

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

2,541
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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STAMPS

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: September 30, 2011
2. Commission identification number: 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, 2011)</u>
Common Stock	882,269,902 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

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, 2011, with comparative figures as of December 31, 2010 and for the period ended September 30, 2010. 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

For the Quarters Ended September 30, 2011 versus September 30, 2010

After a sluggish first half performance, sales volumes of the Company's line of liquid canned milk and powdered milk products steadily improved during the third quarter of the year. Extensive in-store activities and consumer promotions, supplemented by brand advertisements as well as trade marketing support, provided consumer pull across all categories. This brought net sales for the three months ending September 30, 2011 at ₱2.786 billion, 2% higher than net sales of ₱2.741 billion in the same period last year.

Sales volumes of the Company's liquid canned milk products – evaporated milk and sweetened condensed milk, continued to pick up going into a seasonally strong fourth quarter. Sales volume of powdered milk, on the other hand, posted modest growth amid aggressive marketing efforts of competition while sales volume of the Company's UHT registered strong double-digit growth rates on sustained consumer demand.

Cost of sales for the third quarter of the year grew at a much faster rate of 22%, from ₱1.680 billion in the third quarter of 2010 to ₱2.057 billion, largely due to sharp increases in raw material costs, particularly for skimmed milk powder. Operating expenses for the quarter, however, declined by 8% to ₱511 million from ₱553 million on the back of prudent spending and cost containment programs.

With higher costs of production inputs, operating income for the quarter ending September 2011 amounted to ₱217.5 million, 57% lower compared with the ₱507.2 million operating income in the same period last year. Operating margin likewise narrowed to 7.8% from 18.5% in the third quarter of 2010.

Net interest income for the quarter ended 5% higher at ₱14.6 million from ₱13.9 million on higher yields realized on the Company's placements. Other income for the quarter of ₱3.9 million, on the other hand, was a reversal of year-ago other charges of ₱71.7 million largely due to lower foreign exchange losses on foreign currency denominated transactions.

Provision for income tax for the third quarter of the year was lower by 73% at ₱25.0 million from ₱94.5 million in the same period last year due primarily to a lower taxable income this year. This brings net income for the quarter ending September 2011 at ₱210.8 million or 7.6% of net sales, ₱144.0 million or 41% lower than year-ago net income of ₱354.8 million or 12.9% of net sales. Earnings per share (EPS) for the quarter is at ₱0.24 compared to the third quarter 2010 EPS of ₱0.40.

For the Nine Months Ended September 30, 2011 versus September 30, 2010

With the recovery in sales volumes, net sales shortfall as of September 2011 further narrowed down from 15% for the first half of the year to 10% for the nine-month period at ₱7.753 billion from ₱8.572 billion in the same period last year.

Meanwhile, cost of sales for the first nine months of the year increased by 7% at ₱5.520 billion from ₱5.146 billion a year ago due to higher costs of production inputs. Operating expenses on the other hand, went down by 7% to ₱1.502 billion from ₱1.610 billion in the same period last year due to lower selling-related expenses attendant to lower sales volume. In addition, prudent spending across the organization contributed to the reduction in operating expenses.

All told, operating income as of end-September 2011 amounted to ₱731.5 million (9.4% of net sales), 60% lower than year-ago operating income of ₱1.816 billion (21.2% of net sales).

Net interest income earned for the first nine months of 2011 was slightly lower at ₱35.3 million compared to ₱35.6 million a year ago due to lower average cash balance as a result of reduced margins combined with increased working capital requirements on account of higher commodity costs.

Other miscellaneous charges for the nine-month period amounted to ₱4.7 million, 89% lower compared ₱43.7 million in the same period last year mainly due to lower foreign exchange losses on foreign currency denominated transactions.

Provision for income tax as of September 30, 2011 went down by 77% to ₱90.7 million from ₱397.1 million a year ago on account of a lower taxable income brought about by reduced margins. This brought net income for the first nine months of the year to ₱671.4 million or 8.7% of net sales, 52% lower than year-ago net income of ₱1.410 billion or 16.4% of net sales. The foregoing nine-month net income is equivalent to an earnings-per-share (EPS) of ₱0.76, ₱0.84 lower than EPS of ₱1.60 in the comparable period a year ago.

Financial Condition

As of September 30, 2011, current assets amounted to ₱5.855 billion, ₱74 million or 1% lower than the ₱5.929 billion in current assets as of end-December 2010.

Cash and cash equivalents as of end September 2011 increased by ₱860 million or 77% at ₱1.971 billion compared to ₱1.111 billion as of end-December 2010 brought about by the termination of short-term investments. This brought short-term

investments to decline by ₱724 million or 39% from ₱1.834 billion as of December 31, 2010.

The accounts receivable balance of ₱651.9 million was ₱175.9 million or 21% lower compared to the year-end 2010 balance of ₱827.8 million largely due to lower sales.

Inventories as of end-September 2011 amounted to ₱2.046 billion, ₱72 million or 3% lower compared to the December 31, 2010 balance of ₱2.118 billion due to lower inventory levels.

Prepaid expenses and other current assets of ₱75.6 million as of end-September 2011 was ₱36.6 million or 94% higher compared to the end-December 2010 balance of ₱39.0 million due to higher contribution to the Company's retirement fund as well as higher prepaid advertising.

Property, plant and equipment (net) of ₱1.514 billion as of September 30, 2011 was ₱49.2 million or 3% lower compared to the end December 2010 balance of ₱1.563 billion mainly due to recognition of depreciation charges for the nine-month period, net of capital expenditures.

Intangible assets as of September 30, 2011 was ₱128 million or 10% lower at ₱1.183 billion from ₱1.310 billion as of December 31, 2010 due to amortization of license brands and computer software license for the nine-month period.

Deferred tax assets decreased by ₱57.4 million or 22% at ₱203.2 million from ₱260.6 million as of end-December 2010 balance of ₱260.6 million due to realization of deferred tax asset from last year's temporary differences between accounting balances and tax base.

