



SAN MIGUEL CORPORATION





The Value We Create

2010 ANNUAL REPORT

The mix of our new businesses will shape San Miguel's growth trajectory over the next decade. Many of our recent acquisitions have already given us access to fast-growing streams of revenue, with the potential to outpace our growth in the past.

For 120 years, our products have been at the forefront of every Filipino celebration. But today San Miguel is well-placed to literally fuel the progress of our nation.

We have moved beyond consumer products, and are participating in businesses that make a measurable difference in people's lives—providing them with essential services that meet genuine, basic human needs.

We are proud to be part of a new San Miguel that keeps as many people as possible working, earning and contributing to our growing economy.

2

Message to Stockholders

7

Synergy the San Miguel Way

15

Our Strategy

16

Management's Discussion & Analysis

21

Financial Position Profile

22

Corporate Governance

28

Corporate Social Responsibility

32

Board of Directors

34

Key Executives

37

Financial Section

There are a number of things we believe make San Miguel unique—not least being the diversity and complexity of our portfolio.

Eduardo M. Cojuangco, Jr.
Chairman & CEO



► LETTER TO STOCKHOLDERS

A Partner in Progress

2010 was a year in which we executed on our strategy of diversifying into non-traditional industries. Having held market-leading positions in the domestic food, drinks and packaging sectors for over the last 100 years, our twelfth decade ushered in a “new” San Miguel, as we firmed up our power, mining, oil refinery, infrastructure and telecommunications holdings—businesses where we believe there is huge unmet demand, and a wealth of opportunity to match. Equally important, we demonstrated our ability to meet our commitment to you, strengthening our already solid financial foundation by improving revenue growth and cash flow, while at the same time diving quickly into promising new arenas. San Miguel Corporation today consists of a mix of businesses whose value is already

partially reflected in our 2010 results.

Revenues for the year totaled P246.1 billion, up 41% from 2009, with net income amounting to P20.1 billion. Our recurring net income of P17.1 billion is 101% above last year’s P8.5 billion, while consolidated recurring EBITDA of P52.5 billion, is 75% higher than 2009.

CASH GENERATIVE

Driving our revenue growth were our domestic beer and food segments, which grew 9% and 4% respectively—the result of strong demand across our key end markets. Our power subsidiaries that form SMC Global Power Holdings, contributed revenue of P45.7 billion. Encouragingly, we were also able to generate a consistent level of earnings and revenues across our other businesses, making progress

on revenue growth and the effective, efficient use of our capital.

We are managing our overall costs with a renewed sense of discipline resulting in operating income of P34.8 billion. Indeed, our financial and operational strength gives us the ability to carry out our plans and make substantial investments to grow our core and new businesses while maintaining a strong balance sheet.

The bulk of our new businesses are immediately cash generative, requiring relatively low capital investment. Over the last year, we’ve filled strategic gaps in our energy sector with the acquisition of three coal mines and the independent power producer agreement (IPPA) for the Ilijan power plant—bringing to four—the number of power



▶ In the near- and medium-term, we will continue to refine our portfolio by harnessing the full potential of our traditional businesses and investing in new businesses that meet our return criteria.

Ramon S. Ang
President & COO

plants whose contracted capacities are managed by San Miguel. Coal is an important power source for the Philippines and presently our mining assets in South Cotabato will provide a hedge for our power generation operations and a potential resource for our raw material requirements.

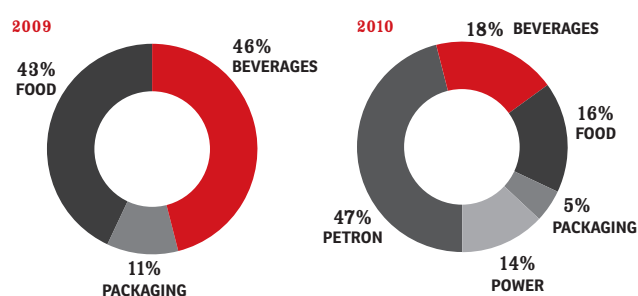
In a relatively short period, SMC Global Power has become the largest power producer in Luzon and a state-of-the-art platform on which we can further build our power business. In terms of installed capacity, our power sector accounts for over 29% of the Luzon grid and is an important engine for growth for San Miguel Corporation, capable of yielding for us double-digit returns annually. In the future, we will actively pursue vertical integration within our energy sector and actively manage our power generation

assets to maximize value creation, while at the same time playing a critical role in ensuring security of electricity supply for the Philippines.

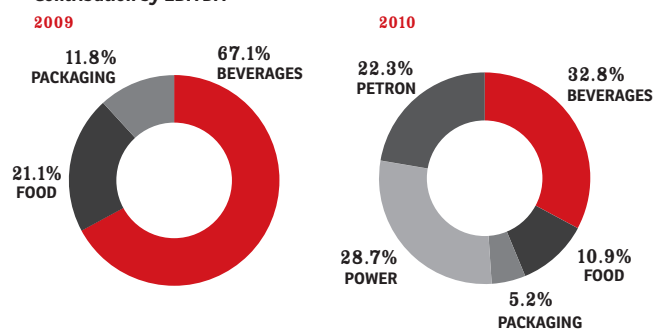
An equally important cog in our strategy to increase profits and improve shareholder returns is Petron Corporation, the country's largest oil refining and marketing company in which we have a 68% stake. Petron's 38% market share, extensive distribution network and number of service stations brought the refiner close to P229.1 billion in revenue and P7.9 in annual net income, making it earnings accretive for us in 2011. Together we will pursue a growth and expansion strategy with an eye on assets and acquisitions that will complement Petron's core business and allow the company to adapt to the market's shifting needs. To take advantage of

A CHANGING REVENUE AND INCOME MIX

Contribution by revenue*



Contribution by EBITDA*



* 2010 pro-forma with full consolidation of Petron and power businesses

We believe we have made our company more competitive and we continue to grow our business in the best public-spirited tradition. We will provide our consumers with excellent customer service, high reliability, and affordable prices through all our business lines.

growing demand for specialty chemicals such as propylene, xylene, benzene and toluene and to upgrade to a higher conversion capability, Petron is investing \$1.75 billion to modernize its refinery and petrochemical business in Bataan, and has bought a 40% stake in Hong Kong-based Petrochemical Asia (HK) Ltd. Estimates place a premium of \$40 a barrel on higher value petrochemical products and as such, our growth strategy is to move up the value chain from low margin fuel oil into higher margin white products and petrochemicals—further expanding into the blending and export of fuel additives.

Early in January 2011, Petron bought 35% of Manila North Harbour Port, Inc. for the purpose of building a fuels terminal.

GROWTH OPPORTUNITIES

Infrastructure is another major target for San Miguel, and a flourishing economic sector that promises higher returns than our traditional businesses. In August 2009, we acquired a 35% stake in Private Infrastructure Development Corp. (PIDC), the consortium of construction firms behind the Tarlac Pangasinan La Union Expressway (TPLEX). Construction began in April 2010 and will take three-and-a-half years to complete. As concession holder of this toll project and others that we have set our sights on, PIDC will provide management services, toll collection, traffic safety and security management, toll road maintenance and other related services.

Last October, we finalized a deal to acquire 51% interest in Universal LRT Corp. Ltd., the company in charge of developing the Metro Rail Transit Line 7 (MRT7), a

planned 44-kilometer rail and road project. The need for significant infrastructure development throughout the Philippines represents an important growth opportunity for San Miguel, not just for profit, but to contribute to nation-building.

All in all, it is hard to overstate the importance of all these sectors to the future of San Miguel. Case in point, SMC Global Power contributed about 29% to the Group's EBITDA in 2010. Once Petron is fully consolidated in 2011, its contribution would represent about 44% of our total revenues. In fact, following full consolidation of our new power generation and oil businesses, we expect revenues to more than double for 2011 to reach a record P530 billion.

Over the next five years, we target our portfolio of new businesses to account for an estimated 70% of our total revenue, contributing greatly to our organic growth. Stable macroeconomic conditions combined with the Aquino administration's programs to privatize government-owned enterprises make this a good time for us to venture into critical industries.

Our telecommunications business has seen the acquisition of Bell Telecommunications Philippines Inc. and Eastern Telecommunications Philippines, Inc. both of which strengthen our telecoms platform previously consisting of Liberty Telecommunications Holdings Inc. Bell Tel will give us entry into the wireless voice, data and video connectivity business, expanding the scope of our telecom offerings while Eastern Telecom provides data, Internet leased circuits and full-service telephony.

In the near- and medium-term, we will continue to refine our portfolio by harnessing the full potential of our traditional businesses and by investing in new businesses that meet our return criteria. To take full advantage of emerging opportunities from new investors and partners, we recognize the need to sharpen our current operations and we are mindful of creating the best value from our food, beverage and packaging sectors.

DUAL COMMITMENT

We believe we have made our company more competitive and we continue to grow our business in the best public-spirited tradition. At San Miguel, we have a dual commitment to social progress and business success that defines the way we operate—whether on a national scale or in our communities. We will provide our consumers with excellent customer service, high reliability, and affordable prices through all our business lines. Over the last 120 years, our byword has been profit with honor and we continue to operate in that great tradition, managing our business in the public interest as well as the interests of our shareholders.

We are convinced that the inherent demand for basic services and quality products is significant, and believe that San Miguel—quite apart from the food and beverages we produce that bring enjoyment to our consumers—can play a pivotal role in helping bring the transforming possibilities of power, energy, and infrastructure to Filipinos everywhere.

We hope this year's annual report gives you a good overview of where we are as a company today. There are a

number of things we believe make San Miguel unique—not least being the diversity and complexity of our portfolio. We are excited about what we're doing and we are confident that our decisions, based equally on foresight and common sense, are the right ones for your company. The fast-changing industries that we have chosen to participate in are challenging, but they also provide our greatest opportunities to innovate, stay ahead of the competitive curve and make a difference. To our employees and shareholders, thank you for keeping faith with us.



Q&A WITH RAMON S. ANG



Q

How would you assess 2010?

A

RSA: It's been a very good year. I think we can all feel proud of how things have gone. Each of our businesses stepped up to the plate and did what was expected of them in terms of pushing sales, keeping costs down and generating profits. That's a huge achievement. The value of our stocks—San Miguel parent, San Miguel Brewery, San Miguel Purefoods—are advancing and are at an all-time high. As a company, we're on a bull run.

There were a number of successes during the year that continue to contribute to our present growth and create opportunities for further growth and profitability. We expanded in key areas, driving down costs and effecting synergies across many of our critical business processes. Petron is very much a part of the San Miguel Group and they are contributing strongly to our bottom line.

Our traditional businesses have held their own. Packaging is doing well overseas, competing for exports and standing out in terms of product quality. Beer had a very strong year, as did Ginebra. And our Food Group improved a lot in terms of competitiveness and profitability. In fact, our core businesses are gearing up for a round of expansion. San Miguel Brewery has added another bottling line in South Luzon to meet demand and we have several poultry, hog and feeds expansion programs in the pipeline.

Going into the next decade, it's about how we, as San Miguel Group, take on the opportunities now being presented to us. We need to broaden and deepen the effects of our initiatives over the last two to three years.

Q

Some people say San Miguel is into too many things, that we have way too many priorities. How do you respond to that?

A

In terms of priorities, I wouldn't say we have too many. Our portfolio is obviously more diversified, but the priorities are the same. We're focused on growth; growing our business as best we can. That's always been our No. 1 priority and to our credit, I think we can say that we've been very disciplined in tackling this goal. There's been a huge improvement in execution across almost all our businesses. We've managed to generate savings out of many of our processes, whether in purchasing or manufacturing. The value of our company has grown beyond everyone's wildest expectations and best of all, we're front and center in terms of how we can help our country grow.

Q

As the company reduces its stake in the consumer product segments, how will the parent firm look like after it has digested its investments in heavy industries? About what portion of revenues will come from its traditional businesses and what percentage will be from these new industries that the company is going into?

A

It's difficult to say given that we are still in the very early stages of our diversification strategy. But over time, we're looking at a 70:30 mix, in favor of our new investments. As you know, our power business is pulling its share of the weight. Revenue-wise it's contributing a lot to our earnings. In a relatively short period, SMC Global Power Holdings has become the largest power producer in Luzon with a combined capacity of 3,165 MW and a state-of-the-

art platform on which we can further build our power business. Our market share in terms of total installed capacity for the Luzon power grid is over 29% and the sectors contribution to the San Miguel Group revenue is around P46 billion. In a year or so power could overtake our traditional businesses to become one of the largest business segments in SMC, second only to Petron.

Q Could you name three adjectives to describe San Miguel?

A Aggressive. Performance-Driven. Bold. Over the last few years you've seen us pull away from our traditional core businesses of food and beverage. Through strategic acquisitions and new businesses, we've put together a portfolio that can deliver for our company a combination of value and growth.

We've really "recreated" ourselves. I think that would be the correct word to use. We've become less dependent on our traditional businesses and have boldly ventured into non-allied businesses like properties, banking, oil refining, energy and mining, power, infrastructure and other utilities.

Perhaps most importantly, we've changed our culture into one that is focused on results. In today's environment, you have to really step up the pace if you want to even just stay the leader of the pack. You have to step up on the number of products in the pipeline; you have to be faster to market; you have to be cheaper than everybody else and provide better quality. You have to innovate with what you have—whether it's in terms of products, or how you produce those products. You have to be able to anticipate what the market wants, and do a lot of forward planning. You also have to be willing to reinvent who you are. That's what you're seeing from San Miguel today.

Q You talk a lot about culture, how have you contributed to that and how important is it going to be in the future with SMC getting bigger and bigger?

A One of the reasons I feel our Company has been as successful as it's been is because we maintain a healthy outlook on change. Over the last 12 years, we've done things right, we've made some missteps and we've adjusted as needed. When the times called for centralization, we centralized. When it was becoming clear that we could get the results we wanted, we opted for a more flexible and decentralized organization. We've made these kinds of adjustments where necessary. And that's because we have enough pride in ourselves and our organization to have the courage to constantly strengthen, refine and change strategies when it's clear that they are not delivering the results we know our shareholders have come to expect from us, or if there's simply a better way to do things.

So it's this kind of willingness to change and accept change that I really hope becomes part of our organizational culture.

Q Earlier you said we are front and center of Philippine economic development, that's a very deliberate strategy on your part?

A Yes. As someone who loves his country and wants it to succeed, I'm happy that San Miguel can make a difference. The mood we're seeing in the country these days is one of optimism. You're seeing it in the capital markets. In the last quarter alone, a good number of companies did initial public offerings (IPO) to take advantage of the momentum we were seeing in the economy. Our main index was one of the best performers in the region, rising by about 40% last year. Foreign investors are taking a second look at the Philippines and local companies, San Miguel included, are serious about sinking their money into the country.

The new businesses we are participating in can create the conditions for even more growth. When I think about San Miguel's investments in our tollways and mass transit system or domestic airports, I see job creation. Jobs for the people who are going to build this infrastructure so that they'll have money to bring home to their families. More money in the pockets of farmers, small businessmen and consumers whose lives are going to be made better because of the roads we are building and the transport systems we're investing in.

Confidence is returning to the Philippines. San Miguel looks forward to playing a significant role in making sure that sense of optimism and confidence never leaves us.

► SYNERGY THE SAN MIGUEL WAY



From a portfolio perspective, San Miguel's new business ventures increase the company's exposure to profitable recurring revenue and are highly synergistic with the company's core businesses, enjoying complementarities in scale, markets, geography, technology and raw materials. At the corporate level, the size and scale of San Miguel's distribution network operations will provide significant economies of scale and synergies in production, research and development, distribution, management and marketing. Scale also lends to substantial leverage and bargaining power with suppliers and retailers, an advantage that SMC currently enjoys.

In terms of immediate distribution channels, Petron's network of over 1,700 service stations and convenience stores have already broadened the footprint of SMC's food and beverage products. And the combined distribution network will also be critical in the roll-out of new products and services. SMC's ownership of toll roads and regional airports would further expand this network, providing various retail and advertising options in kiosks and rest stops. The infrastructure sector would also result in ancillary business opportunities for SMC businesses as its tollway projects provide the right of first refusal to use the land that falls within the scope of the project.

Synergies are also abundant for the power business and San Miguel's three coal mines, with the mines providing raw material input to the power plants and fuel for the company's other non-coal power plants.

FUEL AND OIL PETRON CORPORATION

Petron Corporation is the largest oil refining and marketing company in the Philippines. Supplying nearly 40% of the country's oil requirements, the company's world class products and quality services fuel the lives of millions of Filipinos. Petron's vision is to be the leading provider of total customer solutions in the energy sector and its derivative businesses.

The company operates a refinery in Limay, Bataan, with a rated capacity of 180,000 barrels a day. The plant's ISO-14001-certified refinery processes crude oil into full range of petroleum products including LPG, gasoline, diesel, jet fuel, kerosene, industrial fuel oil, solvents, asphalts, and the petrochemical feedstocks-mixed xylene and propylene. From the refinery, Petron products are transported mainly by sea to the company's 32 depots and terminal throughout the country.

Through this nationwide network, Petron supplies fuel oil, diesel, and LPG to various industrial customers. The power sector is the company's largest customer, also supplying jet fuel at key airports to international and domestic carriers.

Through over 1,700 service stations, the company retails gasoline, diesel, and kerosene to motorists and public transport operators, selling its LPG brand, Gasul, to households and other consumers through an extensive dealership network.



BUSINESS HIGHLIGHTS

- SMC owns 68% of Petron
- Largest oil refinery in the Philippines with over 1,700 service stations and 1,200 industrial customers; overall market leader in a deregulated oil market; pioneer in local production of petrochemical feedstock
- Petron embarked on the largest retail network expansion program in its history to further penetrate the underserved domestic market:
 - Opened 500 new stations in 2010
 - Expansion includes construction of more micro-filling, medium, and large stations nationwide.
- Future upgrades planned for the refinery are:
 - Refinery MasterPlan-2: a blueprint to convert all black products to white products and petrochemicals
 - Also evaluating downstream petrochemicals ventures/operations; Petron is also expanding its blending and exports of fuel additives.

FINANCIAL HIGHLIGHTS

- Generated revenue of P229.1 billion and net income of P7.9 billion for 2010

INFRASTRUCTURE

TOLLWAYS

Infrastructure is another major new business for San Miguel. Phase 1 of the P21.6 billion, 88.58 kilometer two-lane Tarlac Pangasinan La Union Expressway began April 2010 and will take three and a half years to complete. As owner of the TPLEX concession, SMC will provide management services, traffic safety and security management, toll road maintenance and other related services.



BUSINESS HIGHLIGHTS

- 35% stake in Private Infrastructure Development Corp. (PIDC), 30-year BOT concession holder of the 88.58 km Tarlac Pangasinan La Union Expressway (TPLEX)
- Completion of TPLEX will improve accessibility to north Philippines, enhancing development of the region
- SMC has the right of first refusal to develop any part of the TPLEX's land area

INFRASTRUCTURE

AIRPORT

SMHC holds 93% of TransAire Development Holdings Corp., the build-operate-transfer concession holder for the development and operation of Caticlan airport, gateway to the world-famous Boracay resort island. TADHC holds the exclusive rights to modernize and expand the airport. Once the airport is finished, airfares to Boracay are expected to be more competitive since airlines can use bigger aircraft with more seating capacity.



BUSINESS HIGHLIGHTS

- The proposed improvements to the Caticlan airport will upgrade it to international standards and increase aircraft and passenger handling capacities
- Long-term expansion projects involve the construction of a bigger airport passenger terminal, extension of the existing runway from 950 meters to 2,100 meters, improvement of the road network and upgrading of airport facilities and air traffic control aids
- The airport construction is also expected to drive expansion of other tourist-related establishments within the vicinity and Boracay resort island itself

INFRASTRUCTURE

MASS RAILWAY TRANSIT

MRT 7 is a build-operate-transfer, maintain and manage project for the development, financing, operation and maintenance of a total of 44-kilometer light rail transit route and road project.

The project also includes an intermodal transport terminal that can accommodate up to 60 buses and other public utility vehicles and a six-lane access road in San Jose, Bulacan.

The rail component of MRT 7 project is envisioned to operate 108 rail cars in a three-car train configuration, with capacity at 448,000 to as many as 850,000 passengers daily.

The rail line will have 14 stations: North Edsa, Quezon Memorial Circle, University Avenue, Tandang Sora, Don Antonio, Batasan, Manggahan, Doña Carmen, Regalado, Mindanao Avenue, Quirino, Sacred Heart, Tala and Araneta San Jose Del Monte.

BUSINESS HIGHLIGHTS

- San Miguel acquired 51% of Universal LRT Corporation (ULC) that will pursue the construction of MRT7, a build, gradual transfer, operate & maintain the 22 km metro rail transit from MRT3 North Edsa Terminal to San Jose Del Monte, Bulacan
- Provide fast link to the neighboring provinces and help economic development
- Complements other businesses—Petron, beverage & food, telecom



POWER AND ENERGY

In a relatively short period, San Miguel has built a vertically integrated power company with a full spectrum of power businesses comprising of IPPA contracts (through holding company SMC Global Power Holdings), mining assets, which supply raw materials to power plants, and Meralco, a distributor which sells electricity through a vast network in Luzon. Being a vertically integrated power company gives SMC the opportunity to compete and maximize value in key segments of the value chain by driving and capitalizing on synergies in fuel sourcing, power generation and power distribution.

In addition, ownership of mining assets provides a natural hedge to any increase in fuel prices, while a 33.19% interest in Meralco provides SMC an advantage over pure generation companies on supply-demand fundamentals.



BUSINESS HIGHLIGHTS

- SMC benefits from owning and managing a full-spectrum power business
- Ownership of 620 MW Limay combined-cycle power plant
- 3 IPPA contracts
 - 1,000 MW Sual coal-fired thermal power plant
 - 1,200 MW Ilijan natural gas-fired combined-cycle power plant
 - 345 MW San Roque multipurpose hydroelectric power plant
- Combined capacity of 3,165MW, with market share of 29.2% in terms of total installed capacity for the Luzon grid, and 21.7% for the national grid

FINANCIAL HIGHLIGHTS

- Pro-forma revenue of P66.1 billion and operating income of P16.2 billion for 2010

MINING

In January and May 2010, San Miguel Energy Corp. acquired ownership of Daguma Agro Minerals Inc. and Bonanza Energy Resources Inc. Both mines are located in South Cotabato, Mindanao. SMEC's third mining acquisition is Sultan Energy Phils. Inc., located in Sultan Kudarat, close to the company's other two mines. Taken together, the three mines have a total of 17,000 hectares licensed area of coal resources and will provide guaranteed and a cheaper raw material source for SMEC power plants.



BUSINESS HIGHLIGHTS

- 100% stake in Daguma Agro-Minerals Inc., Bonanza Energy Resources Inc. and Sultan Energy Phils Corp.
- Ownership of one of the country's biggest coal deposits located in Daguma Plateau, South Cotabato and Sultan Kudarat provinces.
- Initial studies indicate that:
 - Coal reserves of Daguma concession area could fuel a 3,000-megawatt power plant for 20 years.
 - Coal quality in the Daguma project is of medium calorific value, approximately 5,300 Kcal/kg, making it suitable for both the export market to India and China and for in-country power stations and industrial (cement) purposes
- Guaranteed cheap fuel source for local power plants

TELECOMMUNICATIONS

San Miguel's fledgling telecommunications business has seen the addition of Bell Telecommunications Philippines Inc., our second telecoms platform after Liberty Telecommunications Holdings Inc. Bell Tel will give San Miguel entry into the wireless voice, data and video connectivity business, expanding the scope of the company's telecom offerings. At present, Liberty has signed on an estimated 47,000 subscribers to its Internet broadband and WiMAX services. In December 2010, San Miguel acquired a stake in Eastern Telecommunications Philippines, Inc.



BUSINESS HIGHLIGHTS

- Acquisition of 41.5% stake in Liberty Telecom; 100% in BellTel and 40% in Eastern Telecoms
- Value is the frequency bandwidth that can handle 2G, 3G and 4G services; mobile broadband
- Long Term Evolution (LTE) that is highly strategic to the country's fast growing wireless broadband business
- Opportunities to offer tailored services in SMC's industries
- Holds frequencies that are "WiMAX" (Worldwide Interoperability for Microwave Access) compliant
- Currently drawing up strategic plan

OUR STRATEGY

Our company's growth strategy is basically two-pronged. **First, to strengthen and unlock the value of our historical core businesses, maintaining and building upon the dominant market positions held in most of our product segments.** To further enhance our competitive position, San Miguel has worked toward improving synergies across existing operational lines; strengthening its domestic businesses by shifting its focus from commodity goods to value-added and branded products; and, improving sales and distribution. In this regard, we have chosen to sharpen operating execution and partner with world-class industry leaders.

The second part of our strategy has been to turn to new engines of growth and boost our aggregate margins by participating in faster-growth industries which stand to deliver, on average, a 15% return on equity annually. Diversification should allow us to grow faster and perform more consistently in the future, allowing the company to achieve synergistic growth and ride out the volatility associated with a single dominant industry.

While profitability is key, equally important is our avowed objective of entering businesses that support the basic needs of our home country. Energy, power, infrastructure, mining, telecoms and other utilities have strong demand fundamentals and the potential to make a deep and lasting impact on the Philippine economy.

We believe that long-term, private sector investments in these industries will lead to new jobs, new businesses, a renewed ability to compete with the rest of the region, and a sense of optimism and confidence so critical to a developing economy.

► **MANAGEMENT'S DISCUSSION & ANALYSIS**

The Value We Create

2010 was a year of significant achievement for San Miguel Corporation—both in terms of financial results and in the progress made to position the company for the future. Reflecting the benefits derived from various operational improvements implemented in previous years, your company enjoyed another year of strong growth in revenues and operating income.

SMC's consolidated sales revenue for 2010 reached P246.1 billion, 41% higher than 2009. Apart from the strong showing of the company's core businesses, additional revenues totaling P45.7 billion coming from San Miguel's four power generation subsidiaries shored up the company's revenue and performance results. With improved sales across its businesses and margin improvements resulting from enhanced cost discipline, consolidated operating income ended at P34.8 billion, 77% above last year.

Net income was P 20.1 billion, 65% lower than last year. The company's 2009 net income reflected the gain from the sale of approximately 43.25% stake in San Miguel Brewery to Kirin Holdings Company, Limited in May 2009. Recurring net income is at P17.1 billion, 101% higher than 2009.

SMC's consolidated recurring EBITDA was P52.5 billion, 75% above last year's level. Equity in earnings of affiliates amounting to P6.82 billion came from SMC's share in earnings from Meralco, Petron and power affiliates. Net financing charges reached P7.34 billion, the result of higher net interest expenses and foreign exchanges losses.

All told, 2010 was a good year for San Miguel in virtually every respect. Across its various businesses, San Miguel continues to enhance competitiveness by building brands, enhancing distribution network and improving cost efficiencies.

More importantly, the Group is repositioned for higher profitability via margin expansion with the addition of new businesses, complementing the company's stable core businesses. San Miguel's power and energy businesses provide SMC immediate



margin growth and upside in earnings. Over the last year, San Miguel has demonstrated its ability to absorb new

businesses in entirely different industries from the original core businesses and make it its own.



BEVERAGE

► **SAN MIGUEL BREWERY INC.**

San Miguel Brewery Inc. accelerated growth in 2010 owing to the strong economic recovery, election-related spending, an improving cost environment and stepped-up consumption-generating programs. Total beer sales revenue rose 6% to reach P68 billion. This is on a consolidated beer volumes of about 221 million cases, 2% above 2009 level. Operating income increased to P19 billion, while operating margin remains strong at 27%.

An important milestone for San Miguel Brewery Inc. included the company's acquisition of a 100% stake in San Miguel Brewing International Limited in January 2010. In SMBIL, the company has acquired a platform for its beer business in Southeast Asia and China. By integrating both the domestic and international beer businesses, the Brewery will improve the growth and returns of the business as a whole and broaden SMB's

geographic participation, strengthening its brands and presence in the region.

► **BEER DOMESTIC**

SMB maintained its lead in the growing domestic beer market, directly attributable to the company's outlet conversion and occasion-creation programs, and improved frequency of call and SRP (suggested retail price) campaigns. Comprehensive brand-building and offtake-generating programs also strengthened preference and consumption of beer brands.

To capture the growing ranks of entry-point and female drinkers, SMB introduced San Miguel Alcoholic Malt Beverage in lemon and apple flavors through a soft launch in mid-December 2010. The new products have lower alcohol content relative to regular beers and are available in 330ml bottles. All together, this robust performance generated stronger financial results in 2010. SMB domestic volumes reached an all-time high level of 183.6 million cases, representing a growth of 5.2% versus year-ago levels. Domestic sales revenue grew by 9.5% from the higher volumes and a price increase implemented in November 2009.

► **BEER INTERNATIONAL**

In its international operations,





the Brewery's Exports business, Vietnam's core brands as well as Thailand's domestic operations performed strongly, with volumes significantly higher compared to 2009. These gains however were not enough to offset volume losses suffered in South China, Hong Kong and Indonesia. As a result, consolidated volumes for SMBIL fell 11% behind last year.

In South China, sales of both Guangzhou San Miguel Brewery (GSMB) and San Miguel Guangdong Brewery (SMGB) remained sluggish due to aggressive trade offers of competitors and lower volumes from base markets Dongguan and Foshan, markets which continue to suffer from the lingering effects of the global recession.

In North China, Blue Star remains the leading beer brand in Baoding City. The Brewery's North China operations posted a strong recovery in the last eight months of the year, reversing the declining trend during the early part of the year. Volumes were slightly ahead versus 2009 by year-end driven by improvements in wholesaler channel management.

