802**	**-**	**-**
Financial Liabilities						
Drafts and loans payable	**75,864**	**76,371**	**76,371**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	**65,866**	**65,866**	**65,866**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**506**	**506**	**506**	**-**	**-**	**-**
Long-term debt (including current maturities)	**205,059**	**230,962**	**25,819**	**11,469**	**170,080**	**23,594**
Finance lease liabilities (including current portion)	**208,017**	**305,509**	**16,184**	**18,994**	**63,854**	**206,477**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, asset retirement obligation (ARO) and infrastructure retirement obligation (IRO))	**2,101**	**2,101**	**-**	**2,101**	**-**	**-**

December 31, 2010

	Carrying Amount	Contractual Cash Flow	1 year or less	>1 year - 2 years	>2 years - 5 years	Over 5 years
Financial Assets						
Cash and cash equivalents	₱125,188	₱125,188	₱125,188	₱ -	₱ -	₱ -
Trade and other receivables - net	75,904	75,904	75,904	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	249	249	249	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	193	193	193	-	-	-
AFS financial assets	3,597	3,597	-	3,597	-	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	24,783	24,783	-	24,783	-	-
Financial Liabilities						
Drafts and loans payable	74,128	75,057	75,057	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	69,198	69,198	69,198	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	71	71	71	-	-	-
Long-term debt (including current maturities)	168,927	209,335	22,250	28,947	126,378	31,760
Finance lease liabilities (including current portion)	208,407	314,678	11,794	18,479	60,458	223,947
Other noncurrent liabilities (excluding noncurrent retirement liabilities, ARO and IRO)	16,168	16,168	-	16,168	-	-

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.

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.

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.

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, 2011 and December 31, 2010, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	September 30, 2011	December 31, 2010
Cash and cash equivalents	**₱125,934**	₱125,188
Trade and other receivables - net	**81,053**	75,904
Derivative assets	**430**	249
Financial assets at FVPL	**184**	193
AFS financial assets	**1,848**	3,597
Noncurrent receivables and deposits - net	**25,802**	24,783
	₱235,251	₱229,914

The credit risk for cash and cash equivalents, derivative assets, financial assets at FVPL and AFS financial assets is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous trade customers. The Group does not execute any credit guarantee in favor of 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.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (FVPL and AFS financial assets). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

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.

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 or loss (FVPL), includes transaction costs.

The Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS financial assets, financial assets at FVPL and loans and receivables. The Group classifies its financial liabilities as either financial liabilities at FVPL 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 profit or loss 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 profit or loss 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. A financial asset is classified at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. 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, 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;

- 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. Attributable transaction costs are recognized in profit or loss as incurred. Fair value changes and realized gains or losses are recognized in profit or loss. 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 profit or loss when the right to receive payment has been established.

The Group's derivative assets and financial assets at FVPL are classified under this category.

The combined carrying amounts of financial assets under this category amounted to ₱614, ₱499 and ₱442 as of September and June 30, 2011 and December 31, 2010, 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 profit or loss 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 and which are subject to an insignificant risk of changes 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 ₱232,789, ₱228,440 and ₱225,875 as of September and June 30, 2011 and December 31, 2010, 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 reclassified 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 profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process.

As of September and June 30, 2011 and December 31, 2010, 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 in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Fair value reserve" in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right to receive payment has been established. 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 profit or loss.

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 available-for-sale financial assets are classified under this category.

The carrying amounts of financial assets under this category amounted to ₱1,848, ₱2,136 and ₱3,597 as of September and June 30, 2011 and December 31, 2010, 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 profit or loss. 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 amounts of financial liabilities under this category amounted to ₱506, ₱262 and ₱71 as of September and June 30, 2011 and December 31, 2010, 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, finance lease liabilities and other noncurrent liabilities.

The combined carrying amounts of financial liabilities under this category amounted to ₱556,907, ₱546,676 and ₱536,828 as of September and June 30, 2011 and December 31, 2010, 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 recognized in profit or loss.

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 repay.

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 profit or loss.

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 profit or loss. 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 profit or loss, to the extent that the carrying amount 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 profit or loss, is transferred from equity to profit or loss. 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 recognized in 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 profit or loss.