Other noncurrent assets decreased by ₱7.3 million or 24%, from ₱29.5 million as of December 31, 2010 to ₱22.2 million as of September 30, 2011 due to the amortization of deferred input taxes on acquired equipment.

Total assets as of September 30, 2011 stood at ₱8.824 billion, ₱316 million or 3% lower than the ₱9.140 billion in total assets as of end-December 2010.

Trade and other payables of ₱1.956 billion as of end-September 2011 was lower by ₱140 million or 7% compared to the ₱2.096 billion balance as of end December 2010 due to the decrease in purchased quantities of locally-sourced raw and packaging materials on the back of soft demand as well as slower spending.

Acceptances payable of ₱349.5 million as of September 30, 2011 was ₱355.3 million or 50% lower versus end December 2010 balance of ₱704.8 million due to the settlement of maturing obligations on the Company's import bills and lower import volumes.

Income tax payable as of end-September 2011 was reduced by ₱131.9 million or 100% from its end-December 2010 balance due to lower taxable income relative to the Company's year-to-date September 2011 earnings, net of income tax payments made covering fourth quarter 2010 earnings.

Cash dividends payable of ₱279.8 million as of September 30, 2011 was ₱154.7 million or 124% higher than the end December 2010 balance of ₱125.1 million due to the higher cash dividend declaration for 2011 at ₱0.60 per share, payable quarterly at a rate of ₱0.15 from June 2011 to March 2012.

Obligation under finance lease (current portion) of ₱13.8 million as of end-September 2011 was ₱6.6 million or 92% higher compared to the December 31, 2010 balance of ₱7.2 million due to the reclassification of maturing liability on a 7-year lease agreement for a packaging equipment plus interest. This likewise reduced the non-current portion of obligation under finance lease by ₱6.5 million or 22% to ₱22.2 million as of end-September 2011 from ₱28.6 million as of end-December 2010.

Additional paid-in capital as of end-September 2011 increased by ₱13.7 million or 9% to ₱166.2 million from ₱152.4 million as of end December 2010 due to the additional issuance of common shares pertaining to the Company's stock option plan for key executives / employees which have a higher exercise price vis-à-vis the stock's par value.

The net income of ₱671 million for the nine months ending September 30, 2011, less cash dividend declaration of ₱530 million increased the retained earnings account by ₱142 million to ₱5.467 billion as of end-September 2011 from ₱5.325 billion as of end December 2010.

The Company's current ratio as of September 30, 2011 was higher at 2.26:1 from a current ratio of 1.93:1 as of end December 2010 due primarily to higher cash balance. Debt-to-equity, on the other hand, was lower at 0.42:1 from a 0.51:1 debt-to-equity as of end December 2010.

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. During the first half of 2011, rising food and fuel prices have triggered a general softening of local demand / buying conditions in many categories. Waning effects of election-related spending that fueled a robust consumer market in 2010 has likewise contributed to a comparative slowdown of the local economy.

Skimmed milk powder 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. International skimmed milk powder prices edged higher, snapping a four-month slide at Fonterra's October 18, 2011 online auction. While dairy production out of Australia and

New Zealand reportedly remains strong, stockpiles are not building up as shipments merely keep pace with deliveries amidst steady demand from importing countries. Demand from emerging markets (Asia, including China and oil-producing nations) remains strong notwithstanding a slowdown in Western economies. International spot price of skimmed milk powder currently at around US\$3,500 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. To minimize earnings volatility with respect to foreign currency risks, the Company actively hedges part of its US Dollar 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 milk drink, UHT milk and coffee creamer are less prone to seasonal influences as these products are used on a regular basis.

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 2011	As of end-Sep 2010
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>	7.8%	18.5%

KPI	Definition	As of end-Sep 2011	As of end-Sep 2010
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>	7.6%	12.9%
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>	10.8%	25.0%
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>	0.42:1	0.51:1
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>	₱1.030 B	₱2.095 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.

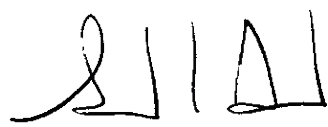
There are no material off-balance sheet transactions or arrangements or obligations or relationships created during the period in review.

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 14, 2011

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

	<u>SEP 30, 2011</u>	<u>DEC 31, 2010</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents (Notes 5, 22 and 23)	P 1,971,158	P 1,110,624
Short-term investments (Notes 6, 22 and 23)	1,109,966	1,833,984
Trade and Other Receivables - Net (Notes 7, 20, 22 and 23)	651,942	827,839
Inventories (Note 8)	2,046,025	2,117,670
Prepaid Expenses and Other Current Assets	75,592	38,971
Total Current Assets	<u>5,854,683</u>	<u>5,929,088</u>
Noncurrent Assets		
Property, plant and equipment - net (Note 10)	1,513,626	1,562,811
Available-for-Sale Investments (Note 9)	2,556	2,556
Intangible assets - net (Note 11)	1,182,920	1,310,445
Deferred tax assets (Note 18)	203,215	260,588
Net Pension Assets (Note 17)	44,836	44,836
Other noncurrent assets	22,216	29,460
Total Noncurrent Assets	<u>2,969,369</u>	<u>3,210,696</u>
Total Assets	<u>P 8,824,052</u>	<u>P 9,139,784</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities		
Trade and other payables (Notes 12, 22 and 23)	P 1,955,711	P 2,096,022
Acceptances Payable (Notes 22 and 23)	349,539	704,782
Income Tax Payable	0	131,913
Dividends payable (Notes 22 and 23)	279,841	125,099
Obligation under finance lease- current portion (Notes 21, 22 and 23)	13,858	7,227
Total Current liabilities	<u>2,598,950</u>	<u>3,065,044</u>
Noncurrent Liability		
Obligation under finance lease- net current portion	<u>22,180</u>	<u>28,639</u>
Total Liabilities	<u>2,621,130</u>	<u>3,093,683</u>
Stockholder's Equity		
Capital Stock (Notes 13 and 19)	972,598	971,433
Additional Paid In Capital	166,177	152,393
Retained Earnings (Note 14)	5,466,740	5,324,867
Treasury Stocks (Note 13)	(402,592)	(402,592)
Total Stockholder's Equity	<u>6,202,922</u>	<u>6,046,101</u>
Total Liabilities and Stockholder's Equity	<u>P 8,824,052</u>	<u>P 9,139,784</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, 2011 and 2010
 (In Thousand Pesos)