San Miguel retained its position as the leading player in the Hong Kong beer industry even as domestic

volumes fell short of the previous year. Premium brands continued to grow by double-digit in 2010 while exports nearly doubled versus 2009 volumes, bringing total production volumes 11% ahead of last year.

Industry volumes in Indonesia were adversely affected by the tax restructuring, which significantly increased tax rates for beer products in 2010. PT Delta's Anker volumes fell, reflecting the industry's decline. On the other hand, core brands San Miguel Pale Pilsen and San Mig Light did well, posting double-digit growth in 2010.

In Vietnam, San Miguel brands continued their growth momentum in 2010, growing by 20% compared to the previous year, the result of greater outlet coverage, particularly in cities popular with tourists, and strong sales of the company's draught beer variant.

Despite the political unrest in Thailand during the first half of 2010, the brewery's Thai unit was able to grow domestic volume by 7% year-on-year. Despite a decline in the total industry's premium segment, sales were particularly good for San Mig Light and San Miguel Draught Beer. Volume growth for these brands was brought about by a focus on outlet penetration and an improvement in sales yields.

Beer export volumes surged by 15% versus 2009 fueled by incremental volumes from as yet untapped markets as well as sustained on-premise promotional activities in major markets such as Sudan, the Maldives, South Korea, the United States, Singapore and Malaysia.

► **GINEBRA SAN MIGUEL, INC.** Ginebra San Miguel, Inc. ended 2010 with positive results, greatly surpassing the previous year's performance. Domestic liquor sales volumes reached 39.4 million cases, 7% higher than 2009 levels and a new all-time high record.

Flagship Ginebra San Miguel Gin and G.S.M. Blue were the main contributors to GSMI's volume growth. Marketing programs like "Blueniversity" and exposure in both traditional media and social media sites helped sustain the brand's popularity among younger drinkers. Ginebra San Miguel performed creditably, posting 11% growth. GSMI continues to provide the brand steady marketing support via the popular "Gin-U-Win 2" consumer promo. Vino Kulafu held its own in southern Philippines, with volumes rising markedly above the prior year. Owing to the decline in the overall brandy segment, sales of Gran Matador slid despite retaining its lead in the brandy market. To provide consumers choice,

►► 2010 MILESTONES

JANUARY

SMC acquires a 49% stake in Top Frontier



MARCH

Petron Corp. successfully lists a P10 billion-share issue; the single largest perpetual preferred shares listing in the Philippine Stock Exchange. ■

Top Frontier conducts a tender offer for SMC shares at P75 per share

Through San Miguel Energy Corp. (SMEC), SMC acquires 100% of the outstanding capital stock of Daguma Agro Minerals, Inc. ■■



APRIL

SMC acquires 93% of Caticlan International Airport Development Corp. through a share sale purchase agreement. CIADC was later renamed TransAire Development Holdings Corporation, TADHC holds concessions for the development and operation of Caticlan airport.



SMC wins contract to manage the 1200-megawatt Ilijan natural gas-fired power plant in Batangas. ■



GSMI launched a lower-proof variant, Gran Matador Primo in late 2010.

GSMI's export sector performs strongly. The company's non-alcoholic beverage segment continues to face challenges owing to a weak beverage market.

Overall, GSMI's consolidated revenues for 2010 reached P22.7 billion, 16% higher than 2009. Consolidated operating income stood at P1.5 billion, a robust 40% over prior year levels—the result of significant growth in the core liquor segments and exports. Losses from both Thai liquor and the non-alcoholic beverage sectors were also considerably lower than 2009. GSMI's consolidated earnings before interest, taxes, depreciation and amortization or EBITDA reached P2.07 billion, well above the previous year, while consolidated net income reach P914 million, 30% higher than year ago levels in spite of steeper financing costs due to the additional debt drawdown.



FOOD

Full-year 2010 reflected the continuing success of San Miguel Food Group's strategy of growing its value-added sales with its branded poultry, flour, coffee and overseas operations all continuing to perform strongly in terms of volumes.

San Miguel Pure Foods Company, Inc. ended 2010 with consolidated revenues of P80.4 billion, 4% higher than the previous year, largely on the back of sustained volume growth across the majority of its businesses.



Cost pressures remain an issue as do lower selling prices for some food products, but in the aggregate, the Food Group has managed to offset these pressures by pricing actions, new product launches and strong promotional activity.

Efforts to raise operating efficiencies over the years, complemented by lower costs of critical raw materials in poultry, basic meats, flour and dairy, translated into higher profitability—enabling SMPFC to post an operating income that was 30% above 2009 at P5.91 billion.

► AGRO-INDUSTRIAL

San Miguel Food Inc.'s poultry business, the Food Group's biggest revenue contributor, posted a 9% increase in sales for 2010 driven primarily by a 13% growth in poultry volumes even as a glut in industry broiler supply resulted in lower average selling prices. In terms of broiler performance, it was a banner year for SMFI with all-time record highs in operational efficiencies. Better efficiencies and reduced costs resulted in a 5% rise in poultry's operating profits for the year.

The numerous market challenges bearing down on business profitability on SMFI's feeds business; i.e., increasing farm inputs,



surging raw material prices, threats of animal disease, and weather disturbances, resulted in operating income lower than 2009. The continued use of raw material substitutes like cassava is being intensified to help manage direct material costs. Improved efficiencies contributed to SMFI's basic meats business' operating profits, reversing last year's loss. This strong showing offset lower volumes and revenues.

► VALUE-ADDED

Sales volumes of the value-added or processed meats business under the Purefoods-Hormel Company, Inc. grew by 1% despite capacity issues resulting from the permanent closure of PF-Hormel's Marikina plant towards the end of 2009. Core brands such as TJ Hotdogs continue to maintain market share through a combination of innovation and advertising, supported by strong promotional campaigns. The result was an improved sales mix and revenue growth of 2% even though prices of major raw materials continued to weigh down the business. To improve profitability, PF-Hormel focused on high-margin products and worked at raising production efficiencies. As such,

operating income doubled in 2010.

► MILLING

The Food Group's flour business under San Miguel Mills, Inc. (SMMI) continued its strong year-on-year performance, with better operating margins versus last year helped by lower wheat and operating costs. Flour volumes grew by 7% amid competition from other local flour manufacturers and flour imports. Revenues dropped 3% due to lower selling prices, an offshoot of better global wheat prices.

► DAIRY & OTHERS

The Dairy, Spreads and Oils Business under Magnolia Inc. (Magnolia) turned in another record breaking year in operating profits, largely the result of sustained operational efficiencies, and effective portfolio management on top of favorable input costs. Total revenue was 4% better than 2009 levels primarily driven by volume growth and higher average selling prices for Magnolia's butter, cheese, and ice cream categories.

San Miguel Super Coffeemix Co., Inc.'s (SMSCCI) revenues topped 2009 by 17%, resulting in a significant improvement in operating profits.



PACKAGING

San Miguel Yamamura Packaging Group had a strong year in 2010, with the paper and PET businesses in particular showing robust profit growth. Including the consolidation of Australian trading company, Cospak, the packaging group generated revenue of P23.4 billion, 19% higher than 2009. Likewise, operating income for the group reached P2.0 billion, 26% above the prior year, on account of lower raw material costs.

GLASS

Sales revenues of the glass business reached P7.62 billion in 2010, mainly

attributable to volume sales to the Coca-Cola Bottlers Group and Ginebra San Miguel, Inc. Other customers contributing to revenue were San Miguel Brewery Inc., pharmaceutical company United Laboratories, and San Miguel Yamamura Corporation's Australian trading company, Cospak. The year marked SMYPC's successful commercial delivery of the first flint and antique green wine bottles to customers in Australia.

METAL

For SMYPC's metal operations, sales revenues amounted to P4.28 billion, mainly from sales of crowns to San Miguel Brewery Inc. and Coca Cola Bottlers Group, metal caps to GSMI and roll-on-pilfer-proof caps to CCBG and Bickford's. The metal business' operating income registered an increase of 2%.

For the second year running, SMYPC's metal container plant bagged the Best Two-Piece Can Award in the Asia CanTech 2010.

PLASTICS

For the plastics business, higher sales of regrinds and pallets pushed sales revenue to reach P1.36 billion at par versus 2009 level. In 2010, the plastics business launched its four-litre paint buckets for leading paint maker, Boysen, and developed the flexi-pallet, eight-piece pallet molds and SMYPC's patented Suretube for customers in the pharmaceutical and personal care industries.

PET

Driven by higher volume sales to CCBG and Del Monte, the Packaging Group's PET operations' sales revenue of P1.96 billion was 12% above last year. Preform sales to CCBG were also strong. The PET business introduced 38mm caps and preforms for Pepsi as well as the amorphous neck-finish preforms and 1-liter hot fill bottle for Del Monte.

FLEXIBLES

Rightpak's sales served Nestle Philippines, San Miguel Food, Inc., Alaska and Del Monte resulting in sales revenue of P647.1 million,

12% higher than last year's level.

PAPER

The paper business posted sales revenue of P1.44 billion for 2010. Nestle Philippines was a major customer as were customers from the fresh produce segment.

MALAYSIA

SMYPC's Malaysia operations' sales revenue of P3.07 billion was 9% better than 2009.

COSPAK

Through synergy between SMYPC and Cospak, new multi-year contracts were secured with major Australian customers such as General Mills, Gage Roads, Amcor Glass and Bickford's. At the end of 2010, Cospak's sales revenue totaled P3.70 billion, while operating income registered P307.1 million.



POWER

SMC Global Power is San Miguel's holding firm for all power-related units such as San Miguel Energy Corp., Strategic Power Development Corp., South Premiere Power

MAY

San Miguel confirms acquisition, through San Miguel Energy Corp., of 100% of Bonanza Energy Resources, Inc. and Sultan Energy Phils Corp.—companies with coal mining rights in Mindanao. ■



AUGUST

SMC acquires controlling stake in Bell Telecommunication Philippines Inc. (Belltel) in an effort to shore up its entry into the highly competitive voice, data, and video business. San Miguel today owns 100% of Belltel. ■

SMC purchases over 1.5 billion common shares of stock of Petron from Sea Refinery Holdings. ■■

Securities and Exchange Commission approves declassification of SMC A and B shares.





SEPTEMBER

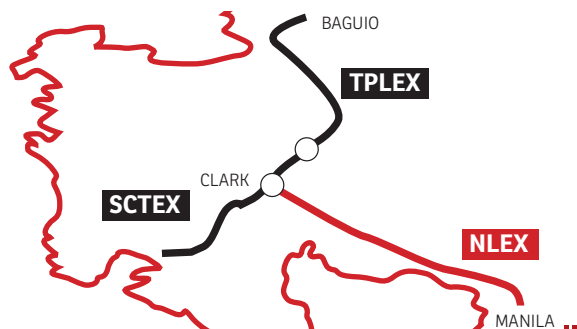
San Miguel acquires 100% of Global 5000, a company primarily engaged in electricity and mining. Global 5000 was later renamed SMC Global Power Holding Corp., the holding company of SMC's four power plants.



OCTOBER

SMC completes acquisition of 10.1% initial stake in Indophil—an Australian mining firm that owns a 37.5% stake in Sagittarius Mines Inc., which in turn, owns the rights to the Tampakan gold and copper mine in Davao. ■

SMC infrastructure-subsiidiary Rapid Thoroughfares, Inc. begins Phase 1 construction of the Tarlac-Pangasinan-La Union Expressway (TPLEX). ■■



Through wholly-owned subsidiary San Miguel Holdings Corp. (SMHC), SMC acquires 51% stake in Universal LRT Corporation (ULC) a consortium behind the Metro Rail Transit Phase 7 project.



DECEMBER

SMC exercises option to acquire 60% of the outstanding shares of Sea Refinery Corporation, making it the beneficial owner of 68% of Petron. ■



SMC, through Vega Telecom, Inc., acquires 40% of Eastern Telecommunications Philippines, Inc. ■■



Corp., and Panasia Energy Holding Inc., which in turn own the 620-megawatt Limay combined-cycle power plant and manage the IPPA contracts of three power plants—the 1,200-megawatt Ilijan natural gas-fired power plant IPPA; 1,000-megawatt Sual coal-fired power plant IPPA, and the 345-megawatt San Roque hydroelectric power plant IPPA.

The power companies were consolidated into San Miguel during the third quarter of 2010 following SMC's subscription to 75% new shares of Global 5000 and its acquisition of a 25% stake from existing shareholders.

In February 2011, San Miguel's power business successfully completed its US\$300 million, five-year benchmark U.S. dollar bond at a 7% yield. SMC Global plans to use proceeds to (1) finance investments in other power-related assets, (2) finance payment or, subject to negotiation with Power Sector Assets and Liabilities Management Corp., prepayment of the issuer's payment obligations, and/or (3) general corporate purposes.

SMC's four power plants—Sual, Limay, San Roque and Ilijan—generated an estimated 11.1 million megawatt hours in 2010. Total pro-forma revenue and operating income amounted to P66.1 billion and P16.2 billion respectively. Net income amounted to P10.8 billion.



PROPERTY

► Election-related spending and overseas Filipino workers

(OFW) remittances resulted in more reservation sales take-up for San Miguel Properties' existing projects. However, due to depleting inventory and implementation of stringent measures to ensure the creditworthiness of buyers, SMPI residential sales dipped by 29%. The policy of requiring buyers' equity prior to loan releases also affected the Company's booked sales.

The company implemented an aggressive marketing campaign that led to the re-launch of SMPI and its existing projects. Operating expenses grew 28% as the company invested in advertising and promotions to raise the profile of existing projects and its newest development, Asian Leaf, an eight-hectare horizontal development located at General Trias, Cavite.

Despite achieving a 100% building occupancy rate at San Miguel Properties Centre, rental revenue declined by 10% following the sale of over five floors to Bank of Commerce.

San Miguel Properties is looking to expand in such growth areas as asset management services for the entire San Miguel Group and the introduction of mid-rise walk-up condominium developments to meet the residential needs of the middle-income market.

► FINANCIAL POSITION PROFILE

The company's consolidated total assets as of December 2010 amounted to nearly P830 billion, P 391 billion higher than 2009. This is basically due to the consolidation of the power assets and the year-end consolidation of Petron, combined with increases in investments and advances.

On the liabilities portion, long-term debt increased by P96.0 billion to P168.9 billion with the consolidation of Petron's long term debt; and increase in the parent company debt to finance various investments coupled with the US\$300 dollar debt of San Miguel Brewery Inc. to purchase the international beer operations from the parent company. Total consolidated interest-bearing liabilities amounted to P243.1 billion. Consolidated net debt is at P 117.9 billion.

Total equity attributable to equity holders of the parent company grew to P216 billion in 2010 from P214 billion in 2009, primarily due to the issuance of shares through San Miguel's Employees' Stock Purchase Plan. Net income attributable to equity holders of the parent company amounting to P20.1 billion was offset by the cash dividend declaration to common and preferred shareholders amounting to P15.6 billion and P5.7 billion, respectively. Non-controlling interest, on the other hand, increased to P50.8 billion in 2010 from P27.1 billion in 2009 as a result of the acquisition and consolidation of Petron.

Finally, the Company's current ratio was 1.57 and 3.17 as of December 31, 2010 and 2009, while debt-to-equity ratio stood at 2.11 as of December 2010. Considering only interest bearing debt, debt-to-equity ratio was 0.91 and 0.54 as of end-2010 and 2009, respectively.

► CORPORATE GOVERNANCE

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

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

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

SHAREHOLDERS' RIGHTS

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

► VOTING RIGHTS

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

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

Among the corporate actions approved by the shareholders in 2010 were the approval of de-classification of common shares, the denial of pre-emptive rights on the issuance of common shares, and the amendment of the Amended Articles of Incorporation of the Company to reflect such changes. In addition, the shareholders likewise approved the company's divestment of ownership or sale of the Company's stake in major subsidiaries resulting in less than 51% interest or ownership in such subsidiaries.

As a result of the de-classification of common shares, effective August 26, 2010, all common "A" and common "B" shares certificates were automatically considered as common shares without distinction.

► PRE-EMPTIVE RIGHTS

Under the Company's amended articles of incorporation, as approved by the shareholders in a meeting held on May 17, 2009, and as approved by the SEC,

shareholders do not have pre-emptive rights to the issuance of shares relating to equity-linked debt or other securities, any class of preferred shares, shares in payment of a previously contracted debt or shares in exchange for property needed for corporate purposes, to give the Company greater flexibility in raising additional capital, managing its financial alternatives and issuing financial instruments.

On May 31, the shareholders of the Company approved to amend the articles of incorporation to deny pre-emptive rights to the issuance of common shares. Such amendment of the articles of incorporation was approved by the Securities and Exchange Commission (SEC) on August 10, 2010.

Subject to certain conditions, shareholders also do not have pre-emptive rights to shares issued, sold or disposed of by the Company to its officers and/or employees pursuant to a duly approved stock option, stock purchase, stock subscription or similar plans.

► RIGHT TO INFORMATION

Shareholders are provided through the Investor Relations Group disclosures, announcements, and, upon request, with periodic reports filed with the SEC.

► DIVIDENDS

Shareholders are entitled to receive dividends as the

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

In 2010, the Company paid out cash dividends of P4.50 per Series "1" Preferred Shares and a total of P6.75 per common share.

STAKEHOLDER RELATIONS

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

► SHAREHOLDER MEETING AND VOTING PROCEDURES

Stockholders are informed at least 15 business days before the scheduled meeting of the date, time, and place of the validation of proxies. In 2010, Notices of the 2010 AGSM were sent to the stockholders on May 7, 2010. Voting procedures on matters presented for approval of the stockholders in the AGSM are set out in the Definitive Information Statement.

► SHAREHOLDER AND INVESTOR RELATIONS

San Miguel Corporation

responds to information requests from the investing community and keeps shareholders informed through timely disclosures to the Philippine Stock Exchange (PSE) and the SEC, through regular quarterly briefings, AGSMs, investor conferences, website, emails and telephone calls. The Company's disclosures and other filings with the SEC and PSE are available for download from the Company's website.

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

DISCLOSURE AND TRANSPARENCY

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

► OWNERSHIP STRUCTURE

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

► FINANCIAL REPORTING

San Miguel Corporation provides the investing

community with regular updates on operating and financial information through adequate and timely disclosures filed with the SEC and the PSE.

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

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

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

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

► SECURITIES DEALING

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

ACCOUNTABILITY AND AUDIT

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

► EXTERNAL AUDITOR

The accounting firm of Manabat Sanagustin & Company CPAs, accredited by the SEC, served as the Company's external auditors

for the fiscal years 2009 and 2010.

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

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

The Company paid the external auditor Audit Fees amounting to P12 million in 2010 and P10 million in 2009.

► INTERNAL AUDIT

Internal audit is carried out by the San Miguel Group Audit (SMGA) which helps the organization accomplish its objectives by bringing

a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. SMGA reports to the Audit Committee.

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

BOARD OF DIRECTORS

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

It is the Board's responsibility to foster the long-term success of the Company and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility,

exercised in the best interest of the Company, its shareholders, and other stakeholders.

► COMPOSITION

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

The broad range of skills, expertise and experience of the directors in the fields of business, finance, accounting and law ensure comprehensive evaluation of and sound judgment on matters relevant to the Company's businesses and related interests. The names, profiles, and shareholdings of each director are found in Definitive Information Statement, distributed prior to the AGSM.

Along with the Company's senior management, the Board of the Directors has all undergone the requisite training on corporate governance.

► INDEPENDENT AND NON-EXECUTIVE DIRECTORS

San Miguel Corporation complies with the legal requirement of having at least two independent directors or 20% of its board size, whichever is less but in no case less than two, on the Board. Currently, of the

15 directors, Mr. Winston F. Garcia, Mr. Carmelo L. Santiago and former Chief Justice Reynato S. Puno sit as independent and non-executive directors of the Company.

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

► CHAIRMAN/CEO AND PRESIDENT/COO

The Chairman of the Board and Chief Executive Officer is Mr. Eduardo M. Cojuangco, Jr. while Mr. Ramon S. Ang holds the position of Vice Chairman, President and Chief Operating Officer. These positions are held by separate individuals with their respective roles clearly defined to ensure independence, accountability and responsibility in the discharge of their duties. The Chairman/CEO and the President/COO attended the AGSM for 2010.

► BOARD PERFORMANCE

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

In 2010, the Board held thirteen meetings. Set out below is the record of attendance of the directors at these meetings and at the AGSM.

► BOARD REMUNERATION

The amended by-laws of the Company provides that the Board of Directors shall receive as compensation no more than 2% of the profits obtained during the year after deducting general expenses, remuneration to officers and employees, depreciation on buildings, machineries, transportation units, furniture and other properties. Such compensation shall be apportioned among the directors in such manner as the Board deems proper. This year, the Board of Directors approved the increase in the per diems for each Board meeting attended from P10,000 to P50,000, and from P10,000 to P20,000 for each committee meeting attended.

Directors who are executive officers of the Company are likewise granted stock

SCHEDULE OF MEETINGS

Names	Jan 6	Jan 18	Feb 2	Mar 15	Apr 14	May 17	May 31 ^o	Jun 17	Jul 27	Aug 12	Oct 8	Nov 12
Eduardo M. Cojuangco, Jr.	●	●	●	●		●	●	●	●	●	●	○
Ramon S. Ang	●	●	●	●	●	●	●	●	●	●	●	●
Estelito P. Mendoza		●	●	●	●		●	●		●		
Iñigo Zobel	●	●	●	●	●	●		●			●	
Winston F. Garcia	○		●		●		●	●		●	●	●
Leo S. Alvez	●	●	●	●	●	●	●	●	●	●	●	●
Pacifico M. Fajardo	●	●	●	●	●	●	●	●	●	●	●	●
Menardo R. Jimenez	●	●	●	●	●	●	●		●	●	●	●
Hector L. Hofileña	●	●	●	●	●	●		●	●	●	●	●
Carmelo L. Santiago	●		●	●	●	●	●	●	●	●		●
Roberto V. Ongpin		●	●	●	●	●	●			●	●	
Alexander J. Poblador	●	●	●	●	●	●	●	●	●	●	●	●
Ferdinand K. Constantino	N/A	N/A	N/A	N/A	N/A	N/A	●	●	●	●	●	●
Joselito D. Campos, Jr.	N/A	N/A	N/A	N/A	N/A	N/A	●	●	●	●	●	●
Eric O. Recto	N/A	N/A	N/A	N/A	N/A	N/A	●	●	●	●		●
Egmidio de Silva Jose ^{**}	●	●	●	●			N/A	N/A	N/A	N/A	N/A	N/A
Jesusa Victoria Hernandez-Bautista ^{**}	●	●	●				N/A	N/A	N/A	N/A	N/A	N/A
Mirzan Mahathir [*]						N/A	N/A	N/A	N/A	N/A	N/A	N/A

○ Annual General Stockholders Meeting and Organizational Board Meeting

* Resigned on April 15, 2010

** Term expired on May 31, 2010

● Present

○ via teleconference

options under the Company's Long-Term Incentive Plan for Stock Options, which plan is administered by the Executive Compensation Committee.

► BOARD COMMITTEES

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

Executive Committee. The Executive Committee is currently composed of six directors, which includes the Chairman of the Board and CEO, Vice-Chairman of the Board, President and COO and an independent director in the person of Mr. Carmelo

Santiago. Mr. Eduardo M. Cojuangco, Jr. sits as Chairman of the Committee. The Committee acts within the power and authority granted upon it by the Board and is called upon when the Board is not in session to exercise the powers of the latter in the management of the Company, with the exception of the power to appoint any entity as general managers or management or technical consultants, to guarantee obligations of other corporations in which the Company has lawful interest, to appoint trustees who, for the benefit of the Company, may receive and retain such properties of

the Company or entities in which it has interests and to perform such acts as may be necessary to transfer ownership of such properties to trustees of the Company, and such other powers as may be specifically limited by the Board or by law.

The Executive Committee held one meeting in 2010.

Nomination and Hearing Committee. The Nomination and Hearing Committee is currently composed of six voting directors – two of whom are independent, Mr. Carmelo Santiago and Mr. Winston F. Garcia – and one non-voting member in the

person of the Company's Corporate Human Resources' Head. Atty. Estelito P. Mendoza is the Chairman of the Committee.

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

ATTENDANCE IN COMMITTEE MEETINGS

ATTENDANCE IN COMMITTEE MEETINGS								
Executive Committee		Date of Meeting	Audit Committee		Date of Meeting			
	Apr 23		Apr 23	May 17	Aug 12	Nov 12		
Eduardo M. Cojuangco, Jr. (C)	●	Carmelo L. Santiago (C)	●	●	●	●		
Ramon S. Ang	●	Estelito P. Mendoza	●	●	●	x		
Estelito P. Mendoza	●	Winston F. Garcia	●	●	●	x		
Menardo R. Jimenez	●	Pacifico M. Fajardo ²	●	●	●	●		
Carmelo L. Santiago	x	Ferdinand K. Constantino ³	N/A	N/A	●	●		
Iñigo Zobel ¹	N/A	Hector L. Hofileña	●	●	N/A	N/A		
		Egmidio de Silva Jose ⁴	x	N/A	N/A	N/A		
Nomination and Hearing Committee		Executive Compensation Committee						
	Apr 14		Apr 14	Jun 17	Jul 27	Aug 12	Oct 8	Dec 16
Ramon S. Ang (C)	●	Menardo R. Jimenez (C)	●	x	●	●	●	●
Estelito P. Mendoza	●	Estelito P. Mendoza	●	●	x	●	●	●
Carmelo L. Santiago	●	Carmelo L. Santiago	●	●	●	●	x	●
Leo S. Alvez	●	Winston F. Garcia	●	●	●	●	●	●
Roberto V. Ongpin	●	Ferdinand K. Constantino ⁵	N/A	●	●	●	●	●
Alexander J. Poblador	●	Joselito D. Campos, Jr.	N/A	●	●	●	●	●
		Eric O. Recto	N/A	●	●	●	●	●

¹ Member of the Executive Committee during the date of the meeting.² Member of the Audit Committee until January 20, 2011³ Appointed as member of the Audit Committee on May 31, 2010 to replace Director Hofileña⁴ Term as member of the Executive Compensation Committee expired on May 31, 2010⁵ Appointed as a member of the Executive Compensation Committee.

In 2010, the Nomination and Hearing Committee held one meeting.

Executive Compensation Committee.

Five directors currently comprise the Executive Compensation Committee, two of whom are independent in the persons of Mr. Winston Garcia and Mr. Carmelo L. Santiago. Mr. Menardo R. Jimenez is Chairman of the Committee. The Executive Compensation Committee advises the Board in the establishment of formal and transparent policies and practices on directors and executive remuneration and provides oversight over remuneration of senior management and

other key personnel – ensuring consistency with the company's culture, strategy and control environment. In six meetings in 2010, the Committee, among others, designated the amount of remuneration for directors and reviewed promotions of certain executive officers.

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

The Audit Committee reviews and monitors, among

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

The Audit Committee held four meetings in 2010 wherein

the Committee reviewed and approved, among others, the Company's 2009 Consolidated Audited Financial Statements as reviewed by the external auditors, and the company's unaudited financial statements for the first to the third quarters of the year.

BOARD COMMITTEE MEMBERS

The members of each Board Committee and their attendance at the Board Committee meetings in 2010 are set out in the table above. The Chairman of each of the Board Committees attended the 2010 AGSM.

MANAGEMENT

Management is primarily responsible for the day-

to-day operations and business of the Company. The annual compensation of the Chairman/CEO and the top senior executives of the company are set out in the Definitive Information Statement distributed to shareholders.

EMPLOYEE RELATIONS

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

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

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

CODE OF ETHICS

The Company's Code of Ethics sets out the fundamental standards of conduct and values consistent with the principles of good governance and business practices that shall guide and define the

actions and decisions of the directors, officers and employees of the company.

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

These policies are available on the Company's website.

COMPLIANCE MONITORING

The Compliance Officer, Atty. Virgilio S. Jacinto, is responsible for monitoring compliance by the Company with the provisions and requirements of good corporate governance.

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

WEB SITE

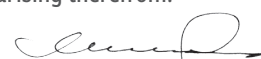
Up-to-date information on the Company's corporate structure, products and services, results of business operations, financial statements, career opportunities and other relevant information on the Company may be found at its website www.sanmiguel.com.ph.

REPORT OF THE AUDIT COMMITTEE

For the year ended December 31, 2010

The Audit Committee assists the Board of Directors in its corporate governance and oversight responsibilities in relation to financial reporting, risk management, internal controls and internal and external audit processes and methodologies. In fulfillment of these responsibilities, the Audit Committee performed the following in 2010:

- Endorsed for approval by the stockholders, and the stockholders approved the appointment of Manabat Sanagustin & Co. CPAs as the Company's independent external auditors for 2010.
- Reviewed and approved the scope of the audit and audit programs of the external auditor as well as the internal audit group of the Company, and have discussed the results of their audit processes and their findings and assessment of the Company's internal controls and financial reporting systems;
- Reviewed and approved the scope of the audit and audit programs of the internal and external auditors, and have discussed the results of their audit processes and their findings and assessment of the Company's internal controls and financial reporting systems;
- Reviewed, discussed and recommended for approval of the Board of Directors the Company's annual and quarterly consolidated financial statements, and the reports required to be submitted to regulatory agencies in connection with such consolidated financial statements, to ensure that the information contained in such statements and reports presents a true and balanced assessment of the Company's position and condition and comply with the regulatory requirements of the Securities and Exchange Commission; and
- Reviewed the effectiveness and sufficiency of the Company's financial and internal controls, risk management systems, and control and governance processes, and ensured that, where applicable, necessary measures are taken to address any concern or issue arising therefrom.



