

COVER SHEET

A S O 9 4 0 0 8 7 4 5
SEC Registration Number

A L A S K A M I L K C O R P O R A T I O N
(Company's Full Name)

6 T H F L R C O R I N T H I A N P L A Z A
1 2 1 P A S E O D E R O X A S M A K A T I C I T Y
(Business Address: No., Street City / Town / Province)

SANTIAGO A. POLIDO
Contact Person

840-45-00
Company Telephone Number

1	2	3	1
Month	Day		
Fiscal Year			

SEC FORM 17-Q
FORM TYPE

0	5	2 nd Tuesday
Month	Day	
Annual Meeting		

N/A
Secondary License Type, If Applicable

Dept Requiring this Doc

Amended Articles Number / Section

2,670
Total No. of Stockholders

Total Amount of Borrowings	
N/A	N/A
Domestic	Foreign

N/A
Foreign

To be accomplished by SEC Personnel concerned

File Number	LCU
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Document ID	Cashier
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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended: September 30, 2010
2. Commission identification number: ASO 94-008745
3. BIR Tax Identification No.: 047-003-945-022V
4. Name of Issuer: ALASKA MILK CORPORATION
5. Jurisdiction of Incorporation: Makati City, Philippines
6. Industry Classification Code: (SEC Use Only)
7. Address: 6th Floor Corinthian Plaza, 121 Paseo de Roxas, Makati City
8. Telephone No.: 840-4500 / 840-5921 to 39
9. Former name, former address and former fiscal year, if changed since last report:
Not Applicable
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

<u>Title of Each Class</u>	<u>Number of Shares (as of September 30, 2010)</u>
Common Stock	971,409,878 shares*

** Inclusive of 90,327,676 shares held under Treasury*

11. Are any or all of the securities listed on a Stock Exchange?

YES (✓)

NO ()

If yes, state name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange - Common, Class A shares

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 (12) months or for such other shorter period the registrant was required to file such reports.

YES () NO ()

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

YES () NO ()

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The following discussions should be read in conjunction with the attached unaudited financial statements of Alaska Milk Corporation (the "Company") as of and for the period ended September 30, 2010 (with comparative figures as of December 31, 2009 and for the period ended September 30, 2009). Certain information and footnote disclosures normally included in the audited financial statements have been omitted.

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

Results of Operations

Domestic demand remained robust on the back of higher consumer spending and post-election optimism. Consumption of milk products, in particular, continued to expand from year-ago levels underpinned by intensive promotional and advertising efforts among key market players. This translated to a 3% growth in Alaska Milk's revenues for the quarter, at ₱2.741 billion from ₱2.657 billion in the same period last year. Continuing improvements in production capacity as well as sustained brand-building initiatives supported sales volume growth across the Company's core milk products as well as market share gains in their respective categories.

Cost of sales and operating expenses for the quarter expanded at a slower rate of 1%, at ₱2.234 billion from ₱2.204 billion in the same period last year on account of the Company's continuing efforts to improve operating efficiencies, notwithstanding rising costs of key raw materials, particularly for skimmed milk powder. Skimmed milk powder cost edged higher during the quarter compared to year-ago level alongside upward price movements of commodities in the international market. Operating expenses, on the other hand, was higher on the back of higher marketing spending as well as higher selling-related expenses due to increased sales volume. This put operating income for the quarter ending September 30, 2010 at ₱507 million, ₱54 million 12% higher than year-ago operating income of ₱453 million. Operating margin improved by 1.4% points at 18.5% from 17.1% in the same period last year.

Higher cash balance due to higher profitability brought net interest income for the quarter to ₱13.9 million, ₱5.0 million higher than the ₱8.9 million net interest income incurred for the same period last year.

Other miscellaneous charges for the quarter amounted to ₱71.7 million, ₱68.1 million higher compared to year-ago miscellaneous charges of ₱3.6 million. The foregoing is largely due to foreign exchange loss on market valuation of the Company's foreign currency-denominated monetary assets attributed to the appreciation of the Philippine Peso vis-à-vis the US Dollar.

Provision for income tax for the third quarter of the year was higher by ₱6.1 million or 7% at ₱94.5 million compared to ₱88.4 million in the same period last year due to lower availment of tax credits. Altogether, net income for the quarter ending September 30,

2010 amounted to ₱354.9 million or 12.9% of net sales, ₱15.3 million or 4% lower than year-ago net income of ₱370.2 million or 13.9% of net sales.

Combined with a strong first half performance, net sales for the first nine months of 2010 stood at ₱8.572 billion, 7% higher than net sales of ₱8.004 billion in the same period last year. The foregoing growth in net sales is largely due to sales volume gains across all product categories of the Company.

Notwithstanding the growth in sales volume, cost of sales and operating expenses for the nine-month period went down by 1% to ₱6.756 billion from ₱6.802 billion a year ago. This is largely due to the lower cost of skimmed milk powder attributed to the Company's strategic buying initiatives through forward contracts. In addition, the strengthening of the peso against the US Dollar lifted margins higher. Operating expenses, on the other hand, was higher on increased advertising and promotions costs to boost up sales amid increasing marketing competition. Altogether, this operating income for the nine-months ending September 30, 2010 at ₱1.816 billion, ₱613 million or 51% higher than year-ago operating income of ₱1.203 billion. Operating margin expanded to 21.2% from 15.0% a year ago.

Net interest income earned for the first nine months of 2010 increased by ₱23.4 million to ₱35.6 million from ₱12.2 million in the same period last year due to increased cash balance attendant to higher profitability. The year-to-date September 30, 2010 miscellaneous charges, on the other hand, was ₱43.3 million higher at ₱43.7 million compared to ₱0.4 million a year ago largely due to market valuation loss on financial instruments on account of the appreciation of the peso against the US Dollar .

Provision for income tax increased by ₱175.4 million or 79% to ₱397.1 million as of end September 2010 from ₱221.7 million a year ago on account of a higher taxable income. This brought the nine-month net income at ₱1.410 billion, ₱417 million or 42% higher than net income of ₱993 million in the same period last year. Return on sales likewise improved to 16.5% from 12.4%. The year-to-date September 2010 net income is equivalent to an earnings-per-share (EPS) of ₱1.60 compared to the year-ago EPS of ₱1.12.

Financial Condition

Higher cash generated from operations attendant to increased profitability and improved working capital turnover enabled the Company to strengthen its financial position. Cash and cash equivalents as of end September 2010 was slightly higher at ₱893 million compared to end December 2009 balance of ₱857.0 million. Short-term investments, on the other hand, was ₱833 million or 80% higher at ₱1.877 billion compared to the year-end 2009 balance of ₱1.044 billion.

The accounts receivable balance of ₱589.1 million was ₱304.5 million or 34% lower compared to the year-end 2009 balance of ₱893.6 million as sales in September is lower than sales in December. Also contributing to the decline in accounts receivable balance is the higher turnover of collection.

Inventories as of end September 2010 amounted to ₱1.897 billion, ₱744 million or 64% higher compared to the December 31, 2009 balance of ₱1.153 billion due to higher inventory levels of finished goods and raw materials on account of inventory buildup going into a seasonally strong fourth quarter demand.

Prepaid expenses and other current assets of ₱35.1 million as of end September 2010 was ₱1.8 million or 5% higher compared to the end December 2009 balance of ₱33.3 million due to higher contribution to the Company's retirement fund as well as higher prepaid advertising.

Current assets as of September 30, 2010 stood at ₱5.292 billion, ₱1.310 billion or 33% higher than the ₱3.982 billion in current assets as of end December 2009.

Property, plant and equipment (net) of ₱1.593 billion as of September 30, 2010 was ₱78 million or 5% higher versus end-2009 balance of ₱1.515 billion largely due to various capital expenditures made during the first nine months of 2010 less of depreciation. Intangible assets as of September 30, 2010, on the other hand, was lower by ₱128 million or 9% at ₱1.353 billion from ₱1.481 billion in December 2009 due to amortization of licensed brands and computer software license during the nine-month period.

Other noncurrent assets decreased by ₱12.7 million or 30%, from ₱42.7 million as of December 31, 2009 to ₱30.0 million as of September 30, 2010 due to the amortization of deferred input taxes on fixed assets.

Total assets as of September 30, 2010 stood at ₱8.531 billion, ₱1.260 billion or 17% higher than the ₱7.271 billion in total assets as of end December 2009.

Trade payables of ₱1.990 billion as of end September 2010 was higher by ₱150 million or 8% versus ₱1.840 billion as of end December 2009 due to the increase in purchased quantities of raw and packaging materials on the back of strong consumer demand.

Acceptances payable of ₱529.2 million was ₱30.9 million or 6% lower versus end December 2009 balance of ₱560.1 million due to payments made for the Company's import bills during the period.

Cash dividends payable of ₱232.9 million as of September 30, 2010 was ₱180.8 million or 347% higher than the end December 2009 balance of ₱52.1 million due to the higher cash dividend declaration for 2010 of ₱0.50 per share, payable quarterly at a rate of ₱0.125 from June 2010 to March 2011.

Obligation under finance lease (current portion) of ₱8.6 million as of end September 2010 was higher by ₱4.5 million or 114% than the December 31, 2009 balance of ₱4.1 million due to the reclassification of maturing liability on a 7-year lease agreement for a packaging equipment plus interest. The foregoing reduced the non-current portion of obligation under finance lease by ₱4.7 million or 17%, from ₱27.4 million in December 2009 to ₱22.7 million.

From a balance of ₱118.4 million as of end December 2009, the additional paid-in capital account increased by ₱29.7 million or 25% to ₱148.1 million as of September 30, 2010 due to the additional issuance of common shares relative to the Company's stock option plan for key executives / employees which have a higher exercise price vis-à-vis par value.