	3 mos. Ended September 30		9 mos. Ended September 30	
	SEP 30, 2011	SEP 30,2010	SEP 30, 2011	SEP 30,2010
SALES	P 2,786,120	P 2,740,623	P 7,752,899	P 8,571,552
COST OF SALES	<u>2,057,585</u>	<u>1,680,200</u>	<u>5,519,586</u>	<u>5,146,203</u>
GROSS PROFIT	728,535	1,060,422	2,233,312	3,425,349
OPERATING EXPENSES	<u>511,001</u>	<u>553,258</u>	<u>1,501,803</u>	<u>1,609,620</u>
INCOME FROM OPERATION	217,534	507,164	731,510	1,815,730
OTHER INCOME/(CHARGES)				
Interest income - net	14,636	13,905	35,302	35,600
Miscellaneous	3,889	(71,729)	(4,701)	(43,731)
Total	<u>18,525</u>	<u>(57,823)</u>	<u>30,601</u>	<u>(8,131)</u>
INCOME BEFORE INCOME TAX	236,059	449,341	762,111	1,807,599
PROVISION FOR INCOME TAX	<u>25,223</u>	<u>94,485</u>	<u>90,712</u>	<u>397,140</u>
TOTAL COMPREHENSIVE INCOME	210,836	354,856	671,399	1,410,458
Retained Earnings at Beginning of Period	5,255,904	4,558,396	5,324,867	3,943,020
Dividend Declared	-	6,476	(529,526)	(433,750)
Retained Earnings at End of Period	P <u>5,466,740</u>	P <u>4,919,727</u>	P <u>5,466,740</u>	P <u>4,919,727</u>
Appropriated Retained Earnings:				
Appropriation for various capital investments	2,620,000	1,425,000	2,620,000	1,425,000
Share Buy-back program	650,000	650,000	650,000	650,000
Unappropriated retained earnings	<u>2,196,740</u>	<u>2,844,727</u>	<u>2,196,740</u>	<u>2,844,727</u>
	P <u>5,466,740</u>	P <u>4,919,727</u>	P <u>5,466,740</u>	P <u>4,919,727</u>
Earnings Per Share	P 0.24	P 0.40	P 0.76	P 1.60
<i>No. of Shares Issued</i>	972,597,578	971,409,878	972,597,578	971,409,878
<i>Less: No. of Treasury Stocks</i>	<u>(90,327,676)</u>	<u>(90,327,676)</u>	<u>(90,327,676)</u>	<u>(90,327,676)</u>
<i>Total Shares Issued net of Treasury Stocks</i>	<u>882,269,902</u>	<u>881,082,202</u>	<u>882,269,902</u>	<u>881,082,202</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, 2011 and 2010
(In Thousand Pesos)

	3 mos. Ended September 30		9 mos. Ended September 30	
	2011	2010	2011	2010
CAPITAL STOCK				
Additional Paid-in Capital	972,598	971,410	972,598	971,410
	166,177	148,081	166,177	148,081
RETAINED EARNINGS				
Appropriated for various capital investment projects	2,620,000	1,425,000	2,620,000	1,425,000
Appropriated for the Share - Buy Back Program	650,000	650,000	650,000	650,000
Unappropriated:				
Balance at the beginning of quarter	1,985,904	2,483,396	3,249,868	2,318,020
Net Income	210,836	354,855	671,399	1,410,458
Dividends declared	-	6,476	(529,526)	(433,750)
Appropriation for capital inv. projects	-	-	(1,195,000)	(450,000)
Balance at end of quarter	2,196,740	2,844,727	2,196,740	2,844,728
	5,466,740	4,919,727	5,466,740	4,919,727
TREASURY STOCK				
Balance at beginning of quarter	(402,592)	(402,592)	(402,592)	(352,050)
Acquisition	-	-	-	(50,542)
Balance at end of quarter	(402,592)	(402,592)	(402,592)	(402,592)
	6,202,922	5,636,626	6,202,922	5,636,626

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, 2011 and 2010

(In Thousand Pesos)

	3 mos. Ended September 30		9 mos. Ended September 30	
	SEP 30, 2011	SEP 30,2010	SEP 30, 2011	SEP 30,2010
CASH FLOW FROM OPERATING ACTIVITIES				
Net Income	P 210,836	P 354,855	P 671,399	P 1,410,458
Depreciation & Amortizations	97,260	96,049	298,563	279,797
Net Change in Assets & Liabilities				
Decrease/Increase in Current Assets	183,620	(7,832)	232,132	(440,955)
Decrease/Increase in Current Liabilities	<u>129,935</u>	<u>60,994</u>	<u>(648,505)</u>	<u>119,759</u>
Net Operational Flows	P <u>621,650</u>	P <u>504,066</u>	P <u>553,588</u>	P <u>1,369,059</u>
CASH FLOW FROM INVESTING ACTIVITIES				
Payment for purchase of Prop. Plant & Equipt.	(87,731)	(33,172)	(121,853)	(229,371)
Decrease (increase) in Short-term investment	347,746	(831,075)	724,018	(832,653)
Decrease (increase) in Other Assets	51,903	(12,994)	64,618	(284)
Net Investment Flows	P <u>311,918</u>	P <u>(877,241)</u>	P <u>666,783</u>	P <u>(1,062,308)</u>
CASH FLOW FROM FINANCING ACTIVITIES				
Issuance of Capital Stock	646	6,918	14,948	33,054
Treasury Stocks	-	-	-	(50,543)
Dividend payment	<u>(133,195)</u>	<u>(106,149)</u>	<u>(374,784)</u>	<u>(252,979)</u>
Net Financing Flows	P <u>(132,549)</u>	P <u>(99,231)</u>	P <u>(359,836)</u>	P <u>(270,467)</u>
NET CASH PROVIDED	P <u>801,019</u>	P <u>(472,407)</u>	P <u>860,535</u>	P <u>36,284</u>
CASH AND CASH EQUIVALENTS & SHORT- TERM INVESTMENTS AT BEG. OF THE PERIOD				
	P <u>1,170,140</u>	<u>1,365,744</u>	P <u>1,110,624</u>	P <u>857,055</u>
CASH AND CASH EQUIVALENTS & SHORT- TERM INVESTMENTS AT END OF THE PERIOD				
	P <u><u>1,971,158</u></u>	P <u><u>893,338</u></u>	P <u><u>1,971,158</u></u>	P <u><u>893,338</u></u>