Carmelo L. Santiago

Chairman
Independent Director



Estelito P. Mendoza
Member



Winston F. Garcia
Member - Independent Director



Ferdinand K. Constantino
Member

► CORPORATE SOCIAL RESPONSIBILITY

A Commitment to the Filipino

For 2010, the San Miguel Foundation implemented 16 programs and projects, benefiting a total of 71 communities nationwide and 15,220 individuals. The Foundation continues to be guided by its 3-Es direction of Education, Enterprise and Community Development, and the Environment.

EDUCATION

► **SUPPLEMENTAL FEEDING PROGRAM.** The "Malusog na Katawan, Matalas na Isipan" program is a six-month supplemental feeding program targeting undernourished school and day care children in its host communities. These schoolchildren come from impoverished families and do not do well in school as a consequence of malnutrition. Once enrolled in the program, the schoolchildren are given a nutritious meal per school day for six months. To monitor

their progress, they children are assessed for height and weight every month. For 2010 alone, 1,498 severely malnourished school children from 36 different elementary schools and day care centers reached their normal nutritional status with the help of the Foundation.

► **SCHOLARSHIP PROGRAM.** The various businesses of San Miguel Corporation work through the Foundation to support the education of qualified students from

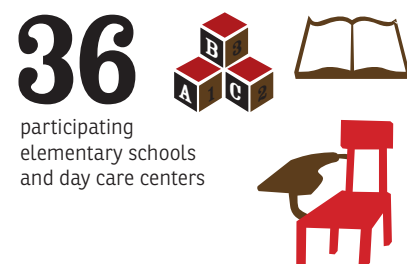
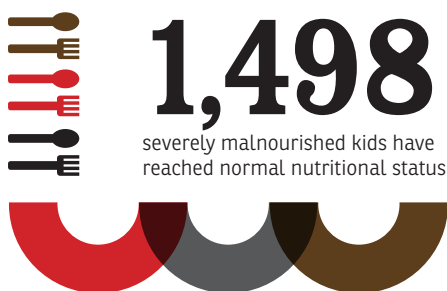


their host communities. A scholarship is offered to students who wish to complete a two-year technical course from state colleges and universities or short-term skills training in partnership with TESDA.

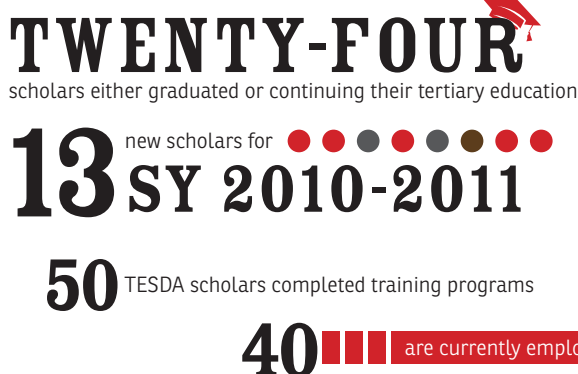
For the duration of the two-years, students are awarded free tuition, book and daily allowances. TESDA skills training scholars enjoy free training, transportation allowance and certification fees. For 2010, 24 scholars

►►► SAN MIGUEL FOUNDATION PROGRAM HIGHLIGHTS

"MALUSOG NA KATAWAN, MATALAS NA ISIPAN" SUPPLEMENTAL FEEDING



SCHOLARSHIP



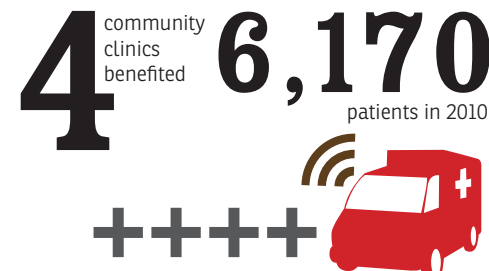
SCHOLAR'S CONFERENCES



BARANGAY STRENGTHENING



COMMUNITY CLINICS



either graduated or are continuing their tertiary education. An additional 13 scholars were added to the program, while 50 new students availed of the TESDA skills training program. The scholarship program not only assists qualified students to complete their tertiary education but also prepares them for future employment.

► **SCHOLARS CONFERENCE.**

Complementing the scholarship program, the scholar's conference is an annual activity hosted by San Miguel Foundation to gain knowledge, achieve self-awareness and foster camaraderie with other scholars from other regions. The scholars undergo

effective communication and personal mastery workshops to augment their formal education. In 2010, all 24 scholars attended the First National Conference in Bohol.

► **AGGAPP.** In its bid to support efforts to improve the quality of education in the country, the Foundation supports the "Aklat,



LIVELIHOOD CAPABILITY BUILDING

33 beneficiaries were given entrepreneurship and management training

LIVELIHOOD

3 on-going livelihood programs



COMMUNITY STORE

THIRTY



members of a cooperative community store earned an average net income of

P 10,000

per month since the coop started eight months ago

ENVIRONMENT

2 environment projects: "Tulong-tulong para sa Tullahan II," a river-cleaning project and a Foundation-sponsored environment forum in partnership with DENR-EMB



MEDICAL MISSION

12 medical missions serving **5,400**



from **SIX** different areas



DOLE-WORKER'S INCOME AUGMENTATION PROGRAM

TWO



labor unions enrolled under the Foundation's enterprise program benefitting

208 members





Gabay, Aruga Tungo sa Pag-angat at Pag-Asa" program. The program seeks to provide additional classrooms to public schools in impoverished areas nationwide. It also seeks to train the teachers in early childhood development and enhance their teaching skills. To date, a total of three brand new school buildings were turned-over to three public schools in the Visayas namely: Labogon and Pulang Bato Elementary Schools in Mandaue City and Atipuluan Elementary School in Bago City, Negros Occidental.

ENTERPRISE AND COMMUNITY DEVELOPMENT

► **LIVELIHOOD CAPABILITY BUILDING** The San Miguel Foundation offers an array of training programs on livelihood or enterprise management. For 2010, 33 beneficiaries came from San Miguel Polo Brewery and underwent a basic entrepreneurship course.

► **LIVELIHOOD**

For 2010, a total of six livelihood projects were implemented in six different communities, three of which were directly implemented by San Miguel Foundation. The remaining three were implemented by partner organizations. The livelihood projects aim to create income-generating opportunities for local organizations and budding entrepreneurs.



►► **SMF IMPLEMENTED PROJECTS**

WINAP: In partnership with the Department of Labor and Employment (DOLE), the Foundation was able to secure funding and assist local labor unions of San Miguel Brewery to engage in income-generating projects. Two projects were implemented under this program.

The first project is a canteen concessionaire project of the San Miguel Davao Brewery Employees Independent Union. The members of the union currently manage their own canteen and a catering service. The second project is a duck laying project in San Fernando involving the San Miguel Brewery Inc. Employees Union. Both projects aimed to augment the income of its 208 members through dividends.

As part of the Sumilao Community Center that comprises a training center and community clinic, the Sumilao Community Store

in an enterprise project benefiting 30 members of the Radiant Sumilao Agro-industrial Multipurpose Cooperative. The community store functions as both a grocery and eatery. In its eight months of operation, the store netted income of P10,000 a month.

►► **PARTNER-IMPLEMENTED PROJECTS**

In implementing other livelihood projects, San Miguel Foundation partnered with the Philippine Business for Social Progress-Visayas and its Center for Rural Technology Development. Three projects were implemented under this partnership: the Mandaue Homeless Multipurpose Cooperative Livelihood and Capability-Building Project and a vermi-composting



project in Barangay Darong, and the Cabangcalan Livelihood Development Project.

►► **BARANGAY STRENGTHENING**

The Barangay Strengthening program is a capability-building program for host barangays of various San Miguel businesses. The host barangays undergo training in areas such as resource mobilization and strategic planning. The program aims to enable host barangays to improve their services to their constituents. In the last year, 20 local officials from Barangays Granada and Estefania attended the training.



COMMUNITY CLINICS

The community clinic is a community relations program that benefits indigent members of SMC host communities. Among them: the barangays of Marulas and Potrero for Valenzuela and Malabon respectively; Darong for Davao del Sur, and the municipality of Sumilao in Bukidnon. Last year, another community clinic was set up in Barangay Quebiawan, San Fernando, Pampanga.

Depending on the demographics and existing health services offered by the barangay, the clinics address the specific type of service that the community needs. The community clinics are transformed into either a general clinic servicing patients of all types and ages or a specialized clinic that attends to a specific segment of the community that is most in need of medical assistance such as adults suffering from diseases such as tuberculosis, cardio-vascular diseases and diabetes. For 2010, the four clinics treated an estimated 6,170 patients.

MEDICAL MISSION

Medical Missions are one-day activities that provide medical assistance to host communities. Often, these missions attend to common diseases and provide free initial doses of prescribed medicines. The missions are also deployed during disaster rehabilitation. A total of 12 medical missions were conducted in 2010 serving 5,400 individuals from six different areas and communities.

ENVIRONMENT

For 2010, two environmental programs were implemented by the Foundation. The "Tulong Tulong para sa Tullahan II" and the Environmental Forum together with the Department of Environment and Natural Resources-Environmental Management Bureau.

► **"TULONG- TULONG PARA SA TULLAHAN II"** The project is the dredging of portions of the Tullahan River and an information campaign to prevent and improve the condition of the river.

A total of 1.7 kilometers of river was dredged and is currently being maintained. The Metropolitan Manila Development Authority (MMDA) is the Foundation's partner in this endeavor.

► **ENVIRONMENTAL FORUM**

The environmental forum for the Tullahan Rehabilitation project was also the first initiative under the new partnership between SMC and DENR where SMC will assist DENR in reducing pollution in selected rivers in Metro Manila. The Forum focused on solid waste management; a total of 170 participants attended the forum.

DISASTER RELIEF

For 2010, the Foundation assisted in two disaster relief programs. Fire victims in Paco, Manila were beneficiaries of a soup kitchen in January. The Foundation also helped victims of Typhoon Juan in Isabela, distributing 500 relief packs through local government agencies.

► BOARD OF DIRECTORS

**Eduardo M. Cojuangco, Jr.**

Chairman and CEO
Chairman
Executive Committee

**Ramon S. Ang**

President and COO
Member
Executive Committee
Nomination & Hearing Committee

**Iñigo Zobel****Winston F. Garcia**

Independent Director
Member
Audit Committee
Executive Compensation Committee

**Hector L. Hofileña**

Member
Executive Committee

**Roberto V. Ongpin**

Member
Nomination & Hearing Committee

**Joselito D. Campos, Jr.**

Member
Executive Compensation Committee

**Estelito P. Mendoza**

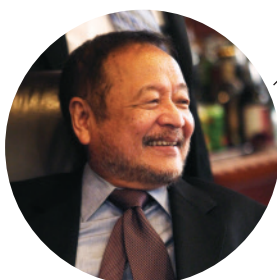
Chairman
Nomination & Hearing Committee
Member
Executive Committee
Audit Committee

**Menardo R. Jimenez**

Chairman
Executive Compensation
Committee
Member
Executive Committee

**Leo S. Alvez**

Member
Nomination & Hearing Committee

**Carmelo L. Santiago**

Independent Director
Chairman
Audit Committee
Member
Executive Committee
Executive Compensation
Committee
Nomination & Hearing Committee

**Alexander J. Poblador**

Member
Nomination & Hearing
Committee

**Ferdinand K. Constantino**

Member
Audit Committee
Executive Compensation Committee

**Eric O. Recto**

Member
Executive Compensation
Committee

**Reynato S. Puno**

Independent Director

► **KEY EXECUTIVES**

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

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

Ferdinand K. Constantino
Chief Finance Officer & Treasurer

Virgilio S. Jacinto
Corporate Secretary & General Counsel

CORPORATE STAFF UNITS

► **OFFICE OF THE PRESIDENT**

Senior Vice President
Aurora T. Calderon
Vice President
Lorenzo G. Formoso, III

► **CORPORATE AFFAIRS OFFICE**

Vice President
Ramon A. Santiago

► **GROUP AUDIT**

Vice President
Ramon R. Bantigue

► **CORPORATE MERGERS & ACQUISITIONS**

Head
Ma. Belen C. Buensuceso
Vice President
Cecile Caroline U. de Ocampo

► **CORPORATE FINANCE**

Senior Vice President
Eduardo Sergio G. Edeza
Joseph N. Pineda
Vice President
Bella O. Navarra

► **CORPORATE HUMAN RESOURCES**

Head
David S. Santos

► **CORPORATE INFORMATION & TECHNOLOGY MANAGEMENT**

Vice President
Manuel M. Agustin

SAN MIGUEL BREWERY INC.

President
Roberto N. Huang

Executive Vice President
Keisuke Nishimura

Executive Financial Advisor
Motoyasu Ishihara

Senior Vice President
M. L. Menlou B. Bibonia

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

SAN MIGUEL BREWING INTERNATIONAL LTD.

Managing Director
Carlos Antonio M. Berba

Executive Vice President
Taro Matsunaga

Vice President
Jesus J. Bitanga, Jr.
Frederick Gerard S. Martelino
Hercila M. Reyes
Ramon G. Torralba

►► **SAN MIGUEL BREWERY HONG KONG, LTD.**

Managing Director
Peter K. Y. Tam

►► **GUANGZHOU SAN MIGUEL BREWERY CO., LTD.**

Commercial Manager
Vincent K. M. Kwok

►► **SAN MIGUEL GUANGDONG BREWERY CO. LTD.**

General Manager
Benjamin Y. Aton, Jr.

►► **SAN MIGUEL BAODING BREWERY CO., LTD.**

General Manager
Wilfredo R. Camaclang

►► **SAN MIGUEL BREWERY VIETNAM LTD.**

General Manager
J. Bienvenido S. Anonas

►► **SAN MIGUEL BEER THAILAND LTD.**

Plant Operations Manager
Ricardo L. Tablante

►► **SAN MIGUEL MARKETING THAILAND LTD.**

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

►► **P.T. DELTA DJAKARTA, TBK**

President Director
Raymundo Y. Albano

GINEBRA SAN MIGUEL, INC.

President
Gerardo C. Payumo*

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

*appointed General Manager of San Miguel Energy Corp., 1 April 2011

SAN MIGUEL PURE FOODS COMPANY, INC.

President
Francisco S. Alejo, III

SAN MIGUEL FOODS, INC.

Vice President
Alden M. Castañeda
Eliezer O. Capacio
Noli L. Manalo
Ma. Soledad E. Olives
Zenaida M. Postrado
Jennifer T. Tan

► **SAN MIGUEL INTEGRATED SALES**

Vice President & General Manager
Archie B. Gupalor

► **DIVISION LOGISTICS GROUP**

Vice President & General Manager
Enrique A. Punsalang

► **AGRO-INDUSTRIAL CLUSTER****SAN MIGUEL FOODS, INC.**

President & Cluster Head
Rita Imelda B. Palabyab

►► **POULTRY AND MEATS BUSINESS**

Vice President & General Manager
Leo A. Obviar

►► **FEEDS BUSINESS**

Vice President & General Manager
Norman C. Ramos

► **MILLING & BRANDED PRODUCTS CLUSTER****SAN MIGUEL MILLS, INC.**

President and Cluster Head
Florentino C. Policarpio

►► **FLOUR MILLING BUSINESS**

General Manager
Julio R. Gregorio

► **INDONESIA AND VIETNAM CLUSTER**

VP & International Cluster Manager
Oscar R. Sañez

►► **P.T. SAN MIGUEL PUREFOODS INDONESIA**

General Manager
Gil R. Buensuceso

►► **SAN MIGUEL PURE FOODS (VN) CO., LTD.**

General Manager
Dinh Van Tin

► **DAIRY, OILS AND FATS CLUSTER**
MAGNOLIA, INC.►► **BUTTER, MARGARINE, CHEESE, JELLIES, MILK, & SPECIALTY OILS BUSINESS**

Vice President & General Manager
Reginald I. Baylosis

►► **ICE CREAM BUSINESS**

General Manager
Mauricio A. Alcon, Jr.

► **PROCESSED MEATS BUSINESS**
THE PURE FOODS HORMEL COMPANY, INC.

Vice President & General Manager
Raul B. Nazareno

► **COFFEE BUSINESS**

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

► **RETAIL BUSINESS**

Officer-In-Charge
Ma. Melinda S. Rendor

► **FOOD SERVICE BUSINESS**

Great Food Solutions
General Manager
Helene Z. Pontejos

SAN MIGUEL YAMAMURA PACKAGING GROUP

President
Ferdinand A. Tumpalan

Executive Vice President
Motokazu Hiraiwa

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

► **GLASS, METAL CLOSURES & PLASTICS BUSINESS**

Vice President and Business Manager
Renato Y. Cabrera, Jr.

►► **GLASS OPERATIONS****SAN MIGUEL YAMAMURA ASIA CORPORATION**

Plant Manager
Emmanuel R. Alcantara

►►► **SMC YAMAMURA FUSO MOLDS CORPORATION**

Plant Manager
Rolando Nole L. Sarrosa

►►► **ZHAOQING SAN MIGUEL YAMAMURA GLASS CO., LTD. (China)**

General Manager
Jesus G. Cortes, Jr.

►►► **SAN MIGUEL YAMAMURA HAIPHONG GLASS CO., LTD. (Vietnam)**

General Director
Antonio P. Dy, Jr.

►► **METAL CLOSURE OPERATIONS****SAN MIGUEL YAMAMURA PHU THO PACKAGING CO., LTD. (Vietnam)**

General Manager
Gaspar S. Alberto

►► **PLASTIC OPERATIONS**

FOSHAN SAN MIGUEL YAMAMURA PACKAGING CO. LTD. (China)

General Manager
Arnel A. Sarte

► **PET BUSINESS**

Vice President & Business Manager
Enrico C. Wong

►► **PT SAN MIGUEL YAMAMURA UTAMA INDOPLAS (Indonesia)**

President Director
Ayumu Sasahara

► **METAL CONTAINER, COMPOSITE & PAPER BUSINESS**

Vice President and Business Manager
Geribern R. Abella

►► **COMPOSITE OPERATIONS**

SAN MIGUEL YAMAMURA PACKAGING & PRINTING SDN. BHD. (Malaysia)

General Manager & conc. Malaysia Operations Group Manager
Jose Antonio J. Menchaca

►►► **SAN MIGUEL YAMAMURA PLASTIC FILMS SDN. BHD. (Malaysia)**

General Manager
Tang Han Lock

►►► **SAN MIGUEL YAMAMURA WOVEN PRODUCTS SDN. BHD. (Malaysia)**

General Manager
Tan Teck Soon

►►► **PACKAGING RESEARCH CENTRE SDN BHD (Malaysia)**

General Manager
Dr. Patrick Loi Suok Tee

►► **PAPER OPERATIONS**

MINDANAO CORRUGATED & FIBREBOARD, INC.

Officer-in-charge
Rey B. Gudian

► **COSPAK GROUP**

Chief Executive Officer
David Driver

PETRON CORPORATION

President
Eric O. Recto

Senior Vice President
Lubin B. Nepomuceno
Emmanuel E. Eraña

Vice President
Freddie P. Yumang
Tomas S. Cadiz, Jr.
Ma. Rowena O. Cortez
Albertito S. Sarte
Ma. Cristina M. Menorca
Susan Y. Yu
Jaime O. Lu

SAN MIGUEL PROPERTIES, INC.

Vice President and General Manager
Karlo Marco P. Estavillo

OTHER BUSINESSES

► **ANCHOR INSURANCE BROKERAGE CORPORATION**

General Manager
Teresita V. Chikiamco

► **SMC RETIREMENT FUNDS OFFICE**

General Manager
Amor C. Iliscupidez

► **SMC STOCK TRANSFER SERVICE CORPORATION**

Vice President & General Manager
Enrique L. Yusingco

► **SMITS, INC.**

Vice President & General Manager
Dennis C. Demiar

► **ARCHEN TECHNOLOGIES, INC.**

General Manager
Roscel R. Celestial

► **SAN MIGUEL SHIPPING & LIGHTERAGE CORPORATION**

President
Thomas Tan

► **SMC GLOBAL POWER HOLDINGS CORPORATION**

President
Dr. Allan T. Ortiz

►► **SAN MIGUEL ENERGY CORPORATION**

General Manager
Rafael C. Bueno, Jr.

Vice President
Elenita D. Go

SELECTED FINANCIAL DATA

(In Millions, Except Per Share and Statistical Data)

	December 31		
	2010	2009	2008
For the Year			
Sales	P246,109	P174,213	P168,041
Net Income Attributable to Equity Holders of the Parent Company	P20,091	P57,799	P19,348
Basic Earnings Per Share Attributable to Equity Holders of the Parent Company ^A	P6.18	P19.21	P6.13
Taxes	P89,861 ^B	P42,447	P42,869
Cash Dividends	P21,284	P2,211	P4,417
Cash Dividends Per Common Share ^C	P6.75	P0.70	P1.40
At Year-End			
Working Capital	P101,314	P204,084	P117,375
Total Assets	P829,800	P438,491	P339,373
Property, Plant and Equipment-net	P308,073	P65,919	P68,313
Equity Attributable to Equity Holders of the Parent Company	P216,031	P213,817	P149,917
Equity Per Share Attributable to Equity Holders of the Parent Company			
Common	P60.93	P60.99	P47.49
Preferred	P76.32	P76.32	-
Number of Common Shares Outstanding			
- Net of Treasury Shares	2,329,945,530	2,291,296,218	3,156,993,077
Number of Preferred Shares Outstanding	970,506,353	970,506,353	-
Number of Stockholders	39,941	41,396	42,189
Number of Employees	16,682	14,593	15,344
Financial Statistics			
% Return on Average Equity Attributable to Equity Holders of the Parent Company	9.35%	31.78%	13.59%
Current Ratio	1.57	3.17	2.35
Debt to Equity Ratio ^D	2.11	0.82	1.02
Market Price			
Common Share ^E - High	P169.70	-	-
- Low	P66.00	-	-
Class "A" - High	-	P71.50	P61.50
- Low	-	P39.00	P38.00
Class "B" - High	-	P71.50	P62.00
- Low	-	P39.50	P38.50

^A Based on the weighted average number of shares outstanding during the year

^B Includes the whole year amount of taxes paid by Petron, SMC Global, Sea Refinery and BellTel

^C Based on the number of shares outstanding at the date of each declaration during the year

^D Total debt to equity, where total debt represents total liabilities (current and noncurrent)

^E Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company shall be considered as common shares without distinction

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS



SAN MIGUEL CORPORATION

The management of San Miguel Corporation (the "Company") is responsible for all information and representations contained in the consolidated financial statements which comprise the consolidated statements of financial position as at December 31, 2010 and 2009, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2010. The consolidated financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

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

RAMON S. ANG
President and Chief Operating Officer

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

REPORT OF INDEPENDENT AUDITORS



Manabat Sanagustin & Co., CPAs
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PRC-BOA Registration No. 0003
SEC Accreditation No. 0004-FR-2
BSP Accredited

The Board of Directors and Stockholders
San Miguel Corporation

We have audited the accompanying consolidated financial statements of San Miguel Corporation and Subsidiaries which comprise the consolidated statements of financial position as at December 31, 2010 and 2009, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of San Miguel Corporation and Subsidiaries as at December 31, 2010 and 2009, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2010, in accordance with Philippine Financial Reporting Standards.

March 14, 2011
Makati City, Metro Manila

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009
(In Millions)

	<i>Note</i>	2010	2009
ASSETS			
Current Assets			
Cash and cash equivalents	9, 41, 42	P125,188	P209,411
Trade and other receivables - net	4, 10, 34, 41, 42	75,904	49,082
Inventories	4, 11	57,442	25,458
Current portion of biological assets - net	4, 18	3,267	2,525
Prepaid expenses and other current assets	12, 36, 41, 42	16,914	8,891
		278,715	295,367
Assets held for sale	5, 8	823	2,746
Total Current Assets		279,538	298,113
Noncurrent Assets			
Investments and advances - net	4, 13, 41	152,814	39,005
Available-for-sale financial assets	14, 41, 42	3,597	351
Property, plant and equipment - net	4, 16	308,073	65,919
Investment properties - net	4, 17	2,133	1,867
Biological assets - net of current portion	4, 18	1,479	1,847
Goodwill - net	4, 5, 19, 39	30,251	6,408
Other intangible assets - net	4, 5, 19	10,980	3,630
Deferred tax assets	4, 25	7,134	8,883
Other noncurrent assets - net	4, 5, 20, 36, 41, 42	33,801	12,468
Total Noncurrent Assets		550,262	140,378
		P829,800	P438,491
LIABILITIES AND EQUITY			
Current Liabilities			
Drafts and loans payable	21, 41, 42	P74,128	P56,789
Accounts payable and accrued expenses	22, 35, 36, 41, 42	69,774	31,391
Finance lease liabilities - current portion	35, 41, 42	10,946	13
Income and other taxes payable		10,001	4,186
Dividends payable	6, 37	826	573
Current maturities of long-term debt - net of debt issue costs	23, 41, 42	12,549	1,077
Total Current Liabilities		178,224	94,029
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	23, 41, 42	156,378	71,885
Deferred tax liabilities	25	13,752	12,037
Finance lease liabilities - net of current portion	35, 41, 42	197,461	17
Other noncurrent liabilities	24, 36, 41, 42	17,160	19,585
Total Noncurrent Liabilities		384,751	103,524
Equity	26, 37, 38		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common		16,343	16,150
Capital stock - preferred		4,852	4,852
Additional paid-in capital		101,406	99,085
Revaluation increment		1,391	18
Cumulative translation adjustments		5,365	5,845
Retained earnings:			
Appropriated		5,671	5,497
Unappropriated		150,544	151,911
Treasury stock		(69,541)	(69,541)
		216,031	213,817
Non-controlling Interests	2	50,794	27,121
Total Equity		266,825	240,938
		P829,800	P438,491

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(In Millions, Except Per Share Data)

	<i>Note</i>	2010	2009	2008
SALES	34	P246,109	P174,213	P168,041
COST OF SALES	27	173,906	124,295	124,072
GROSS PROFIT		72,203	49,918	43,969
SELLING AND ADMINISTRATIVE EXPENSES	28	(37,426)	(30,249)	(29,151)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	21, 23, 31, 35	(16,578)	(7,926)	(6,032)
INTEREST INCOME	32	3,023	5,989	6,630
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES	13	6,817	2,816	(1,132)
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	13, 16, 17	529	50,630	8,746
OTHER INCOME (CHARGES) - Net	33	6,926	(6,843)	(2,262)
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS		35,494	64,335	20,768
INCOME TAX EXPENSE	25	11,438	3,706	6,098
INCOME FROM CONTINUING OPERATIONS		24,056	60,629	14,670
INCOME AFTER INCOME TAX FROM DISCONTINUED OPERATIONS	8	-	-	5,413
NET INCOME		P24,056	P60,629	P20,083
Attributable to:				
Equity holders of the Parent Company		P20,091	P57,799	P19,348
Non-controlling interests		3,965	2,830	735
		P24,056	P60,629	P20,083
Basic Earnings Per Common Share				
Attributable to Equity Holders of the Parent Company	38			
From Continuing Operations		P6.18	P19.21	P4.41
From Discontinued Operations		-	-	1.72
		P6.18	P19.21	P6.13
Diluted Earnings Per Common Share				
Attributable to Equity Holders of the Parent Company	38			
From Continuing Operations		P6.14	P19.10	P4.40
From Discontinued Operations		-	-	1.71
		P6.14	P19.10	P6.11

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008***(In Millions)*

	<i>Note</i>	2010	2009	2008
NET INCOME		P24,056	P60,629	P20,083
GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS		(653)	521	689
SHARE IN COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES	13	(422)	252	(19)
GAIN (LOSS) ON CASH FLOW HEDGES - Net	42	-	222	(221)
INCOME TAX BENEFIT (EXPENSE)		-	(67)	66
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS		447	(33)	(17)
INCOME TAX BENEFIT (EXPENSE)		(45)	3	2
OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX		(673)	898	500
TOTAL COMPREHENSIVE INCOME - NET OF TAX		P23,383	P61,527	P20,583
Comprehensive Income Attributable to:				
Equity holders of the Parent Company		P19,611	P58,807	P19,314
Non-controlling interests		3,772	2,720	1,269
		P23,383	P61,527	P20,583

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(In Millions)

Equity Attributable to Equity Holders of the Parent Company															Non-controlling Interests	Total Equity
Note	Capital Stock		Additional Paid-in Capital	Revaluation Increment	Cumulative Translation Adjustments			Retained Earnings		Treasury Stock	Total					
	Common	Preferred			Translation Reserve	Hedging Reserve	Fair Value Reserve	Appropriated	Unappropriated							
As of January 1, 2010		P16,150	P4,852	P99,085	P18	P5,737	P	P108	P5,497	P151,911	(P69,541)	P213,817	P27,121	P240,938		
Loss on exchange differences on translation of foreign operations		-	-	-	-	(496)	-	-	-	-	-	(496)	(157)	(653)		
Share in comprehensive loss of associates	13	-	-	-	-	-	-	(422)	-	-	-	(422)	-	(422)		
Net gain on available-for-sale financial assets, net of tax		-	-	-	-	-	-	438	-	-	-	438	(36)	402		
Other comprehensive income (loss)		-	-	-	-	(496)	-	16	-	-	-	(480)	(193)	(673)		
Net income for the year		-	-	-	-	-	-	-	-	20,091	-	20,091	3,965	24,056		
Total comprehensive income (loss) for the year		-	-	-	-	(496)	-	16	-	20,091	-	19,611	3,772	23,383		
Issuance of capital stock	26	193	-	2,121	-	-	-	-	-	-	-	2,314	-	2,314		
Stock options	40	-	-	200	-	-	-	-	-	-	-	200	-	200		
Addition to non-controlling interests	2, 5, 6, 13	-	-	-	(23)	-	-	-	-	-	-	(23)	24,877	24,854		
Appropriations - net	26	-	-	-	-	-	-	-	174	(174)	-	-	-	-		
Cash dividends	37	-	-	-	-	-	-	-	-	(15,584)	-	(15,584)	(4,976)	(20,560)		
Common Preferred		-	-	-	-	-	-	-	-	(5,700)	-	(5,700)	-	(5,700)		
Acquisition of subsidiary and others	5	-	-	-	1,396	-	-	-	-	-	-	1,396	-	1,396		
As of December 31, 2010	26	P16,343	P4,852	P101,406	P1,391	P5,241	P	P124	P5,671	P150,544	(P69,541)	P216,031	P50,794	P266,825		
Forward																