The net income of ₱1.410 billion for the nine-month period, less cash dividend declaration of ₱433 million, increased the retained earnings account to ₱4.920 billion as of end September 2010 from ₱3.943 billion in retained earnings balance as of end December 2009.

The cost of shares held in treasury as of September 30, 2010 increased by ₱50.5 million or 14% to ₱402.6 million from ₱352.1 million in December 31, 2009 following the acquisition of 7.3 million common shares under the Company's share buy-back program.

The Company's current ratio as of September 30, 2010 improved to 1.84:1 from a current ratio of 1.55:1 as of end December 2009. Alaska Milk Corporation does not anticipate any liquidity problems in the next twelve (12) months. Cash generated by the Company's operations, as well as existing cash balance, have been the main source of funds for working capital requirements, capital expenditures as well as maintenance expenses. The Company likewise has existing credit lines / facilities with banks to meet increasing working capital requirements and required capital expenditures.

Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.

The Company's performance is affected by general economic and political conditions in the Philippines. Domestic consumption is expected to remain robust on the back of improving economic conditions and sustained remittance inflows of overseas Filipino workers. Business and investor sentiment remain upbeat under the Aquino administration.

Skimmed milk powder (SMP) is the most significant raw material that the Company uses in all of its products and has a significant impact on the Company's profitability levels. SMP prices trailed lower as higher US production boosted global milk supply and recent price higher curbed demand from importing countries. Milk supply out of Europe has been sufficient to generate surplus for near-term requirements while supply in Oceania is increasing with Australia and New Zealand heading into their peak production season. Current price quotes from Oceania range between US\$2,800 to US\$3,200 per metric ton.

The stability of the Philippine Peso vis-à-vis the US Dollar will likewise have an impact on the Company's level of profitability. In view of the continued volatility in the financial markets, the Company actively hedges part of its US Dollar requirements, as it does also with its SMP and tinfoil requirements.

Any significant elements of income or loss that did not arise from the issuer's continuing operations.

All of the company's income/earnings arose from its continuing operations.

Any seasonal aspects that had a material effect on the financial condition or results of operations.

Sales of milk products exhibit some seasonality during the year, particularly for liquid canned milk products. Historically, sales in the second quarter are strong for this category due to the summer season when use of the liquid canned milk increases during fiesta season and for “halo-halo”. Demand during the third quarter of the year usually slackens, compared to the summer (second quarter) and peaks again during the Christmas (fourth quarter) season. A similar pattern also applies to the all-purpose cream product. On the other hand, sales of powdered filled milk and UHT milk are less prone to seasonal influences as these products are used as regular milk drink/beverage.

Discussion of the company’s top five (5) key performance indicators.

The following are the major performance measures that the Company uses. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year.

KPI	Definition	As of end-Sep 2010	As of end-Sep 2009
Operating Margin	<p>The operating margin is the percentage of the Company’s earnings before interest and tax (EBIT) or operating income to net sales for a given period. This KPI measures the return obtained for every peso of revenue earned, after all cost of sales and operating expenses are deducted.</p> <p>Formula: $\frac{\text{Operating Income}}{\text{Net Sales}}$</p>	21.2%	15.0%
Return on Sales	<p>The return on sales is the percentage of the Company’s net income after tax to net sales for a given period. This KPI provides a measure of return for every peso of revenue earned, after all other operating expenses and non-operating expenses, including provision for income taxes, are deducted.</p> <p>Formula: $\frac{\text{Net Income}}{\text{Net Sales}}$</p>	16.5%	12.4%

KPI	Definition	As of end-Sep 2010	As of end-Sep 2009
Return on Equity (for the 9-month period)	<p>The return on equity is the percentage of the Company's net income to stockholders' equity. This KPI is a measure of the shareholders' return for every peso of invested equity</p> <p>Formula: $\frac{\text{Net Income}}{\text{Total Stockholders' Equity}}$</p>	25.0%	23.3%
Debt to Equity Ratio	<p>Debt to equity ratio is the ratio of debt to total stockholders' equity. This KPI is a measure of the Company's use of leverage and solvency position.</p> <p>Formula: $\frac{\text{Total Liabilities}}{\text{Total Stockholders' Equity}}$</p>	0.51:1	0.53:1
EBITDA	<p>EBITDA is computed by adding back depreciation and amortization expenses (both non-cash expenses) to earnings before interest and income tax. This KPI is a measure of the Company's ability to generate cash from operations.</p>	₱2.095 B	₱1.463 B

Any events that will trigger direct or contingent financial obligations that is material to the company, including any default or acceleration of an obligation.

There are no events, anticipated or planned, that will trigger any direct or contingent financial obligation.

All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities of other persons created during the reporting period.

There are no material off-balance sheet transactions or arrangements or obligations or relationships created during the period in review.

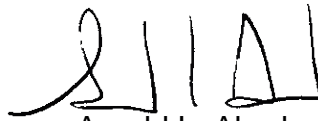
SIGNATURES

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.

ALASKA MILK CORPORATION



SANTIAGO A. POLIDO
Corporate Secretary



Arnold L. Abad
Vice President – Accounting & Controller

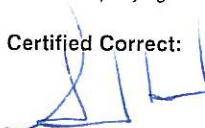
November 15, 2010

ALASKA MILK CORPORATION
BALANCE SHEETS
AS OF DATES INDICATED
(In Thousand Pesos)

	<u>SEP 30, 2010</u>	<u>DEC 31, 2009</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 5, 22, 23)	P 893,338	P 857,055
Short-term investments (Note 6, 22, 23)	1,877,217	1,044,563
Trade and Other Receivables - Net (Note 7, 20, 22, 23)	589,103	893,567
Inventories (Note 8)	1,896,782	1,153,181
Prepaid Expenses and Other Current Assets	35,082	33,264
Total Current Assets	<u>5,291,522</u>	<u>3,981,630</u>
Noncurrent Assets		
Property, plant and equipment - net (Note 10)	1,593,078	1,515,258
Available-for-Sale Investments (Note 9)	2,556	2,556
Intangible assets - net (Note 11)	1,353,193	1,481,438
Deferred tax assets (Note 18)	211,016	197,984
Net Pension Assets	49,260	49,260
Other noncurrent assets	30,039	42,786
Total Noncurrent Assets	<u>3,239,143</u>	<u>3,289,283</u>
Total Assets	<u>P 8,530,664</u>	<u>P 7,270,913</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities		
Trade and other payables (Note 12, 22, 23)	P 1,989,741	P 1,839,819
Acceptances Payable (Note 22, 23)	529,161	560,125
Income Tax Payable	110,952	109,981
Dividends payable (Note 22, 23)	232,870	52,097
Obligation under finance lease- current portion (Note 21, 22, 23)	8,584	4,019
Total Current liabilities	<u>2,871,308</u>	<u>2,566,041</u>
Noncurrent Liability		
Obligation under finance lease- net current portion	22,730	27,465
Total Liabilities	<u>2,894,037</u>	<u>2,593,506</u>
Stockholder's Equity		
Capital Stock (Note 13, 19)	971,410	968,075
Additional Paid In Capital	148,081	118,362
Retained Earnings (Note 14)	4,919,727	3,943,020
Treasury Stocks (Note 13)	(402,592)	(352,050)
Total Stockholder's Equity	<u>5,636,626</u>	<u>4,677,407</u>
Total Liabilities and Stockholder's Equity	<u>P 8,530,664</u>	<u>P 7,270,913</u>

See accompanying Notes to Financial Statements

Certified Correct:


ARNOLD L. ABAD
VP for Accounting and Controller

ALASKA MILK CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
For the Nine Months Ended September 30, 2010 and 2009
(In Thousand Pesos)

	3 mos. Ended Sep. 30		9 mos. Ended Sep. 30	
	SEP 30, 2010	SEP 30,2009	SEP 30, 2010	SEP 30,2009
SALES	P 2,740,623	P 2,657,500	P 8,571,552	P 8,004,289
COST OF SALES & OPERATING EXPENSES	<u>2,233,460</u>	<u>2,204,204</u>	<u>6,755,822</u>	<u>6,801,687</u>
INCOME FROM OPERATION	507,163	453,296	1,815,730	1,202,602
OTHER INCOME/(CHARGES)				
Interest -Net	13,905	8,915	35,600	12,167
Miscellaneous	<u>(71,729)</u>	<u>(3,602)</u>	<u>(43,731)</u>	<u>(396)</u>
Total	<u>(57,823)</u>	<u>5,313</u>	<u>(8,131)</u>	<u>11,771</u>
INCOME BEFORE INCOME TAX	449,340	458,609	1,807,599	1,214,372
PROVISION FOR INCOME TAX	<u>94,485</u>	<u>88,427</u>	<u>397,140</u>	<u>221,721</u>
TOTAL COMPREHENSIVE INCOME/NET INCOME	354,855	370,182	1,410,458	992,651
Retained Earnings at Beginning of Period	4,558,396	3,156,100	3,943,020	2,711,124
Dividend Declared/Paid	<u>6,476</u>	<u>-</u>	<u>(433,750)</u>	<u>(177,493)</u>
Retained Earnings at End of Period	P <u><u>4,919,727</u></u>	P <u><u>3,526,282</u></u>	P <u><u>4,919,727</u></u>	P <u><u>3,526,282</u></u>
Appropriated Retained Earnings:				
Appropriation for various capital investment project & stock buy back program	1,425,000	1,625,000	1,425,000	1,625,000
Treasury stock Acquired	650,000	342,569	650,000	342,569
Unappropriated retained earnings	<u>2,844,727</u>	<u>1,558,713</u>	<u>2,844,727</u>	<u>1,558,713</u>
	P <u><u>4,919,727</u></u>	P <u><u>3,526,282</u></u>	P <u><u>4,919,727</u></u>	P <u><u>3,526,282</u></u>
Earnings Per Share	P 0.40	P 0.42	P 1.60	P 1.12
No. of Shares Issued	971,409,878	967,324,878	971,409,878	967,324,878
Less: No. of Treasury Stocks	<u>(90,327,676)</u>	<u>(81,628,676)</u>	<u>(90,327,676)</u>	<u>(81,628,676)</u>
Total Shares Issued net of Treasury Stocks	<u>881,082,202</u>	<u>885,696,202</u>	<u>881,082,202</u>	<u>885,696,202</u>