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, Statement of Compliance and Changes in Accounting Policies and Disclosures

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 amended PFRS and Philippine Interpretations which were adopted starting January 1, 2011:

New Interpretation

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, becomes effective for annual periods beginning on or after July 1, 2010.

Amendments to Standards

- PAS 24, *Related Party Disclosures*, becomes effective for annual periods beginning on or after January 1, 2011.
- PAS 32, *Financial Instruments: Presentation – Classification of Rights Issue*, becomes effective for annual periods beginning on or after February 1, 2010.

- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement*, becomes applicable for annual periods beginning on or after January 1, 2011.

The above amended standards and new interpretation did not have an impact on the Company's financial position or performance.

Future Changes in Accounting Policies

Standards issued but not yet effective as of the date of the Company's financial statements are listed below. The Company intends to adopt these standards when they become effective.

New Standard and Interpretations

- PFRS 9, *Financial Instruments: Classification and Measurement*, will become effective for annual periods beginning on or after January 1, 2015. PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in the middle of 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement the Group's financial assets. As of Septemebr 30, 2011, after consideration of the result of the financial impact, the Company has decided not to early adopt PFRS9 for its financial statements ending December 31, 2011. It shall conduct in early 2012 another impact evaluation using the outstanding balances as of December 31, 2011. A statement of the Group's decision whether to early adopt PFRS 9 for its 2012 financial reporting will be disclosed in its March 31, 2012 interim financial statements.
- 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 covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Amendments to Standards and Interpretation

- PFRS 7, *Financial Instruments: Disclosures – Transfers of Financial Assets*, becomes effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.
- PAS 12, *Income Taxes – Deferred Tax: Recovery of Underlying Assets*, becomes effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the

problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

Except for PFRS 9, the Company does not expect the above new standard, 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. Improvements to PFRS is an omnibus of amendments to PFRS. The Company did not adopt the following improvements as they are not yet effective as of December 31, 2010. The amendments listed below, are not expected to have an impact on the Company's financial statements:

- PFRS 3, *Business Combinations*, becomes effective for annual periods beginning on or after July 1, 2010. The improvements include: (a) clarification that the amendments to PFRS 7, *Financial Instruments: Disclosures*, PAS 32, and PAS 39 that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008); (b) guidance that the choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by PFRS; and (c) clarification that the application guidance in PFRS 3 applies to all share-based payment transactions that are part of a business combination, including unreplaced and voluntarily replaced share-based payment awards. This standard is to be applied prospectively.
- PFRS 7, *Financial Instruments*, becomes effective for annual periods beginning on or after January 1, 2011. The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. This standard is to be applied retrospectively.
- PAS 1, *Presentation of Financial Statements*, becomes effective for annual periods beginning on or after January 1, 2011. The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. This standard is to be applied retrospectively.
- PAS 27, *Consolidated and Separate Financial Statements*, becomes effective for annual periods beginning on or after July 1, 2009. The improvement clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures*, apply prospectively for annual periods beginning on or after July 1, 2009, or earlier when PAS 27 is applied earlier. This standard is to be applied retrospectively.
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, becomes effective for annual periods beginning on or after January 1, 2011. The amendment clarifies the meaning of fair value in the context of measuring award credits under customer loyalty programmes. This interpretation is to be applied retrospectively.

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 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 ₱14.2 million and ₱15.4 million, and ₱39.9 million and ₱38.6 million, for the quarters ended September 30, 2011 and 2010, and nine months ended September 30, 2011 and 2010, 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 leases and the corresponding finance lease obligations amounted to ₱31.3 million and ₱36.0 million, respectively, as of September 30, 2011 and ₱34.9 million and ₱35.9 million, respectively, as of December 31, 2010 (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. Existing circumstances and assumptions about future developments however, may change due to market changes in circumstances beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

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 may be 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 ₱651.9 million and ₱827.8 million as of September 30, 2011 and December 31, 2010, respectively (see Note 7).

Collectively impaired receivables amounting to ₱0.3 million and ₱0.6 million in 2011 and 2010, respectively were written-off and charged to allowance for doubtful accounts (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. 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 ₱2,046 million and ₱2,117.7 million as of September 30, 2011 and December 31, 2010, 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, 2011 and ₱34.1 million in 2010. 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.

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, 2011 and December 31, 2010 (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 14.1% in 2010 and 13.3% in 2009. The royalty rate applicable for both years was 5%.

Management's estimates of future cash flows are based on the most recent budgets and 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, 2011 and full year 2010 and 2009.

Other Nonfinancial Assets

An impairment review is 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.

Impairment loss amounting to ₱54.5 million was recognized in 2010 on certain idle machinery and equipment. Property, plant and equipment, net of accumulated depreciation, amounted to ₱1,513.6 million and ₱1,562.8 million as of September 30, 2011 and December 31, 2010, respectively (see Note 10). Intangible assets with finite useful lives, net of accumulated amortization, amounted to ₱906.5 million and ₱1,034.0 million as of September 30, 2011 and December 31, 2010, respectively (see Note 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.

Deferred tax assets amounted to ₱216.7 million and ₱274.0 million as of September 30, 2011 and December 31, 2010, 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.

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. The fair value of equity instruments granted are based on market prices, if available, and takes 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.

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, 2011 and December 31, 2010 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, 2011.

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.