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 impairment 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;
- 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, 2011 December 31, 2010:

	September 30, 2011		December 31, 2010	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**₱125,934**	**₱125,934**	₱125,188	₱125,188
Trade and other receivables - net	**81,053**	**81,053**	75,904	75,904
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**430**	**430**	249	249
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**184**	**184**	193	193
AFS financial assets	**1,848**	**1,848**	3,597	3,597
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**25,802**	**25,802**	24,783	24,783
Financial Liabilities				
Drafts and loans payable	**75,864**	**75,864**	74,128	74,128
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	**65,866**	**65,866**	69,198	69,198
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**506**	**506**	71	71
Long-term debt (including current maturities)	**205,059**	**223,540**	168,927	182,030
Finance lease liabilities (including current portion)	**208,017**	**208,017**	208,407	208,407
Other noncurrent liabilities (excluding noncurrent retirement liabilities, ARO and IRO)	**2,101**	**2,101**	16,168	15,764

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.

Financial Assets at FVPL and 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, Finance Lease Liabilities 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, 2011 and December 31, 2010, discount rates used for Philippine peso-denominated loans range from 1.8% to 5.6% and 1.3% to 5.7%, respectively. The discount rates used for foreign currency-denominated loans range from 0.3% to 1.1% as of September 30, 2011. The Group has no foreign currency-denominated fixed-rate loans as of December 31, 2010. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

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

The Group enters into various currency and commodity derivative contracts to manage its exposure on foreign currency and commodity price risk. The portfolio is a mixture of instruments including forwards, swaps and options.

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 profit or loss. 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 profit or loss.

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, 2011 and December 31, 2010, 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 profit or loss.

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 profit or loss.

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 profit or loss.

As of September and June 30, 2011 and December 31, 2010, the Group has no outstanding derivatives accounted for as cash flow hedge.

Net Investment Hedge. As of September and June 30, 2011 and December 31, 2010, 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. Changes in fair value of these instruments are accounted for directly in profit or loss. Details are as follows:

Freestanding Derivatives

Freestanding derivatives consist of commodity and currency derivatives entered into by the Group.

Currency Forwards
As of September and June 30, 2011 and December 31, 2010, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US$454, US$676 and US$110, respectively, and with various maturities up to December 2011. As of September and June 30, 2011 and December 31, 2010, the net positive (negative) fair value of these currency forwards amounted to ₱228, ₱37 and (₱8), respectively.

Currency Options
The Group entered into short-term currency options with an aggregate notional amount as of September and June 30, 2011 of US$704 and US$801, respectively. The net positive (negative) fair value of these currency options as of September and June 30, 2011 amounted to (₱215) and ₱22, respectively. The Group has no outstanding currency option agreements as of December 31, 2010.

Commodity Swaps
The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2011. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps as of December 31, 2010 is 450 metric tons. As of December 31, 2010, the positive fair value of these swaps amounted to ₱16. As of September and June 30, 2011, there were no outstanding swaps on the purchase of aluminum.

The Group has outstanding swap agreements covering its fuel and crude requirements, with various maturities in 2011. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps as of September and June 30, 2011 and December 31, 2010 is 3.0, 5.7 and 1.5 million barrels, respectively. As of September and June 30, 2011 and December 31, 2010, the positive (negative) fair value of these swaps amounted to ₱267, (₱128) and (₱32), respectively.

Commodity Options
The Group has outstanding bought and sold options covering its wheat requirements with notional quantities as of September and June 30, 2011 and December 31, 2010 of 29,529, 66,950 and 49,532 metric tons, respectively. These options can be exercised at various calculation dates in 2011 and 2012 with specified quantities on each calculation date. As of September and June 30, 2011 and December 31, 2010, the net positive (negative) fair value of these options amounted to (₱13), (₱84) and ₱54, respectively.

As of September 30, 2011, the Group has outstanding bought and sold options covering its soybean meal requirements with notional quantity of 7,439 metric tons. These options can be exercised at various calculation dates in 2012 with specified quantities on each calculation date. As of September 30, 2011, the negative fair value of these options amounted to ₱6. There were no outstanding options on the purchase of soybean meal as of June 30, 2011 and December 31, 2010.