See accompanying Notes to Financial Statements

Certified Correct:

ARNOLD L. ABAD


VP for Accounting and Controller

ALASKA MILK CORPORATION
STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
For the Nine Months Ended September 30, 2010 and 2009
(In Thousand Pesos)

	3 mos. Ended Sept. 30		9 mos. Ended Sept. 30	
	2010	2009	2010	2009
CAPITAL STOCK				
Additional Paid-in Capital	971,410	967,325	971,410	967,325
	148,081	111,669	148,081	111,669
RETAINED EARNINGS				
Appropriated for various capital investment projects	1,425,000	1,125,000	1,425,000	1,125,000
Appropriated for the Share - Buy Back Program	650,000	500,000	650,000	500,000
Unappropriated:				
Balance at the beginning of quarter	2,483,396	1,531,100	2,318,020	1,086,124
Net Income	354,855	370,182	1,410,458	992,651
Dividends declared	6,476	-	(433,750)	(177,493)
Appropriation for capital inv. project during the qtr.	-	-	(450,000)	-
Balance at end of quarter	2,844,727	1,901,282	2,844,727	1,901,282
	4,919,727	3,526,282	4,919,727	3,526,282
TREASURY STOCK				
Balance at beginning of quarter	(402,592)	(333,027)	(352,050)	(289,663)
Acquisition	-	(9,542)	(50,542)	(52,906)
Balance at end of quarter	(402,592)	(342,569)	(402,592)	(342,569)
	5,636,626	4,262,707	5,636,626	4,262,707

See accompanying Notes to Financial Statements

Certified Correct:




ARNOLD L. ABAD
VP for Accounting and Controller

ALASKA MILK CORPORATION
CASH FLOW STATEMENTS
For the Nine Months Ended September 30, 2010 and 2009
(In Thousand Pesos)

	3 mos. Ended Sep. 30		9 mos. Ended Sep. 30	
	SEP 30, 2010	SEP 30, 2009	SEP 30, 2010	SEP 30, 2009
CASH FLOW FROM OPERATING ACTIVITIES				
Net Income	P 354,855	P 370,182	P 1,410,458	P 992,651
Depreciation & Amortizations	96,049	88,484	279,797	260,189
Net Change in Assets & Liabilities				
Decrease/Increase in Current Assets	(7,832)	(162,960)	(440,955)	802,650
Decrease/Increase in Current Liabilities	(51,630)	370,946	300,532	(28,079)
Net Operational Flows	P 391,441	P 666,652	P 1,549,832	P 2,027,411
CASH FLOW FROM INVESTING ACTIVITIES				
Payment for purchase of Prop. Plant & Equipt.	(33,172)	(30,236)	(229,371)	(200,941)
Increase/Decrease in Short-term investments	(831,075)		(832,653)	
Increase/Decrease in Other Assets	(12,994)	4,890	(284)	14,745
Net Investment Flows	P (877,241)	P (25,346)	P (1,062,308)	P (186,196)
CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds of Bank loans	-	-	-	(175,000)
Issuance of Capital Stock	6,918	1,273	33,054	1,308
Treasury Stocks	-	(9,542)	(50,543)	(52,906)
Dividend payment	6,476	-	(433,751)	(177,493)
Net Financing Flows	P 13,394	P (8,269)	P (451,240)	P (404,091)
NET CASH PROVIDED/USED	P (472,406)	P 633,036	P 36,284	P 1,437,125
CASH AND CASH EQUIVALENTS & SHORT- TERM INVESTMENTS AT BEG. OF THE PERIOD				
	P 1,365,744	P 977,795	P 857,055	P 173,705
CASH AND CASH EQUIVALENTS & SHORT- TERM INVESTMENTS AT END OF THE PERIOD				
	P 893,338	P 1,610,831	P 893,338	P 1,610,831

See accompanying Notes to Financial Statements

Certified Correct:


ARNOLD L. ABAD
VP for Accounting and Controller

ALASKA MILK CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Alaska Milk Corporation (the Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission on September 26, 1994. The Company is primarily involved in the manufacture, distribution and sale of liquid, powdered and ultra-heat treated milk products under the Alaska, Carnation, Liberty, Alpine and Milkmaid brands. The registered office address of the Company is 6th Floor, Corinthian Plaza, Paseo de Roxas, Makati City.

2. Basis of Preparation

The accompanying financial statements of the Company have been prepared on the historical cost basis, except for derivative instruments, which have been measured at fair value.

The financial statements are presented in Philippine Peso, which is the Company's functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest Philippine Peso, except when otherwise indicated.

Statement of Compliance

The accompanying financial statements have been prepared in compliance with PFRS. PFRS also includes Philippine Accounting Standards (PAS) issued by the Financial Reporting Standards Council and Philippine interpretations from International Financial Reporting Interpretations Committee (IFRIC).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended standards and Philippine interpretations starting January 1, 2009, unless otherwise indicated:

New Standards and Interpretations

- PFRS 8, *Operating Segments*, effective January 1, 2009
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, effective July 1, 2008
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*, effective October 1, 2008
- Philippine Interpretation IFRIC 18, *Transfer of Assets from Customers*, effective July 1, 2009

Amendments to Standards

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* and PAS 27, *Consolidated and Separate Financial Statements – Cost of an Investments in a Subsidiary, Jointly Controlled Entity or Associate*, effective January 1, 2009

- PFRS 2, *Share-based Payment: Vesting Conditions and Cancellations*, effective January 1, 2009
- PFRS 7, *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*, effective January 1, 2009
- PAS 1, *Presentation of Financial Statements*, effective January 1, 2009
- PAS 23, *Borrowing Costs* (Revised), effective January 1, 2009
- PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*, effective January 1, 2009
- Improvements to PFRS (2008)
- Improvements to PFRS (2009), with respect to the amendment to the Appendix to PAS 18, *Revenue*

The standards or interpretations that have been adopted and that are deemed to have an impact on the financial statements of the Company are described below:

- PFRS 7, *Financial Instruments: Disclosures*, requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement disclosures are presented in Note 23 while the liquidity risk disclosures of the Company are not significantly impacted by the amendments.
- Revised PAS 1, *Presentation of Financial Statements*, separates owner and non-owner changes in equity. The statement of changes in stockholder's equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income, which presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The revision also includes changes in titles of some of the financial statements to reflect their function more clearly, although not mandatory for use in the financial statements. The Company opted to present other comprehensive income in one single statement. Total comprehensive income is the same as the net income as the Company has no other comprehensive income in 2010, 2009 and 2008.

Future Changes in Accounting Policies

The Company did not early adopt the following revised PFRS, improvements to PFRS and Philippine Interpretations that have been approved but are not yet effective:

New Standards and Interpretations

- PFRS 3, *Business Combinations* (Revised), and PAS 27, *Consolidated and Separate Financial Statements* (Amended), become effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill

recognized, the reported results in the period that an acquisition occurs, and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary be accounted for as an equity transaction. Therefore, such transaction will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisition or loss of control of a subsidiary. PFRS 3 (Revised) will be applied prospectively, while PAS 27 (Amended) will be applied retrospectively with a few exceptions.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, becomes effective for annual periods beginning on or after January 1, 2012. This interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that when an agreement for the construction of real estate gives buyers only limited ability to influence the design of the real estate and when the entity retains control and the significant risks and rewards of ownership of the work in progress in its current state until the completed real estate is transferred, such agreement is for the sale of goods and revenue should be recognized only when the criteria under PAS 18 *Revenue*, are met (i.e., at completion).
- Philippine Interpretation IFRIC 17, *Distribution of Noncash Assets to Owners*, becomes effective for annual periods beginning on or after July 1, 2009, with early application permitted. It provides guidance on how to account for noncash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability.

Amendments to Standards

- PFRS 2, *Share-based Payment – Group Cash-settled Share-based Payment Transactions*, becomes effective for annual periods beginning on or after January 1, 2010. It clarifies the scope and the accounting for group cash-settled share-based payment transactions.
- PAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*, becomes effective for annual periods beginning on or after July 1, 2009. It addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

The Company does not expect the above new standards, interpretations and amendments to have an impact on the financial statements as they are either not applicable to its current operations or has not entered into such transactions.

Improvements to PFRS

The amendments to PFRS in 2009 were issued primarily with a view of removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning on or after January 1, 2010, except when otherwise stated. The Company has not adopted the following improvements and anticipates that the changes will have no material effect on its financial statements:

- PFRS 2, *Share-based Payment*, clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2

even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for annual periods beginning on or after July 1, 2009.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such non-current assets or discontinued operations.
- PFRS 8, *Operating Segments*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- PAS 1, *Presentation of Financial Statements*, provides that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- PAS 7, *Statement of Cash Flows*, explicitly states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.
- PAS 16, *Property, Plant and Equipment*, replaces the term “net selling price” with “fair value less cost to sell”. The amendment is effective for annual periods beginning on or after July 1, 2009.
- PAS 17, *Leases*, removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either ‘finance’ or ‘operating’ in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.
- PAS 36, *Impairment of Assets*, clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in PFRS 8, *Operating Segments*, before aggregation for reporting purposes.
- PAS 38, *Intangible Assets*, clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided that the individual assets have similar useful lives. It also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used. The amendment is effective for annual periods beginning on or after July 1, 2009.
- PAS 39, *Financial Instruments: Recognition and Measurement*, clarifies the following:
 - i. that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
 - ii. that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.