Forward

Equity Attributable to Equity Holders of the Parent Company														Non-controlling Interests	Total Equity
Note	Capital Stock		Additional Paid-in Capital	Revaluation Increment	Cumulative Translation Adjustments			Retained Earnings		Treasury Stock	Total				
	Common	Preferred			Translation Reserve	Hedging Reserve	Fair Value Reserve	Appropriated	Unappropriated						
As of January 1, 2009	P16,112	P -	P31,183	P18	P4,882	(P123)	P78	P5,522	P96,298	(P4,053)	P149,917	P18,307	P168,224		
Gain on exchange differences on translation of foreign operations	-	-	-	-	662	-	-	-	-	-	662	(141)	521		
Share in comprehensive income of associates	13	-	-	-	193	-	59	-	-	-	252	-	252		
Gain on cash flow hedges, net of tax	42	-	-	-	-	123	-	-	-	-	123	32	155		
Net gain on available-for-sale financial assets, net of tax	-	-	-	-	-	-	(29)	-	-	-	(29)	(1)	(30)		
Other comprehensive income (loss)	-	-	-	-	855	123	30	-	-	-	1,008	(110)	898		
Net income for the year	-	-	-	-	-	-	-	-	57,799	-	57,799	2,830	60,629		
Total comprehensive income for the year	-	-	-	-	855	123	30	-	57,799	-	58,807	2,720	61,527		
Issuance of capital stock	26	38	486	6,563	-	-	-	-	-	-	7,087	-	7,087		
Exchange of capital stock	26	-	4,366	61,122	-	-	-	-	-	(65,488)	-	-	-		
Stock options	40	-	-	217	-	-	-	-	-	-	217	-	217		
Addition to non-controlling interests	2, 5, 6, 13	-	-	-	-	-	-	-	-	-	-	8,392	8,392		
Appropriations - net	26	-	-	-	-	-	-	(25)	25	-	-	-	-		
Cash dividends	37	-	-	-	-	-	-	-	(2,211)	-	(2,211)	(2,298)	(4,509)		
As of December 31, 2009	26	P16,150	P4,852	P99,085	P18	P5,737	P -	P108	P5,497	P151,911	P213,817	P27,121	P240,938		
Forward															

Forward

Equity Attributable to Equity Holders of the Parent Company														Non- controlling Interests	Total Equity
Note	Capital Stock		Additional Paid-in Capital	Revaluation Increment	Cumulative Translation Adjustments			Retained Earnings		Treasury Stock	Total				
	Common	Preferred			Translation Reserve	Hedging Reserve	Fair Value Reserve	Appro- priated	Unappro- priated						
As of January 1, 2008														P11,329	P146,093
		P -	P30,930	P18	P4,699	P -	P172	P6,034	P80,855	(P4,053)	P134,764				
		-	-	-	183	-	-	-	-	-	183	506	689		
13		-	-	-	-	-	(19)	-	-	-	(19)	-	(19)		
42		-	-	-	-	(123)	-	-	-	-	(123)	(32)	(155)		
		-	-	-	-	-	(75)	-	-	-	(75)	60	(15)		
		-	-	-	183	(123)	(94)	-	-	-	(34)	534	500		
		-	-	-	-	-	-	-	19,348	-	19,348	735	20,083		
		-	-	-	183	(123)	(94)	-	19,348	-	19,314	1,269	20,583		
26		3	-	-	-	-	-	-	-	-	3	-	3		
40		-	253	-	-	-	-	-	-	-	253	-	253		
		-	-	-	-	-	-	-	-	-	-	6,217	6,217		
2, 5, 6, 13		-	-	-	-	-	-	(512)	512	-	-	-	-		
26		-	-	-	-	-	-	-	(4,417)	-	(4,417)	(508)	(4,925)		
37		-	-	-	-	-	-	-	-	-	-	-	-		
As of December 31, 2008														P18,307	P168,224

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

(In Millions)

	Note	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax from continuing operations		P35,494	P64,335	P20,768
Loss before income tax from discontinued operations	8	-	-	(19)
Gain from disposal of discontinued operations	8	-	-	5,425
Income before income tax		35,494	64,335	26,174
Adjustments for:				
Depreciation, amortization and others - net	29	9,457	14,724	9,303
Interest expense and other financing charges	31	16,578	7,926	6,032
Interest income		(3,023)	(5,989)	(6,630)
Equity in net losses (earnings) of associates	13	(6,817)	(2,816)	1,132
Gain on sale of investments and property and equipment		(5,020)	(50,630)	(8,746)
Gain from disposal of discontinued operations	8	-	-	(5,425)
Operating income before working capital changes		46,669	27,550	21,840
Changes in noncash current assets, certain current liabilities and others	39	13,112	(1,183)	(1,291)
Cash generated from operations		59,781	26,367	20,549
Interest paid		(5,155)	(6,348)	(5,665)
Income taxes paid		(9,312)	(6,651)	(7,835)
Net cash flows provided by operating activities		45,314	13,368	7,049
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	39	(18,978)	(1,494)	-
Additions to investments and advances		(99,762)	(5,771)	(6,667)
Additions to property, plant and equipment	16	(8,518)	(6,249)	(6,437)
Decrease (increase) in other noncurrent assets and others		1,424	(950)	(16,010)
Payments by (advances to) related parties		(6,070)	3,243	31,708
Proceeds from sale of investments and property and equipment		1,175	55,127	13,663
Interest received		3,798	5,249	6,558
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	8	-	-	9,083
Net cash flows (used in) provided by investing activities		(126,931)	49,155	31,898

Forward

	<i>Note</i>	2010	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		P685,768	P691,093	P608,756
Long-term borrowings		72,937	67,786	64
Payments of:				
Short-term borrowings		(703,376)	(683,569)	(605,088)
Long-term borrowings		(29,196)	(44,657)	(13,336)
Payment of finance lease liabilities		(4,798)	(12)	-
Cash dividends paid	37	(21,118)	(3,301)	(4,463)
Proceeds from issuance of capital stock	26	2,314	7,087	3
Dividends paid to non-controlling shareholders		(4,883)	(2,192)	(393)
Increase in non-controlling interests		126	315	592
Net cash flows provided by (used in) financing activities		(2,226)	32,550	(13,865)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		(380)	(2,601)	(1,424)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS				
		(84,223)	92,472	23,658
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
		209,411	116,939	93,281
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	9	P125,188	P209,411	P116,939

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Millions, Except Per Share Data)

1. Reporting Entity

San Miguel Corporation (SMC or Parent Company) was incorporated in the Philippines. The accompanying consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries (collectively referred to as the "Group") and the Group's interest in associates and jointly controlled entities. The Parent Company is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed on the Philippine Stock Exchange (PSE). The Group is engaged in the production, processing and marketing of beverage, food and packaging products, power generation and distribution, mining, fuel and oil, infrastructure, telecommunications and management and development of real estate properties. The registered office address of the Parent Company is No. 40 San Miguel Avenue, Mandaluyong City.

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 14, 2011.

2. Basis of Preparation

Basis of Measurement

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

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

Functional and Presentation Currency

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

Statement of Compliance

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

Basis of Consolidation

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

	Percentage of Ownership		Country of Incorporation
	2010	2009	
Beverage Business:			
San Miguel Brewery Inc. (SMB) and subsidiaries [including Iconic Beverages, Inc. (IBI), Brewery Properties Inc. (BPI) ^(a) and subsidiary, Brewery Landholdings, Inc. (BLI) and San Miguel Brewing International Ltd. (SMBIL) ^(b) and subsidiaries (including San Miguel Brewery Hong Kong Limited (SMBHK) and subsidiaries, PT Delta Jakarta Tbk (PT-Delta) and subsidiaries, San Miguel (Baoding) Brewery Co. Ltd., San Miguel Brewery Vietnam Ltd. (SMBV), San Miguel Beer (Thailand) Ltd. (SMBTL) and San Miguel Marketing Thailand Ltd.]]	51.00	51.00	Philippines
Ginebra San Miguel, Inc. (GSMI) and subsidiaries [including Distileria Bago, Inc. and Ginebra San Miguel International, Ltd. (GSMIL), Ginebra San Miguel International Holdings Ltd. (GSMIHL), Global Beverage Holdings Ltd. (GBHL) and Siam Holdings Ltd. (SHL)]	78.00	79.53	Philippines
San Miguel Foods and Beverage International Limited (SMFBI) and subsidiaries [including PT San Miguel Indonesia Foods & Beverages (PTSMIFB), San Miguel (Thailand) Co. Ltd., San Miguel (Guangdong) Foods & Beverages Co. Ltd., San Miguel (Vietnam) Co. Ltd., PT San Miguel Marketing Indonesia, and San Miguel (Malaysia) Sdn. Bhd.]	100.00	100.00	BVI
Food Business:			
San Miguel Pure Foods Company, Inc. (SMPFC) and subsidiaries [including San Miguel Foods, Inc. (SMFI), San Miguel Mills, Inc. (SMMI), The Purefoods-Hormel Company, Inc., Magnolia Inc. (Magnolia), San Miguel Super Coffeemix Co., Inc. (SMSCCI), P.T. San Miguel Pure Foods Indonesia (PTSMPI) ^(c) and San Miguel Pure Foods International, Limited (SMPFIL) and subsidiary, San Miguel Pure Foods Investment (BVI) Limited (SMPFI) and subsidiary, San Miguel Pure Foods (Vn) Co. Ltd. (SMPFVN)]	99.92	99.92	Philippines

Forward

	Percentage of Ownership		Country of Incorporation
	2010	2009	
Packaging Business:			
San Miguel Yamamura Packaging Corporation (SMYPC) and subsidiary, San Miguel Yamamura Fuso Molds Corporation	65.00	65.00	Philippines
San Miguel Yamamura Packaging International Limited (SMYPIL) and subsidiaries [including San Miguel Yamamura Phu Tho Packaging Co. Ltd., Zhaoqing San Miguel Yamamura Glass Co., Ltd., Foshan San Miguel Yamamura Packaging Co. Ltd., San Miguel Yamamura Utama Indoplas, San Miguel Yamamura Packaging & Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Plastic Films Sdn. Bhd. and San Miguel Yamamura Knox Pty. Ltd. (SMYK) ^(d) and subsidiaries]	65.00	65.00	BVI
Mindanao Corrugated Fibreboard, Inc. (Mincorr) ^(c)	100.00	100.00	Philippines
San Miguel Paper Packaging Corporation (SMPPC) ^(c)	100.00	100.00	Philippines
San Miguel Yamamura Asia Corporation (SMYAC)	60.00	60.00	Philippines
Power Generation and Distribution Business:			
SMC Global Power Holdings Corp. (SMC Global) ^(e) and subsidiaries [including Strategic Power Devt. Corp. (SPDC), San Miguel Energy Corporation (SMEC), Panasia Energy Holdings Inc. (PanAsia) and South Premiere Power Corp. (SPPC)]	100.00	-	Philippines
Fuel and Oil Business:			
Sea Refinery Corporation (SRC) and subsidiary, Petron Corporation (Petron) and subsidiaries [including Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation (Petrogen), Overseas Ventures Insurance Corporation, Petron Singapore Trading Pte. Ltd., and New Ventures Realty Corporation and subsidiary, Las Lucas Construction & Development Corporation] ^(f)	100.00	-	Philippines
Infrastructure Business:			
San Miguel Holdings Corp. (SMHC) and subsidiaries [including Rapid Thoroughfares Inc. (Rapid), Trans Aire Development Holdings Corp. (TADHC) ^(c, g) , Universal LRT Corporation (BVI) Limited (ULC BVI) ^(c, h) and subsidiaries]	100.00	100.00	Philippines
Telecommunications Business:			
Vega Telecom, Inc. (Vega) and subsidiaries [including Two Cassandra-CCI Conglomerates, Inc. (TCCI), Perchpoint Holdings Corp. (PHC), Power Smart Capital Limited (PSCL) and A.G.N. Philippines, Inc. (AGNP)] ⁽ⁱ⁾	100.00	100.00	Philippines
Real Estate Business:			
San Miguel Properties, Inc. (SMPI) and subsidiaries [including SMPI-Government Service Insurance System Joint Venture Corporation (SMPI-GSIS JVC) and Integrated Geosolutions, Inc. (IGI)] ^(c)	99.68	99.68	Philippines
Others:			
SMC Stock Transfer Service Corporation	100.00	100.00	Philippines
ArchEn Technologies, Inc.	100.00	100.00	Philippines
SMITS, Inc. ^(c) and subsidiary	100.00	100.00	Philippines
Anchor Insurance Brokerage Corporation (AIBC)	58.33	58.33	Philippines
SMC Shipping and Lighterage Corporation (SMCSLC) and subsidiary	70.00	70.00	Philippines
Challenger Aero Air Corp.	100.00	100.00	Philippines
Philippine Breweries Corporation (PBC)	99.52	99.52	Philippines
Pacific Central Properties, Inc. (PCPI)	100.00	100.00	Philippines

(a) Parent Company owned 40% of BPI and SMBRP owned 60% of BPI when the increase in capital stock (including the assignment of the land in exchange for the common shares and assignment of BLI shares in exchange for the preferred shares) was approved by SEC on September 10, 2009. Consolidated to SMB in November 10, 2010 (Note 6).

(b) Consolidated to SMB effective January 29, 2010.

(c) The financial statements of these subsidiaries were audited by other auditors.

(d) Consolidated to SMYPIL effective December 17, 2009. JHK Investments was renamed "San Miguel Yamamura Knox Pty. Ltd." in February 2010.

(e) Formerly Global 5000 Investment Inc. Consolidated effective July 31, 2010.

(f) Consolidated effective December 15, 2010.

(g) Formerly Caticlan International Airport Development Corp. (CIADC). Consolidated to SMHC effective April 8, 2010.

(h) Consolidated to SMHC effective November 8, 2010.

(i) TCCI, PHC, and PSCL were consolidated to Vega effective July 30, 2010. AGNP was consolidated to Vega effective December 30, 2010.

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

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

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

Non-controlling interests include the interests not held by the Group in SMB, SMBHK, PT-Delta, SMBV, SMBTL, GSMI, PTSMIFB, SMPFC, PTSMPFI, SMPFI, SMYPC, SMYPIL, SMYAC, SMPI, AIBC, SMCSLC, PBC in 2010 and 2009 and also Petron, TADHC, ULC BVI, SMPI-GSIS JVC and IGI in 2010.

3. Significant Accounting Policies

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

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The FRSC approved the adoption of a number of new or revised standards, amendments to standards, and interpretations (based on IFRIC Interpretations) as part of PFRS. Accordingly, the Group changed its accounting policies in the following areas:

Adopted Effective 2010

The Group has adopted the following PFRSs starting January 1, 2010:

- Revised PFRS 3, *Business Combinations* (2008), effective for annual periods beginning on or after July 1, 2009, incorporates the following changes that are likely to be relevant to the Group's operations:
 - o The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
 - o Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
 - o Transaction costs, other than share and debt issue costs, will be expensed as incurred.
 - o Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in profit or loss.
 - o Any non-controlling interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

The Group has applied Revised PFRS 3 (2008) in the acquisitions of SMC Global, SRC, TADHC, ULC BVI, TCCI, PHC, PSCL, AGNP and IGI (Notes 5 and 13).

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

The Group has applied the Revised PAS 27 to acquisitions of non-controlling interests in SMC Global (Note 5).

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*, provide for the following: a) new application guidance to clarify the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedge relationship; and b) additional application guidance on qualifying items, assessing hedge effectiveness, and designation of financial items as hedged items. The amendments are effective for annual periods beginning on or after July 1, 2009. The adoption of these amendments to standards did not have a material effect on the consolidated financial statements.
- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*, provides guidance on the accounting for non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. It also applies to distributions in which the owners may elect to receive either the non-cash asset or a cash alternative. The liability for the dividend payable is measured at the fair value of the assets to be distributed. The interpretation is effective for annual periods beginning on or after July 1, 2009. The adoption of this Philippine Interpretation did not have a material effect on the consolidated financial statements.
- *Improvements to PFRSs 2008 - Amendments to PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations*, specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in paragraphs 6 to 8 of PFRS 5 are met. This applies regardless of the entity retaining

an interest (other than control) in the subsidiary. Disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. The amendments are effective for annual periods beginning on or after July 1, 2009. The adoption of these improvements to standard did not have a material effect on the consolidated financial statements.

- Amendments to PFRS 2, *Share-based Payment: Group Cash-settled Share-based Payment Transactions*, clarify the scope of PFRS 2, that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and regardless of whether the transaction is equity-settled or cash-settled; and the interaction of PFRS 2 and other standards, that in PFRS 2, a “group” has the same meaning as in PAS 27, that is, it includes only a parent and its subsidiaries. The amendments are effective for annual periods beginning on or after January 1, 2010. The adoption of these amendments to standards did not have a material effect on the consolidated financial statements.
- *Improvements to PFRSs 2009*, contain 15 amendments to 12 standards. The improvements are generally effective for annual periods beginning on or after January 1, 2010. The following are the said improvements or amendments to PFRSs, none of which has a significant effect on the consolidated financial statements of the Group:
 - o PFRS 2 and PFRS 3 (2008). The amendments clarify that business combinations as defined in PFRS 3 (2008) are outside the scope of PFRS 2, notwithstanding that they may be outside the scope of PFRS 3 (2008). Therefore business combinations among entities under common control and the contribution of a business upon the formation of a joint venture will not be accounted for under PFRS 2.
 - o PAS 38, *Intangible Assets*. The amendments clarify that (i) an intangible asset that is separable only together with a related contract, identifiable asset or liability is recognized separately from goodwill together with the related item; and (ii) complementary intangible assets with similar useful lives may be recognized as a single asset. The amendments also describe valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination for which no active market exists.
 - o Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*. The International Accounting Standards Board (IASB) amended the scope of IFRIC 9 so that embedded derivatives in contracts acquired in business combinations as defined in PFRS 3 (2008), joint venture formations and common control transactions remain outside the scope of IFRIC 9.
 - o Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*. The amendments remove the restriction that prevented a hedging instrument from being held by a foreign operation that itself is being hedged.
 - o PFRS 5. The amendments clarify that the required disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations are specified in PFRS 5.
 - o PFRS 8, *Operating Segments*. The amendments clarify that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker.
 - o PAS 1, *Presentation of Financial Statements*. The amendments clarify that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments.
 - o PAS 7, *Statement of Cash Flows*. The amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities.
 - o PAS 17, *Leases*. The IASB deleted guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. The amendments clarify that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraphs 7 - 13 of PAS 17, taking account of the fact that land normally has an indefinite economic life.
 - o PAS 36, *Impairment of Assets*. The amendments clarify that the largest unit to which goodwill should be allocated is the operating segment level as defined in PFRS 8 before applying the aggregation criteria of PFRS 8.
 - o PAS 39. The amendments provide: (i) additional guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be separated; (ii) clarify that the scope exemption in PAS 39 paragraph 2 (g) is restricted to forward contracts, i.e. not options, between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date within a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and (iii) clarify that the gains or losses on a cash flow hedge should be reclassified from other comprehensive income to profit or loss during the period that the hedged forecast cash flows impact profit or loss.

Additional disclosures required by the revised standards and improvements were included in the consolidated financial statements, where applicable.

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

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

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after February 1, 2010.
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39 paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010.
- Revised PAS 24, *Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011.
- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC 14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)*. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011.
- *Improvements to PFRSs 2010* contain 11 amendments to 6 standards and 1 interpretation, of which only the following are applicable to the Group.
 - o PFRS 3. The amendments: (i) clarify that contingent consideration arising in a business combination previously accounted for in accordance with PFRS 3 (2004) that remains outstanding at the adoption date of PFRS 3 (2008) continues to be accounted for in accordance with PFRS 3 (2004); (ii) limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and (iii) expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. The amendments are effective for annual periods beginning on or after July 1, 2010. Early application is permitted and is required to be disclosed.
 - o PAS 27. The amendments clarify that the consequential amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures*, resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010.
 - o PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011.
 - o PAS 1. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income also is required to be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011.
 - o PAS 34, *Interim Financial Reporting*. The amendments add examples to the list of events or transactions that require disclosure under PAS 34 and remove references to materiality in PAS 34 that describes other minimum disclosures. The amendments are effective for annual periods beginning on or after January 1, 2011.
 - o Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*. The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendments are effective for annual periods beginning on or after January 1, 2011.

None of the above amendments are expected to have a significant effect on the consolidated financial statements of the Group.

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

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7)*, require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011.
- *Deferred Tax: Recovery of Underlying Assets (Amendments to PAS 12, Income Taxes)* introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with PAS 40, *Investment Property*. The exception also applies to investment properties acquired in a business combination accounted for in accordance with PFRS 3 provided the acquirer subsequently measure these assets applying the fair value model. The amendments integrated the guidance of Philippine Interpretation Standards Interpretation Committee (SIC) - 21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets* into PAS 12, and as a result Philippine Interpretation SIC - 21 has been withdrawn. The effective date of the amendments is for periods beginning on or after January 1, 2012 and is applied retrospectively.
- PFRS 9, *Financial Instruments* (2009) was issued as the first phase of the PAS 39 replacement project. The chapters of the standard released in 2009 only related to the classification and measurement of financial assets. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial asset. In October 2010, a new version of PFRS 9, *Financial Instruments* (2010) was issued which now includes all the requirements of PFRS 9 (2009) without amendment. The new version of PFRS 9 also incorporates requirements with respect to the classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard is effective for annual periods beginning on or after January 1, 2013. PFRS 9 (2010) supersedes PFRS 9 (2009). However, for annual periods beginning before January 1, 2013, an entity may elect to apply PFRS 9 (2009) rather than PFRS 9 (2010).

None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 9, *Financial Instruments*, which will be mandatory for the Group's 2013 consolidated financial statements and could change the classification and measurement of financial assets.

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

Financial Assets and Financial Liabilities

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

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

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

Determination of Fair Value. The fair value of financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there is no significant change in economic circumstances since the time of the transaction.

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

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

Financial Assets

Financial Assets at FVPL. A financial asset is classified at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

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

Financial assets may be designated by management at initial recognition as at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;
- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

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

The Group's derivative assets and financial assets at FVPL are classified under this category (Notes 12 and 42).

The combined carrying amounts of financial assets under this category amounted to P442 and P202 as of December 31, 2010 and 2009, respectively (Note 42).

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

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

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The Group's cash and cash equivalents, trade and other receivables and noncurrent receivables and deposits are included in this category (Notes 9, 10 and 20).

The combined carrying amounts of financial assets under this category amounted to P225,875 and P264,426 as of December 31, 2010 and 2009, respectively (Note 42).

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Any interest earned on the HTM investments shall be recognized as part of "Interest income" in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" in the consolidated statements of income. Gains or losses are recognized in profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process.

As of December 31, 2010 and 2009, the Group has no investments accounted for under this category.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Fair value reserve" in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right to receive payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

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

The Group's investments in equity securities included under "Available-for-sale financial assets" account are classified under this category (Note 14).

The carrying amounts of financial assets under this category amounted to P3,597 and P351 as of December 31, 2010 and 2009, respectively (Note 42).

Financial Liabilities

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

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

The Group's derivative liabilities are classified under this category (Notes 22 and 42).

The carrying amounts of financial liabilities under this category amounted to P71 and P111 as of December 31, 2010 and 2009, respectively (Note 42).

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

Included in this category are the Group's liabilities arising from its trade or borrowings such as drafts and loans payable, accounts payable and accrued expenses, long-term debt, finance lease liabilities and other noncurrent liabilities (Notes 21, 22, 23, 24 and 35).

The combined carrying amounts of financial liabilities under this category amounted to P536,828 and P179,882 as of December 31, 2010 and 2009, respectively (Note 42).

Debt Issue Costs

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest rate method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in profit or loss.

Derivative Financial Instruments and Hedging

Freestanding Derivatives

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

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

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

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

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

As of December 31, 2010 and 2009, the Group has no outstanding derivatives accounted for as fair value hedges.

Cash Flow Hedge. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented under the "Hedging reserve" account in equity. The ineffective portion is immediately recognized in profit or loss.

If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly in equity are transferred from equity and included in the initial measurement of the cost or carrying amount of the asset or liability. Otherwise, for all other cash flow hedges, gains or losses initially recognized in equity are transferred from equity to profit or loss in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affect profit or loss.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been reported directly in equity is retained in equity until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in equity is recognized in profit or loss.

As of December 31, 2010 and 2009, the Group has no outstanding derivatives accounted for as cash flow hedges.

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

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

Embedded Derivatives

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

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

Classification of Financial Instruments Between Debt and Equity

From the perspective of the issuer, a financial instrument is classified as debt instrument if it provides for a contractual obligation to:

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

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

Offsetting Financial Instruments

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

Inventories

Finished goods, goods in process and materials and supplies are valued at the lower of cost and net realizable value.

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

Finished goods and goods in process	- at cost which includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; cost of goods in process includes unrealized gain (loss) on fair valuation of agricultural produce; costs are determined using the moving-average method.
Petroleum products (except lubes and greases, waxes and solvents), crude oil, and other products	- at cost which includes duties and taxes related to the acquisition of inventories; costs are determined using the first-in, first-out method.
Lubes and greases, waxes and solvents	- at cost which includes duties and taxes related to the acquisition of inventories; costs are determined using the moving-average method.
Materials, supplies and others	- at cost using the moving-average method.
Coal	- at cost using the first-in, first-out method.

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

For petroleum products, crude oil, and tires, batteries and accessories (TBA), the net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to complete and/or market and distribute.

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

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

Biological Assets and Agricultural Produce

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

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

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

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

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

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

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

Business Combination

Acquisitions on or after January 1, 2010

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

For acquisitions on or after January 1, 2010, the Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration

payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

- *Goodwill in a Business Combination*

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

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

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

- *Intangible Asset Acquired in a Business Combination*

The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of intangible asset is assessed to be either finite or indefinite.

Intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimates. The amortization expense on intangible asset with finite life is recognized in profit or loss.

- *Loss of Control*

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Acquisitions Prior to January 1, 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs.

The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

Transactions Under Common Control

Transactions under common control entered into in contemplation of each other, and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using the book value accounting.

Non-controlling Interests

For acquisitions of non-controlling interests on or after January 1, 2010, the acquisitions are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Investments in Associates

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

Under the equity method, the investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the associate after the date of acquisition. The Group's share of the profit or loss of the associate is recognized in the Group's profit or loss. Dividends received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount, may also be necessary for changes in the Group's proportionate interest in the associate arising from changes in the associate's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The Group's share of those changes is recognized in other comprehensive income.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized.

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

Upon acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with PFRS 3. Consequently:

- a. goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.
- b. any excess of the Group's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share in the associate's profit or loss in the period in which the investment is acquired.

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

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

Interest in Joint Venture

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

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

Property, Plant and Equipment

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

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

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

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

	Number of Years
Land improvements	5 - 50
Buildings and improvements	2 - 50
Power plants	3 - 43
Refinery and plant equipment	5 - 16
Service stations and other equipment	1 1/2 - 10
Machinery and equipment	3 - 40
Transportation equipment	5 - 7
Tools and small equipment	2 - 5
Office equipment, furniture and fixtures	2 - 10
Molds	2 - 5
Leasehold improvements	5 - 50
	or term of the lease, whichever is shorter

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

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization are recognized in profit or loss.

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

Investment Properties

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

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

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

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

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

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

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

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs,

are not capitalized and expenditure is recognized 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.

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

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

	Number of Years
Computer software	2 - 8
Service concession rights	25
Mining rights	19 - 30
Leasehold rights	20 or term of the lease, whichever is shorter
Land use rights	25 - 50 or term of the lease, whichever is shorter

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

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

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

Service Concession Arrangements

Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entities in the Group must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the grantor controls [through ownership, beneficial entitlement or otherwise] any significant residual interest in the infrastructure at the end of the term of the arrangement are accounted for under the provisions of the Philippine Interpretation IFRIC 12, *Service Concession Arrangements*. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of this Interpretation if the conditions in (a) are met.

This Interpretation applies to both: (a) infrastructure that the entities in the Group constructs or acquires from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the entity in the Group access for the purpose of the service arrangement.

Infrastructures within the scope of this Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of contractual arrangements within the scope of this Interpretation, an entity acts as a service provider. An entity constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

An entity recognizes and measures revenue in accordance with PAS 11 and PAS 18, for the services it performs. If an entity performs more than one service (i.e. construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

When an entity provides construction or upgrades services, the consideration received or receivable by the entity is recognized at its fair value. An entity accounts for revenue and costs relating to construction or upgrade services in accordance with PAS 11. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the percentage costs incurred to date to estimated total costs for each contract. The applicable entities account for revenue and costs relating to operation services in accordance with PAS 18.

An entity recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. An entity recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the applicable entities have contractual obligations it must fulfill as a condition of its license (a) maintain the infrastructure to a specified level of serviceability or (b) to restore the infrastructure to a specified condition before it is handed over to the grantor at

the end of the service arrangement, it recognizes and measures these contractual obligations in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, i.e. at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date.