As of September and June 30, 2011 and December 31, 2010, the Group has outstanding commodity options covering its crude oil requirements with notional quantity of 2.4, 0.9 and 2.8 million barrels, respectively. These call and put options can be exercised at various calculation dates in 2011 with specified quantities on each calculation date. The net positive (negative) fair value of these options as of September and June 30, 2011 and December 31, 2010 amounted to (₱634), ₱102 and (₱234), 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, 2011 and December 31, 2010, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$197, US$150 and US$244, 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, 2011 and December 31, 2010, the net positive (negative) fair value of these embedded currency forwards amounted to (₱59), ₱86 and ₱127, respectively.

Embedded Currency Options
As of September and June 30, 2011 and December 31, 2010, the total outstanding notional amount of currency options embedded in non-financial contracts amounted to US$25, US$33 and US$26, 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, 2011 and December 31, 2010, the net negative fair value of these embedded currency options amounted to ₱11, ₱14 and ₱11, respectively.

For the periods ended September 30, 2011 and 2010 and June 30, 2011 and 2010, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (₱133), ₱224, (₱883) and ₱20, respectively.

Fair Value Hierarchy
Financial assets and financial liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities.

The table below analyzes financial instruments carried at fair value, by valuation method as of September 30, 2011 and December 31, 2010. 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; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

September 30, 2011

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	**₱3**	**₱427**	**₱430**
Financial assets at FVPL	**184**	**-**	**184**
AFS financial assets	**728**	**1,120**	**1,848**
Financial Liabilities			
Derivative liabilities	**19**	**487**	**506**

December 31, 2010

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	₱3	₱246	₱249
Financial assets at FVPL	193	-	193
AFS financial assets	2,477	1,120	3,597
Financial Liabilities			
Derivative liabilities	-	71	71

As of September 30, 2011 and December 31, 2010, 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) BOD Approval on the Issuance of Bonds by San Miguel Brewery Inc. (SMB)

On October 10, 2011, the BOD of SMB approved the issuance of peso-denominated bonds of up to ₱20,000. The bond issuance will have a minimum tenor of 5 years and the proceeds thereof will be used to refinance the tranche of the peso-denominated fixed rate bonds issued by SMB in 2009 maturing in 2012.

b) Additional Investment in Eastern Telecommunications Philippines, Inc. (ETPI)

On October 20, 2011, the Parent Company through its wholly-owned subsidiary, San Miguel Equity Securities Inc. executed a Share Purchase Agreement with ISM Communications Corporation for the purchase of approximately 37.7% of ETPI.

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 26 (c) of the 2010 Audited Consolidated Financial Statements that remain outstanding as of September 30, 2011. 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, 2011.

g. The effects of seasonality or cyclicality on the interim operations of the Group's businesses are not material.

h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end of September 30, 2011. 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, 2011 (with comparative figures as of December 31, 2010 and for the period ended September 30, 2010). All necessary adjustments to present fairly the consolidated financial position, performance and cash flows of the Group as at September 30, 2011, 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. 2011 TRANSACTIONS

- On January 13, 2011, San Miguel Properties, Inc. (SMPI) acquired an additional 7.16% of the outstanding capital stock of Bank of Commerce (BOC) for a total consideration of ₱1,490 million, by way of a Deed of Sale of Shares with Assignment of Subscription Rights from Valiant Ventures and Development Holdings, Inc., consisting of: (i) 2,800,000 outstanding and issued common shares of stock and; (ii) the subscription rights to 5,237,265 common shares of stock. As of September 30, 2011, SMPI paid ₱1,285 million for the shares acquired.

- On January 3, 2011, Petron Corporation (Petron) entered into a Share Sale and Purchase Agreement with Harbour Centre Port Terminal Inc. for the purchase of 35% of Manila North Harbour Port Inc.'s outstanding and issued capital stock. As of September 30, 2011, Petron paid ₱691 million for the investment.

- On January 28, 2011, SMC Global Power Holdings Corp. (SMC Global) carried out a US$300 million, 7%, 5 year bond issue under Regulations of the U.S. Securities Act of 1933, as amended. The bond issue was listed in the Singapore Exchange Securities Trading Limited.