- iii. that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture. The amendment is effective for annual periods beginning on or after July 1, 2009.
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*, states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied. The amendment is effective for annual periods beginning on or after July 1, 2009.

3. Summary of Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amounts of the affected asset or liability in the future.

Judgments

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

Functional Currency. The Company has determined that its functional currency is the Philippine Peso. It is the currency of the primary economic environment in which the Company operates.

Lease Commitments - Company as Lessor. The Company has entered into various lease agreements as a lessor. The Company has determined, based on the evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the properties and thus accounts for the contracts as operating leases.

Lease Commitments - Company as Lessee. The Company has entered into various finance and operating lease agreements as a lessee.

Under operating lease arrangements, management has determined that all the significant risks and benefits of ownership of the properties remain with the lessor and thus accounts for the contracts as operating leases.

Rent expense amounted to ₱15.4 million and ₱11 million, and ₱38.6 million and ₱34 million, for the third quarter ended September 30, 2010 and 2009, and nine month ended September 30, 2010 and 2009, respectively (see Notes 20 and 21).

Under finance lease arrangement, management determined, based on the terms of the contract and substance of the transaction, that the Company has acquired the economic benefits for the use of the leased asset for the major part of its economic life in return for entering into an obligation to pay for that right an amount approximating, at the inception of the lease, the fair value of the assets and related finance charge. Accordingly, the lease was accounted for as finance lease.

The carrying value of the packaging equipment held under finance lease and the corresponding finance lease obligation amounted to ₱22.5 million and ₱31.3 million, respectively, as of September 30, 2010, and ₱24.5 million and ₱31.5 million, respectively, as of December 31, 2009 (see Note 21).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimating Allowance for Doubtful Accounts. The Company maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of allowance is evaluated by the Company on the basis of factors that affect the collectibility of the accounts. The review is accomplished using a combination of specific and collective assessment. The factors considered in specific impairment assessment are the length of the Company's relationship with customers, customers' current credit status based on known factors, age of the accounts and other available information that will indicate objective evidence that the customers maybe unable to meet their financial obligations. The collective impairment assessment is based on historical loss experience and deterioration in the market in which the customers operate. The amounts and timing of recorded provision for doubtful accounts for any period would differ if the Company made different assumptions or utilized different estimates.

Trade and other receivables, net of allowance for doubtful accounts, amounted to ₱589.1 million and ₱893.6 million as of September 30, 2010 and December 31, 2009, respectively (see Note 7).

Estimating Net Realizable Value of Inventories. The Company records a provision for excess of cost over the net realizable value of materials and supplies whenever the value of materials and supplies becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. The lower of cost or net realizable value of inventories is reviewed on a monthly basis to reflect the accurate valuation in the financial records. Materials and supplies identified to be obsolete and unusable are written off and charged as expense for the year.

The carrying values of inventories amounted to ₱1,896.8 million and ₱1,153.2 million as of September 30, 2010 and December 31, 2009, respectively (see Note 8). The provision for the excess of cost over the net realizable value of inventories amounted to ₱5.6 million as of September 30, 2010 and ₱7.5 million in 2009. The amount is included under "Cost of sales - raw materials and inventories used."

Estimating Useful Lives of Property, Plant and Equipment and Intangible Assets with Finite Useful Lives. The useful life of each of the Company's property, plant and equipment and intangible assets with finite useful lives is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be

materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any of these assets with finite useful lives would increase the recorded cost of sales and operating expenses and decrease noncurrent assets.

Property, plant and equipment, net of accumulated depreciation, amounted to ₱1,593.1 million and ₱1,515.3 million as of September 30, 2010 and December 31, 2009, respectively (see Note 10). Intangible assets with finite useful lives, net of accumulated amortization, amounted to ₱1,076.8 million and ₱1,205.0 million as of September 30, 2010 and December 31, 2009, respectively (see Note 11).

Intangible Assets with Indefinite Useful Life. Intangible assets are regarded to have an indefinite useful life when, based on an analysis of all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Company.

The carrying amount of trademarks with indefinite useful life amounted to ₱276.4 million as of September 30, 2010 and December 31, 2009 (see Note 11).

Impairment of Assets

- Trademarks with Indefinite Useful Life

The Company determines whether trademarks are impaired at least annually. This requires an estimation of the value in use of the trademarks. Estimating the value in use amount requires management to make an estimate of the expected future cash flows from the trademarks and to choose a suitable discount rate in order to calculate the present value of those cash flows. The relief-from-royalty-method was adopted in valuing the trademarks using discount rates of 13.3% in 2009. The royalty rate applicable was 5%. Management's estimates of future cash flows are based on the most recent budgets/forecasts for a maximum of five years. Cash flow projections until the end of an asset's useful life are estimated by extrapolating the cash flow projections based on the financial budgets/forecasts using a growth rate for subsequent years. This rate is steady or declining, unless an increase in the rate matches objective information about patterns over the products' lifecycle. The growth rate was zero.

No impairment loss was recognized for the nine months ended September 30, 2010 and full year 2009

- Other Nonfinancial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present.

Determining the value of nonfinancial assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Company to conclude that such assets are impaired. Any resulting impairment could have a material impact on the financial condition and results of operations of the Company.

The preparation of the estimated future cash flows involves judgments and estimations. While the Company believes that its assumptions are appropriate and reasonable, significant

changes in these assumptions may materially affect the Company's assessment of recoverable values and may lead to future additional impairment charges.

No impairment loss was recognized in 2010 and 2009. The aggregate carrying value of property, plant and equipment and intangible assets with finite useful lives amounted to ₱2,669.9 million and ₱2,720.3 million as of September 30, 2010 and December 31, 2009, respectively (see Notes 10 and 11).

Realizability of Deferred Tax Assets. The Company reviews its deferred tax assets at each balance sheet date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Company's assessment on the recognition of deferred tax assets is based on forecasted taxable income in subsequent periods.

Net deferred tax assets amounted to ₱211 million and ₱198 million as of September 30, 2010 and December 31, 2009, respectively (see Note 18).

Pension Benefits. The present value of the pension obligations depends on certain factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate, expected rate of return on plan assets and salary increase rate. Actual results that differ from the Company's assumptions are accumulated and amortized over future periods and, therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

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

Other key assumptions for pension costs are based in part on current market conditions. Additional information is disclosed in Note 17.

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

Share-based Payment. PFRS 2 requires the fair value of equity instruments granted to be based on market prices, if available, and to take into account the terms and conditions upon which those equity instruments were granted. In the absence of market prices, fair value is estimated, using a valuation technique to estimate what the price of those equity instruments would be on measurement date in an arm's-length transaction between knowledgeable, willing parties.

The valuation technique shall be consistent with generally accepted valuation techniques for pricing financial instruments, and shall incorporate all factors and assumptions that knowledgeable, willing market participants would consider in setting the price.

Any changes in the option pricing model used and the inputs to that model, such as weighted average share price, historical daily volatility, expected daily volatility, dividend yield, risk-free interest rate risk and any other inputs to the model, including the method used and any other assumptions may materially affect the Company's value of equity-settled share options granted. The discussion on share-based payments is disclosed in Note 19.

Fair Value of Financial Assets and Liabilities. The Company carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments. Where the fair value of financial assets and financial liabilities recorded in the balance sheets cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair values of financial assets and liabilities as of September 30, 2010 and December 31, 2009 are disclosed in Note 23.

Contingencies. The estimate of the probable costs for the resolution of possible claims has been developed in consultation with outside legal counsel handling the Company's defense in these matters and is based upon an analysis of potential results. Management and its legal counsel believe that the Company has substantial legal and factual bases for its position and is of the opinion that losses arising from these legal claims, if any, will not have a material adverse impact on the financial statements. There was no provision for contingencies for the nine months ended September 30, 2010 and 2009.

4. **Summary of Significant Accounting and Financial Reporting Policies**

Cash and Cash Equivalents

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

Short-term Investments

Short-term investments include time deposits with original maturities of more than three months but less than one year.

Financial Assets and Financial Liabilities

Date of Recognition. The Company recognizes a financial asset or a financial liability in the balance sheets 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 and derecognition, as applicable, is done using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case

of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction cost.

The Company classifies its financial instruments in the following categories: financial assets and financial liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments, available-for-sale (AFS) investments and other financial liabilities. The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

Determination of Fair Value. The fair value of financial instruments traded in active markets at balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

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

Day 1 Difference. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a Day 1 difference) in the statements of comprehensive income, unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing Day 1 difference amount.

Financial Assets

Financial Assets at FVPL. Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instrument or a financial guarantee contract. Gains and losses on investments held for trading are recognized in the statements of comprehensive income.

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; or

- the assets are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Company has no financial assets at FVPL as of September 30, 2010 and December 31, 2009.

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS investments or financial assets at FVPL. Loans and receivables are carried at cost or amortized cost, less any impairment in value. Amortization is determined using the effective interest method. Gains and losses are recognized in the statements of comprehensive income when the loans and receivables are derecognized and impaired, as well as through the amortization process. Loans and receivables are classified as current assets when the Company expects to realize or collect the asset within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets.

Classified under this category are the Company's cash and cash equivalents, short-term investments, trade and other receivables and receivable from Manila Electric Company (Meralco), included under "Trade and other receivables" and "Other noncurrent assets" accounts in the balance sheets (see Note 23).

HTM Investments. HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the statements of comprehensive income when the HTM investments are derecognized or impaired, as well as through the amortization process. Assets under this category are classified as current assets if maturity is within 12 months from balance sheet date and as noncurrent assets if maturity is more than a year from balance sheet date.