In accordance with PAS 23, *Borrowing Costs*, borrowing costs attributable to the arrangement are recognized as an expense in the period in which they are incurred unless the applicable entities have a contractual right to receive an intangible asset (a right to charge users of the public service). In this case, borrowing costs attributable to the arrangement are capitalized during the construction phase of the arrangement.

Intangible Asset - Service Concession Rights

The Group's intangible asset - service concession right pertains mainly to its right to charge users of the public service in connection with the service concession and related arrangements. This is recognized initially at the fair value of the construction services. Following initial recognition, the intangible asset is carried at cost less accumulated amortization and any accumulated impairment losses.

This includes the service concession right granted by the ROP to the Group to operate the Caticlan Airport, as expressly stated in the CA (Note 35). This includes the right to design and finance the development of the Caticlan Airport and operate and maintain the airport during the concession period. Except for the position that relates to the annual fee as defined in the CA, the right is earned and recognized by the Group as the project progresses. This also includes the present value of the obligation to pay the annual franchise fee to the ROP over the concession period (Note 4).

The intangible asset - service concession right is amortized using the straight-line method over the estimated useful economic life which is the service concession period, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The service concession period is 25 years. The amortization period and the amortization method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

Gains or losses from derecognition of an intangible asset - service concession right are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Deferred Exploration and Evaluation Costs

Deferred exploration and evaluation costs comprise expenditures which are directly attributable to:

- Researching and analyzing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and
- Compiling pre-feasibility and feasibility studies.

Deferred exploration and evaluation costs also include expenditures incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest, amounts payable to third parties to acquire interests in existing projects.

Exploration assets are reassessed on a regular basis and tested for impairment provided that at least one of the following conditions is met:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

If the project proceeds to development stage, the amounts included within deferred exploration and evaluation costs are transferred to property and equipment under mine development costs.

Impairment of Non-financial Assets

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

recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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

Cylinder Deposits

The liquefied petroleum gas cylinders remain the property of the Group and are loaned to dealers upon payment by the latter of an equivalent 100% of the acquisition cost of the cylinders.

The Group maintains the balance of cylinder deposits at an amount equivalent to three days worth of inventory of its biggest dealers, but in no case lower than P200 at any given time, to take care of possible returns by dealers.

At the end of each reporting period, cylinder deposits, shown under "Other noncurrent liabilities - others" account in the consolidated statements of financial position, are reduced for estimated non-returns. The reduction is credited directly to profit or loss.

Provisions

Provisions are recognized when the Group has: a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or b) a present obligation that arises from past events but is not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability. 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 those 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 some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Infrastructure restoration obligation (IRO) represents the present value of the Group's obligation to keep the rehabilitated and upgraded Caticlan Airport at a serviceability level acceptable to the ROP through continuous maintenance and restoration prior to turnover to the ROP at the end of the concession period.

Share Capital

Common Shares

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

Preferred Shares

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

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

Treasury Shares

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

Revenue Recognition

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

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

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

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

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

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

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

Cost and Expense Recognition

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

Share-based Payment Transactions

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

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

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

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

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset;
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Finance Lease

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated statements of financial position as finance lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are recognized in profit or loss.

Capitalized lease assets are depreciated over the estimated useful life of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating Lease

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

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

an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

Borrowing Costs

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

Research and Development Costs

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

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

Retirement Costs

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

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

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

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

Foreign Currency

Foreign Currency Translations

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Nonmonetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Nonmonetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of AFS equity investments, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in other comprehensive income.

Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates at the reporting dates.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve ("Translation reserve") in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and presented in the "Translation reserve" in equity.

Taxes

Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred Tax. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

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

Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting

policies. Thereafter, the assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Intangible assets, property, plant and equipment and investment property once classified as held for sale or distribution are not amortized or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

Discontinued Operations

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

Related Parties

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

Basic and Diluted Earnings Per Common Share (EPS)

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

Diluted EPS is computed in the same manner, adjusted for the effects of the shares issuable to employees and executives under the Parent Company's ESPP and LTIP, respectively, which are assumed to be exercised at the date of grant.

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

Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 7 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements. There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchase between business segments and between geographical segments. Such sales and purchases are eliminated in consolidation.

Contingencies

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

Events After the Reporting Date

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

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

Finance Lease - Company in the Group as Lessee. In accounting for its Independent Power Producer (IPP) Administration Agreements with Power Sector Assets and Liabilities Management Corporation (PSALM), the Group's management has made a judgment that the IPP Administration Agreement is an agreement that contains a lease. In addition, TSML and TGT, the Group's joint venture in Thailand entered into lease agreements with Thai bank covering transportation equipment. The Group's management has made a judgment that it has substantially acquired all the risks and rewards incidental to ownership of the power plants and transportation equipment. Accordingly, the Group accounted for the agreements as finance lease and recognized the power plants and transportation equipment and finance lease liabilities at the present value of the agreed monthly payments (Notes 16 and 35).

Finance lease liabilities recognized in the consolidated statement of financial position amounted to P208,407 and P30 as at December 31, 2010 and 2009, respectively (Note 35). The carrying amount of power plants and transportation equipment under finance lease amounted to P209,301 and P30 as of December 31, 2010 and 2009, respectively (Note 16).

Operating Lease Commitments - Group as Lessor/Lessee. The Group has entered into various lease agreements as either a lessor or a lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases while the significant risks and rewards for properties leased from third parties are retained by the lessors.

Rent expense charged to profit or loss amounted to P1,795, P2,120 and P1,796 in 2010, 2009 and 2008, respectively (Notes 27, 28 and 35).

Applicability of Philippine Interpretation IFRIC 12. In accounting for the Group's transactions in connection with its Concession Agreement (CA) with the Republic of the Philippines (ROP), significant judgment was applied to determine the most appropriate accounting policy to use. Management used Philippine Interpretation IFRIC 12, as guide and determined that the CA is within the scope of the interpretation since it specifically indicated that ROP will regulate what services the Group must provide and at what price those will be offered, and that at the end of the concession period, the entire infrastructure, as defined in the CA, will be transferred to the ROP. Reference was made to the terms of the CA in determining the consideration receivable from the ROP in exchange for the fulfillment of the Group's obligations under the CA.

Management determined that the consideration receivable is an intangible asset in the form of a license to operate the Caticlan Airport; i.e. license to charge fees to users. Judgment was further exercised by management in determining the components of the cost of acquiring the right. Further reference to the terms of the CA (Note 35) was made to determine such costs and it identified the following as the components: (i) total Project cost; (ii) present value of total franchise fees over 25 years amounting to P8 per year; and, (iii) present value of IRO.

Management also exercised judgment in determining the timing and manner of recognition of these costs. Project cost is recognized as part of intangible assets as the construction progresses (Note 19). It used the cost to cost method as it believes that the actual cost of construction is most relevant to the amount that should be recognized as cost of the intangible asset at the end of every reporting period as opposed to the other percentage of completion approach.

The present value of the IRO is recognized as part of intangible assets upon completion of the Project and amortized simultaneously with the cost related to the Project because only at that time would significant maintenance of the Caticlan Airport also commence. However, since the Group has already started the maintenance of the existing Caticlan Airport which is currently being rehabilitated, the entire present value of the annual fees have already been recognized in construction in progress - service concession arrangements and portion of which representing the actual amount incurred in the current year for the maintenance of the Caticlan Airport have been recognized as part of the cost of intangible assets and also subjected to amortization.

The present value of the obligation to pay annual franchise fees over 25 years has been immediately recognized as part of intangible assets because the right related to it has already been granted and is already being enjoyed by the Group as evidenced by its taking over the operations of the Caticlan Airport during the last quarter of 2010. Consequently, management has also started amortizing the related value of the intangible asset.

Difference in judgment with respect to the accounting treatment of the transactions would materially affect the assets, liabilities and operating results of the Group.

Assumption of Profit Margin on the Service Concession Project. The Group did not assume any profit margin for the Project as it believes that the fair value of the intangible asset related to it reasonably approximates the cost of the Project. It believes that the margin of its contractors is enough to cover any difference in the fair value and carrying amount.

Classification of Redeemable Preferred Shares. Based on the features of the preferred shares, particularly mandatory redemption that TADHC issued, management determined that the shares are in substance a financial liability. Accordingly, it was classified as part of "Other noncurrent liabilities" account in the 2010 consolidated statements of financial position (Note 24).

Accounting for SMPI's Investment in SMPI-GSIS JVC. Under normal circumstances, the Group would account for its investment in a joint venture classified as jointly controlled entity using proportionate consolidation. In the recently consummated joint venture of SMPI with GSIS, however, significant judgment was exercised to determine whether SMPI's interest in the joint venture should be accounted for as jointly controlled entity under PAS 31 or as a subsidiary under PAS 27. After considering the salient provisions of

the Joint Venture Agreement (JVA), particularly, with respect to the option granted by SMPI to GSIS, i.e. GSIS to sell to SMPI its whole ownership interest in SMPI-GSIS JVC (the "Put Option") at a pre-determined exercise price at different dates, management concluded that it is most appropriate to account for the investment as a subsidiary. The main factor considered by management was the potential voting rights brought about by the Put Option which gives SMPI control over the SMPI-GSIS JVC once exercised (Note 35). At present, although SMPI owns 52% of SMPI-GSIS JVC, the JVA clearly specified joint control of the entity but such was without due consideration to the Put Option yet; hence the SMPI-GSIS JVC was consolidated in the Group's financial statements.

Determining Fair Values of Financial Instruments. Where the fair values of financial assets and financial liabilities recognized in the consolidated statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The Group uses judgments to select from variety of valuation models and make assumptions regarding considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value.

Contingencies. The Group currently has several tax assessments, legal and administrative claims. The Group's estimate of the probable costs for the resolution of these assessments and claims has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments, legal and administrative claims will have a material adverse effect on its consolidated financial position and consolidated financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (Note 45).

Estimates

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

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

The allowance for impairment losses amounted to P4,519 and P2,729 as of December 31, 2010 and 2009, respectively. The carrying amounts of trade and other receivables amounted to P75,904 and P49,082 as of December 31, 2010 and 2009, respectively (Note 10).

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

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

The allowance for inventory losses amounted to P1,297 and P1,149 as of December 31, 2010 and 2009, respectively. The carrying amounts of inventories amounted to P57,442 and P25,458 as of December 31, 2010 and 2009, respectively (Note 11).

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

Unrealized gain on fair valuation of agricultural produce included in the cost of inventories as of December 31, 2010 and 2009 amounted to P41 and P63, respectively (Note 11).

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

Fair value of financial assets and financial liabilities are discussed in Note 42.

Estimated Useful Lives of Investment Properties, Containers and Property, Plant and Equipment. The Group estimates the useful lives of investment properties, containers and property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties, containers and property, plant and equipment are reviewed

periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

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

Accumulated depreciation and amortization of investment properties and property, plant and equipment amounted to P96,410 and P56,714 as of December 31, 2010 and 2009, respectively. Property, plant and equipment, net of accumulated depreciation and amortization amounted to P319,790 and P73,892 as of December 31, 2010 and 2009, respectively (Note 16). Investment properties, net of accumulated depreciation amounted to P2,524 and P2,263 as of December 31, 2010 and 2009, respectively (Note 17). Deferred containers net of accumulated amortization included under "Other noncurrent assets" account in the consolidated statements of financial position amounted to P4,420 and P4,446 as of December 31, 2010 and 2009, respectively (Note 20).

Fair Value of Investment Properties. The fair value of investment property presented for disclosure purposes is based on market values, being the estimated amount for which the property can be exchanged between a willing buyer and seller in an arm's length transaction, or based on a most recent sale transaction of a similar property within the same vicinity where the investment property is located.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate estimated future cash flows expected to be received from leasing out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Estimated fair values of investment properties amounted to P3,129 and P2,886 as of December 31, 2010 and 2009, respectively (Note 17).

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

Intangible assets with finite useful lives amounted to P3,544 and P1,433 as of December 31, 2010 and 2009, respectively (Note 19).

Estimated Useful Lives of Intangible Asset - Service Concession Rights. The Group estimates the useful lives of intangible assets arising from service concessions based on the period over which the assets are expected to be available for use, which is 25 years. The Group has not included any renewal period on the basis of uncertainty as of reporting date of the probability of securing renewal contract at the end of the original contract term.

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

The carrying amounts of goodwill as of December 31, 2010 and 2009 amounted to P30,251 and P6,408, respectively (Note 19).

The carrying amounts of trademarks, licenses and brand names and formulas and recipes amounted to P7,436 and P2,197 as of December 31, 2010 and 2009, respectively (Note 19).

Acquisition Accounting. The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed be recognized at the date of acquisition at their respective fair values.

The application of the acquisition method requires certain estimates and assumptions especially concerning the determination of the fair values of acquired intangible assets and property, plant and equipment as well as liabilities assumed at the date of the acquisition. Moreover, the useful lives of the acquired intangible assets, property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

Recoverability of Deferred Exploration and Development Costs. A valuation allowance is provided for estimated unrecoverable deferred exploration and development costs based on the Group's assessment of the future prospects of the mining properties, which are primarily dependent on the presence of economically recoverable reserves in those properties.

The Group's mining activities are all in the exploratory stages as of December 31, 2010. All related costs and expenses from exploration are currently deferred as exploration and development costs to be amortized upon commencement of commercial operations. The Group

had not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded recoverable amounts as of December 31, 2010.

Deferred exploration and development costs included in "Other noncurrent assets - others" in the consolidated statements of financial position amounted to P41 as of December 31, 2010 (Note 20). There were no impairment losses recognized for the year ended December 31, 2010.

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

Deferred tax assets amounted to P7,134 and P8,883 as of December 31, 2010 and 2009, respectively (Note 25).

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

Accumulated impairment losses of property, plant and equipment and investment properties amounted to P12,108 and P8,369 as of December 31, 2010 and 2009, respectively. The aggregate amount of investments and advances, AFS financial assets, property, plant and equipment, investment properties, biological assets, intangible assets - service concession rights and other intangible assets with finite useful lives, containers, and idle assets, amounted to P479,496 and P117,628 as of December 31, 2010 and 2009, respectively (Notes 13, 14, 16, 17, 18, 19 and 20).

Present Value of Defined Benefit Obligation. The present value of the retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 36 to the consolidated financial statements and include discount rate, expected return on plan assets and salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

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

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

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

The Group has a net cumulative unrecognized actuarial gain amounting to P25,846 and P3,271 as of December 31, 2010 and 2009, respectively (Note 36).

Present Value of Obligation Under a Put Option. In estimating the obligation, significant assumptions were made by management, such as the period in which the option would be exercised and the discount rate appropriate to determine the present value of such obligation. Management assumed that the option will be exercised within the next 12 months from the reporting date. Accordingly, the Group used a risk-free rate of 3.9% based on the Group's ordinary and short-term borrowing arrangements.

Management believes that the Group's estimated obligation arising from the Put Option is reasonable; however, subsequent changes in assumptions or circumstances may potentially result in significant increase or decrease in the obligation under the Put Option. Should there be changes in assumptions or circumstances and the amount of the estimated obligation will be recognized by the Group prospectively.

As of December 31, 2010, the estimated obligation of the Group under a Put Option arrangement, amounts to P386 (Note 22).

Asset Retirement Obligation. The Group has an ARO arising from leased service stations and depots. Determining ARO requires estimation of the costs of dismantling, installations and restoring leased properties to their original condition. The Group determined the amount of ARO, by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 4.81% to 11.17% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The Group also has an ARO arising from its refinery. However, such obligation is not expected to be settled for the foreseeable future and therefore a reasonable estimate of fair value cannot be determined. Thus, the ARO included under "Other noncurrent liabilities" account in the consolidated statements of financial position amounting to P815 as of December 31, 2010, covers only the Group's leased services stations and depots (Note 24).

Present Value of Annual Franchise Fee and IRO - Service Concession Arrangements. Almost the entire amount of recognized intangible asset - service concession rights as of December 31, 2010 pertains to the present value of annual franchise fee payable to the ROP over the concession period. The recognition of the present value of the IRO is temporarily lodged in construction in progress - service concession arrangements until the completion of the Project.

The present value of the annual franchise fee and IRO were determined based on the future value of the obligations discounted at the Group's internal borrowing rate which is believed to be a reasonable approximation of the applicable credit-adjusted risk-free market borrowing rate. The carrying amount of present value of annual franchise fee already recognized in the intangible asset and carrying amount of IRO recognized in construction in progress - service concession arrangements are presented in Notes 19 and 20. A significant change in such internal borrowing rate used in discounting the estimated cost would result in a significant change in the amount of liabilities recognized with a corresponding effect on profit or loss.

Amortization of Intangible Asset - Service Concession Rights. Management used 25 years to amortize portion of the intangible asset, together with the portion representing maintenance costs already incurred and recognized as intangible asset - service concession rights (Note 19).

Percentage of Completion - Service Concession Arrangements. The Group determines the percentage-of-completion of the contract by computing the proportion of actual contract costs incurred to date, to the latest estimated total Project cost. The Group reviews and revises when necessary the estimate of Project cost as it progresses to appropriately adjust the amount construction revenue recognized at the end of each reporting period (Note 20).

5. Business Combinations and Asset Acquisitions

Business Combinations:

Power and Mining

■ SMEC

On October 26, 2009, SMEC's BOD approved the subscription by the Parent Company and Global 5000 Investment Inc. (SMC Global) (now named SMC Global Power Holdings Corp. as approved by the Securities and Exchange Commission (SEC) on October 15, 2010) of 15,000 and 60,000 shares, respectively, of SMEC's remaining unissued capital stock.

The Parent Company, on November 16, 2009, and SMC Global, on November 17, 2009, executed the Subscription Agreement setting forth their aforementioned subscription of the remaining unissued capital stock of SMEC. Prior to the subscription, the Parent Company beneficially owned the 25,000 subscribed common stock of SMEC representing 100% ownership interest. On November 26, 2009, the Parent Company paid in full its remaining unpaid subscription to the 24,995 common shares of stock in SMEC amounting to P1.835.

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

Mining Companies

Sultan Energy Phils. Corp. (SEPC)

On May 13, 2010, SMEC acquired 100% ownership interest in SEPC, which has a coal mining property and right over an aggregate area of 7,000 hectares, more or less composed of 7 coal blocks located in Lake Sebu, South Cotabato and Sen. Ninoy Aquino, Sultan Kudarat covered by Coal Operating Contract (COC) No. 134 with the Department of Energy (DOE) dated February 23, 2005. SEPC has an In-situ coal resources (measured plus indicative coal resources) of about 55 million metric tons based on exploratory drilling conducted by SEPC and confirmatory drilling conducted by an independent geologists from March 13 to April 19, 2010.

Daguma Agro Minerals, Inc. (DAMI)

On January 29, 2010, SMEC acquired 100% ownership interest in DAMI, a coal mining company with coal property covered by COC No. 126 with the DOE, dated November 19, 2002, located in Barangay Ned, Lake Sebu, South Cotabato consisting of 2 coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 95 million metric tons based on exploratory drilling conducted by DAMI and additional in-fill drilling being conducted by independent geologists which commenced last May 13, 2010.

Bonanza Energy Resources, Inc. (BERI)

On January 29, 2010, SMEC acquired BERI, a mining company with coal property covered by COC No. 138 with the DOE dated May 26, 2005. COC No. 138 is located in Maitum, Sarangani Province and Barangay Ned, Lake Sebu, South Cotabato consisting of 8 coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal

resources) of about 5 million metric tons based on initial exploratory drilling conducted by SMEC geologists in Maitum, Sarangani during the period from May to July 2010. The exploratory drilling to be conducted on 4 coal blocks of BERI located in Barangay Ned, Lake Sebu Municipality is projected to contain 30 million metric tons based on a geological setting and initial exploratory drilling conducted in Maitum.

The coal operating contracts met the contractual/legal criterion and qualified as intangible assets under PFRS 3.

On February 9, 2009, March 26, 2008 and December 15, 2009, the DOE approved the conversion of the COC for Exploration to COC for Development and Production of SEPC, DAMI and BERI, respectively.

As of December 31, 2010, SEPC, DAMI and BERI are in the exploratory stages of their mining activities. All related costs and expenses from exploration are currently deferred as exploration and development costs to be amortized upon commencement of commercial operations included as part of "Other noncurrent assets - others" account in the statements of financial position (Note 20).

The Group had not identified any facts and circumstances which suggest that the carrying amounts of the deferred exploration and development costs exceeded recoverable amounts as of December 31, 2010.

The following summarizes the recognized amounts of assets acquired and liabilities assumed from SEPC, DAMI and BERI at the acquisition date:

	2010
Assets	
Other receivables	P1
Deferred exploration and development costs	72
Other intangible assets - mining rights	81
Liabilities	
Accounts payable and accrued expenses	(8)
Due to related parties	(47)
Total identifiable net assets at fair value	P99

Mining rights were recognized as a result of the acquisition as follows:

	Note	2010
Total cash consideration transferred		P1,818
Total identifiable net liabilities at fair value		(99)
Other intangible asset - mining rights	19, 39	P1,719

■ SPDC

On February 11, 2010, SPDC's BOD approved the subscription by the Parent Company and SMC Global of 1,500 and 6,000 shares, respectively, of SPDC's remaining unissued capital stock.

On March 15, 2010, the Parent Company and SMC Global executed the Subscription Agreement setting forth their aforementioned subscription of the remaining unissued capital stock of SPDC. Prior to the subscription, the Parent Company beneficially owned the 2,500 subscribed common stock of SPDC, representing 100% ownership interest. On March 19, 2010, the Parent Company paid in full its remaining unpaid subscription to the 2,495 common shares of stock in SPDC amounting to P0.1875.

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

■ PanAsia

On November 3, 2009, as part of the corporate restructuring of the Parent Company's power and energy business cluster, PanAsia became a direct wholly-owned subsidiary of the Parent Company as a result of SMEC's sale of its 100% equity ownership interest in PanAsia in favor of the Parent Company for P2.5.

■ SPPC

On May 19, 2010, the Parent Company paid in full its remaining unpaid subscription to the 2,495 common shares of stock in SPPC amounting to P0.1875.

■ SMC Global

On August 9, 2010, the Parent Company obtained control of SMC Global by acquiring 75% of the shares and voting interests therein.

From the date of acquisition, SMC Global has contributed revenue of P25,665 and profit of P8,230 to the Group's results.

The Group has elected to measure non-controlling interest at proportionate interest in identifiable net assets.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2010
Assets	
Cash and cash equivalents	P2,699
Trade and other receivables	5,578
Inventories	893
Prepaid expenses and other current assets	556
Investments and advances - net	12,824
Property, plant and equipment - net	140,260
Deferred tax assets	36
Other noncurrent assets - net	1,367
Liabilities	
Accounts payable and accrued expenses	(4,194)
Income and other taxes payable	(1,261)
Deferred tax liabilities	(225)
Other noncurrent liabilities	(148,226)
Total identifiable net assets at fair value	P10,307

The fair value of the trade and other receivables amounts to P5,578. None of the receivables has been impaired and it is expected that the full amount can be collected.

Bargain purchase gain, which was presented as part of "Other income (charges)" in the consolidated statement of income, was recognized as a result of the acquisition as follows:

	<i>Note</i>	2010
Total cash consideration transferred		P3,240
Non-controlling interest measured at proportionate interest in identifiable net assets		2,577
Total identifiable net assets at fair value		(10,307)
Bargain purchase gain	33	(P4,490)

Acquisition of Non-controlling Interests

On September 3 and 8, 2010, the Parent Company acquired the remaining 25% ownership in SMC Global, making it a wholly-owned subsidiary. A cash consideration of P1,080 was paid to non-controlling interest shareholders. The carrying amount of SMC Global's net assets on the date of acquisition was P10,111, and the carrying amount of the additional interest acquired was P2,528. The difference of P1,448 between the consideration and the carrying amount of the interest acquired has been recognized in "Revaluation increment" in the consolidated statements of changes in equity.

SMEC, PanAsia, SPPC and SPDC

On May 17, 2010, the BOD of the Parent Company approved the sale of its entire 40% ownership interest in SMEC and SPDC and 100% ownership in PanAsia and SPPC. On September 21, 2010, the Parent Company and SMC Global executed Deed of Absolute Sale of Shares whereby the former's entire interest in SMEC, PanAsia, SPPC and SPDC were sold for a total price of P7.15. Following such sale, SMEC, PanAsia, SPPC and SPDC became wholly-owned subsidiaries of SMC Global.

Fuel and Oil

■ SRC and Petron

The Parent Company entered into an option agreement with SEA Refinery Holdings B.V. (SEA BV) (the "Option Agreement") dated December 24, 2008, as amended on March 4, 2010, pursuant to which SEA BV granted to the Parent Company an option to acquire and purchase up to 100% of its interests in SEA BV's wholly-owned subsidiary, SRC, consisting of: (i) 16,000,000 common shares of SRC, representing 40% of the outstanding common shares of SRC on or before April 30, 2010; and (ii) 24,000,000 common shares of SRC, representing 60% of the outstanding common shares of SRC on or before December 23, 2010. SRC owns 4,696,885,564 common shares of Petron (representing approximately 50.1% of the outstanding common shares of Petron). The Parent Company conducted a tender offer as a result of its intention to exercise the option to acquire 100% of SRC from SEA BV. The tender offer period ended on June 2, 2010 and a total of 184,702,538 Petron common shares tendered were crossed at the PSE on June 8, 2010, which is equivalent to approximately 1.97% of the issued and outstanding common shares of Petron.

On June 15, 2010, the Parent Company executed the Deed of Absolute Sale for the purchase of the 16,000,000 common shares of SRC from SEA BV.

On August 31, 2010, the Parent Company purchased an additional 1,517,637,398 common shares of Petron from SEA BV through a special block sale crossed at the PSE. Said shares comprise approximately 16.19% of the outstanding common shares of Petron.

On October 18, 2010, the Parent Company also acquired from the public a total of 530,624 common shares of Petron, representing approximately 0.01% of the outstanding common shares of Petron.

On December 15, 2010, the Parent Company exercised its option to acquire the remaining 60% of SRC from SEA BV pursuant to the Option Agreement. With the exercise of the option, the Parent Company beneficially owns approximately 68.26% of the outstanding common shares of Petron.

From the date of acquisition, SRC and Petron has contributed revenue of P10,383 and profit of P284 to the Group's results.

The Group has elected to measure non-controlling interest at proportionate interest in identifiable net assets.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2010
Assets	
Cash and cash equivalents	P39,948
Trade and other receivables - net	26,945
Inventories	34,422
Prepaid expenses and other current assets	3,177
Investments and advances - net	2,172
Property, plant and equipment - net	34,550
Investment properties - net	121
Assets held for sale	823
Deferred tax assets	394
Other noncurrent assets - net	23,422
Liabilities	
Drafts and loans payable	(34,987)
Accounts payable and accrued expenses	(21,604)
Income and other taxes payable	(6)
Current maturities of long-term debt - net of debt issue costs	(9,193)
Long-term debt - net of current maturities and debt issue costs	(43,452)
Deferred tax liabilities	(2,312)
Other noncurrent liabilities	(2,652)
Total identifiable net assets at fair value	P51,768

The fair value of the trade and other receivables amounts to P26,945. The gross amount of trade receivables is P27,883, of which P938 are expected to be uncollectible at the acquisition date (Note 10).

Goodwill was recognized as a result of the acquisition as follows:

	Note	2010
Total consideration transferred:		
Cash		P33,323
Equity interest held before business combination		16,720
		50,043
Non-controlling interest measured at proportionate interest in identifiable net assets		23,750
Total identifiable net assets at fair value		(51,768)
Goodwill	19, 39	P22,025

Goodwill arising from the acquisition is attributable to the benefit of expected synergies with the Group's power generation and shipping businesses, revenue growth, future market development and the assembled workforce of Petron. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill recognized is expected to be deductible for income tax purposes.

Infrastructure

■ ULC BVI

On October 28, 2010, the Parent Company, through SMHC, signed a share sale and purchase agreement (the "Agreement") with ULC BVI, pursuant to the authority of the BOD of the Parent Company on March 15, 2010. Under the terms of the Agreement, SMHC shall acquire up to 51% equity interest in ULC BVI, the corporation which holds the exclusive right, obligation and privilege to finance, design, construct, supply, complete and commission the MRT-7 Project by virtue of the Concession Agreement dated

June 18, 2008 with the ROP, through the Department of Transportation and Communications (DOTC) (Note 35).

Closing of the Agreement was held on November 8, 2010. As of December 31, 2010, completion of the acquisition is still subject to the satisfaction of certain mandatory conditions by the counterparty.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2010
Assets	
Cash and cash equivalents	P1
Trade and other receivables - net	1
Other intangible assets - net	2,182
Liabilities	
Accounts payable and accrued expenses	(136)
Deferred tax liability	(1)
Total identifiable net assets at fair value	P2,047

The fair value of the trade and other receivables amounts to P1. None of the receivables has been impaired and it is expected that the full amount can be collected.

Goodwill was recognized as a result of the acquisition as follows:

	Note	2010
Total cash consideration transferred		P2,508
Non-controlling interest measured at proportionate interest in identifiable net assets		1,003
Total identifiable net assets at fair value		(2,047)
Goodwill	19, 39	P1,464

■ TADHC

On April 8, 2010, the Parent Company, through its wholly-owned subsidiary, SMHC, executed a share sale purchase agreement relating to the purchase by SMHC of the rights, title and interests to a total of 2,025,000 common shares in CIADC (the "CIADC Shares"). On April 29, 2010, Deeds of Assignment of Shares were executed covering the CIADC Shares. CIADC holds the exclusive rights, obligations and privileges to finance, design, construct, operate and maintain the Caticlan Airport by virtue of the Concession Agreement, dated June 22, 2009, with the ROP, through the DOTC and the Civil Aviation Authority (Note 35). As of December 31, 2010, SMHC paid P675 for the acquisition of CIADC Shares. The balance of P350 is payable as follows: (i) P180, one year after closing of the transaction; (ii) P100, two years after the closing of the transaction; and (iii) P70, one year from the date of the previous payment.