  On September 30, 2011, SMC Global has drawn the US$200 million, syndicated 3-year medium term loan facility with a fixed interest rate at 2.52% per annum. The loan facility was signed on March 31, 2011.

- On January 26, 2011, the Philippine Stock Exchange (PSE) approved, subject to certain conditions, the application of San Miguel Pure Foods Company, Inc. (SMPFC) to list up to 15,000,000 preferred shares with a par value of ₱10.00 per share to cover SMPFC's follow-on preferred shares offering at an offer price of ₱1,000.00 per share.

  SMPFC, through the underwriters and selling agents, offered 15,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares with 5-year maturity at an offer price of ₱1,000.00 per share during the period February 14 to 25, 2011. The dividend rate was set at 8% per annum with dividend payment dates on March 3, June 3, September 3 and

December 3 of each year calculated on a 30/360-day basis, as and if declared by SMPFC's Board of Directors (BOD).

On March 3, 2011, SMPFC's 15,000,000 preferred shares with par value of ₱10.00 per share were listed with the PSE.

- On March 8, 2011, SMPFC paid the Parent Company ₱2,880 million, representing the remaining 90% balance of the purchase price of the food-related brands and intellectual property rights acquired in July 2010.

  On May 9, 2011, SMPFC through San Miguel Pure Foods International, Limited paid US$16.75 million or equivalent to ₱720.6 million to San Miguel Food and Beverages International Limited, a wholly-owned subsidiary of the Parent Company, representing the remaining 90% balance on the purchase of the Parent Company's 51% stake in SMPFI. SMPFI is a joint venture company with Hormel, and the owner of San Miguel Hormel (Vn) Co., Ltd., the Food business's Vietnam operating subsidiary engaged in the feeds, hogs and processed meats business.

- On February 10 and May 23, 2011, the Parent Company received cash dividends on its preferred shares in Top Frontier Holdings, Inc. (Top Frontier) amounting to ₱139.50 per share or a total of ₱725 million.

  On March 16, 2011, Top Frontier exercised its option to purchase from Q-Tech Alliance Holdings, Inc. ("Q-Tech") a 12.9% equity interest in the Parent Company held by Q-Tech, which increased Top Frontier's equity interest in SMC's issued and outstanding common shares of stock to 67.2%.

- On May 5, 2011, the Parent Company completed the secondary offering of its common shares. The Offer consists of 110,320,000 common shares of stock of the Parent Company (the "Offer Shares"), consisting of 27,580,000 common shares from the treasury stock of the Parent Company and 82,740,000 common shares from Top Frontier. In addition, Top Frontier sold to ATR Kim Eng Capital Partners, Inc., BDO Capital & Investment Corporation and SB Capital Investment Corporation an additional 27,580,000 Offer Shares. The Parent Company likewise granted Credit Suisse (Singapore) Limited, Standard Chartered Securities (Singapore) Pte. Limited, Goldman Sachs (Singapore) Pte., and UBS AG an option, exercisable in whole or in part for thirty (30) days from the date of allotment of Offer Shares in the international offer, to procure purchasers for up to 7,880,000 additional Common Shares, solely to cover over-allotments under the Offer, if any. The Offer Shares were priced at ₱110.00 per share on April 20, 2011. The 7,880,000 common shares which were not utilized were reverted back to treasury shares.

  Also on May 5, 2011, US$600 million worth of exchangeable bonds of the Parent Company sold to overseas investors were simultaneously listed at the Singapore Stock Exchange. The exchangeable bonds have a maturity of three years, a coupon of 2% per annum and an exchange premium of 25% above the reference share price. The exchangeable bonds will be exchangeable for Common Shares from the treasury stock of SMC. The initial exchange price for the exchange of the exchangeable bonds into Common Shares is ₱137.50 per share.

- On June 17, 2011, the BOD of SMC Global approved the sale of its 100% ownership in Panasia Energy Holdings, Inc. (PanAsia) to Millennium Holdings, Inc. (Millennium). The Share Purchase Agreement between SMC Global and Millennium was signed on June 24, 2011 and the

sale was completed on August 26, 2011. SMC Global received ₱25 million as initial payment and the balance of ₱600 million will be paid by Millennium on an installment basis up to June 30, 2016. As of September 30, 2011, the Group recognized a gain of ₱362 million for the said sale.