The Company has no financial assets classified as HTM investments as of September 30, 2010 and December 31, 2009.

AFS Investments. AFS investments include equity and debt securities. Equity investments classified as AFS are those, which are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the AFS reserve until the financial asset is derecognized, at which time the cumulative gain or loss is recognized as an

operating income, or determined to be impaired, at which time the cumulative loss is recognized in the statements of comprehensive income as finance costs and removed from the AFS reserve.

The Company evaluates its AFS investments on whether the ability and intention to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to HTM is permitted only when the entity has the ability and intent to hold the financial asset until maturity. For a financial asset reclassified out of the AFS category, any previous gain or loss on that asset that has been recognized in other comprehensive income is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest method. If the asset is subsequently determined to be impaired then the amount recorded in other comprehensive income is reclassified to profit or loss.

The Company's investment in unlisted shares of stock is classified under this category (see Note 9). The Company acquired and holds the investment to earn dividends. The Company also intends to dispose the investment when the need arises.

Financial Liabilities

Financial Liabilities at FVPL. Financial liabilities are classified in this category if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Company elects to designate a financial liability under this category. Gains and losses from fair value changes of liabilities classified as at FVPL are recognized in the statements of comprehensive income.

Included in this category are the Company's derivative liabilities, shown under "Trade and other payables" account in the balance sheets. As of September 30, 2010 the Company does not have derivative liabilities (see Note 23).

Other Financial Liabilities. This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

Financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

Gains and losses are recognized in the statements of comprehensive income when the loans and receivables are derecognized and impaired, as well as through the amortization process.

This category includes bank loans, trade and other payables (excluding derivative liabilities and payable to government agencies), acceptances payable, dividends payable and obligation under finance lease (see Note 23).

Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; 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 Company 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.

Derivative Financial Instruments and Hedging

Freestanding Derivatives. The Company uses derivative financial instruments such as forward contracts to hedge the risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded Derivatives. An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first 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. As of September 30, 2010 and December 31, 2009 the Company does not have bifurcated derivatives.

Derecognition of Financial Assets and 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 have expired;
- the Company 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 Company 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 Company 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 Company's continuing involvement in the asset.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has 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 exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognized in the statements of comprehensive income.

Impairment of Financial Assets

The Company assesses at each balance sheet 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 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 a group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets Carried at Amortized Cost. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that the group of financial assets is collectively assessed 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 a collective assessment of impairment.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of receivables is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in the statements of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statements of comprehensive

income. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent period, the amount of 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 by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the statements of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost. If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Investments. For AFS investments, the Company assesses at each balance sheet date whether there is objective evidence that an investment or group of investments is impaired.

In the case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below its cost. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly as other comprehensive income.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income is based on the reduced carrying amount of the asset and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in other comprehensive income, the impairment loss is reversed through profit or loss.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheets 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 balance sheets.

Inventories

Inventories are valued at the lower of cost or net realizable value.

Costs incurred in bringing each product into its present location and condition are accounted for as follows:

Finished goods	– cost includes direct materials, labor and a proportion of manufacturing overhead costs based on normal operating capacity using standard costing; and
Goods in transit, raw and packaging materials and– spare parts, supplies and others	purchase cost using weighted average method.

The net realizable value of finished goods is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. The net realizable value of goods in transit, raw and packaging materials and spare parts, supplies and others is the current replacement cost.

Property, Plant and Equipment

Property, plant and equipment, except land, is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and amortization and any accumulated impairment in value. Cost includes the cost of replacing part of property, plant and equipment if such cost meets the recognition criteria. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs necessary in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the item has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have improved the condition of the asset beyond the originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment.

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

Land improvements	20 years
Buildings and leasehold improvements	15 years or term of the lease, whichever is shorter
Machinery and equipment	10 years
Transportation equipment	3-5 years
Office furniture, fixtures and other equipment	3 years

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

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

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

Machinery and equipment under installation and machinery in-transit are stated at cost. These are not depreciated until such time that the relevant assets are available for use.

Construction in-progress represents properties under construction and is stated at cost. This includes cost of construction, equipment and other direct costs. Construction in-progress is not depreciated until such time that the relevant asset is completed and becomes available for use.

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the statements of comprehensive income in the year the asset is derecognized.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding any capitalized development costs, are not capitalized and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

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

License Brands, Trademarks and Computer Software License. The costs of license brands, trademarks and computer software license represent the purchase price at the date of acquisition. The Company assessed the useful lives of license brands and computer software license to be finite. The Company assessed the useful life of trademarks to be indefinite because they are expected to contribute net cash inflows indefinitely.

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

The amortization of license brands and computer software license is computed using the straight-line method over 10 years and 3 years, respectively. The amortization for computer software license commences when the asset is available for use.

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

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

Impairment of Nonfinancial Assets with Definite Useful Lives

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs to sell and value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The net selling price is the amount obtainable from the sale of the asset in an arm's-length transaction less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflow, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses from continuing operations are recognized in the statements of comprehensive income in those expense categories consistent with the function of the impaired asset.

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

Capital Stock

Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital.

Treasury Stock

Own equity instruments which are reacquired are deducted from stockholders' equity. No gain or loss is recognized in the statements of comprehensive income on the purchase, sale, issuance or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration is recognized in additional paid-in capital.

Revenue

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

Sales. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery. Sales returns and sales discounts are deducted from sales to arrive at net sales shown in the statements of comprehensive income.

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

Rent. Rent income is recognized on a straight-line basis over the term of the lease agreement.

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

Costs and Expenses

Expenses included as part of cost of sales and operating expenses are recognized as incurred.

Leases

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

Company as Lessee. Leases which transfer to the Company substantially all the risks and benefits incidental to the ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the balance sheets at amounts equal, at the inception of the lease, to the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are directly charged against income. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

Company as Lessor. Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating lease. Lease income from operating leases is recognized as income in the statements of comprehensive income on a straight-line basis over the lease term.

Share-based Payment Transactions

The key executives and members of management of the Company are granted options to purchase shares, subject to restrictions, terms and conditions provided in the Executive Employee Stock Option Plan (EESOP).

The cost of equity-settled transactions, for awards granted after November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined using an appropriate pricing model, further details of which are disclosed in Note 19.

The cost of equity-settled transactions is recognized with a corresponding increase in the stockholders' equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The amount reflected in the statements of comprehensive income represents the movement in cumulative expense recognized as of the beginning and end of the period. No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and the new award is treated as if it was a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

Pension Benefits

The Company has a funded, noncontributory defined benefit retirement plan administered by a Board of Trustees covering all permanent employees. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Pension expense includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains (losses) and effect of any curtailments or settlements. Past service cost is amortized over a period until the benefits become vested. The portion of the actuarial gains and losses is recognized when it exceeds the corridor (10% of the greater of the present value of obligation or market related value of the plan assets) at the previous reporting date, divided by the expected average remaining working lives of active plan members.

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

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly,

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

Foreign Currency Transactions

Transactions in foreign currencies are initially recorded at the functional currency rate at date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange at balance sheet date. All exchange rate differences, including those arising on the settlement of monetary items at rates different from those at which they were recorded, are recognized in the profit or loss in the year in which the differences arise, except for foreign currency differences arising from financial assets designated as cash flow hedge.

Taxes

Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at balance sheet date.

Deferred Tax. Deferred tax is provided, using the balance sheet liability method, on temporary differences at balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilized except when the deferred tax asset relating to the deductible temporary difference

arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

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

Deferred tax relating to items recognized directly as other comprehensive income is not recognized in profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in profit or loss or directly in other comprehensive income.

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

Sales Tax. Revenue, expenses and assets are recognized, net of the amount of sales tax, except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of “Prepaid expenses and other current assets” or “Trade and other payables” accounts in the balance sheets.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

Contingencies

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

Events After Balance Sheet Date

Post year-end events that provide additional information about the Company’s position at balance sheet date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

Earnings Per Share (EPS)

Basic EPS is calculated by dividing the net income for the year by the weighted average number of shares outstanding during the year.

Diluted EPS is computed by dividing net income by the weighted average number of shares outstanding during the year, adjusted for the effects of dilutive stock options. Stock options are deemed to have been converted into shares on the date when the options were granted.

Operating Segments

For purposes of segment reporting, the Company does not have other reportable segments other than milk manufacturing. Milk and non-milk products represent 99.5% and 0.5% of the total sales, respectively in 2010 and 2009.

5. Cash and Cash Equivalents

This account consists of:

	9/30/2010 (in '000's)	12/31/2009 (in '000's)
Cash on hand and in banks	₱ 36,175	₱248,765
Short-term deposits	853,163	608,290
	₱ 893,338	₱857,055

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

Interest income earned on cash in banks and short-term deposits amounted to ₱8.1 million and ₱4.6 million, and ₱17.4 million and ₱13.8 million, for the quarter ended September 30, 2010 and 2009, and for the nine month ended September 30, 2010 and 2009, respectively (see Note 16).

6. Short-term Investments

This account consists of investments in U.S. dollar time deposits with interest rates ranging from 0.8% to 2.1% in 2010. Interest income earned from short-term investments amounted to ₱ 6.5 million and ₱1.6 million, and ₱ 19.6 million and ₱ 4.7 million, for the third quarter ended September 30, 2010 and 2009, and for nine month ended September 30, 2010 and 2009, respectively (see Note 16).