The current portion of the Group's outstanding payable related to the purchase as of December 31, 2010 amounting to P180, is included under "Accounts payable and accrued expenses" account (Note 22), while the noncurrent portion amounting to P170 as of December 31, 2010, is reported as part of "Other noncurrent liabilities" account (Note 24).

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

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2010
Assets	
Prepaid expenses and other current assets	P4
Property, plant and equipment - net	11
Other intangible assets - licenses	58
Liabilities	
Accounts payable and accrued expenses	(9)
Other noncurrent liabilities	(4)
Total identifiable net assets at fair value	P60

Goodwill was recognized as a result of the acquisition as follows:

	<i>Note</i>	2010
Total consideration transferred		
Cash		P675
Deferred consideration		350
		1,025
Non-controlling interest measured at proportionate interest in identifiable net assets		2
Total identifiable net assets at fair value		(60)
Goodwill	19, 39	P967

Telecommunications

■ TCCI, PHC and PSCL

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

BellTel is a grantee of a franchise to install, operate and maintain local exchange networks and wireless local loop (WLL) in several areas including special economic zones, inter-exchange networks, nationwide VSAT network, international gateway facilities, and cellular mobile telecommunications network (Note 35).

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

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2010
Assets	
Cash and cash equivalents	P68
Trade and other receivables - net	429
Prepaid expenses and other current assets	55
Property, plant and equipment - net	374
Other noncurrent assets	6
Liabilities	
Accounts payable and accrued expenses	(1,181)
Deferred tax liabilities	(1)
Other noncurrent liabilities	(256)
Total identifiable net liabilities at fair value	(P506)

The fair value of the trade and other receivables amounts to P429. The gross amount of trade receivables is P456, of which P27 are expected to be uncollectible at the acquisition date (Note 10).

License was recognized as a result of the acquisition as follows:

	<i>Note</i>	2010
Total cash consideration transferred		P4,715
Total identifiable net liabilities at fair value		506
Other intangible asset - license	19, 39	P5,221

■ AGNP

On December 30, 2010, the Parent Company through its wholly-owned subsidiary, Vega, executed a Share Purchase Agreement (the "Agreement") with ISM Communications Corporation ("ISMCorp."), for the purchase of 100% of the outstanding and issued shares of stock of AGNP. The acquisition of AGNP was authorized by the BOD of Vega during the meeting held on December 16, 2010.

AGNP is the registered and beneficial owner of approximately 40% of Eastern Telecommunications Philippines, Inc. (Eastern Telecoms). Eastern Telecoms' products included wireless access, services for high-end internet cafes, a new data center, business application and special packages for small and medium enterprises and corporations, besides the traditional bandwidth and connectivity solutions. The acquisition of Eastern Telecoms through AGNP, would complement the internet broadband service of Liberty Telecommunications Holdings, Inc. (LTHI), in which the Group holds 41.48% interest.

Upon the signing of the Agreement, Vega paid P320 as initial payment. Under the Agreement, the outstanding balance of P1,280 is payable in two installments. The first payment amounting to 50% of the outstanding balance is due on December 29, 2011 while the remaining balance is to be settled on December 29, 2012.

The current portion of the Group's outstanding payable related to the purchase of AGNP shares as of December 31, 2010 amounted to P640, included under "Accounts payable and accrued expenses" account (Note 22), while the noncurrent portion amounting to P640 as of December 31, 2010 is reported as part of "Other noncurrent liabilities" account (Note 24).

Total identifiable assets at fair value on the acquisition date pertains to its investment in Eastern Telecoms amounting to P1,600, which is also equal to the total consideration of the purchase made by Vega.

Properties

■ SMPI-GSIS

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

In 2010, the Articles of Incorporation of SMPI-GSIS JVC was amended accordingly to reflect the increase in its authorized capital stock from P600 divided into 600,000,000 shares to P625 divided into 625,000,000 shares, both with par value of P1. SMPI then completed the acquisition of the 52% equity ownership in SMPI-GSIS JVC by assigning its 100% equity ownership in Maison 17 Properties (MPI), one of its wholly-owned subsidiaries, plus additional cash consideration of P181, which is in accordance with the JVA. After this transaction MPI became a wholly-owned subsidiary of SMPI-GSIS JVC.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2010
Assets	
Cash	P13
Prepaid expenses and other current assets	10
Property, plant and equipment - net	455
Total identifiable net assets at fair value	P478

In 2010, SMPI's ownership interest in Maison was diluted when SMPI assigned its entire interest in MPI to the SMPI-GSIS JVC. The effect of dilution in SMPI's share in MPI's net assets amounting to P52 was recognized in equity.

The dilution loss recognized as a result of the acquisition is as follows:

	Note	2010
Total cash consideration transferred		P181
Non-controlling interest measured at proportionate interest in identifiable net assets		349
Total identifiable net assets at fair value		(478)
Dilution loss	39	P52

Under the JVA, SMPI grants GSIS the option to sell to SMPI all the shares of stock of the SMPI-GSIS JVC issued in the name of GSIS and its nominees under certain terms and conditions (Note 35).

The SMPI-GSIS JVC has not yet started commercial operations as of March 14, 2011.

Packaging

■ SMYK

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

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

Subsequently, while maintaining their respective ownership interests, the Parent Company through its wholly-owned subsidiary, San Miguel Holdings Ltd. (SMHL), and Nihon Yamamura Glass Co., Ltd. (NYG) made additional investments in SMYPIL amounting to US\$23.6 and US\$12.7, respectively.

On December 17, 2009, SMYPIL acquired from James Huntly Knox "JHK" 60,705,521 shares of SMYK, the parent company of the Cospak Group, for up to a maximum amount of Australian Dollar (A\$)34.65 (US\$31.64). Of the said purchase price, A\$9.91 (US\$9.05) is placed on escrow and will be released in favor of JHK based on the attainment of SMYK of an agreed earnings before interest, taxes, depreciation and amortization for the periods ended December 31, 2009 and June 30, 2010. On March 12, 2010 and November 22, 2010, the escrow account was released to JHK.

On the same date, SMYPIL also subscribed to an additional 12,269,939 shares in SMYK for A\$5 (US\$4.57). With this additional acquisition, SMYPIL owns an aggregate of 65% of the outstanding shares of SMYK.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2009
Assets	
Cash and cash equivalents	US\$4
Trade and other receivables - net	20
Inventories	14
Prepaid expenses and other current assets	6
Property, plant and equipment - net	11
Deferred tax assets	1
Liabilities	
Drafts and loans payable	(19)
Accounts payable and accrued expenses	(20)
Dividends payable	(2)
Income and other taxes payable	(1)
Noncurrent portion of finance lease liability	(1)
Total net identifiable assets	US\$13

Goodwill was recognized as a result of the acquisition as follows:

	Note	2009
Total cash consideration transferred		US\$36
Non-controlling interest measured at proportionate interest in identifiable net assets		5
Total identifiable net assets at fair value		(13)
Goodwill	19, 39	US\$28

The following summarizes the major classes of consideration transferred:

Cash	US\$27.16
Contingent consideration	9.05
	US\$36.21

Identifiable assets acquired and liabilities assumed as a result of the foregoing acquisitions are disclosed in Note 39.

The Parent Company's diversification into new businesses such as power, fuel and oil, infrastructure and telecommunications are opportunities that will provide growth momentum and better earnings for the Group as a whole. If the acquisitions had occurred on January 1, 2010, management estimates that consolidated revenue would have been P474,427, and consolidated net income for the year would have been P34,895. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2010.

Asset Acquisitions:

■ IPP Administration Agreement (Note 35)

o Sual Power Plant IPP Administration Agreement

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

o San Roque IPP Administration Agreement

Following the December 15, 2009 bidding conducted by PSALM for the Appointment of the IPP Administrator for the Contracted Capacity of the 345 MW San Roque Multi-Purpose Hydroelectric Power Plant located at Barangay San Roque, San Miguel, Pangasinan (San Roque Power Plant), PSALM issued on December 28, 2009 the Notice of Award to SPDC as

the winning bidder thereof. As of January 26, 2010, SPDC assumed the administration of the Contracted Capacity of the San Roque Power Plant in accordance with the provisions of the IPP Administration Agreement for the Contracted Capacity of the San Roque Power Plant with Execution Date of December 29, 2009.

o Ilijan IPP Administration Agreement

On April 16, 2009, the Parent Company successfully bid for the Appointment of the IPP Administrator for the Contracted Capacity of the Ilijan Natural Gas Fired Combined Cycle Power Plant with an installed capacity of 1200 MW located at Ilijan, Batangas (Ilijan Power Plant) and received a notice of award on May 5, 2010. On June 10, 2010, the Parent Company and SPPC entered into an Assignment Agreement with Assumption of Obligations whereby the Parent Company assigned all its rights and obligations to SPPC under the IPP Administration Agreement for the Contracted Capacity of the Ilijan Power Plant with execution date of May 11, 2010. PSALM consented to the aforementioned assignment in its letter dated June 16, 2010.

On June 26, 2010, SPPC assumed the administration of the contracted capacity of the Ilijan Power Plant in accordance with the provisions of the IPP Administration Agreement for the Contracted Capacity of the Ilijan Power Plant with Execution Date of May 11, 2010.

The IPPA Agreements include, among others, the following common salient rights and obligations:

- i. The right and obligation to manage and control the Capacity for its own account and at its own cost and risks;
- ii. The right to trade, sell or otherwise deal with the Capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and at its own risk and cost. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;
- iii. The right to receive a transfer of the Power Station in case of buy-out or termination of the Agreement for no consideration;
- iv. The right to receive an assignment of National Power Corporation (NPC) interest to existing short-term bilateral Power Supply Contracts;
- v. The obligation to supply and deliver, at its own cost, fuel required by the IPP and necessary for the Sual Power Station to generate the electricity required to be produced by the IPP;
- vi. Maintain the Performance Bond in full force and effect with a Qualified Bank; and
- vii. The obligation to pay PSALM the monthly payments and generation fees in respect of all electricity generated from the Capacity.

In view of the nature of the IPP Administration Agreements, the arrangement has been accounted for as finance lease (Note 35).

■ Independent Power Producer

o Limay Power Plant

On September 11, 2009, PSALM issued the Notice of Award to SMEC as the winning buyer of the 620 MW Limay Combined Cycle Power Plant (Limay Power Plant). SMEC and PSALM entered into the Asset Purchase Agreement and Land Lease Agreement (collectively, the "Limay Agreements") with effective date of September 18, 2009, with an option to acquire the land.

On November 13, 2009, SMEC and PanAsia entered into an Assignment Agreement with Assumption of Obligations, wherein PanAsia assumed all the rights and obligations of SMEC under the Limay Agreements subject to the written consent of PSALM to such assignment. PSALM's consent to the assignment was secured by SMEC and PanAsia, as set out in the Amendment, Accession and Assumption Agreement executed by the parties on January 11, 2010.

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

In July 2010, with the consent of PSALM, PanAsia's option to acquire the land was assigned to PCPI. Accordingly, PCPI assumed all the rights and obligations under the original contract between PanAsia and PSALM. On September 30, 2010, PCPI exercised the option and acquired ownership of the land.

6. Investment in Subsidiaries

The following are the developments relating to the Parent Company's investments in subsidiaries in 2010 and 2009:

Beverages

■ SMB

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

On July 26, 2007, the Parent Company incorporated SMB, a wholly-owned subsidiary with an initial authorized capital stock of P100 and paid-up capital of P6.25. Pursuant to the stockholders approval obtained on July 24, 2007, the Parent Company's domestic beer business net assets as of June 30, 2007, excluding land, brands and certain payables were transferred to SMB in exchange for additional shares of stock effective October 1, 2007. The transfer of the net assets is pursuant to a Master Deed of Assignment of Domestic Beer Assets dated August 23, 2007 between the Parent Company and SMB with amendments dated September 7, 2007.

On September 27, 2007, the SEC approved the increase in SMB's authorized capital stock from P100 to P25,000 and the decrease of the par value of its shares from P100.00 to P1.00. Shares totaling 15,308,416,960, were issued to the Parent Company pursuant to such transfer under a tax-free asset-for-share agreement, as confirmed by the Bureau of Internal Revenue (BIR) in its certification No. SN-300-2007.

As a standard condition of the SEC for approval of applications for increase in authorized capital stock, where the payment for the shares issued pursuant to such increase is made in the form of motor vehicles and receivables, 2,557,573,242 common shares that were issued by SMB to the Parent Company in exchange for motor vehicles and receivables, out of the 15,308,416,960 common shares issued by SMB, were held in escrow by the SEC pending the transfer of ownership of those motor vehicles in the name of SMB and proof of collection of receivables. In a letter dated May 26, 2010, the SEC ordered the release of the escrow on the said common shares.

On May 12, 2008, SMB listed its shares in the PSE pursuant to its listing application approved on March 26, 2008. In April to May 2008, SMB sold at P8.00 per share 77,052,000 shares to the public by way of a primary offer, and the Parent Company sold to the public 809,050,000 shares of its existing shares in SMB (including shares to cover for over-allotments) by way of a secondary offer, pursuant to a registration statement rendered effective by the SEC on April 28, 2008. The total shares offered represents 5.75% stake in SMB. The Group recognized a net gain of P5,650 from the transaction in 2008.

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

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

■ SMBIL

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

The value of International IP Rights was derived from the independent valuation study done by Fortman Cline Capital Markets (FCCM), in which FCCM applied one valuation methodology, the royalty relief method.

On December 18, 2009, SMB's BOD approved the purchase of the international beer and malt-based beverages business of the Parent Company through the purchase of the shares of SMHL, a wholly-owned subsidiary of Parent Company, in SMBIL, comprising 100% of the issued and outstanding capital stock of SMBIL ("SMBIL Shares"), with an enterprise value of US\$300. On the same date, the Parent Company, SMB and SMHL entered into a Share Purchase Agreement ("SPA") for the SMBIL Shares. The SPA includes contingent consideration that will be paid through an earn-out scheme based on the attainment by SMBIL and certain subsidiaries of SMBIL of EBITDA and sales volume targets at certain periods. The BOD of the Parent Company likewise approved the sale of its international beer and malt-based beverage business to SMB, through the sale by SMHL, its wholly-owned subsidiary, of the SMBIL shares to SMB, on the same day.

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

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

On January 28, 2010, SMB entered into a US\$300 unsecured loan facility agreement. Proceeds of the loan were used to finance SMB's acquisition of SMBIL Shares. The sale was completed on January 29, 2010, with SMB acquiring the SMBIL Shares for a purchase price of US\$302 (P13,941), after adjustments in accordance with the terms of the SPA. As a result, SMBIL became a wholly-owned subsidiary of SMB.

■ IBI

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

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

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

On February 27, 2009, the SEC approved the increase in the authorized capital stock of IBI. With such approval, the SEC likewise approved the transfer of Parent Company's Domestic IP Rights to IBI in exchange for 100,000,000 additional common shares in IBI. Such shares were issued to Parent Company under a tax-free asset-for-share agreement, as confirmed by the BIR in its certification No. SN-405-2008 dated December 24, 2008.

On April 29, 2009, SMB acquired the Parent Company's shares in IBI comprising 100% of the outstanding capital stock of IBI, for a total purchase price of P32,000, thereby making IBI its wholly-owned subsidiary. For SMB, the value of the Domestic IP Rights represents the purchase price after giving due consideration to various factors and valuation methodologies including the independent valuation study and analysis prepared by UBS Investments Philippines, Inc. SMB, after considering said valuation methodologies, viewed the royalty relief (based on commercial rates) and advertising spent methodologies to be generally more relevant, compared to other methodologies that may be used to value the Domestic IP Rights on the basis that such methodologies require fewer assumptions and less reliance on subjective reasoning since key assumptions come from primary sources based on SMB's filings and projections, actual industry precedents and industry common practice. The purchase price agreed upon is within the value range yielded by said methodologies, which value range is P25,000 to P32,000. For the Parent Company, the value of the Domestic IP Rights was derived after considering the independent valuation study done by FCCM, in which FCCM applied several methodologies, including the replacement methodology.

■ BPI

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

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

On January 27, 2009, SMB's BOD approved the purchase of all interest of the Parent Company in BPI after: (i) Parent Company has transferred certain land used in the domestic beer operations of SMB ("Land") to BPI in exchange for BPI common shares, and (ii) San Miguel Brewery Inc. Retirement Plan ("SMBRP") has transferred its shares in BLI to BPI preferred shares for the purchase price of P6,829, corresponding to the appraised value of the Land transferred by the Parent Company to BPI.

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

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

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

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

On November 10, 2010, SMB and the Parent Company executed a Deed of Absolute Sale of Shares ("Deed") for the purchase by SMB of all the shares of the Parent Company in BPI (the "BPI Shares"), at the aggregate purchase price of P6,829 ("Purchase Price"). SMB paid P6,629, corresponding to the appraised value of the 128 Land titles transferred in the name of BPI to Parent Company upon execution of the Deed. The balance shall be paid by SMB to Parent Company upon transfer of the remaining eight (8) Land titles in the name of BPI. The BPI Shares comprise 40% of the issued and outstanding capital stock of BPI. The acquisition was financed using part of the proceeds of the bond offering of SMB.

SMB has the ability to govern BPI's financial and operating policies and conduct activities in order that SMB may obtain benefits from its operations. As such and in accordance with PAS 27, BPI is consolidated to SMB.

■ SMBI

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

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

Foods

■ SMPFC

On February 2, 2010, the Parent Company's BOD approved the following corporate actions:

- o Sale to SMPFIL, a wholly-owned subsidiary of SMPFC, of the Parent Company's 51% interest in SMPFI at book value.
- o Potential subscription of up to P5,200 worth of new SMPFC shares.
- o Sale of the Parent Company's food-related brands and intellectual property rights to SMPFC at a purchase price of P3,200.
- o Sale of up to 40% of the Parent Company's interest in SMPFC, by way of a trade sale or marketed placements to investors, which may include investors outside the United States (Reg S) or and to not more than 19 non-qualified buyers domestically to be determined by Management.

On February 2, 2010, the BOD of SMPFC approved the proposal of SMPFC management to a) purchase food-related brands and intellectual property rights from the Parent Company at a purchase price of P3,200, and b) acquire, through SMPFIL, a BVI company and a wholly-owned subsidiary of SMPFC, the Parent Company's 51% interest, through SMFBIL, in SMPFI at book value. SMPFI owns 100% of SMPFVN.

On February 2, 2010 and March 12, 2010, SMPFC's stockholders approved, among others, the following corporate actions, subject to the necessary approvals of the SEC:

- o Potential issuance of up to 75,000,000 new SMPFC shares to the Parent Company or third parties.
- o Amendment of Amended Articles of Incorporation of SMPFC to reflect the following:
 - i. de-classification of SMPFC's common shares;
 - ii. increase in SMPFC's authorized capital stock by P1,000 or 100,000,000 shares at P10.00 par value; and
 - iii. denial of Pre-emptive rights to the proposed issuance of shares of up to 75,000,000 new SMPFC shares to the Parent Company or third parties.

- o Declaration of 18% stock dividend based on the issued and outstanding shares to be taken out of the proposed increase in authorized capital stock.

On April 12, 2010, the SEC approved SMPFC's amendment to its Articles of Incorporation for the de-classification of common shares.

On May 21, 2010, the SEC issued to SMPFC the Certificate for the Approval of Increase of Capital Stock from 146,000,000 common shares to 246,000,000 common shares with par value of P10.00 per share and the Certificate of Filing of Amended Articles of Incorporation.

On July 6, 2010, the PSE approved the application of SMPFC to list additional 25,423,746 common shares, with a par value of P10.00 per share, to cover the 18% stock dividend declaration to stockholders. Stock dividend payment was made on July 26, 2010.

On July 21, 2010, the Parent Company and SMPFC entered into an Intellectual Property Rights Transfer Agreement (the "Agreement") for the transfer to SMPFC of the food-related brands and intellectual property rights at a purchase price of P3,200. Following the provision of the Agreement between the Parent Company and SMPFC, 10% of the purchase price was paid on July 30, 2010 and the balance payable (i) upon change in controlling interest of SMPFC to any third person other than an affiliate or (ii) two years from July 30, 2010, subject to floating interest rate based on 1 year PDSTF plus an agreed margin after one year, whichever comes first. On March 8, 2011, the remaining balance was fully paid by SMPFC.

In July 2010, the Parent Company, through its wholly-owned subsidiary, SMFBIL, sold to SMPFIL, (a wholly-owned subsidiary of SMPFC) its 51% interest in SMPFI for US\$18.6. SMPFI owns 100% of SMPFVN. Pursuant to the Sale and Purchase Agreement between SMFBIL and SMPFIL, 10% of the purchase price was paid in July 2010 and the balance of US\$16.8 (P734.3 as at December 31, 2010) shall be payable (i) upon change in controlling interest of SMPFIL to any third person other than affiliate or (ii) two years from July 30, 2010, subject to floating interest rate based on one-year LIBOR plus an agreed margin after one year, whichever comes first.

The Parent Company and SMPFC engaged FCCM as financial adviser to perform a third party valuation of the food-related brands. The Parent Company and SMPFC arrived at a purchase price of P3,200 after taking into account the valuation study.

On September 15, 2010, SMPFC's BOD approved, among others, the (i) reclassification of up to 75,000,000 authorized and unissued common shares into cumulative, non-participating, non-voting and non-convertible preferred shares with par value of P10.00 per share and with other features determined by management; (ii) issuance of preferred shares with total issue size of up to P50,000, part of the proceeds of which will be used to settle SMPFC's remaining 90% balance on the acquisition of food-related brands and intellectual property rights from the Parent Company and on the purchase of the Parent Company's 51% stake in SMPFI; (iii) listing of such preferred shares at the appropriate exchanges, and (iv) amendment of SMPFC's Articles of Incorporation to reflect the reclassification of such common shares to preferred shares and the denial of pre-emptive rights of shareholders for the proposed issuance of said preferred shares.

On November 3, 2010, SMPFC's stockholders approved, among others, the (i) reclassification of SMPFC's 40,000,000 authorized and unissued common shares into non-voting, cumulative and non-participating preferred shares with par value of P10.00 per share, (ii) issuance of such preferred shares and the listing thereof at the appropriate exchanges, and (iii) amendment of SMPFC's Articles of Incorporation to reflect the reclassification of such common shares to preferred shares and the denial of pre-emptive rights of shareholders for the proposed issuance of said preferred shares.

On December 23, 2010, the SEC approved the Amendment of the Articles of Incorporation of SMPFC to reflect the reclassification of SMPFC's 40,000,000 common shares to cumulative, non-participating, non-voting and non-convertible preferred shares with par value of P10.00 per share and the denial of the pre-emptive rights of shareholders to the issuance of the said preferred shares.

■ Highbreed Livestock Corporation (HLC)

In April 2009, Monterey Food Corporation (MFC), a majority-owned subsidiary of SMPFC, acquired the subscription rights of certain individuals in HLC, a Philippine company engaged in livestock farming, processing, selling meat products (mainly pork and beef) and leasing of properties. As such, HLC became a subsidiary of MFC and was consolidated into SMPFC through MFC. On June 22, 2009, the respective BOD and stockholders of MFC and HLC approved the merger of HLC into MFC, with MFC as the surviving corporation. The consideration of the assignment of the subscription, net of the effect of the merger, amounted to P6.25. The SEC approved the merger on October 22, 2009. The BIR confirmed the tax-free merger of HLC into MFC in its certification No. S40-052-2009 dated December 18, 2009.

■ SMFI

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

In August 2010, the SEC approved the merger of MFC into SMFI, with SMFI as the surviving corporation, following the approvals

of the merger by the respective BOD and stockholders of MFC and SMFI in June 2010 and July 2010, respectively. The merger became effective September 1, 2010. SMFI's request for confirmation of the tax-free merger, filed in September 2010, is still pending with the BIR as at March 14, 2011.

■ SMMI

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

In December 2010, the SEC approved the declaration of SMFI's 16,457,310 shares in SMMI as property dividend in favor of SMPFC. Prior to the SEC approval, a Deed of Assignment was executed by SMFI in January 2008 assigning its 16,457,310 shares in SMMI to SMPFC effective December 28, 2007.

■ PF-Hormel

In December 2010, the BOD of PF-Hormel approved the declaration of cash dividends amounting to P450 million payable not later than January 31, 2011. Dividends payable to non-controlling interests of PF-Hormel amounting to P180 million was recognized as part of the Group's "Dividends payable" account in the statements of financial position. Dividends were subsequently paid in January 2011.

■ Philippine Nutrition Technologies, Inc. (PNTI)

The SMPFC's application with the SEC for the dissolution of PNTI, a joint venture between SMPFC and the Great Wall Group of Taiwan, was approved on May 27, 2010. As a result of the said dissolution, SMPFC's investment in PNTI amounting to P12 was written off against its allowance for decline in value of investment.

Packaging

■ SMPPC and Mincorr

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

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

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

7. Segment Information

Operating Segments

The reporting format of the Group's operating segments is determined by the Group's risks and rates of return which are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products produced and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

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

The beverage segment produces and markets alcoholic and nonalcoholic beverages.

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

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

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

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

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

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

Segment Assets and Liabilities

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

Inter-segment Transactions

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

Major Customer

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

Operating Segments

Financial information about reportable segments follows:

[illegible]

For the Years Ended December 31, 2010, 2009 and 2008

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8. Assets Held for Sale and Discontinued Operations

Assets Held for Sale:

a. Petron Mega Plaza

Petron has an investment property consisting of office units located at Petron Mega Plaza which has a floor area of 21,216 square meters covering the 28th - 44th floors and 209 parking lots. On December 1, 2010, Petron's BOD approved the sale of these properties to provide cash flows for various projects. The carrying amount of the investment property as of December 31, 2010 of P823 is presented as "Assets held for sale" in the consolidated statement of financial position.

Total estimated fair value of the properties amounted to P1,242. Management expects to sell the properties within the next 12 months from the reporting date.

b. Bank of Commerce (BOC) (Note 13)

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

In 2010, SMPI's management decided not to pursue the sale of its ownership interest in BOC and reclassified it back to "Investments and advances" account in the consolidated statements of financial position. The investment was valued at its adjusted carrying amount amounting to P2,746 which at the time of reclassification was also equivalent to its recoverable amount.

Discontinued Operations:

a. Agribusiness Division of the Parent Company

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

b. San Miguel Australia Holdings Ltd. (SMAH)

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

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

As required by PFRS 5, the financial performance of Agribusiness in 2008, was presented as a separate item under "Income after income tax from discontinued operations" in the consolidated statements of income.

The results of discontinued operations are presented below:

	Note	2008
Net sales		P181
Cost of sales		168
Gross profit		13
Selling and administrative expenses		(23)
Other charges - net		(9)
Loss before income tax		(19)
Income tax benefit	25	(7)
Loss from discontinued operations		(12)
Gain on disposal of investment - net of tax of P2,921	25	5,425
Net income from discontinued operations, attributable to equity holders of the Parent Company	38	P5,413

Basic and diluted earnings per share from discontinued operations, attributable to equity holders of the Parent Company, are presented in Note 38.

Cash flows provided by discontinued operations are presented below:

	2008
Net cash flows provided by operating activities	P1,312
Net cash flows provided by investing activities	7,786
Net cash flows provided by discontinued operations	P9,098

The effect of disposal on the consolidated financial position follows:

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

9. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2010	2009
Cash in banks and on hand	P17,344	P25,926
Short-term investments	107,844	183,485
	P125,188	P209,411

Cash in banks earns interest at the respective bank deposit rates. Short-term investments include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates.

10. Trade and Other Receivables

Trade and receivables consist of:

	Note	2010	2009
Trade		P39,112	P17,188
Non-trade	35, 40	30,072	31,453
Amounts owed by related parties	34	11,239	3,170
		80,423	51,811
Less allowance for impairment losses		4,519	2,729
	41, 42	P75,904	P49,082

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

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

	Note	2010	2009
Balance at beginning of year		P2,729	P2,884
Charges for the year		697	398
Amounts written off		(257)	(257)
Acquisition of subsidiaries	5	965	-
Reversals and others		385	(296)
Balance at end of year		P4,519	P2,729

As at December 31, 2010 and 2009, the aging of receivables is as follows:

				Owed by related parties
2010	Total	Trade	Non-trade	
Current	P72,754	P33,202	P28,313	P11,239
Past due				
Less than 30 days	2,625	2,413	212	-
30-60 days	1,067	849	218	-
61-90 days	476	387	89	-
Over 90 days	3,501	2,261	1,240	-
	P80,423	P39,112	P30,072	P11,239
2009	Total	Trade	Non-trade	Owed by related parties
Current	P43,988	P11,142	P29,676	P3,170
Past due				
Less than 30 days	2,609	2,334	275	-
30-60 days	789	613	176	-
61-90 days	804	729	75	-
Over 90 days	3,621	2,370	1,251	-
	P51,811	P17,188	P31,453	P3,170

Various collaterals for trade receivables such as bank guarantees, time deposit and real estate mortgages are held by the Group for certain credit limits.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on historic payment behavior and extensive analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

The Parent Company has outstanding advances to San Miguel Corporation Retirement Plan (SMCRP) amounting to P3,997 and P2,785 as of December 31, 2010 and 2009, respectively, subject to interest of 6.5% per annum (Note 34). Interest pertaining to the said advances amounted to P82, P639 and P2,310 for the years ended December 31, 2010, 2009 and 2008, respectively (Note 32).