- On August 1, 2011, the Parent Company paid in advance the balance on the purchase price for the acquisition of the Manila Electric Company (Meralco) shares of stock to the Government Service Insurance System amounting to ₱10,403 million.

- On August 16, 2011, the Parent Company and SMPFC executed a share purchase agreement covering the sale by the Parent Company to SMPFC of the 59,090,909 shares of stock of Meralco at ₱220.00 per share.

- On August 31, 2011, the Parent Company sold its 100% equity interest in PowerOne Ventures Energy, Inc. and San Miguel Electric Corp. to SMC Global for ₱250 thousand and ₱250 million, respectively. This transaction is part of the reorganization of the Power Business.

- On September 12, 2011 Rapid Thoroughfares Inc. (Rapid) subscribed to additional 1,111,228 common shares of Private Infra Dev Corporation (PIDC) amounting to ₱1,111 million. This acquisition increased Rapid's equity ownership interest in PIDC to 48% as of September 30, 2011. On October 12, 2011, a third party subscribed 358,162 common shares from the additional, unissued and outstanding common shares of PIDC, thereby reducing Rapid's equity ownership interest to 45%.

- On August 17, 2011, the Parent Company signed sale and purchase agreements to acquire three subsidiaries comprising Exxon Mobil's downstream oil business in Malaysia. The three subsidiaries form an integrated business engaged in the refining, distribution and marketing of petroleum products. Physical assets include the Port Dickson refinery with a rated capacity of 88,000 barrels per day; seven fuel distribution terminals; and a network of roughly 560 branded service stations, 420 of which are company-owned. The total consideration for the transaction amounts to US$ 610 million.

  As of September 30, 2011, the completion of the transaction is still subject to certain conditions.

II. FINANCIAL PERFORMANCE

2011 vs. 2010

San Miguel Corporation's consolidated sales revenue as of September 2011 amounted to ₱393,442 million, 143% over last year's level. The corresponding September year-to-date 2011 consolidated operating income is ₱41,951 million, 112% over last year.

The Group's revenue and operating income growths for the third quarter were, however, more moderate compared to the first semester results.

Equity in net earnings of associates increased in 2011 mainly due to the increase in the Group's share in net income of Meralco, net of the equity in net losses of Top Frontier, Liberty Telecommunications Holdings, Inc. (LTHI) and Petrochemical Asia (HK) Limited (PAHL).

Net financing charges increased to ₱16,849 million from ₱8,679 million mainly due to higher debt balance in 2011 and the interest expense on finance lease liabilities of SMC Global.

Gain on sale of investments and property and equipment and others decreased on account of the gain on acquisition of SMC Global and the foreign exchange gains of SMC Global from its foreign currency denominated finance lease liability and of SM Brewery Inc. (SMB) and the Parent Company from their foreign currency denominated debts in 2010.

With higher interest expense and non-controlling interests' share in the consolidated subsidiaries, the Group reported September year-to-date consolidated net income attributable to equity holders of the Parent Company of ₱11,947 million, 6% lower than last year. Excluding non-recurring gains on investments, September year-to-date recurring net income at ₱ 11,587 million is 41% higher than 2010.

2010 vs. 2009

San Miguel Corporation's September 2010 consolidated sales revenue amounted to ₱161,820 million, 28% higher than 2009. 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, Inc. (GSMI) and Domestic Beer sustained their revenue growths versus 2009. The corresponding September 2010 consolidated operating income ended at ₱19,744 million, 50% above 2009.

The Group's net financing charges, on the other hand, amounted to ₱8,679 million with comparatively higher interest expenses in 2010.

Equity in net earnings of associates primarily represents the Group's share in the unaudited net income/losses of Meralco, Petron Corporation (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.