7. Trade and Other Receivables

This account consists of:

	9/30/2010 (in '000's)	12/31/2009 (in '000's)
Trade	₱565,930	₱849,112
Advances to suppliers	49,731	84,682
Non-trade	43,861	35,840
Others (see Note 20)	25,292	20,278
	684,814	989,913
Less allowance for doubtful accounts	95,711	96,347
	₱589,103	₱893,567

The terms and conditions of the above financial assets are as follows:

- Trade receivables are noninterest-bearing and are normally settled on a 30-day term.
- Advances to suppliers, non-trade and others are noninterest-bearing and are normally settled within the next financial year.

8. Inventories

This account consists of:

	9/30/2010 (in '000's)	12/31/2009 (in '000's)
At cost:		
Finished goods	P611,190	P232,317
Goods in transit	252,188	335,496
At net realizable value:		
Raw and packaging materials	911,704	481,673
Spare parts, supplies and others	121,700	103,695
	P1,896,782	P1,153,181

The cost of raw and packaging materials amounted to P949.2 million and P515.1 million as of September 30, 2010 and December 31, 2009, respectively. The cost of spare parts, supplies and others amounted to P147.9 million and P128.3 million as of September 30, 2010 and December 31, 2009, respectively.

9. Available-for-Sale Investments

This account consists of investments in unlisted shares of stock. The shares are unquoted and there are no reliable sources of fair market values. Consequently, the investments are stated at cost.

10. Property, Plant and Equipment

This account consists of:

	December 31, 2009	Additions	Disposals/ Retirements	Transfers/ Reclassifications	September 30, 2010
Cost					
Land and land improvements	P54,474	P704	P-	P594	P55,772
Buildings and leasehold improvements	680,859	10,088	-	41,434	732,381
Machinery and equipment (see Note 21)	1,609,048	4,002	(10,854)	316,370	1,918,566
Transportation equipment	100,728	19,739	(10,784)	-	109,683
Office furniture, fixtures and other equipment	117,077	4,924	(4,471)	-	117,530
	2,562,186	39,457	(26,109)	358,398	2,933,932
Accumulated Depreciation and Amortization					
Land improvements	16,125	2,008	-	-	18,133
Buildings and leasehold improvements	142,900	29,824	-	-	172,724
Machinery and equipment	950,792	97,458	(10,857)	-	1,037,393
Transportation equipment	70,976	16,143	(10,746)	-	76,373
Office furniture, fixtures and other equipment	104,009	6,119	(4,094)	-	106,034
	1,284,802	151,552	(25,697)	-	1,410,657
	1,277,384	(112,095)	(412)	358,398	1,523,275
Construction in-progress	21,776	19,999	-	(35,687)	6,088
Machinery in-transit and under installation (see Note 21)	216,099	170,328	-	(322,711)	63,716
	P1,515,258	P78,232	(P412)	P-	1,593,078

	December 31, 2008	Additions	Disposals/ Retirements	Transfers/ Reclassifications	December 31, 2009
Cost					
Land and land improvements	P54,474	P-	P-	P-	P54,474
Buildings and leasehold improvements	655,213	3,717	-	21,929	680,859
Machinery and equipment	1,470,052	29,177	-	109,818	1,609,048
Transportation equipment	100,268	14,179	(13,720)	-	100,728
Office furniture, fixtures and other equipment	113,658	4,319	(900)	-	117,077
	2,393,666	51,393	(14,620)	131,748	2,562,186
Accumulated Depreciation and Amortization					
Land improvements	13,483	2,642	-	-	16,125
Buildings and leasehold improvements	110,027	32,873	-	-	142,900
Machinery and equipment	833,315	117,477	-	-	950,792
Transportation equipment	64,828	19,010	(12,862)	-	70,976
Office furniture, fixtures and other equipment	97,377	7,533	(900)	-	104,009
	1,119,030	179,534	(13,762)	-	1,284,802
	1,274,636	(128,141)	(858)	131,748	1,277,384
Construction in-progress	33,855	34,540	-	(38,690)	21,776
Machinery in-transit and under installation (see Note 26)	26,215	275,012	-	(93,058)	216,099
	P1,334,706	P181,411	(P858)	P-	P1,515,258

There was no capitalized interest in 2010, 2009 and 2008.

11. Intangible Assets

This account consists of license brands and computer software license with finite useful life with total cost amounting to P1,649.4 million and trademarks with indefinite useful life with cost amounting to P276.4 million as of December 31, 2009 and 2008. The accumulated amortization for the license brands and computer software license amounted to P572.7 million and P444.4 million as of September 30, 2010 and December 31, 2009, respectively. Amortization expense recognized amounted to P128.2 million, and P129 million, respectively, for the nine month ended September 30, 2010 and 2009 (see Note 15).

12. Trade and Other Payables

This account consists of:

	9/30/2010 (in '000's)	12/31/2009 (in '000's)
Trade	P699,326	P700,053
Accruals for:		
Selling and marketing expenses	827,715	701,309
Employee-related expenses	255,456	194,280
Importation charges, royalty and other expenses	104,808	148,658
Payable to government agencies	83,583	74,124
Derivative liabilities (see Note 23)	-	404
Others	18,853	20,991
	P1,989,741	P1,839,819

The terms and conditions of the above liabilities follow:

- Trade payables are noninterest-bearing and are normally settled on 60 days' term.
- Accruals, payable to government agencies and other payables are normally settled within the next financial year.
- Derivative liabilities arise from forward contracts outstanding as at yearend (see Note 23).

13. Capital Stock

The composition of the Company's capital stock is as follows:

	Number of Shares		
	2010	2009	2008
Par value - ₱1			
Authorized	1,000,000,000	1,000,000,000	1,000,000,000
Issued:			
Balance at beginning of year	968,074,878	967,094,878	966,204,878
Issuance (see Note 23)	3,335,000	980,000	890,000
Balance at end of year	971,409,878	968,074,878	967,094,878
Treasury stock:			
Balance at beginning of year	83,002,676	68,243,676	15,368,734
Acquisition	7,325,000	14,759,000	52,874,942
Balance at end of year	90,327,676	83,002,676	68,243,676

The issuance of capital stock pertains to shares issued under the Company's EESOP.

The cost of shares held in treasury amounted to ₱402.6 million and ₱352.0 million as of September 30, 2010 and December 31, 2009, respectively, or an average price of ₱4.46 a share as of September 30, 2010 and ₱4.24 a share in December 31, 2009.

14. Retained Earnings

Cash dividends declared amounted to ₱440.2 million, and ₱177.5 million in 2010 and 2009 respectively.

On June 04, 2010, the BOD approved the declaration of cash dividend of ₱0.50 per share, composed of a regular cash dividend of ₱0.05 per share, paid on June 30, 2010 to all stockholders of record as of June 4, 2010, and a special cash dividend of ₱0.45 per share, to be paid at ₱0.075 per share on June 30, 2010, September 30, 2010, December 29, 2010, and March 30, 2011 to all stockholders of record as of June 4, 2010, September 6, 2010, December 3, 2010 and March 4, 2011, respectively.

On May 12, 2009, the BOD approved the declaration of cash dividends of ₱0.20 per share, composed of a regular cash dividend of ₱0.05 per share, paid on June 30, 2009 to all stockholders of record as of June 5, 2009, and a special cash dividend of ₱0.15 per share, paid at ₱0.05 per share on September 30, 2009, December 29, 2009 and March 30, 2010 to all stockholders of record as of September 7, 2009, December 3, 2009 and March 5, 2010, respectively.

15. Depreciation and Amortization

This account is distributed as follows:

	3Q 2010 (in '000's)	3Q 2009 (in '000's)
Property, plant and equipment (see Note 10):		
Cost of sales	P38,720	P32,220
Operating expenses	14,580	12,664
Intangible assets –		
Operating expenses (Note 11)	42,748	43,036
	P96,048	P87,920
	9/30/2010 (in '000's)	9/30/2009 (in '000's)
Property, plant and equipment (see Note 10):		
Cost of sales	P109,105	P96,660
Operating expenses	42,447	37,992
Intangible assets –		
Operating expenses (Note 11)	128,245	129,108
	P279,797	P263,760

16. Interest Income

This account represents income from the following sources:

	3Q 2010 (in '000's)	3Q 2009 (in '000's)
Cash in bank and short-term deposits (see Note 5)	P8,122	P4,600
Short-term investments (see Note 6)	6,489	1,561
	P14,611	P6,161
	9/30/2010 (in '000's)	9/30/2009 (in '000's)
Cash in bank and short-term deposits (see Note 5)	P17,416	P13,801
Short-term investments (see Note 6)	19,594	4,683
	P37,010	P18,484

17. Pension Plan

The Company has a funded, noncontributory defined benefit pension plan, which provides for death, disability and pension benefits for all its regular employees, and requires contributions to the fund. The benefits are based on years of continuous service and final covered compensation.

	9/30/2010 (in '000's)	12/31/2009 (in '000's)
Defined benefit obligation	₱410,228	₱410,228
Fair value of plan assets	(470,344)	(470,344)
	(60,116)	(60,116)
Unrecognized net actuarial gains (losses)	10,856	10,856
Net pension assets	(₱49,260)	(₱49,260)

Pension expense amounted to **₱9.9** million for the nine months ended September 30, 2010 and 2009.

18. Income Tax

The components of the Company's net deferred tax assets are as follows:

	9/30/2010 (in '000's)	12/31/2009 (in '000's)
Deferred tax assets:		
Accrued expenses	₱154,448	₱137,489
Allowance for:		
Doubtful accounts	28,713	28,904
Inventory obsolescence	19,102	17,415
Unamortized portion of past service costs	18,920	23,404
Unrealized foreign exchange loss – net	4,012	4,012
Share-based payment	599	1,490
Deferred interest income		48
	225,794	212,762
Deferred tax liabilities:		
Pension assets	(14,778)	(14,778)
Unrealized foreign exchange gain – net	–	–
	(14,778)	(14,778)
	₱211,016	₱197,984

Accrued expenses mainly represent accruals for outside services and other expenses for which the related withholding taxes have not yet been remitted by the Company to the Bureau of Internal Revenue.