Subsequent Measurement of Financial Assets and Financial Liabilities

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 instruments. Financial assets at FVPL are carried in the statements of financial position at fair value with changes in fair value recognized in the statements of comprehensive income.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at FVPL. These embedded derivatives are measured at fair value with changes in fair value recognized in the statements of comprehensive income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

The Company has no financial assets at FVPL as of September 30, 2011 and December 31, 2010.

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in interest income in the statements of comprehensive income.

The losses arising from impairment are recognized in the statements of comprehensive income as interest expense.

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" account in the balance sheets.

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, HTM investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest method. The effective interest method amortization is included in interest income in the statements of comprehensive income. The losses arising from impairment are recognized in the statements of comprehensive income as interest expense.

The Company has no financial assets classified as HTM investments as of September 30, 2011 and December 31, 2010.

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'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 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 (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 or impaired, as well as through the amortization process.

This category includes trade and other payables (excluding derivative liabilities and payable to government agencies), acceptances payable, dividends payable and obligation under finance leases (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, 2011 and December 31, 2010, 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.

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. 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 of 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 and 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. 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. 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.

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 statement 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 indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its 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 or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statements of comprehensive income in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

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 stockholders' 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 to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. 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. Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue due to its operating nature.

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

Costs and Expenses

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 22.

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 the 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.

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 the Reporting Period

Post year-end events that provide additional information about the Company's position at reporting period (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 100% and 0.0%, respectively, in 2011, and 99.64% and 0.36%, respectively, in 2010.

5. Cash and Cash Equivalents

This account consists of:

	09/30/2011	12/31/2010
	(in '000's)	(in '000's)
Cash on hand and in banks	₱108,928	₱88,154
Short-term deposits	1,862,230	1,022,470
	₱1,971,158	₱1,110,624

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 ₱10.3 million and ₱8.1 million for the third quarter ended September 30, 2011 and 2010, ₱21.1 million and ₱17.4 million for the nine month ended September 30, 2011 and 2010, respectively (see Note 16).

6. Short-term Investments

This account consists of investments in U.S. dollar time deposits with interest rates ranging from 1.4% to 1.9%, and 0.8% to 2.1% in 2011 and 2010, respectively. Interest income earned from short-term investments amounted to ₱5.7 million and ₱6.5 million for the third quarter ended September 30, 2011 and 2010, ₱16.9 million and ₱19.6 million for the nine months ended September 30, 2011 and 2010, respectively (see Note 16).

7. Trade and Other Receivables

This account consists of:

	09/30/2011	12/31/2010
	(in '000's)	(in '000's)
Trade	₱597,849	₱825,025
Advances to suppliers	72,977	35,526
Non-trade	58,791	40,086
Others (see Note 20)	17,728	22,914
	747,345	923,550
Less allowance for doubtful accounts	95,403	95,711
	₱651,942	₱827,839

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:

	09/30/2011	12/31/2010
	(in '000's)	(in '000's)
At cost:		
Finished goods	₱497,133	₱544,089
Goods in transit	117,687	643,540
At net realizable value:		
Raw and packaging materials	1,316,735	827,538
Spare parts, supplies and others	114,470	102,504
	₱2,046,025	₱2,117,670

The cost of raw and packaging materials amounted to ₱1,359.6 million and ₱866.4 million as of September 30, 2011 and December 31, 2010. The cost of spare parts, supplies and others amounted to ₱169.3 million and ₱155.7 million as of September 30, 2011 and December 31, 2010, 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. Dividend income earned from these investments amounted to ₱0.001 million in 2010.

10. Property, Plant and Equipment

This account consists of:

	December 31, 2010	Additions	Disposals/ Retirements	Transfers	September 30, 2011
Cost					
Land and land improvements	₱55,772	₱ –	₱ –	₱ –	₱55,772
Buildings and leasehold improvements	732,697	3,135	–	9,898	745,729
Machinery and equipment (see Note 21)	1,949,037	24,923	–	78,499	2,052,459
Transportation equipment	109,814	18,674	(35,627)	–	92,861
Office furniture, fixtures and other equipment	128,238	10,671	(1,836)	–	137,073
	2,975,558	57,404	(37,462)	88,396	3,083,895
Accumulated Depreciation and Amortization					
Land improvements	18,810	2,030	–	–	20,840
Buildings and leasehold improvements	183,747	31,384	–	–	215,131
Machinery and equipment	1,075,380	113,669	–	–	1,189,049
Transportation equipment	80,540	14,477	(34,784)	–	60,233
Office furniture, fixtures and other equipment	109,107	9,478	(1,762)	–	116,823
	1,467,584	171,038	(36,546)	–	1,602,076
Accumulated Impairment Loss					
Machinery and equipment	54,456	–	–	–	54,456
	1,453,518	(113,634)	(917)	88,396	1,427,364
Construction in-progress	6,088	54,151	–	(9,898)	50,341
Machinery in-transit and under installation	103,205	11,216	–	(78,499)	35,922
	₱1,562,811	(₱48,268)	(₱917)	₱–	₱1,513,626

	December 31, 2009	Additions	Disposals/ Retirements	Transfers	December 31, 2010
Cost					
Land and land improvements	₱54,474	₱704	₱–	₱594	₱55,772
Buildings and leasehold improvements	680,859	10,404	–	41,434	732,697
Machinery and equipment (see Note 21)	1,609,048	82,523	(58,903)	316,370	1,949,037
Transportation equipment	100,728	21,616	(12,530)	–	109,814
Office furniture, fixtures and other equipment	117,077	15,674	(4,514)	–	128,238
	2,562,186	130,921	(75,947)	358,397	2,975,558
Accumulated Depreciation and Amortization					
Land improvements	16,125	2,685	–	–	18,810
Buildings and leasehold improvements	142,900	40,847	–	–	183,747
Machinery and equipment	950,792	135,445	(10,857)	–	1,075,380
Transportation equipment	70,976	21,582	(12,018)	–	80,540
Office furniture, fixtures and other equipment	104,009	9,223	(4,126)	–	109,107

	December 31, 2009	Additions	Disposals/ Retirements	Transfers	December 31, 2010
equipment	1,284,802	209,782	(27,001)	–	1,467,584
Accumulated Impairment Loss					
Machinery and equipment	–	54,456	–	–	54,456
Construction in-progress	1,277,384	(133,317)	(48,946)	358,397	1,453,518
Machinery in-transit and under installation	21,776	19,998	–	(35,686)	6,088
	216,099	209,817	–	(322,711)	103,205
	₱1,515,258	₱96,498	(₱48,946)	₱–	₱1,562,811

There was no capitalized interest in 2011, 2010, and 2009.