11. Inventories

Inventories at net realizable value consist of:

	2010	2009
Finished goods and goods in process (including petroleum products)	P37,402	P8,547
Materials and supplies (including coal)	18,427	15,355
Containers	1,613	1,556
	P57,442	P25,458

The cost of finished goods and goods in process amounted to P37,637 and P8,877 as of December 31, 2010 and 2009, respectively.

If the Group used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other products would have decreased by P715 as of December 31, 2010.

The cost of materials and supplies as of December 31, 2010 and 2009 amounted to P19,185 and P15,879, respectively.

Containers at deposit value amounted to P1,917 and P1,851 as of December 31, 2010 and 2009, respectively.

Finished goods and goods in process include net unrealized gain of P41 and P63 on fair valuation of agricultural produce as of December 31, 2010 and 2009, respectively (Note 4). The fair value of agricultural produce less costs to sell, which formed part of finished goods inventory, amounted to P416 and P287 as of December 31, 2010 and 2009, respectively, with corresponding cost at point of harvest amounting to P375 and P224, respectively.

12. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	<i>Note</i>	2010	2009
Prepaid taxes and licenses		P10,539	P4,180
Raw land inventory and real estate projects		3,675	3,062
Prepaid rent		314	46
Derivative assets	41, 42	249	202
Retirement assets - current portion	36	221	150
Prepaid interest		212	-
Prepaid insurance		198	66
Financial assets at FVPL	41, 42	193	-
Construction in progress - service concession arrangements	4	119	-
Others		1,194	1,185
		P16,914	P8,891

"Others" consist of advances to officers and employees and prepayments for various operating expenses.

Construction in progress - service concession arrangements includes the Group's accumulated costs incurred on the design of the upgrade component of the development of the Caticlan Airport (the "Project") as described in Note 35, cost of a parcel of land earmarked for such upgrade and the present value of the obligation to maintain and restore the Caticlan Airport prior to transfer to the ROP at the end of the concession period. This will be transferred and recognized as cost of construction upon commencement of the construction of the new terminal and runway (Note 4). The interest expense related to the IRO (Note 24) in 2010 amounting to P0.9 was recognized and presented as part of "Interest expense and other financing charges" in the consolidated statements of income.

13. Investments and Advances

Investments and advances consist of:

	<i>Note</i>	2010	2009
Investments in associates - at equity:			
Acquisition cost			
Balance at beginning of year		P36,461	P32,826
Additions		97,017	6,794
Acquisition of subsidiaries	5	15,383	-
Transfer to (from) assets held for sale	8	3,159	(3,159)
Disposals and reclassifications		(4)	-
		152,016	36,461
Accumulated equity in net earnings (losses):			
Balance at beginning of year		1,388	(1,163)
Equity in net earnings during the year		6,817	2,816
Dividends		(2,338)	(752)
Reclassification of investment in associate to investment in subsidiaries	5	(5,095)	-
Accumulated equity on investments transferred to (from) assets held for sale	8	(413)	413
Share in other comprehensive gains (losses)		(422)	252
Acquisition of subsidiaries		(154)	-
Impairment loss and others	33	-	(178)
Balance at end of year		(217)	1,388
		151,799	37,849
Advances		1,015	1,156
		P152,814	P39,005

The carrying amounts of investments in associates are as follows:

	Country of Incorporation	2010		2009	
		Percentage of Ownership	Amount	Percentage of Ownership	Amount
Top Frontier Investment Holdings, Inc. (Top Frontier)	Philippines	49.00	P92,480	-	P -
Meralco	Philippines	33.19	45,309	27.00	32,029
BOC	Philippines	32.77	6,253	31.23	-
LTHI	Philippines	41.48	3,525	32.70	3,714
Eastern Telecoms	Philippines	40.00	1,600	-	-
Private Infra Dev Corporation (PIDC)	Philippines	35.00	1,581	35.00	1,575
Petrochemical Asia (HK) Limited (PAHL)	Hong Kong	33.00	591	-	-
Northpine Land, Inc.	Philippines	20.00	247	20.00	237
Limay Energen Corp. (LEC)	Philippines	40.00	213	-	-
SMEC	Philippines	-	-	40.00	294
			P151,799		P37,849

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

	2010	2009	2008
Current assets	P355,184	P100,853	P93,633
Current liabilities	151,072	140,332	131,582
Noncurrent assets	197,516	297,501	172,880
Noncurrent liabilities	110,527	182,838	82,829
Revenue	253,289	194,795	198,577
Net income (loss)	19,290	8,262	(3,493)

a. Top Frontier

On January 6, 2010, the Parent Company acquired a 49% stake via equity infusion in Top Frontier consisting of its subscription to 2,401,960 common shares of Top Frontier from its unissued capital stock. On January 7, 2010, the Parent Company paid P48,324 as deposit for future subscription in connection with the option granted to the Parent Company to apply the same to the subscription of 2,598,040 non-voting, redeemable, participating preferred shares of Top Frontier upon the increase in its authorized capital stock, amendment of its Articles of Incorporation and Top Frontier's compliance with its obligations related to the aforementioned investment.

The application for the increase in the authorized capital stock of Top Frontier was approved by the SEC on August 6, 2010.

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

The preferred shares are entitled to preferential dividends at a fixed rate per annum of 3% of the issue price which shall be payable quarterly in arrears and in cash. The dividends on the preferred shares shall be cumulative from and after the issue date of the preferred shares.

The preferred shares are non-voting and participating. These are redeemable in whole or in part, at the sole option of Top Frontier, equal to its issue price plus any accrued and unpaid preferential dividends, upon notice to the holders.

b. Meralco

On October 27, 2008, the Parent Company entered into a sale and purchase agreement with the GSIS to acquire the latter's 300,963,189 shares in Meralco for a total consideration of P27,087 plus an additional fixed term interest of P3,758. On November 10, 2008, the Parent Company paid P5,417 representing down payment for said shares with the balance payable in three (3) years.

On August 9, 2010, the Parent Company's beneficial interest in Meralco increased by 6.19% upon acquisition of SMC Global, which owns 69,059,538 common shares of Meralco for a total consideration of P7,063, inclusive of transaction costs of P46. SMC Global paid P1,243 representing down payment for the said shares with balance payable in three (3) years.

The current portion of the Group's outstanding payable related to the purchase of Meralco shares as of December 31, 2010 and 2009 amounted to P14,019 and P6,527, respectively, included under "Accounts payable and accrued expenses" account, while the noncurrent portion amounting to P14,253 and P18,148 as of December 31, 2010 and 2009, respectively, is reported as part of "Other noncurrent liabilities" account.

The fair value of the Group's investment in Meralco amounted to P84,365 and P61,396 as of December 31, 2010 and 2009, respectively.

c. BOC

In 2008 and 2007, SMPI made a series of acquisitions of BOC shares and at the end of 2008, SMPI has acquired a total of 11,749,779 shares amounting to P1,749 and equivalent to 30 % equity ownership interest in BOC. In 2009, SMPI subscribed to additional shares of BOC for a total consideration of P1 thereby increasing its equity ownership interest from 30% to 31.23% as of December 31, 2009. However, in the same year, SMPI's management decided to sell SMPI's entire ownership interest in BOC and reclassified the asset to "Assets held-for-sale" in the consolidated statements of position (Note 8).

In 2010, SMPI management decided not to pursue the sale of its ownership interest in BOC and reclassified it back to "Investments and advances" and made further acquisitions of BOC shares.

In 2010, SMPI acquired additional 20,383,210 shares amounting to P3,562 from various stockholders of BOC. These acquisitions increased SMPI's equity ownership interest in BOC to 32.77% as of December 31, 2010. Of the total acquisition cost, P1,800 and P542 were paid by SMCRP and Parent Company in behalf of SMPI. These amounts remained unpaid as of December 31, 2010 (Note 34). The unpaid subscription to BOC arising from the same transaction and amounting to P521 as of December 31, 2010, is presented as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position (Note 22).

As of December 31, 2010, SMPI also has pending share purchase transactions with certain other stockholders of BOC, for the acquisition of sufficient number of shares to increase further of SMPI's equity interest in BOC to 33.86%. Pending consummation of the shares purchase transactions, advance payments made by SMPI to the sellers amounting to P221 as of December 31, 2010 were presented as advances for acquisition of additional BOC shares under the "Investment and advances" account in the consolidated statements of financial position. Accordingly, this was not considered in the determination of SMPI's percentage of equity interest in BOC.

Share in BOC's accumulated fair value gains (losses) amounted to (P201) and P54 in 2010 and 2009, respectively, and are presented as part of "Share in comprehensive income (losses) of associates" account in the consolidated statements of comprehensive income. Additionally, share in BOC's translation adjustment for losses and gains amounted to P8 and P9 in 2010 and 2009, respectively. As of December 31, 2010, cumulative translation adjustments for gains amounted to P1 and P9 in 2010 and 2009, and are presented as "Cumulative translation adjustments" in the consolidated statements of changes in equity.

Certain accounting policies applied by BOC in the preparation of its financial statements are not in accordance with PFRS. In computing for the equity in net earnings (losses) and comprehensive income (losses) of BOC, SMPI made adjustments to the 2010 and 2009 audited financial statements of BOC to conform with BOC's accounting policies with PFRS and make them consistent with the Group's accounting policies. The adjustments made by SMPI relate to the correction of: (a) inadequate reserves on non-performing assets, investment properties and financial assets; (b) deferral of losses on sale of non-performing loans; and (c) misstatement in the values of structured financial instruments and certain investment properties.

BOC is required to meet certain ratios under Bangko Sentral ng Pilipinas (BSP) regulations to manage the risks inherent in the banking business. As of December 31, 2010 and 2009, BOC has complied with the statutory and regulatory capital requirements which were computed based on the regulatory accounting policies that differ from PFRS in some aspects. BOC's retained earnings as of December 31, 2010 and 2009 is restricted from being declared as dividend to common stockholders to the extent of the amount of cumulative cash dividend in arrears of P320 declared by BOC's BOD on December 16, 2008 in favor of stockholders of certain redeemed preferred shares. The dividend declaration is pending approval from the BSP as of December 31, 2010 and 2009.

Based on the adjusted account balances of BOC as of December 31, 2009, management determined that the carrying amount of the investment is not fully recoverable, thus, an impairment loss on the investment amounting to P163 was recognized and is included in "Other income (charges)" account (Note 33). No impairment loss on the investment was recognized in 2010 and 2008.

d. LTHI

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

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

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

The application for the increase in the authorized capital stock of LTHI was approved by the SEC on January 18, 2010.

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

The transaction was completed with a stock certificate covering the said preferred shares issued in the name of Vega on May 26, 2010.

On October 5, 2010, Vega also acquired from the public a total of 64,589,000 common shares of LTHI amounting to P221.

The fair value of the Group's capital stock investment in LTHI amounted to P4,152 and P1,564 as of December 31, 2010 and 2009, respectively.

e. PIDC

On September 11, 2009, Rapid, a wholly-owned subsidiary of SMHC, acquired 35% stake in PIDC, a consortium of construction companies behind the Tarlac-Pangasinan-La Union Expressway Project. Rapid subscribed to 1,575,000 common shares of PIDC amounting to P1,575 and paid a portion of the subscription price amounting to P245 and P561 on November 30, 2010 and September 11, 2009, respectively.

f. PAHL

On March 13, 2010, Petron acquired 182,000,000 ordinary shares or 40% of the outstanding shares of PAHL from Vantage Stride (Mauritius) Limited ("Vantage Stride").

PAHL is a company incorporated in Hong Kong. It has an authorized capital of Hong Kong Dollar (HK\$)585, consisting of 585,000,000 shares at HK\$1.00 per share. Of this, 455,000,000 shares are outstanding. Silverdale (Suisse), S.A. holds the remaining 60% of the outstanding shares of PAHL.

PAHL was incorporated in March 2008 and indirectly owns, among other assets, a 160,000 metric ton-polypropylene production plant in Mariveles, Bataan.

In June 2010, another investor acquired 102,142,858 new Class "B" ordinary shares of PAHL which reduced Petron's ownership to 33%.

PAHL's business operation is expected to commence in the first quarter of 2011.

g. LEC

On August 3, 2010, Petron together with Two San Isidro SIAI Assets, Inc. (Two San Isidro), formed LEC with an authorized capital stock of P3,400. Out of its authorized capitalization, P850 has been subscribed, of which P213 has been paid up. Petron subscribed to P340 worth of shares of LEC representing 40% of the total subscribed capital, while Two San Isidro subscribed to P510 worth of shares of LEC, representing the remaining 60% of the total subscribed capital.

LEC was formed to build, operate and maintain a cogeneration power plant that will engage in a generation of power and steam for the primary purpose of supplying the steam and power requirements of Petron Bataan Refinery.

h. SMPI Advances

IGI

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

Pursuant to the terms and conditions of the JVA, SMPI made cash advances in favor of the Co-Venturer amounting to P311 as of December 31, 2009. Under a Deed of Assignment, such advances will be applied as payment for SMPI's subscription to sufficient number of IGI shares of stock to give SMPI a 51% ownership interest in IGI. In 2010, the Deed of Assignment between SMPI and the Co-Venturer was consummated and SMPI became the parent company of IGI. Accordingly, the balance of its advances earmarked for such subscription was applied to the subscription price.

Primeria Commercio Holdings, Inc. (PCHI)

In 2009, SMPI provided US dollar-denominated non-interest bearing cash advances to PCHI, a future investee of SMPI, amounting to P794 as of December 31, 2010 and 2009. These advances will be applied against future subscriptions of SMPI to the shares of stock of PCHI.

14. Available-for-sale Financial Assets

Available-for-sale financial assets consist of:

	<i>Note</i>	2010	2009
Equity securities		P2,292	P103
Government securities		1,049	-
Proprietary membership shares and others		256	248
	<i>41, 42</i>	P3,597	P351

Acquisition of Indophil Resources NL (Indophil)

On October 8, 2010, the Parent Company entered into a share placement agreement with Indophil to subscribe to 48,016,960 common shares (Placement Shares) equivalent to approximately 10.1% of the currently issued common shares of Indophil, on a fully diluted basis.

Indophil is an Australian company listed in the Australian stock exchange, which owns a 37.5% beneficial interest in Sagitarius Mines, Inc. (SMI). SMI has the rights to the Tampakan gold and copper mine in South Cotabato.

On October 15, 2010, the Placement Shares were issued in the name of Coastal View Exploration Corporation, a subsidiary of SMHC. The total consideration for the purchase of the Placement Shares was A\$41.3 (approximately US\$40) or A\$0.86 per Placement Share.

As of December 31, 2010, the fair value of the investment in Indophil amounted to P2,188.

Government Securities

This account consists of investments in government securities of Petrogen and ROP9 bonds of Ovincor.

Petrogen's investments bear fixed annual interest rates of 6.25% to 8.875% in 2010.

Ovincor's ROP9 bonds are maintained at the Bank of Bermuda with fixed interest rate of 8.3% to 8.9% and will mature in March 2015.

15. Interest in Joint Venture

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

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

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

On March 9, 2009 and December 11, 2009, SHL ("Lender") entered into a loan agreement with SWL ("Borrower") for THB15 and THB10, respectively, to subscribe to the increase in capital stock of TSML.

On February 25, April 8 and December 7, 2010, the Lender entered into a loan agreement with the Borrower for a total of THB40 to subscribe to the increase in capital stock of TSML.

Presented below is the Group's share in the assets, liabilities, income and expenses of the joint venture as of and for the years ended December 31, 2010, 2009 and 2008 of TSML which is included in the Group's consolidated financial statements:

	2010	2009	2008
Current assets	P777	P556	P459
Noncurrent assets	894	896	911
Current liabilities	437	409	288
Noncurrent liabilities	310	416	526
Revenue	893	474	402
Cost of sales	826	397	398
Operating expenses	63	136	70
Other income	7	1	1
Net income (loss)	(11)	59	(65)

The Group's share in the cash flows of TSML for the years ended December 31, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
Net cash flows provided by (used in) operating activities	(P259)	(P69)	P88
Net cash flows provided by (used in) investing activities	792	17	(70)
Net cash flows used in financing activities	(106)	(111)	(20)

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

Presented below is the Group's share in the assets, liabilities, income and expenses of the joint venture as of and for the years ended December 31, 2010, 2009 and 2008 of TGT which is included in the Group's consolidated financial statements:

	2010	2009	2008
Current assets	P50	P102	P142
Noncurrent assets	14	30	44
Current liabilities	276	237	216
Noncurrent liabilities	2	16	29
Revenue	232	228	153
Cost of sales	207	206	121
Operating expenses	111	80	92
Other income	1	2	1
Net loss	85	57	60

The Group's share in the cash flows of TGT for the years ended December 31, 2010, 2009 and 2008 is as follows:

	2010	2009	2008
Net cash flows provided by (used in) operating activities	(P50)	P1	P18
Net cash flows provided by (used in) investing activities	27	14	(43)
Net cash flows provided by (used in) financing activities	(21)	(13)	29

TSML and TGT both started commercial operations in March 2008.

16. Property, Plant and Equipment

Property, plant and equipment consist of:

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and other Equipment	Machinery and Equipment	Transportation Equipment	Tools and Small Equipment	Office Equipment, Furniture and Fixtures	Molds	Leasehold Improvements	Construction in Progress	Total
Cost:													
December 31, 2008	P9,189	P23,973	P -	P -	P -	P77,345	P2,920	P1,854	P2,606	P527	P840	P5,379	P124,633
Additions	424	897	-	-	-	2,766	729	210	126	144	115	838	6,249
Disposals/reclassifications/ acquisition of subsidiaries	977	(245)	-	-	-	(781)	(349)	315	(190)	(17)	(35)	(513)	(838)
Currency translation adjustments	37	(219)	-	-	-	(439)	5	(25)	-	3	1	(30)	(667)
December 31, 2009	10,627	24,406	-	-	-	78,891	3,305	2,354	2,542	657	921	5,674	129,377
Additions	437	561	568	-	364	3,073	3,170	285	129	267	73	(409)	8,518
Disposals/reclassifications/ acquisition of subsidiaries	4,136	7,642	214,331	37,286	4,955	5,340	2,148	(334)	1,532	(219)	243	838	277,898
Currency translation adjustments	77	(385)	-	-	-	(539)	(8)	22	(9)	(3)	-	(6)	(851)
December 31, 2010	15,277	32,224	214,899	37,286	5,319	86,765	8,615	2,327	4,194	702	1,237	6,097	414,942
Accumulated depreciation and amortization:													
December 31, 2008	1,054	6,199	-	-	-	38,076	2,027	1,510	2,157	403	334	-	51,760
Additions	83	721	-	-	-	3,696	226	139	182	161	46	-	5,254
Disposals/reclassifications/ acquisition of subsidiaries	7	(132)	-	-	-	(732)	(270)	42	(166)	(55)	(9)	-	(1,315)
Currency translation adjustments	10	(57)	-	-	-	(156)	4	(23)	5	2	1	-	(214)
December 31, 2009	1,154	6,731	-	-	-	40,884	1,987	1,668	2,178	511	372	-	55,485
Additions	109	745	2,464	86	42	3,630	240	168	161	157	75	-	7,877
Disposals/reclassifications/ acquisition of subsidiaries	1,197	3,358	3,147	16,459	3,700	3,015	170	(203)	1,252	(125)	107	-	32,077
Currency translation adjustments	2	(102)	-	-	-	(199)	(8)	58	(6)	(33)	1	-	(287)
December 31, 2010	2,462	10,732	5,611	16,545	3,742	47,330	2,389	1,691	3,585	510	555	-	95,152

Forward

Accumulated impairment losses:	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and other Equipment	Machinery and Equipment	Transportation Equipment	Tools and Small Equipment	Office Furniture and Fixtures	Molds	Leasehold Improvements	Construction in Progress	Total
December 31, 2008	P -	P1,090	P -	P -	P -	P3,442	P1	P10	P15	P2	P -	P -	P4,560
Additions for the year	208	1,571	-	-	-	1,852	6	3	6	-	-	-	3,646
Disposals/reclassifications/													
acquisition of subsidiaries	-	(280)	-	-	-	210	-	-	(1)	-	-	-	(71)
Currency translation adjustments	-	(68)	-	-	-	(94)	(1)	-	-	1	-	-	(162)
December 31, 2009	208	2,313	-	-	-	5,410	6	13	20	3	-	-	7,973
Additions for the year	-	1,574	-	-	-	2,248	6	-	20	-	-	-	3,848
Disposals/reclassifications/													
acquisition of subsidiaries	204	(5)	-	-	-	(138)	-	7	2	(2)	-	-	68
Currency translation adjustments	-	(53)	-	-	-	(117)	-	-	(1)	(1)	-	-	(172)
December 31, 2010	412	3,829	-	-	-	7,403	12	20	41	-	-	-	11,717
Net book value:													
December 31, 2009	P9,265	P15,362	P -	P -	P -	P32,597	P1,312	P673	P344	P143	P549	P5,674	P65,919
December 31, 2010	P12,403	P17,663	P209,288	P20,741	P1,577	P32,032	P6,214	P616	P568	P192	P682	P6,097	P308,073

Depreciation, amortization and impairment losses recognized in profit or loss amounted to P11,725, P8,900 and P4,933 in 2010, 2009 and 2008, respectively (Notes 29 and 33). These amounts include annual amortizations of capitalized interest amounting to P2 in 2010, 2009 and 2008.

The Group has interest amounting to P15 and P6 which were capitalized to machinery and equipment in 2010 and 2009, respectively. The capitalization rate used to determine the amount of interest eligible for capitalization was 5.73% in 2010 and 5.96% in 2009. As of December 31, 2010 and 2009, the unamortized capitalized borrowing costs amounted to P97 and P94, respectively.

The carrying amount of power plants and transportation equipment under finance lease amounted to P209,301 and P30 as of December 31, 2010 and 2009, respectively (Note 35).

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

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

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

SMFI fully complied with all the provisions of the MOA in October 2010. To formally close the pending cases filed by MAPALAD with the Supreme Court and OP, SMFI forwarded in November 2010 to the Sumilao farmers' counsels the draft of the Joint Manifestation and Motion for Dismissal for their concurrence. As of March 14, 2011, finalization of the Joint Manifestation and Motion for Dismissal is still ongoing.

The cost of farm improvements, buildings, machinery and equipment and construction in progress incurred for Monterey's hog farm expansion project situated in Sumilao amounted to P889 and P676 in 2010 and 2009, respectively.

17. Investment Properties

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

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Tools and Small Equipment	Total
Cost:					
December 31, 2008	P1,765	P671	P1,013	P9	P3,458
Additions/reclassifications	71	7	-	-	78
Disposals	(2)	(38)	-	-	(40)
Currency translation adjustments	7	(11)	-	-	(4)
December 31, 2009	1,841	629	1,013	9	3,492
Additions/reclassifications	289	28	2	-	319
Disposals	(3)	(39)	-	-	(42)
Currency translation adjustments	31	(18)	-	-	13
December 31, 2010	2,158	600	1,015	9	3,782
Accumulated depreciation:					
December 31, 2008	73	222	901	9	1,205
Additions	8	11	15	-	34
Disposals/reclassifications	-	(7)	-	-	(7)
Currency translation adjustments	-	(3)	-	-	(3)
December 31, 2009	81	223	916	9	1,229
Additions	8	22	13	-	43
Disposals/reclassifications	-	(6)	-	-	(6)
Currency translation adjustments	(2)	(6)	-	-	(8)
December 31, 2010	87	233	929	9	1,258
Accumulated impairment losses:					
December 31, 2008	342	73	-	-	415
Additions	3	-	-	-	3
Disposals	-	(24)	-	-	(24)
Currency translation adjustments	4	(2)	-	-	2
December 31, 2009	349	47	-	-	396
Additions	-	-	-	-	-
Disposals/reclassifications	(6)	(11)	-	-	(17)
Currency translation adjustments	13	(1)	-	-	12
December 31, 2010	356	35	-	-	391
Net book value:					
December 31, 2009	P1,411	P359	P97	P -	P1,867
December 31, 2010	P1,715	P332	P86	P -	P2,133

Impairment losses amounting to P3 in 2009 is included under "Other income (charges)" account in the consolidated statements of income (Note 33). No impairment loss was recognized in 2010.

There are no other direct selling and administrative expenses other than depreciation and real property taxes arising from investment properties that generated income in 2010, 2009 and 2008.

18. Biological Assets

Biological assets consist of poultry, hogs and cattle as follows:

	2010	2009
Current:		
Growing stocks	P2,559	P2,309
Goods in process	708	216
Total Current	3,267	2,525
Noncurrent breeding stocks - net	1,479	1,847
	P4,746	P4,372

The amortization of breeding stocks recognized in profit or loss amounted to P1,081, P909 and P863 in 2010, 2009 and 2008, respectively.

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

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

	2010	2009
Gross:		
Balance at beginning of year	P4,598	P6,767
Increase (decrease) due to:		
Purchases	13,101	13,391
Production	11,308	11,147
Mortality	(414)	(492)
Sales	(4,693)	(7,535)
Harvest	(17,884)	(15,957)
Currency translation adjustments	(1,006)	(2,723)
Balance at end of year	5,010	4,598
Accumulated amortization:		
Balance at beginning of year	226	2,021
Additions	1,081	909
Disposals and others	(1,043)	(2,704)
Balance at end of year	264	226
Net book value	P4,746	P4,372

The Group harvested approximately 392.2 million and 348.1 million kilograms of grown broilers, in 2010 and 2009, respectively, and 0.35 million and 0.78 million heads of marketable hogs and cattle in 2010 and 2009, respectively.

19. Goodwill and Other Intangible Assets

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

	Note	2010	2009
Balance at beginning of year		P6,408	P5,201
Additions	5	24,456	1,296
Impairment	33	(461)	(33)
Currency translation adjustments		(152)	(56)
Balance at end of year		P30,251	P6,408

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

	Note	Trademarks and Brand Names	Licenses	Formulas and Recipes	Total
Cost:					
December 31, 2008		P2,251	P -	P58	P2,309
Currency translation adjustments		21	-	-	21
December 31, 2009		2,272	-	58	2,330
Additions and acquisition of subsidiaries	5	-	5,221	-	5,221
Disposals and reclassifications		(1,839)	1,917	-	78
Currency translation adjustments		(3)	-	-	(3)
December 31, 2010		430	7,138	58	7,626
Accumulated amortization and impairment losses:					
December 31, 2008		-	-	-	-
Additions	33	133	-	-	133
December 31, 2009		133	-	-	133
Additions	33	64	-	-	64
Currency translation adjustments		(7)	-	-	(7)
December 31, 2010		190	-	-	190
Net book value:					
December 31, 2009		P2,139	P -	P58	P2,197
December 31, 2010		P240	P7,138	P58	P7,436

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

	Note	Service Concession Rights	Licenses	Mining Rights	Land Use Rights	Others	Total
Cost:							
December 31, 2008		P -	P118	P -	P1,820	P618	P2,556
Additions		-	-	-	-	6	6
Disposals and reclassifications		-	21	-	118	65	204
Currency translation adjustments		-	-	-	(48)	-	(48)
December 31, 2009		-	139	-	1,890	689	2,718
Additions and acquisition of subsidiaries	5	91	-	1,800	-	69	1,960
Disposals and reclassifications		-	62	-	-	3	65
Currency translation adjustments		-	2	-	(73)	(3)	(74)
December 31, 2010		91	203	1,800	1,817	758	4,669
Accumulated amortization and impairment losses:							
December 31, 2008		-	43	-	477	533	1,053
Additions	33	-	9	-	37	38	84
Disposals and reclassifications		-	-	-	144	22	166
Currency translation adjustments		-	-	-	(17)	(1)	(18)
December 31, 2009		-	52	-	641	592	1,285
Additions and acquisition of subsidiaries	33	1	12	-	(202)	51	(138)
Disposals and reclassifications		-	(3)	-	-	11	8
Currency translation adjustments		-	1	-	(29)	(2)	(30)
December 31, 2010		1	62	-	410	652	1,125
Net book value:							
December 31, 2009		P -	P87	P -	P1,249	P97	P1,433
December 31, 2010		P90	P141	P1,800	P1,407	P106	P3,544

Intangible asset-service concession right substantially represents the present value of the annual franchise fee payable to the ROP over 25 years discounted using 9% internal borrowing rate, net of accumulated amortization (Notes 4, 20 and 24).

Mining rights and licenses with finite lives and licenses, goodwill, trademarks and brand names with indefinite lives acquired through business combinations have been allocated to individual cash-generating units, for impairment testing as follows:

	2010			2009	
	Goodwill	Licenses, Trademarks and Brand Names	Mining Rights	Goodwill	Licenses, Trademarks and Brand Names
Fuel and Oil	P22,025	P -	P -	P -	P -
Food	2,936	227	-	2,943	233
Packaging	2,026	-	-	2,139	-
Beverage	772	1,930	-	1,265	1,906
Power Generation and Distribution	-	-	1,800	-	-
Infrastructure	2,431	-	-	-	-
Telecommunications	-	5,221	-	-	-
Others	61	-	-	61	-
Total	P30,251	P7,378	P1,800	P6,408	P2,139

The recoverable amount of goodwill has been determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections ranged from 6% to 14% for 2010 and 2009. The discount rates also impute the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium.

Impairment loss on goodwill amounting to P461, P33 and P322 was recognized and is included in "Other income (charges)" account in 2010, 2009 and 2008, respectively (Note 33).

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

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

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

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

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

20. Other Noncurrent Assets

Other noncurrent assets consist of:

	<i>Note</i>	2010	2009
Noncurrent receivables and deposits - net	40, 41, 42	P24,783	P5,933
Deferred containers - net	4	4,420	4,446
Project development costs	4, 5	2,186	-
Retirement assets	36	147	160
Others		2,265	1,929
		P33,801	P12,468

Noncurrent receivables and deposits include advances to Petron Corporation Employee Retirement Plan (PCERP) and deposits to Meralco amounting to P22,435 and P87, respectively, as of December 31, 2010, and advances to SMEC and deposits to Meralco amounting to P2 and P68 as of December 31, 2009 (Note 34).