In 2009, the corporate income tax rate was reduced from 35% to 30% in accordance with Republic Act No. 9337. The change in enacted tax rates was considered in the computation of deferred income tax.

19. Share-based Payment

On February 12, 2002, the BOD approved the provisions of the EESOP, administered by a Committee, with the following terms:

Participants	Key executives and members of management as recommended by the Committee to the BOD, subject to restrictions, terms and conditions provided in the EESOP
Number of common shares available for EESOP	5% of the outstanding capital stock
Exercise price	Not less than 90% of the average closing price of the Company's stock as stated in the Philippine Stock Exchange's daily quotation sheet for the past 30 trading days immediately preceding the date of grant
Vesting	1/3 on the effectivity of the grant, 1/3 after one year from the effectivity of the grant, and 1/3 after two years from the effectivity of the grant
Expiration	After the lapse of the three-year duration of any grant

There have been no cancellations or modifications to the EESOP in 2010 and 2009.

20. Related Party Disclosures

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Transactions with related parties include the following:

- a. The Company has the following transactions with GenOSI, Inc. (GenOSI), Filius Fortus, Inc. (Filius) and Wentworth Development Corporation (WDC), affiliates (companies with stockholders common to the Company):

	Nature of Transactions	Year	Amount of Transactions During the Year (in `000's)	Receivables*
GenOSI	Sale of raw material	2010	₱263	₱83
	inventories and share corporate expense	2009	225	125
Filius	Cash advances	2010	₱909	₱446
		2009	43	43
WDC	Rent and share in corporate expenses	2010	2,085	15
		2009	2,276	22

*Included under "Trade and other receivables" account in the balance sheets.

- b. The Company has two (2) ten-year lease agreements with WDC starting March 1, 2000 and September 22, 2009 for the lease of provincial office space and a parcel of land, respectively. The annual lease payments for the whole term of the lease of provincial space amounted to ₱0.6 million in 2009. Rent expense for the lease of provincial office space and parcel of land amounted to ₱1.9 million as of September 30, 2010.
- c. The Company leases the land where its manufacturing plant is situated from Alaska Milk Corporation Retirement Plan (AMC Retirement Plan) for a period of 25 years starting November 9, 2004. The annual lease payments for the whole term of the lease amount to ₱15.6 million.

On January 1, 2006, the Company entered into another 25 years lease agreement with AMC Retirement Plan for the lease of land adjacent to where the manufacturing plant is situated. The lease is renewable at the option of the Company. Rent expense amounted to ₱9.9 million for the nine month ended September 30, 2010 and 2009.

21. Agreements

License and Purchase Agreements

On April 16, 2007, the Company signed a license agreement with Société Des Produits Nestlé S.A. (Nestlé) granting the Company an exclusive license to manufacture and sell Nestlé's Carnation and Milkmaid brands for canned milk products. Royalty expense is computed at 5% of net sales. On the same date, the Company also acquired the liquid milk trademarks from Nestlé.

Distribution Agreement

On August 18, 2005, the Company entered into a Distribution Agreement with Kellogg Asia Marketing, Inc. (Kellogg), designating the Company as distributor of Kellogg products within the territory specified in the agreement. In consideration of the services rendered by the Company, Kellogg shall pay the Company a fee equivalent to a certain percentage of the price list to trade as stated in the agreement.

The distribution agreement with Kellogg Asia Marketing, Inc. (Kellogg) was discontinued last May 2010.

Lease Agreements

As Lessee

- The Company has lease agreements with various third parties for the lease of land and warehouse in different provinces for a period of one (1) year, automatically renewable every year. Rent expense for the quarter ended September 30, 2010 and 2009, and nine month ended September 30, 2010 and 2009, amounted to ₱1.9 million and ₱1.7 million, and ₱5.7 million and ₱5.1 million, respectively.
- In 2009, the Company has cancellable lease agreements with third parties for the lease of pallets and a provincial warehouse for a period of more than one (1) year. Rent expense for the quarter ended September 30, 2010 and 2009, and nine month ended September 30, 2010, and 2009, amounted to ₱5.6 million and ₱1.8 million, and ₱9.4 million and ₱5.6 million, respectively.

- On October 23, 2007, the Company entered into a 7-year finance lease agreement with Tetra Pak Philippines, Inc. for a packaging equipment at a total consideration of US\$0.7 million or ₱33.9 million, discounted at 5.8% per annum based on treasury bill rate. Interest expense on obligation under finance lease amounted to ₱0.7 million and ₱0.9 million, and, ₱1.4 million and ₱1.9 million, in the quarter ended September 30, 2010 and 2009, and nine month ended September 30, 2010 and 2009, respectively, and is included under “Trade and other payables” account in the balance sheets.

The packaging equipment was received on September 26, 2008 and was transferred to machinery and equipment from machinery in-transit and under installation during the year. The related liability was shown as obligation under finance lease in the balance sheets amounting to ₱31.3million and ₱31.5 million as of September 30, 2010 and December 31, 2009, respectively. As of December 31, 2009, the future minimum lease payables amounted to ₱4.2 million and ₱32.6 million are payable within one year and after one year but not more than five years, respectively.

As of September 30, 2010 and December 31, 2009, the carrying value of packaging equipment amounted to ₱22.5 million and ₱24.5 million, respectively.

As Lessor

The Company has no lease agreements as lessor in 2010 and 2009.

22. Financial Risk Management Objectives and Policies

The Company’s principal financial instruments, other than derivatives, comprise cash and cash equivalents, short-term investments and bank loans. The main purpose of these financial instruments is to finance the Company’s operations. The Company has other financial assets and liabilities such as trade and other receivables, AFS investments, receivable from Meralco, trade and other payables, acceptances payable, dividends payable and obligation under finance lease.

The Company also enters into forward currency contracts to manage the foreign currency risks arising from the Company’s operations and its sources of finance.

The main risks arising from the Company’s financial instruments are foreign currency risk, credit risk, interest rate risk and liquidity risk. The BOD and management review and agree on the policies for managing each of these risks and they are summarized below.

Foreign Currency Risk

The Company’s exposure to foreign currency risk pertains to foreign-currency denominated monetary assets and liabilities. The Company’s financial position or performance can be affected by the movements in the ₱/US\$ exchange rates.

The following table shows the Company’s foreign currency-denominated monetary assets and liabilities and their Philippine Peso equivalents as at September 30, 2010 and December 31, 2009:

	September 30, 2010 (In '000's)		December 31, 2009 (In '000's)	
	US\$	PhP	US\$	PhP
Current financial assets:				
Cash and cash equivalents	\$ 1,571	₱ 68,936	\$3,890	₱179,737
Short-term investments	42,781	1,877,217	22,610	1,044,563
Trade and other receivables	1,070	46,958	1,570	72,543
	45,422	1,993,111	28,070	1,296,844
Current financial liabilities:				
Acceptances payable	12,059	529,161	12,124	560,125
Obligation under finance lease (including noncurrent portion and accrued interest)	714	31,314	681	31,484
	12,773	560,475	12,805	591,609
Net financial assets (liabilities)	\$32,649	₱1,432,636	\$15,265	₱705,234

In translating the foreign currency-denominated monetary assets and liabilities into Philippine Peso amounts, the exchange rates used were ₱43.88 to US\$1.00 and ₱46.20 to US\$1.00, the Philippine Peso to U.S. Dollar exchange rates as at September 30, 2010 and December 31, 2009, respectively.

To manage foreign currency risks, stabilize cash flows and improve investment and cash flow planning, the Company enters into forward contracts aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on operating results and cash flows.

The following table demonstrates the sensitivity to a reasonably possible change in US\$ exchange rate, with all other variables held constant, of the Company's income before income tax and management incentive bonus (due to revaluation of monetary assets and liabilities). There is no impact on stockholders' equity other than those already affecting profit or loss:

	Increase (Decrease) in ₱ to US\$ 1	Effect on Income Before Income Tax and Management Incentive Bonus
2010	(₱0.40)	₱13.1 million decrease
2009	(₱0.28)	₱4.3 million decrease

A movement in the opposite direction would have increased/decreased income before income tax and management incentive bonus by the same amount. The decrease in ₱ to US\$ rate means stronger Philippine Peso against the U.S. Dollar while an increase in ₱ to US\$ rate means stronger US Dollar against the Philippine Peso.

Credit Risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The Company does not grant credit terms without the specific approval of the credit departments under the direction of credit committee. Moreover, the credit committee regularly reviews the age and status of outstanding accounts receivable. There are no significant concentrations of credit risk.

The Company's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amount of financial assets of the Company, which comprise cash

and cash equivalents, short-term investments, AFS investments, trade and other receivables and receivable from Meralco.

As of September 30, 2010 and December 31, 2009, the aging analysis of the Company's financial assets is as follows:

September 30, 2010 (In '000's)					
	Neither Past Due nor Impaired	Past Due but Not Impaired		Impaired	Total
		<30 Days	30-60 Days		
Cash and cash equivalents	P893,338	P-	P-	P-	P893,338
Short-term investments	1,877,217	-	-	-	1,877,217
AFS investments	2,556	-	-	-	2,556
Trade and other receivables:					
Trade	370,578	99,940	6,327	90,085	566,930
Advances to suppliers	49,731	-	-	-	49,731
Non-trade and others	62,527	-	-	5,626	68,153
Receivable from Meralco*	976	-	-	-	976
	P3,256,923	P99,940	P6,327	P95,711	P3,458,900
December 31, 2009 (In '000's)					
	Neither Past Due nor Impaired	Past Due but Not Impaired		Impaired	Total
		<30 Days	30-60 Days		
Cash and cash equivalents	P857,055	P-	P-	P-	P857,054
Short-term investments	1,044,563	-	-	-	1,044,563
AFS investments	2,556	-	-	-	2,556
Trade and other receivables:					
Trade	579,991	160,032	18,369	90,720	849,112
Advances to suppliers	84,682	-	-	-	84,682
Non-trade and others	50,492	-	-	5,626	56,119
Receivable from Meralco*	3,296	-	-	-	3,296
	P2,622,636	P160,032	P18,369	P96,347	P2,897,383

* Included under "Trade and other receivables" account in the 2010 and 2009 balance sheet.