In 2010, the Company recognized an impairment loss on certain idle machinery and equipment amounting to ₱54.5 million.

11. Intangible Assets

This account consists of:

	Trademarks (see Note 25)	License Brands (see Note 25)	Computer Software	Total
Cost				
Balance as January 1, 2010/2011	₱276,423	₱1,623,577	₱25,907	₱1,925,907
Additions	–	–	–	–
Balance as of 12. 31.2010/03.31.2011	276,423	1,623,577	25,907	1,925,907
Accumulated Amortization				
Balance as of January 1, 2010	–	432,954	11,515	444,469
Amortization during the year	–	162,358	8,636	170,994
Balance as of December 31, 2010	–	595,312	20,150	615,462
Amortization during the quarter (see Note 15)	–	121,768	5,756	127,525
Balance as of September 30, 2011	–	717,080	25,907	742,987
Net Book Value				
September 30, 2011	₱276,423	₱906,497	₱–	₱1,182,920
December 31, 2010	₱276,423	₱1,028,265	₱5,756	₱1,310,445

Trademarks have indefinite useful life. The remaining amortization life of license brands is 5.6 years.

12. Trade and Other Payables

This account consists of:

	09/30/2011 (in '000's)	12/31/2010 (in '000's)
Trade	₱630,252	₱781,207
Accruals for:		
Selling and marketing expenses	890,608	870,675
Employee-related expenses	229,905	255,262
Importation charges, royalty and other expenses	88,529	121,790

Payable to government agencies	71,887	51,314
Derivative liabilities (see Note 23)	–	–
Others	44,530	15,773
	₱1,955,711	₱2,096,022

The terms and conditions of the above liabilities follow:

- Trade payables are noninterest-bearing and are normally settled on 60–day term.
- Accruals, payable to government agencies and other payables are normally settled within the next financial year.
- Derivative liabilities arise from currency forward contracts outstanding as at balance sheet date.

13. Capital Stock

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

	Number of Shares		
	2011	2010	2009
Par value - ₱1			
Authorized	1,000,000,000	1,000,000,000	1,000,000,000
Issued:			
Balance at beginning of year	971,432,578	968,074,878	967,094,878
Issuance (see Note 19)	1,165,000	3,357,700	980,000
Balance at end of year	972,597,578	971,432,578	968,074,878
Treasury stock:			
Balance at beginning of year	90,327,676	83,002,676	68,243,676
Acquisition	-	7,325,000	14,759,000
Balance at end of year	90,327,676	90,327,676	83,002,676

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

There were no acquisition of treasury shares during the year, the cost of treasury stock acquired in 2010 and 2009 amounted to ₱50.5 million and ₱62.4 million, respectively, or an average price of ₱4.46 and ₱4.24 a share as of December 31, 2010 and December 31, 2009, respectively.

14. Retained Earnings

Cash dividends declared amounted to ₱529.5 million and ₱433.8 million in 2011 and 2010, respectively.

On May 17, 2011, the BOD approved the declaration of cash dividends of ₱0.60 per share, composed of a regular cash dividend of ₱0.05 per share and a special cash dividend of ₱0.10 per share, paid on June 30, 2011 to all stockholders of record as of June 3, 2011, the remaining ₱0.45 per share, to be

paid as follows: ₱0.15 per share on September 30, 2011, December 29, 2011 and March 30, 2012 to all stockholders of record as of September 6, 2011, December 5, 2011 and March 6, 2012, respectively.

On the same date, the BOD approved additional appropriations of ₱1,195.0 million, out of the Company's retained earnings, for various capital investment projects.

On May 4, 2010, the BOD approved the declaration of cash dividends of ₱0.50 per share, composed of a regular cash dividend of ₱0.075 per share and a special cash dividend of ₱0.05 per share, paid on June 30, 2010 to all stockholders of record as of June 4, 2010, and another special cash dividend of ₱0.375 per share, paid at ₱0.125 per share on September 30, 2010, December 29, 2010 and March 30, 2011 to all stockholders of record as of September 6, 2010, December 3, 2010 and March 4, 2011, respectively.

On the same date, the BOD approved additional appropriations of ₱450.0 million, out of the Company's retained earnings, broken into ₱300.0 million and ₱150.0 million for various capital investment projects and share buy-back program, respectively.

15. Depreciation and Amortization

This account is distributed as follows:

	3Q 2011 (in '000's)	3Q 2010 (in '000's)	YTD Sep. 2011 (in '000's)	YTD Sep. 2010 (in '000's)
Property, plant and equipment (see Note 10):				
Cost of sales	40,715	38,720	126,915	109,105
Operating expenses	14,517	14,580	44,123	42,447
Investment properties (see Note 21):				
Operating expenses	-	-	-	-
Intangible assets (see Note 11):				
Operating expenses	42,028	42,748	127,524	128,244
	97,260	96,048	298,562	279,796

16. Interest Income

This account represents income from the following sources:

	3Q 2011	3Q 2010	YTD Sep. 2011	YTD Sep. 2010
	(in '000's)	(in '000's)	(in '000's)	(in '000's)
Cash in bank and short-term deposits (see Note 5)	10,313	8,122	21,106	21,037
Short-term investments (see Note 6)	5,667	6,489	16,884	15,974
	15,980	14,611	37,990	37,011

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.