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

1. BEVERAGES

2011 vs. 2010

a. Beer

San Miguel Brewery Inc. and Subsidiaries generated September year-to-date revenues of ₱52,084 million, 7% higher than last year. This was on volumes of about 166 million cases, above year-ago level by 3%. Though volume slowed down a bit during the third quarter, increased selling prices and managed fixed costs improved consolidated operating income to ₱14,654 million, 9% above last year.

b. GSMI

Ginebra San Miguel, Inc.'s September year-to-date 2011 consolidated sales revenues amounted to ₱11,509 million, 31% below last year's level. Demand for GSMI's hard liquor products remained soft amidst the intense competitive environment. Though volume improved in the start of the third quarter, successive weather disturbances in the month of September dampened sales performance for the quarter. This resulted to a consolidated operating loss of ₱532 million for September year-to-date.

2010 vs. 2009

a. Beer

San Miguel Brewery Inc.'s September 2010 revenues ended at ₱40,127 million, 9% higher than 2009. This was on sales volume of 132 million equivalent cases, surpassing 2009 level by 3%. With increased volumes and favorable margins, September 2010 operating income reached ₱13,477 million, 20% higher than 2009'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 2009 as South China operations continued to experience tough market conditions. Corresponding revenue of $198 million is 2% below 2009'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 operating income of $1 million for the period ended September 30, 2010.

b. GSMI

Ginebra San Miguel, Inc. brought in positive results for the first nine months with domestic liquor volume reaching 29 million cases, 7% above 2009's level. This resulted to consolidated sales revenue of ₱16,642 million, 18% higher than 2009.

With higher revenues and stable fuel and molasses costs, September 2010 consolidated operating income reached ₱1,189 million, 36% higher than 2009's level.

2. PACKAGING

2011 vs. 2010

San Miguel Yamamura Packaging Group's (SMYPG) September 2011 year-to-date sales revenue reached ₱17,728 million, 4% higher than last year. The business maintained its moderate growth trend with higher sales from glass, plastic, paper and international operations. This, coupled with glass business margin improvement resulted to a 24% increase in packaging business' third quarter operating results versus the same period last year. Consolidated September year-to-date operating income ended at ₱1,575 million, 8% above last year.

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 2010 revenues of ₱17,081 million, 18% higher than 2009's level. Likewise, third quarter operating income posted a remarkable 44% increase versus 2009 resulting to consolidated September 2010 operating income of ₱1,489 million, 8% above 2009.

3. FOOD

2011 vs. 2010

As of September 2011, San Miguel Pure Foods Group achieved consolidated revenues of ₱64,286 million, 11% higher than 2010. This was due to sustained volume growth and better selling prices. In addition, value added meats business posted an 8% increase in sales revenue for the third quarter.

However, income was tempered by the high costs of raw materials which intensified in the third quarter particularly for poultry, basic meats, feeds and flour. This resulted to September year-to-date consolidated operating income of ₱ 4,254 million, a 2% improvement over last year. Product reformulation, focus on higher-margin products and other cost-efficiency efforts were put in place to mitigate the effect of higher costs.

2010 vs. 2009

The Food Group delivered consistent performance as of September 2010, with consolidated sales revenue of ₱57,720 million, 3% higher than 2009. 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 2009's results. This is on the back of cost breaks from favorable raw material prices in poultry, basic meats, flour and dairy.

4. POWER

2011 vs. 2010

The four power plants – Sual, Limay, San Roque and Ilijan dispatched energy totaling 10.7 million megawatt hours (MWH) as of September 2011. This is 45% higher than last year with the addition of the Ilijan plant in the portfolio beginning July 2010. However, on a quarter to quarter basis, the power plants' net generation for the third quarter of 2011 suffered a decline due to lower generation in Sual as a result of major maintenance activities done during the quarter and lower demand in the spot market. Year-to-date consolidated revenue was 18% greater than last year at ₱53,534 million. Corresponding consolidated operating income amounted to ₱10,986 million.

2010 vs. 2009

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.

5. FUEL AND OIL

Petron Corporation delivered September year-to-date revenues of ₱201,929 million, 19% higher than last year. The business' sales revenue for the period increased due to higher product prices, increase in exports and sales of higher-margin petrochemicals. However, the third quarter growth in revenue and margin were tempered by lower domestic sales volume and higher inventory cost of oil being used in its operations. September year-to-date income from operations ended at ₱13,114 million, 47% more than last year's level.