As of September 30, 2010 and December 31, 2009, the credit quality of the Company's financial assets is as follows:

September 30, 2010 (In '000's)				
	Neither Past Due Nor Impaired		Past Due or Impaired	Total
	High Grade	Standard Grade		
Cash and cash equivalents	P893,338	P-	P-	P893,338
Short-term investments	1,877,217	-	-	1,877,217
AFS investments	-	2,556	-	2,556
Trade and other receivables	282,526	200,310	201,978	684,814
Receivable from Meralco*	-	976	-	976
	P3,053,080	P203,842	P201,978	P3,458,900
December 31, 2009 (In '000's)				
	Neither Past Due Nor Impaired		Past Due or Impaired	Total
	High Grade	Standard Grade		
Cash and cash equivalents	P857,055	P-	P-	P857,055
Short-term investments	1,044,563	-	-	1,044,563
AFS investments	-	2,556	-	2,556
Trade and other receivables	482,788	232,378	274,748	989,913
Receivable from Meralco*	-	3,296	-	3,296
	P2,384,406	P238,230	P274,748	P2,897,383

* Included under "Trade and other receivables" account in the 2010 and 2009 balance sheets.

High grade receivables are from key accounts and wholesalers who are highly reputable, progressive and consistently pay before their maturity dates. Standard grade receivables are from other key accounts and medium-sized customers that normally pay within their due dates, while those with past due or impaired accounts are from customers who exceed their credit terms.

Cash and cash equivalents and short-term investments are considered high grade as management deals only with top banks in the Philippines. All other financial assets were assessed by management as standard grade as these are realized within the normal terms.

Interest Rate Risk

Interest rate risk arises on interest-bearing financial instruments recognized in the balance sheets. The Company ensures that all interest-bearing loans and borrowings are either short-term or made at a fixed rate of interest.

As of December 31, 2008, the Company's bank loans have floating interest rates but payable within one month after the balance sheet date. Hence, the Company is not sensitive to interest rate changes.

Liquidity Risk

The Company's exposure to liquidity risk pertains to difficulty in raising funds to meet obligations associated with financial liabilities.

The Company's objective is to maintain a balance between continuity and flexibility through the use of internally generated funds and banks. The Company regularly evaluates its projected and actual cash flow information and continuously assess conditions in the financial markets.

The tables below summarize the maturity profile of the Company's financial liabilities based on contractual undiscounted payments as of September 30, 2010 and December 31, 2009:

September 30, 2010 (In `000's)					
	On Demand	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Trade and other payables*	P-	P1,825,123	P81,035	P-	P1,906,158
Acceptances payable	-	529,161	-	-	529,161
Dividends payable	-	232,870	-	-	232,870
Obligation under finance lease (including current portion)	-	-	8,584	22,730	31,314
	P-	P2,587,154	P89,619	P22,730	P2,699,503

*Excluding payable to government agencies amounting to P84 million, which is not considered as a financial liability.

December 31, 2009 (In `000's)					
	On Demand	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Trade and other payables*	P-	P1,605,538	P160,157	P-	P1,765,695
Acceptances payable	-	560,125	-	-	560,125
Dividends payable	-	52,097	-	-	52,097
Obligation under finance lease (including current portion)	-	-	4,019	32,589	36,609
	P-	P2,217,760	P164,176	P32,589	P2,414,526

*Excluding payable to government agencies amounting to P74.1 million, which is not considered as a financial liability

Capital Management

The primary objective of the Company'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 Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, payoff existing debts, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended September 30, 2010 and December 31, 2009.

The Company monitors its capital gearing by measuring the ratio of debt to total stockholders' equity. Debt includes bank loans, trade and other payables, acceptances payable, dividends payable and obligation under finance lease. The Company's policy is to keep the gearing ratio at 70:30. As of September 30, 2010 and end December 31, 2009, the Company's ratios of debt to total stockholders' equity are 33:67 and 35.65, respectively.

Details are as follows:

	09/30/10 (In `000's)	12/31/09 (In `000's)
Trade and other payables	P1,989,741	P1,839,819
Acceptances payable	529,161	560,125
Dividends payable	232,870	52,097
Obligation under finance lease (including current portion)	31,314	31,484
Total debt (a)	2,783,086	2,483,526
Total stockholders' equity	5,636,626	4,677,407
Total debt and stockholders' equity (b)	P8,419,712	P7,160,933
Gearing ratio (a/b)	33%	35%

23. Financial Assets and Liabilities

Fair Value of Financial Instruments

The following tables set forth the carrying values and estimated fair values of financial assets and liabilities, by category and by class, recognized as of September 30, 2010 and December 31, 2009:

	September 30, 2010 (In `000's)		Dec 31, 2009 (In `000's)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Loans and receivables:				
Cash and cash equivalents	P893,338	P893,338	P857,055	P857,055
Short-term investments	1,877,217	1,877,217	1,044,563	1,044,563
Trade and other receivables	589,103	589,103	893,567	893,567
Receivable from Meralco (including current portion) (see Note 25)	976	976	3,296	3,296
	3,360,634	3,360,634	2,798,480	2,798,480
AFS investments	2,556	2,556	2,556	2,556
	P3,363,190	P3,363,190	P2,801,037	P2,801,037

	September 30, 2010 (In `000's)		Dec 31, 2009 (In `000's)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial liabilities:				
Financial liabilities at FVPL -				
derivative liabilities (see Note 13)	₱	₱	₱404	₱404
Other financial liabilities:				
Bank loans	—	—	—	—
Trade and other payables*	1,906,158	1,906,158	1,765,291	1,765,291
Acceptances payable	529,161	529,161	560,125	560,125
Dividends payable	232,870	232,870	52,097	52,097
Obligation under finance lease (including current portion)	31,314	27,184	31,484	30,083
	₱2,699,503	₱2,695,373	₱2,408,997,	₱2,407,596

* Excluding payable to government agencies amounting to ₱84 million and ₱74.1 million as of September 30, 2010 and December 31, 2009, respectively, the amounts of which are not considered as financial liabilities. The balance also excludes derivative liabilities amounting to ₱0.4 million as of December 31, 2009., the amounts of which are considered as financial liabilities at FVPL.

Cash and Cash Equivalents, Short-term Investments, Trade and Other Receivables, Bank Loans, Trade and Other Payables, Acceptances Payables and Dividends Payable. The carrying values of these financial assets and liabilities approximate their fair values primarily due to the short-term nature of these financial instruments.

AFS Investments. AFS investments consist of unquoted shares of stock. Consequently, the investments are carried at cost.

Receivable from Meralco. Receivable from Meralco pertains to Meralco refund as disclosed in Note 31. The fair value is estimated based on the discounted value of future cash flows using the applicable rate for similar type of instruments. Due to its short-term nature, the carrying value of the receivable approximates its fair value in 2009. The fair value in 2008 is based on the present value of future cash flows discounted using prevailing market rates of 7.3% to 7.7%.

Obligation under Finance Lease. The estimated fair value is based on the discounted value of future cash flows using applicable rates for similar types of instruments. Discount rates used were 5.4% to 7.6% and 7.9% to 9.5% as of September 30, 2010 and December 31, 2009, respectively.

24. Board of Investments

On September 7, 2006, the Board of Investments (BOI) approved the Company's application for registration of its Anhydro Plant 2 Project as a pioneer project under the Executive Order No. 226, also known as the Omnibus Investments Code of 1987. The registration entitles the Company to certain tax and other incentives. The Certificate of Registration was issued by the BOI on January 10, 2007.

On December 19, 2006, the BOI approved the Company's appeal for the grant of a 6-year income tax holiday (ITH) incentive, which the Anhydro Plant 2 Project is entitled to as a pioneer project.

The ITH incentive will start in May 2007 or the actual start of the Project's commercial operations, whichever is earlier.

Total tax incentives availed as of September 30, 2010 and for the year 2009 amounted to ₱134.5 million and ₱185.9 million, respectively.

25. Other Matters

Refund from Meralco

As a customer of Meralco, the Company expects to receive a refund for some of its previous billings under Phase IV of Meralco's refund scheme. Under the Meralco refund scheme, the refund may be received through postdated checks or as a fixed monthly credit to bills with cash option. The Company intends to recover the amount through fixed monthly credit to bills with cash option, starting 2006 up to 2010. In 2006, the Company recognized a receivable from Meralco amounting to ₱12.6 million, net of unearned interest income of ₱3.6 million and income from the refund of ₱12.6 million (included in "Cost of sales"). The receivable was discounted using an effective interest rate of 11.7%.

The current portion of the receivable, included in "Trade and other receivables," amounted to ₱1.0 million and ₱3.1 million, net of unearned interest income of ₱0.2 million and ₱0.4 million, respectively, as of September 30, 2010 and December 31, 2009.

Casualty Loss

The Company incurred casualty losses amounting to ₱156.5 million due to damages in inventories and equipment caused by Typhoon Ondoy which hit the country in September 2009.

Lawsuits

The Company is either a defendant or plaintiff in several civil cases primarily involving collection of receivables and labor cases. Based on the representation of the Company's external legal counsel, management is of the opinion that the resolution of such cases will not have a material adverse effect on the Company's financial position and results of operations.