	09/30/2011	12/31/2010
	(in '000's)	(in '000's)
Defined benefit obligation	₱486,787	₱486,787
Fair value of plan assets	(479,698)	(479,698)
	7,089	7,089
Unrecognized net actuarial gains (losses)	(51,926)	(51,926)
Net pension assets	(₱44,836)	(₱44,836)

18. Income Tax

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

	2011	2010
Deferred tax assets:		
Accrued expenses	₱131,809	₱186,423
Allowance for:		
Doubtful accounts	28,713	28,713
Inventory obsolescence	29,332	27,645
Unamortized portion of past service costs	12,980	17,426
Unrealized foreign exchange loss - net	9,964	9,964
Share-based payment	3,867	3,867
Deferred interest income	-	-
	216,666	274,038
Deferred tax liability - Pension assets	(13,451)	(13,451)
	₱203,215	₱260,588

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 (BIR).

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

The BOD granted additional shares of 8,970,000 and 2,100,000 in 2011 and 2010, respectively, for the EESOP with the same provisions as the previous EESOP. There have been no cancellations or modifications to the EESOP in 2011 and 2010.

Total additional paid-in capital arising from share-based payment amounted to ₱13.8 million and ₱21.7 million, as of September 30, 2011 and December 31, 2010, respectively. Total expense arising from share-based payment amounted to ₱13.8 million and ₱21.7 million in 2011 and 2010, respectively.

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) 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 inventories and share in corporate expenses	2011	₱ 359.8	₱88.0
		2010	₱289.5	₱107
WDC	Rent and share in corporate expenses	2011	1,994.6	14.8
		2010	2,561	16
Sunrise	Advances	2011	199.5	199.5

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

- b. The Company has a five-year and ten-year lease agreements with WDC starting March 1, 2010 and September 22, 2009 for the renewed 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 ₱1.2 million in 2011 and 2010 and ₱0.6 million in 2009 and 2008. Rent expense for the parcel of land amounted to ₱0.9 million as of September 30, 2011 and 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 in the nine months ended September 30, 2011 and 2010.

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 agreement was discontinued in May 2010.

Lease Agreements

As Lessee

- The Company has a lease agreement with a third party for the lease of land and warehouse in Cainta, which expired on September 30, 2008. Rent expense amounted to ₱6.2 million in 2008.
- 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, 2011 and 2010, and nine months ended September 30, 2011 and 2010, amounted to ₱2.6 million and ₱2.4 million, and ₱6.3 million and ₱5.8 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, 2011 and 2010, and nine months ended September 30, 2011 and 2010, amounted to ₱3.8 million and ₱4.2 million, and ₱10.1 million and ₱9.4 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 ₱31.3 million, discounted at 5.8% per annum based on treasury bill rate. Also, on February 1, 2010, the Company entered into a 6-year finance lease with Tetra Pak Philippines, Inc. for another packaging equipment for a total consideration of US\$0.3 million or ₱12.9 million, discounted at 6.6% per annum based on treasury bill rate. The aggregate interest expense on obligation under finance leases amounted to ₱2.7 million and ₱2.1 million in 2011 and 2010, respectively.

The packaging equipment were received on September 26, 2008 and November 30, 2010 for the 7-year and 6-year finance lease agreements, respectively. The related liabilities were shown as obligation under finance leases in the balance sheets amounting to ₱36 million and ₱35.9 million as of September 30, 2011 and December 31, 2010, respectively.

As of September 30, 2011 and December 31, 2010, the aggregate carrying value of packaging equipment amounted to ₱31.3 million and ₱34.9 million, respectively.

As Lessor

The Company has no lease agreements as lessor in 2011 and 2010.

The Company's principal financial instruments, other than derivatives, comprise cash and cash equivalents and short-term investments. 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 leases arising from its operations.

The Company also enters into currency forward 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 P/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, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
	('000's)		('000's)	
	US\$	PhP	US\$	PhP
Current financial assets:				
Cash and cash equivalents	\$1,818	P79,480	\$277	P12,147
Short-term investments	25,388	1,109,966	41,834	1,833,984
Trade and other receivables	1,534	67,062	672	29,475
	28,740	1,256,508	42,783	1,875,606
Current financial liabilities:				
Acceptances payable	7,995	349,539	16,076	704,782
Obligation under finance leases (including noncurrent portion and accrued interest)	824	36,039	818	35,866
	8,819	385,578	16,894	740,648
Net financial assets	\$19,921	P870,929	\$25,889	P1,134,958

In translating the foreign currency-denominated monetary assets and liabilities into Philippine Peso amounts, the exchange rates used were P43.72 to US\$1.00 and P43.84 to US\$1.00, the Philippine Peso to U.S. Dollar exchange rates as at September 30, 2011 and December 31, 2010, respectively.

To manage foreign currency risks, stabilize cash flows and improve investment and cash flow planning, the Company enters into currency 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
Sept. 30, 2011	(₱1.09)	₱21.7 million decrease
December 31, 2010	₱0.66	₱17.1 million increase

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, 2011 and December 31, 2010 the aging analysis of the Company's financial assets is as follows:

Sep. 30, 2011 (in '000's)					
	Neither Past				
	Due nor Impaired	Past Due but Not Impaired			
	Impaired	<30 Days	30-60 Days	Impaired	Total
Cash and cash equivalents*	₱1,969,475	₱-	₱-	₱-	₱1,969,475
Short-term investments	1,109,966	-	-	-	1,109,966
AFS investments	2,556	-	-	-	2,556
Trade and other receivables:					
Trade	413,153	92,553	4,335	87,808	597,849
Advances to suppliers	72,977	-	-	-	72,977
Non-trade and others	68,923	-	-	7,695	76,518
	₱3,637,050	₱92,553	₱4,335	₱95,403	₱3,829,341

*Excluding cash on hand.

December 31, 2010 (in '000's)					
	Neither Past				
	Due nor Impaired	Past Due but Not Impaired			
	Impaired	<30 Days	30-60 Days	Impaired	Total
Cash and cash equivalents*	₱1,108,985	₱-	₱-	₱-	₱1,108,985
Short-term investments	1,833,984	-	-	-	1,833,984
AFS investments	2,556	-	-	-	2,556
Trade and other receivables:					
Trade	460,128	249,327	27,554	88,016	825,025

Advances to suppliers	35,526	–	–	–	35,526
Non-trade and others	55,304	–	–	7,695	62,999
	₱3,496,484	₱249,327	₱27,554	₱95,711	₱3,869,076

* Excluding cash on hand.