III. FINANCIAL POSITION

2011 vs. 2010

The Group's consolidated total assets as of September 30, 2011 amounted to ₱875,457 million, ₱45,657 million higher than 2010, mainly due to:

Trade and other receivables increased by 7% to ₱81,053 million in 2011 due to SMC Global's higher receivable balance and SMC's advances to a related party, net of the lower government receivables of Petron.

Inventories increased by 34% to ₱77,102 million in 2011 mainly due to: a) increase in volume and price of crude oil inventory of Petron; b) inventory build up for the coming peak season of SMPFC and SMB; c) increase in prices of feeds costs, wheat and meat materials of SMPFC; and d) increase in molasses inventory of GSMI, net of the decrease in fuel inventory of SMC Global due to deconsolidation of PanAsia's balance and lesser shipment of coal for the period.

Biological assets increased by 28% to ₱6,079 million in 2011 due to the increase in volume of growing poultry livestock and hogs as a result of expected increase in sales volume and purchase of additional cattle breeding stocks coupled with higher feed costs.

Prepaid expenses and other current assets increased by 29% to ₱21,785 million in 2011 mainly due to the excess input tax over VAT payable of Petron and SMC Global.

Assets held for sale decreased due to the sale of the 32nd floor and 10 parking lots of Petron Mega Plaza and the reclassification to "Investment properties" account of its remaining carrying amount.

Investments and advances increased by 5% from ₱152,814 million in 2010 mainly due to the advances made for investments in a telecommunications company, additional investment in: a) BOC shares of stock by SMPI and b) PIDC shares by Rapid; the investment of Petron in 35% stake of Manila North Harbour Port Inc. and equity in net income of Meralco, net of the equity in net loss of Top Frontier, LTHI and PAHL and dividends from Meralco and Top Frontier.

Available-for-sale financial assets decreased by 49% from ₱3,597 million in 2010 mainly due to the fair value adjustment on the investment in shares of stock of Indophil Resources NL (Indophil).

Investment properties increased by 38% due to reclassification of Petron Mega Plaza's remaining carrying amount from assets held for sale and the construction costs of SMPI's Makati Diamond Hotel Project, net of the disposal of SMBIL's investment property in Thailand.

Other noncurrent assets increased by 5% to ₱35,430 million in 2011 due to the advances made by Petron to PAHL and SMC Global's receivable from Millennium on the sale of PanAsia.

Income and other taxes payable decreased by 6% mainly due to payment of annual income tax in April 2011 and lower income tax expense as compared to the same period in 2010 of SMB and SMC Global, net of the increase in Petron's balance due to higher taxable income during the 9-month period.

Dividends payable increased by ₱2,032 million mainly due to the dividends payable of the Parent Company to its preferred and common shareholders which were paid on November 2 and 8, 2011, respectively.

Long-term debt increased by 21% from ₱168,927 million in 2010 mainly due to the issuance of bonds by the Parent Company and SMC Global and of corporate notes by SMC Global and SMC Shipping and Lighterage Corporation (SMCSL), net of payments made by Petron, the Parent Company, San Miguel Foods and Beverage International Limited (SMFBIL) and GSMI.

Deferred tax liabilities decreased by 12% from ₱13,752 million in 2010 mainly due to the effect of recognition of deferred income tax on the lower undistributed net earnings of foreign subsidiaries during the period and on the depreciation treated as temporary difference, previously treated as permanent difference by SMC Global.

Finance lease liabilities decreased by ₱390 million mainly due to payments made and foreign currency translation adjustments, net of the recognition of effective interest for the period.

Other noncurrent liabilities decreased by 81% in 2011 mainly due to the payment made by SMC in August 2011 and the reclassification to current liabilities of the amount due from SMC Global next year related to the acquisition of Meralco shares of stock.

Cumulative translation adjustments decreased by 29% from ₱5,365 million in 2010 mainly due to the translation of foreign subsidiaries' net assets and decrease in the fair value adjustment of the investment in shares of stock of Indophil. The exchange rates used are ₱43.72 to US$1 in Sept. 30, 2011 (₱43.84 in December 31, 2010) for net assets and ₱43.26 to US$1 as of Sept. 30, 2011 (₱45.60 as of Sept. 30, 2010) for income and expense items.