As of September 30, 2011 and December 31, 2010, the credit quality of the Company's financial assets is as follows:

	September 30, 2011 (in '000's)			
	Neither Past Due Nor Impaired		Past Due or Impaired	Total
	High Grade	Standard Grade		
Cash and cash equivalents*	₱1,969,475	₱–	₱–	₱1,969,475
Short-term investments	1,109,966	–	–	1,109,966
AFS investments	–	2,556	–	2,556
Trade and other receivables	359,623	195,431	192,291	747,345
	₱3,439,064	₱197,987	₱192,291	₱3,829,342

* Excluding cash on hand.

	December 31, 2010 (in '000's)			
	Neither Past Due Nor Impaired		Past Due or Impaired	Total
	High Grade	Standard Grade		
Cash and cash equivalents*	₱1,108,985	₱–	₱–	₱1,108,985
Short-term investments	1,833,984	–	–	1,833,984
AFS investments	–	2,556	–	2,556
Trade and other receivables	349,877	201,081	372,592	923,550
	₱3,292,847	₱203,637	₱372,592	₱3,869,076

* Excluding cash on hand.

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 exceeded 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. AFS investments are considered standard grade by management as these are realized upon sale when the need arises. 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.

The Company is no longer exposed to interest rate risk as of September 30, 2011 and December 31, 2010.

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, 2011 and December 31, 2010:

September 30, 2011 (in '000's)					
	On Demand	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Trade and other payables*	P-	P1,844,505	P39,319	P-	P1,883,424
Acceptances payable	-	349,539	-	-	349,539
Dividends payable	-	279,841	-	-	279,841
Obligation under finance leases (including current portion)	-	-	13,858	22,181	36,039
	P-	P2,473,885	P53,177	P22,181	P2,548,843

* Excluding payable to government agencies amounting to P71.9 million, which is not considered as a financial liability.

December 31, 2010 (in '000's)					
	On Demand	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Trade and other payables*	P-	P1,939,129	P105,579	P-	P2,044,708
Acceptances payable	-	704,782	-	-	704,782
Dividends payable	-	125,099	-	-	125,099
Obligation under finance leases (including current portion)	-	-	8,403	32,836	41,239
	P-	P2,769,010	P113,982	P32,836	P2,915,829

* Excluding payable to government agencies amounting to P51.3 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, 2011 and December 31, 2010.

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 leases. The Company's policy is to keep the gearing ratio at 70:30. As of September 30, 2011 and December 31, 2010, the Company's ratios of debt to total stockholders' equity are 30:70 and 33:67, respectively.

Details are as follows:

	September 30, 2011 (in '000's)	December 31, 2010 (in '000's)
Trade and other payables	P1,955,711	P2,096,022
Acceptances payable	349,539	704,782
Dividends payable	279,841	125,099

	September 30, 2011 (in '000's)	December 31, 2010 (in '000's)
Obligation under finance leases (including current portion)	36,039	35,866
Total debt (a)	2,621,130	2,961,770
Total stockholders' equity	6,202,922	6,046,101
Total debt and stockholders' equity (b)	P8,824,052	P9,007,871
Gearing ratio (a/b)	30%	33%

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, 2011 and December 31, 2010:

	September 30, 2011 (in '000's)		December 31, 2010 (in '000's)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	P1,971,158	P1,971,158	P1,110,624	P1,110,624
Short-term investments	1,109,966	1,109,966	1,833,984	1,833,984
Trade and other receivables	651,942	651,942	827,839	827,839
Receivable from Meralco (see Note 25)	-	-	-	-
	3,733,066	3,733,066	3,772,447	3,772,447
AFS investments	2,556	2,556	2,556	2,556
	P3,735,622	P3,735,622	P3,775,004	P3,775,004
Financial Liabilities				
Financial liabilities at FVPL - derivative liabilities (see Note 12)	P-	P-	P-	P-
Other financial liabilities:				
Trade and other payables*	1,883,824	1,883,824	2,044,708	2,044,708
Acceptances payable	349,539	349,539	704,782	704,782
Dividends payable	279,841	279,841	125,099	125,099
Obligation under finance leases	36,039	36,039	35,866	35,341
	P2,549,243	P2,549,243	P2,549,243	P2,549,243

* Excluding payable to government agencies amounting to P71.9 million and P51.3 million as of September 30, 2011 and December 31, 2010, respectively, the amounts of which are not considered as financial liabilities.

Cash and Cash Equivalents, Short-term Investments, Trade and Other Receivables, 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 less any allowance for impairment losses because fair value cannot be measured reliably due to the unpredictable nature of cash flows and lack of suitable methods of arriving at a reliable fair value.

Receivable from Meralco. Receivable from Meralco pertains to Meralco refund as disclosed in Note 25. Due to its short-term nature, the carrying value of the receivable approximates its fair value in 2009.

Obligation under Finance Leases. 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 3.5% to 7.4% and 3.5% to 6.2% as of September 30, 2011 and December 31, 2010, respectively.

Derivative Liabilities. The fair value is based on quotes provided by counterparty bank.

Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

There were no financial instruments measured and carried at fair value as of December 31, 2010. In 2009, the only financial instrument of the Company of the Company measured and carried at fair value pertains to derivative liabilities from its outstanding currency forward contracts. These are classified under Level 2 in the fair value hierarchy.

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements during the years ended September 30, 2011 and December 31, 2010.

24. Registration with the 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 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 of as of September 30, 2011 and for the year 2010 amounted to ₱127.3 million and ₱178.6 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 ₱3.1 million net of unearned interest income of ₱0.2 million as of December 31, 2009.

As of December 31, 2009, interest income earned, which is charged against cost of sales amounted to ₱0.4 million.

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.