Appropriated retained earnings increased by ₱ 12,899 million mainly due to additional appropriations made by Petron, SMPI, GSMI and SMCSL.

Non-controlling interests (NCI) increased by 35% in 2011 mainly due to the recognition of NCI on the preferred shares issued by SMPFC and the share of NCI in the net income of SMB and Petron, net of dividends declared.

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 Caticlan International Airport Development Corp.; 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 San Miguel Pure Foods (Vn) Co. Ltd.'s (SMPFVN) 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 San Miguel Energy Corporation (SMEC), net of equity in net loss of Top Frontier and LTHI; dividend declared by Meralco and Petron; and the sale of the investment in shares of stock of Strategic Power Devt. Corp. 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 the Power Sector Assets and Liabilities Management Corporation.

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 Bell Telecommunications Philippines recognized by Vega Telecom, Inc., acquisition of the franchise to operate and manage the Caticlan International Airport by San Miguel

Holdings Corp. and the mining rights recognized by SMEC from the acquisition of Sultan Energy Phils. Corp., Daguma Agro Minerals, Inc. and Bonanza Energy Resources, Inc.

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).

Equity

The increase (decrease) in equity is due to:

(In millions)	**September 30**	
	2011	2010
Income during the period	**₱ 20,222**	₱ 17,679
Addition (reduction) to non-controlling interests and others	**14,977**	(332)
Issuance of capital stock	**3,437**	1,220
Acquisition of subsidiaries	**-**	1,448
Effect of translation adjustments	**(1,679)**	(746)
Cash dividends	**(12,093)**	(22,509)
	₱24,864	(₱3,240)

Current ratio was 1.65 in 2011 and 1.57 in 2010. Debt to equity ratio was 2.00 and 2.11 as of 2011 and 2010, respectively.

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	**September 30**	
	2011	2010
Net cash flows provided by operating activities	**₱17,890**	₱17,635
Net cash flows used in investing activities	**(53,569)**	(132,021)
Net cash flows provided by financing activities	**36,016**	858

Net cash flows from operations for the period basically consists of income for the period less changes in noncash current assets (mainly inventories), certain current liabilities and others.

Net cash flows used in investing activities included the following:

(In millions)	**September 30**	
	2011	2010
Interest received	**₱3,441**	₱2,751
Dividends received	**725**	-
Proceeds from sale of investments and property and equipment	**281**	983
Acquisition of subsidiaries, net of cash acquired	**(146)**	(6,943)
Advances to related parties	**(4,277)**	(604)
Additions to investments and advances	**(9,160)**	(111,419)
Additions to property, plant and equipment	**(18,237)**	(7,254)
Payment of other liabilities	**(24,485)**	-
Increase in other noncurrent assets and others	**(1,711)**	(9,535)

Major components of net cash flows provided by financing activities are as follows:

(In millions)	**September 30**	
	2011	2010
Proceeds from long-term debt - net	**₱35,135**	₱24,603
Net proceeds from issuance of preferred shares	**14,828**	-
Proceeds from reissuance of treasury stock	**2,977**	-
Proceeds from (payment of) short-term loans - net	**1,674**	(2,524)
Proceeds from issuance of capital stock	**288**	1,003
Increase in non-controlling interests	**-**	142
Payment of finance lease liabilities	**(8,826)**	-
Payments of dividends	**(10,060)**	(22,366)

The effect of exchange rate changes on cash and cash equivalents amounted to ₱409 million and (₱1,211 million) in September 30, 2011 and 2010, 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.

	September 2011	December 2010
Liquidity:		
Current Ratio	**1.65**	1.57
Solvency:		
Debt to Equity Ratio	**2.00**	2.11
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**7.04%**	9.35%

	Period Ended September 30	
	2011	2010
Operating Efficiency:		
Volume Growth	**139%**	2%
Revenue Growth	**143%**	28%
Operating Margin	**10.66%**	12.20%

The manner by which the Group calculates the 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 Attributable to Equity Holders of the Parent Company	$\frac{\text{Net Income*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior period Net Sales}}\right)\text{-1}$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}}\right)\text{ -1}$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* *Annualized for quarterly reporting*