Project development costs consist of expenses related to the development of the MRT 7 Project (Note 35) which are capitalized. These include manpower costs, engineering service costs, financing fees, technology development and consultancy service costs, overhead costs and other related project costs.

"Others" include noncurrent prepaid rent and insurance, catalysts, deferred exploration and development costs and idle assets.

Idle assets included under "Others" amounted to P169 and P235 as of December 31, 2010 and 2009, respectively (Note 33).

21. Drafts and Loans Payable

Drafts and loans payable consist of:

	<i>Note</i>	2010	2009
Parent Company			
Peso-denominated		P22,422	P34,331
Foreign currency-denominated		-	3,188
Subsidiaries			
Peso-denominated		48,214	16,125
Foreign currency-denominated		3,492	3,145
	41, 42	P74,128	P56,789

Drafts and loans payable mainly represent unsecured peso and foreign currency-denominated amounts payable to local and foreign banks. Interest rates for peso-denominated loans range from 3.05% to 4.50% and 3.10% to 6.79% in 2010 and 2009, respectively. Interest rates for foreign currency-denominated loans range from 1.8% to 16.5% and 1.32% to 12.08% in 2010 and 2009, respectively.

Drafts and loans payable of the Group are not subject to covenants and warranties.

22. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	<i>Note</i>	2010	2009
Trade		P34,591	P8,791
Payables on the purchase of shares of stock	5, 13	14,839	7,280
Non-trade		12,383	10,783
Amounts owed to related parties	34	1,843	32
Subscriptions payable	13	1,290	-
Retirement liabilities	36	503	572
Obligation under a put option	4, 35	386	-
Others		3,939	3,933
	41, 42	P69,774	P31,391

Derivative liabilities included under "Others" amounted to P71 and P111 as of December 31, 2010 and 2009, respectively (Notes 41 and 42).

Non-trade payables include freight payable, contract growers/breeders' fee, guarantee deposits, utilities, rent and other expenses payable to external parties, as supported by invoices, which were not paid in the month in which they are incurred.

The current portion of IRO included in "Non-trade" amounted to P2 as of December 31, 2010 (Note 35).

Others include payroll-related accruals and accrued interest payable.

23. Long-term Debt

Long-term debt consist of:

	2010	2009
Parent Company		
Unsecured term notes:		
Foreign currency-denominated:		
Floating interest rate based on LIBOR plus an agreed margin, with maturities up to 2015 (a)	P42,810	P26,397
Peso-denominated:		
Floating interest rate based on PDST-F plus an agreed margin, with maturities up to 2012, 2014 and 2015 (b)	10,838	2,982
	53,648	29,379
Subsidiaries		
Peso-denominated:		
Bonds:		
Fixed interest rate of 8.25%, 8.875% and 10.5% maturing in 2012, 2014 and 2019, respectively (c)	38,425	38,416
Unsecured term notes:		
Fixed interest rate of 7% maturing in 2017 (d)	19,779	-
Fixed interest rate of 8.88%, 8.14% and 9.33% maturing in 2011, 2014 and 2016, respectively (e)	16,162	-
Fixed interest rate of 6.50% and 7.25% maturing in 2012 and 2014, respectively (f)	2,217	2,214
Fixed interest rate of 7.63% and 8.30% maturing in 2015 (g)	1,493	-
Fixed interest rate of 6.73% maturing in 2012 (h)	767	-
Fixed interest rate of 5.4885% maturing in 2015 (i)	793	-
Floating interest rate based on PDST-F plus an agreed margin, with maturities up to 2011 and 2014 (j)	2,466	-
Floating interest rate based on PDST-F plus an agreed margin, with maturities up to 2015 (i)	3,668	-
Foreign currency-denominated:		
Unsecured term notes:		
Floating interest rate based on LIBOR plus an agreed margin, with maturities up to 2015 (k)	15,229	-
Floating interest rate based on LIBOR plus an agreed margin, with maturities up to 2014 (l)	12,840	-
Floating interest rate based on VNIBOR and THBFIX plus an agreed margin, with maturities up to 2014 (m)	1,440	2,953
	115,279	43,583
	168,927	72,962
Less current maturities	12,549	1,077
	P156,378	P71,885

- a. The amount represents drawdown by the Parent Company in 2010 and 2009 from the US\$1,000 loan and US\$600 loan facility, respectively. The drawdown was used to refinance its existing financial indebtedness and for general working capital purposes.

The balance of the US\$600 loan was paid off by the Parent Company on July 26, 2010 out of the proceeds of the US\$1,000 loan facility.

Unamortized debt issue costs related to these loans amounted to P1,030 and P1,323 as of December 31, 2010 and 2009, respectively.

- b. The amount represents drawdown by the Parent Company in 2010 and 2009 for general financing and corporate requirements. Unamortized debt issue costs related to these loans amounted to P12 and P18 as of December 31, 2010 and 2009, respectively.
- c. SMB offered for sale and subscription to the public Philippine peso-denominated fixed rate bonds in the aggregate principal amount of P38,800 (Bonds) on April 3, 2009 (Issue Date). The Bonds was issued in three (3) series: Series A Bonds with an aggregate principal amount of P13,590 having a term of 3 years beginning on Issue Date and ending on April 3, 2012, with a fixed interest rate of 8.25% per annum; Series B Bonds with an aggregate principal amount of P22,400 having a term of 5 years and 1 day beginning on Issue Date and ending on April 4, 2014, with a fixed interest rate of 8.875% per annum; and Series C Bonds with an aggregate amount of P2,810 having a term of 10 years beginning on Issue Date and ending on April 3, 2019, with a fixed interest rate of 10.50% per annum. Proceeds from the issuance of the Bonds were used to finance SMB's acquisition of the interest of the Parent Company in IBI and in BPI. Unamortized debt issue costs related to these bonds amounted to P276 and P384 as of December 31, 2010 and 2009, respectively.

On November 17, 2009, the Philippine Dealing & Exchange Corp. (PDEX) approved SMB's application to list its peso-denominated fixed rate bonds for trading on the PDEX.

- d. The amount represents P20,000 peso-denominated notes issued by Petron in 2010. The principal and interest will be translated into and paid in US dollars based on the average representative market rate at the applicable rate calculation date at the time of each payment. Unamortized debt issue cost related to this loan amounted to P222 as of December 31, 2010.
- e. The amount represents fixed rate corporate notes issued by Petron amounting to P6,300 in 2006 and P5,200 and P4,800 in 2009. The P6,300 fixed rate corporate note was used to finance the construction of its Petro Fluidized Catalytic Cracker Unit and Propylene Recovery Unit and for other general financing purposes. Unamortized debt issue cost related to this loan amounted to P89 as of December 31, 2010.
- f. The amount represents syndicated loans obtained by SMYAC which were used for capital expenditures. Unamortized debt issue costs related to these loans amounted to P8 and P11 as of December 31, 2010 and 2009, respectively.
- g. The amount represents drawdown by GSMI in 2010, from a local bank, used for working capital requirements. Unamortized debt issue costs related to these bonds amounted to P7 as of December 31, 2010.
- h. The amount represents a club loan agreement of Petron with Metropolitan Bank and Trust Company and Citibank amounting to P1,000 each in 2007. The loan bears interest of 6.73% per annum payable in 13 quarterly installments starting January 2009 up to 2012. In December 2007, Citibank assigned P900 of its interest in the Club loan agreement to the following financial institutions:

Bank Name	Amount
MayBank Phils.	P500
Mega International Commercial Bank of China	300
Robinsons Bank	100
	P900

In May 2008, Citibank assigned its remaining P100 interest to Insular Life Assurance Co. Ltd. Unamortized debt issue costs related to these loans amounted to P2 as of December 31, 2010.

- i. SMFI offered for sale and subscription to the public Philippine peso-denominated fixed rate and floating rate corporate notes with principal in the aggregate amount of P800 and P3,700, respectively. Both types of bonds have a term of 5 years and 1 day beginning on December 10, 2010 and ending in December 11, 2015. The fixed rate bonds has a fixed interest rate of 5.4885% per annum, while the floating rate bond has a floating interest rate based on 3-month PDST-F plus an agreed margin. Proceeds from the issuance of the bonds will be used to fund any expansion or any investment in new businesses by SMFI and for other general corporate financing purposes. Unamortized debt issue costs related to these bonds amounted to P39 as of December 31, 2010.

- j. The amount includes a loan agreement entered into by Petron with Land Bank of the Philippines in 2006 amounting to P2,000, used for capital expenditures. Unamortized debt issue costs related to these notes amounted to P1 as of December 31, 2010. It also includes a loan agreement entered into by Petron with Development Bank of the Philippines in 2010 amounting to P1,800. The loan was obtained to finance Petron's general corporate requirements.
- k. The amount represents drawdown by Petron in 2010 from the US\$355 loan facility for general corporate purposes and refinancing of peso-denominated debts. Unamortized debt issue costs related to this loan facility amounted to P334 as of December 31, 2010.
- l. The amount represents an unsecured loan facility agreement entered into by SMB with an aggregate amount of US\$300, used to finance SMB's acquisition of the international beer and malt-based beverages business from the Parent Company, through SMB's purchase of SMH's shares in SMBIL, comprising 100% of the issued and outstanding capital stock of SMBIL. Unamortized debt issue costs related to this loan facility amounted to P312 as of December 31, 2010.
- m. The amount includes loan obtained by SMFBIL's subsidiaries, which was used to finance their capital expenditures. It also includes the 44.9% share of the loan of TSML in 2010 and 2009 to finance its plant constructions and start up operations. Unamortized debt issue costs related to these loans amounted to P1 and P2 as of December 31, 2010 and 2009, respectively.

The debt agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements, restrictions on loans and guarantees, disposal of a substantial portion of assets, significant changes in the ownership or control of subsidiaries, payments of dividends and redemption of capital stock.

As of December 31, 2010 and 2009, the Group is in compliance with the covenants of the debt agreements.

The movements in debt issue costs are as follows:

	<i>Note</i>	2010	2009
Balance at beginning of year		P1,738	P424
Additions and reclassification		2,404	1,889
Amortization	<i>31</i>	(1,808)	(575)
Balance at end of year		P2,334	P1,738

Repayment Schedule

As of December 31, 2010, the annual maturities of long-term debt are as follows:

Year	Gross Amount	Debt Issue Costs	Net
2011	P12,722	P173	P12,549
2012	21,084	589	20,495
2013	5,059	351	4,708
2014	33,569	578	32,991
2015	71,505	535	70,970
2016	4,512	42	4,470
2017	20,000	36	19,964
2019	2,810	30	2,780
Total	P171,261	P2,334	P168,927

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 41.

24. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

	<i>Note</i>	2010	2009
Payables on the purchase of shares of stock	<i>5, 13</i>	P15,063	P18,148
ARO	<i>4</i>	815	-
Retirement liabilities	<i>36</i>	132	192
Obligation to the Philippine Government - service concession agreement	<i>4, 19, 20</i>	77	-
IRO	<i>4, 20</i>	45	-
Redeemable preferred shares	<i>4</i>	12	-
Subscriptions payable		-	1,014
Cash bonds, cylinder deposits and others		1,016	231
		P17,160	P19,585

Redeemable preferred shares represent preferred shares of TADHC. The preferred shares are cumulative, non-voting, redeemable and with liquidation preference. The shares shall be preferred as to dividends, which shall be given on the face of coupons, at the rate of 90% of the 1 year PDST-F rate. The dividends shall be cumulative from and after the date of issue of the preferred shares, whether or not in any period the amount thereof is covered by available unrestricted retained earnings.

The preferred shares are mandatorily redeemable at the end of the ten-year period from and after the issuance of the preferred shares. The redemption price is equivalent to the principal amount, plus all unpaid coupons. At the sole option of TADHC, the preferred shares may be redeemed earlier in whole or in part.

In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of TADHC, the holders of the preferred shares shall be entitled to be paid in full or proportionately to the extent that the remaining assets of TADHC will permit, an amount equivalent to the issue price of such preferred shares plus all accumulated and unpaid dividends up to the current dividend period, before any assets of TADHC shall be paid or distributed to the holders of the common shares.

25. Income Taxes

Deferred tax assets and liabilities arise from the following:

	2010	2009
Allowance for impairment losses on trade and other receivables and inventory	P1,745	P1,163
MCIT	434	1,145
NOLCO	392	753
Undistributed net earnings of foreign subsidiaries	(10,137)	(11,213)
Unrealized intercompany charges and others	948	4,998
	(P6,618)	(P3,154)

The above amounts are reported in the consolidated statements of financial position as follows:

	Note	2010	2009
Deferred tax assets	4	P7,134	P8,883
Deferred tax liabilities		(13,752)	(12,037)
		(P6,618)	(P3,154)

The undistributed earnings of foreign subsidiaries and cumulative translation adjustments for which deferred tax liabilities have not been recognized totaled P10,291 and P11,425 as of December 31, 2010 and 2009, respectively.

As of December 31, 2010, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
2008	December 31, 2011	P3	P122
2009	December 31, 2012	1,304	312
		P1,307	P434

The components of income tax expense are shown below:

	Note	2010	2009	2008
Current		P11,517	P10,254	P7,907
Deferred		(79)	(6,548)	(1,809)
Income tax expense from continuing operations		11,438	3,706	6,098
Income tax benefit from ordinary activities of discontinued operations	8	-	-	(7)
Income tax expense from gain on disposal of discontinued operations	8	-	-	2,921
		P11,438	P3,706	P9,012

The reconciliation between the statutory income tax rate on income tax before income tax from continuing operations and the Group's effective income tax rate is as follows:

	2010	2009	2008
Statutory income tax rate	30.00%	30.00%	35.00%
Increase (decrease) in income tax rate resulting from:			
Equity in net losses (earnings) of associates	(5.76)	(1.31)	1.91
Interest income subject to final tax	(2.56)	(2.79)	(11.17)
Loss (gain) on derivatives	(0.56)	(0.45)	18.06
Gain on sale of investments subject to final or capital gains tax	-	(23.52)	(12.05)
Others, mainly income subject to different tax rates and change in tax rate - net	11.10	3.83	(2.38)
Effective income tax rate	32.22%	5.76%	29.37%

26. Stockholders' Equity

- a. On July 24, 2007, the stockholders of the Parent Company approved the increase in the Parent Company's authorized capital stock from P22,500 to P37,500, which will be made up of 3,600,000,000 Class "A" common shares, 2,400,000,000 Class "B" common shares and 1,500,000,000 preferred shares, all with a par value of P5.00 per share.

On July 23, 2009, during the Parent Company's annual stockholders' meeting, the stockholders approved amendments to the Parent Company's Articles of Incorporation providing for the reclassification of the common shares comprising the authorized capital stock of P22,500. The authorized capital stock of the Parent Company was divided into 2,034,000,000 Class "A" common shares, 1,356,000,000 Class "B" common shares and 1,110,000,000 Series "1" preferred shares, and defined the terms and features of the Series "1" preferred shares. The preferred shares shall be peso-denominated, perpetual, cumulative and non-voting with an issue price of P75.00 per share and a dividend rate of 8% per annum computed in reference to the issue price. The SEC approved these amendments to the Amended Articles of Incorporation of the Parent Company on August 20, 2009. The stockholders also approved in the same stockholders' meeting, further amendments to the resolutions on the increase in the authorized capital stock of the Parent Company which were passed during the 2007 annual stockholders' meeting to provide for the division of the increased authorized capital stock of the Parent Company into common shares and two series of preferred shares. The proposed increase in the authorized capital stock of the Parent Company has not been submitted to the SEC for approval.

Also, on July 23, 2009, the stockholders of the Parent Company approved the Offer by the Parent Company to exchange existing common shares of up to approximately 35% of the issued and outstanding capital stock of the Parent Company with Series "1" preferred shares. The exchange ratio was one (1) common share for one (1) Series "1" preferred share and the qualified shareholders of record as of July 2, 2009, were vested with the right to participate on the exchange.

On October 5, 2009, the Parent Company completed the exchange of 476,296,752 Class "A" common shares and 396,876,601 Class "B" common shares for Series "1" preferred shares.

On October 15, 2009, the Parent Company's BOD approved the issuance, through private placement, of up to 226,800,000 Series "1" preferred shares.

On December 22, 2009, the Parent Company issued 97,333,000 Series "1" preferred shares to qualified buyers and by way of private placement to not more than 19 non-qualified buyers at the issue price of P75.00 per Series "1" preferred share.

On July 27, 2010, the Parent Company's BOD approved the offer to issue approximately 1,000,000,000 common shares (from unissued capital stock and treasury shares) at a price of not less than P75.00 per share. The proceeds will be used to finance investments and acquisitions of the Parent Company.

- b. *Capital Stock*

Common Stock

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company shall be considered as common shares without distinction, as approved by the SEC. Both shall be available for foreign investors, subject to the foreign ownership limit.

The movements in the number of issued and outstanding shares of common stock are as follows:

	2010	
Balance at beginning of year		3,229,944,942
Issuances during the year		38,649,312
Issued shares at end of year		3,268,594,254
Less treasury shares		938,648,724
Issued and outstanding shares at end of year		2,329,945,530
	2009	2008
Class "A"		
Balance at beginning of year	1,975,940,615	1,975,292,245
Issuances during the year	4,652,540	648,370
Issued shares at end of year	1,980,593,155	1,975,940,615
Less treasury shares	530,959,512	54,662,760
Issued and outstanding shares at end of year	1,449,633,643	1,921,277,855
Class "B"		
Balance at beginning of year	1,246,527,833	1,246,527,833
Issuances during the year	2,823,954	-
Issued shares at end of year	1,249,351,787	1,246,527,833
Less treasury shares	407,689,212	10,812,611
Issued and outstanding shares at end of year	841,662,575	1,235,715,222

Preferred Shares

Series "1" preferred shares have a par value of P5.00 per share and are entitled to receive cash dividends upon declaration by and at the sole option of the Parent Company's BOD at a fixed rate of 8% per annum calculated in respect of each Series "1" preferred share by reference to the Issue Price thereof in respect of each dividend period. Unless the Series "1" preferred shares are redeemed by the Parent Company, the dividend rate shall be adjusted at the end of the fifth year after the date of issue.

Series "1" preferred shares are non-voting except as provided for under the Corporation Code. The Series "1" preferred shares are redeemable in whole or in part, at the sole option of the Parent Company, at the end of three years from the issue date at P75.00 plus any accumulated and unpaid cash dividends.

All shares rank equally with regard to the Parent Company's residual assets, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

On December 8, 2010, the Parent Company listed 873,173,353 Series "1" preferred shares worth P65,488, representing 27.6% of its outstanding stock.

As of December 31, 2010 and 2009, the Parent Company has 970,506,353 outstanding Series "1" preferred shares.

- c. Treasury shares, totaling 65,475,371 Class "A" and "B" common shares, are stated at acquisition cost, while 873,173,353 Class "A" and "B" common shares were acquired through the exchange of common shares to preferred shares on a one-for-one basis at P75.00 per share.

Out of the total treasury shares, 25,450,000 common shares (15,274,484 Class "A" common shares and 10,175,516 Class "B" common shares), with an acquisition cost of P481, [net of the cost of the 1,000,000 shares paid to Presidential Commission on Good Government (PCGG) as arbitral fee pursuant to the Compromise Agreement, as herein defined] were reverted to treasury in 1991 upon implementation of the Compromise Agreement and Amicable Settlement (Compromise Agreement) executed by the Parent Company with the United Coconut Planters Bank (UCPB) and the Coconut Industry Investment Fund (CIIF) Holding Companies in connection with the purchase of the Parent Company shares under an agreement executed on March 26, 1986.

Certain parties have opposed the Compromise Agreement. The right of such parties to oppose, as well as the propriety of their opposition, has been the subject matters of cases before the Sandiganbayan and the Supreme Court.

On September 14, 2000, the Supreme Court upheld a Sandiganbayan resolution requiring the Parent Company to deliver the 25,450,000 common shares that were reverted to treasury in 1991 to the PCGG and to pay the corresponding dividends on the said shares.

On October 10, 2000, the Parent Company filed a motion for reconsideration with the Supreme Court to be allowed to comply with the delivery and payment of the dividends on the treasury shares only in the event that another party, other than the Parent Company, is declared owner of the said shares in the case for forfeiture (Civil Case) filed by the Philippine government (Government).

On April 17, 2001, the Supreme Court denied the motion for reconsideration.

On September 19, 2003, the PCGG wrote the Parent Company to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan resolution upheld by the Supreme Court. The Parent Company referred the matter to its external financial advisor and external legal counsel for due diligence and advice. The external financial advisor presented to the BOD on December 4, 2003 the financial impact of compliance with the resolution considering “with and without due compensation” scenarios, and applying different rates of return to the original amount paid by the Parent Company. The financial advisor stated that if the Parent Company is not compensated for the conversion of the treasury shares, there will be: (a) a negative one-off EPS impact in 2003 of approximately 17.5%; (b) net debt increase of approximately P2,100; and (c) a negative EPS impact of 6.9% in 2004. The external legal counsel at the same meeting advised the BOD that, among others, the facts reviewed showed that: (a) the compromised shares had not been validly sequestered; (b) no timely direct action was filed to nullify the transaction; (c) no rescission can be effected without a return of consideration; and (d) more importantly, requiring the Parent Company to deliver what it acquired from the sellers without a substantive ground to justify it, and a direct action in which the Parent Company is accorded full opportunity to defend its rights, would appear contrary to its basic property and due process rights. The external legal counsel concluded that the Parent Company has “legal and equitable grounds to challenge the enforcement” of the Sandiganbayan resolution.

On January 29, 2004, the external legal counsel made the additional recommendation that the Parent Company should file a Complaint-in-Intervention in the Civil Case (now particularly identified as SB Case No. 033-F), the forfeiture case brought by the Government involving the so-called CIIF block of the Parent Company shares of stock of which the treasury shares are a portion. The Complaint-in-Intervention would pray that any judgment in the Civil Case forfeiting the CIIF block of the Parent Company shares of stock should exclude the treasury shares.

At its January 29, 2004 meeting, the BOD of the Parent Company unanimously decided to (a) deny the PCGG demand of September 19, 2003, and (b) authorize the filing of the Complaint-in-Intervention. Accordingly, the external legal counsel informed the PCGG of the decision of the Parent Company and the Complaint-in-Intervention was filed in the Civil Case.

In a Resolution dated May 6, 2004, the Sandiganbayan denied the Complaint-in-Intervention. The external legal counsel filed a Motion for Reconsideration, which was denied by the Sandiganbayan in its Decision dated November 28, 2007.

The external legal counsel advised that because the Sandiganbayan had disallowed the Parent Company's intervention, the Sandiganbayan's disposition of the so-called CIIF block of the Parent Company shares in favor of the Government cannot bind the Parent Company, and that the Parent Company remains entitled to seek the nullity of that disposition should it be claimed to include the treasury shares.

The external legal counsel also advised that the Government has, in its own court submissions, (i) recognized the Parent Company's right to the treasury shares on the basis that the Compromise Agreement is valid and binding on the parties thereto; and (ii) taken the position that the Parent Company and UCPB had already implemented the Compromise Agreement voluntarily, and that the PCGG had conformed to the Agreement and its implementation. The Executive Committee of the Parent Company approved the recommendation of external legal counsel on January 18, 2008 which was ratified by the BOD on March 6, 2008.

The Supreme Court affirmed its resolution, issued on September 17, 2009, allowing the PCGG to convert the 24% sequestered shares of the Parent Company in the name of CIIF into Series “1” preferred shares. The Court held that the conversion is necessary to preserve the value of the 753,848,312 common shares.

On February 11, 2010, the Supreme Court amended its Resolution dated September 17, 2009 and authorized the PCGG to exercise discretion in depositing on escrow, the net dividend earnings on, and/or redemption proceeds from, the Series “1” preferred shares of the Parent Company, either with the Development Bank of the Philippines/ Land Bank of the Philippines or with the UCPB, having in mind the greater interest of the government and the coconut farmers.

In the meantime, the Parent Company has available cash and shares of stock for the dividends payable on the treasury shares.

The movements in the number of acquired shares of treasury stock are as follows:

	2009	2008
Class “A”		
Balance at beginning of year	54,662,760	54,662,760
Acquisition through exchange of common shares to preferred shares during the year	476,296,752	-
Balance at end of year	530,959,512	54,662,760
Class “B”		
Balance at beginning of year	10,812,611	10,812,611
Acquisition through exchange of common shares to preferred shares during the year	396,876,601	-
Balance at end of year	407,689,212	10,812,611

As of December 31, 2010, the Parent Company holds 938,648,724 common treasury shares.

- d. The Group's unappropriated retained earnings includes its accumulated equity in net earnings of subsidiaries and associates amounting to P16,429, P18,184 and P57,482 in 2010, 2009 and 2008, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

The Parent Company's unappropriated retained earnings as of December 31, 2010 and 2009 is restricted in the amount of P69,541, representing the cost of shares held in treasury.

- e. The BOD of certain subsidiaries approved additional appropriations amounting to P200, P15 and P176 in 2010, 2009 and 2008, respectively, to finance future capital expenditure projects. Reversal of appropriations in 2010, 2009 and 2008 amounted to P27, P40 and P688, respectively.

27. Cost of Sales

Cost of sales consist of:

	<i>Note</i>	2010	2009	2008
Inventories		P102,166	P75,051	P76,205
Taxes and licenses		23,343	21,515	19,703
Fuel and oil		17,504	2,170	3,267
Depreciation and amortization	29	7,287	4,994	4,660
Contracted services		5,929	4,682	4,296
Freight, trucking and handling		5,504	4,392	4,230
Communications, light and water		4,585	3,662	4,232
Personnel	30	3,827	3,802	3,815
Repairs and maintenance		1,962	1,827	1,584
Rent	4, 35	507	455	550
Others		1,292	1,745	1,530
		P173,906	P124,295	P124,072

28. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2010	2009	2008
Selling	P18,239	P12,905	P13,518
Administrative	19,187	17,344	15,633
	P37,426	P30,249	P29,151

Selling expenses consist of:

	<i>Note</i>	2010	2009	2008
Freight, trucking and handling		P5,922	P2,021	P2,049
Advertising and promotions		4,977	4,980	5,697
Personnel	30	4,180	3,635	3,251
Rent	4, 35	1,200	1,060	995
Depreciation and amortization	29	419	221	248
Supplies		326	251	281
Taxes and licenses		271	249	213
Communications, light and water		193	218	169
Professional fees		131	45	43
Others		620	225	572
		P18,239	P12,905	P13,518

Administrative expenses consist of:

	<i>Note</i>	2010	2009	2008
Personnel	30	P8,081	P7,385	P6,771
Depreciation and amortization	29	2,403	2,110	1,859
Professional fees		1,750	2,383	1,283
Advertising and promotion		1,201	822	1,614
Taxes and licenses		794	673	617
Supplies		755	711	710
Communications, light and water		713	644	692
Repairs and maintenance		680	952	867
Freight, trucking and handling		513	270	316
Research and development		236	212	299
Rent	4, 35	88	605	251
Others	40	1,973	577	354
		P19,187	P17,344	P15,633

"Others" consist of entertainment and amusement, gas and oil, and other operating and administrative expenses.

29. Depreciation, Amortization and Impairment

Depreciation, amortization and impairment are distributed as follows:

	<i>Note</i>	2010	2009	2008
Cost of sales:				
Property, plant and equipment	16	P6,192	P3,852	P3,604
Deferred containers, biological assets and others	18, 20	1,095	1,142	1,056
	27	7,287	4,994	4,660
Selling and administrative expenses:				
Property, plant and equipment	16	1,685	1,402	1,329
Deferred containers and others	20, 33	1,137	929	778
	28	2,822	2,331	2,107
		P10,109	P7,325	P6,767

"Others" include amortization of computer software, land use rights, licenses and investment properties.

30. Personnel Expenses

Personnel expenses consist of:

	<i>Note</i>	2010	2009	2008
Salaries and wages		P7,990	P7,205	P6,440
Retirement costs	36	285	594	857
Other employee benefits		7,813	7,023	6,540
		P16,088	P14,822	P13,837

Personnel expenses are distributed as follows:

	<i>Note</i>	2010	2009	2008
Cost of sales	27	P3,827	P3,802	P3,815
Selling expenses	28	4,180	3,635	3,251
Administrative expenses	28	8,081	7,385	6,771
		P16,088	P14,822	P13,837

31. Interest Expense and Other Financing Charges

	2010	2009	2008
Interest expense	P13,870	P6,780	P5,370
Other financing charges	2,708	1,146	662
	P16,578	P7,926	P6,032

Amortization of debt issue costs in 2010, 2009 and 2008 included in other financing charges amounted to P1,808, P575 and P374, respectively (Note 23).

Interest expense on drafts and loans payable and long-term debt are as follows:

	2010	2009	2008
Drafts and loans payable	P3,035	P2,916	P2,960
Long-term debt	10,835	3,864	2,410
	P13,870	P6,780	P5,370

32. Interest Income

Interest income consist of:

	Note	2010	2009	2008
Interest from short-term investments, cash in banks and others		P2,941	P5,350	P4,320
Interest on amounts owed by a related party	10	82	639	2,310
		P3,023	P5,989	P6,630

33. Other Income (Charges)

Other income (charges) consist of:

	Note	2010	2009	2008
Foreign exchange gains (losses)		P6,097	(P3,364)	P8,684
Gain on acquisition of a subsidiary	5, 39	4,490	-	-
Gains (losses) on derivatives - net	42	660	962	(10,718)
Loss on impairment of goodwill, trademark and brand name, property, plant and equipment and idle assets (a, b, c, d)	16, 17, 19	(4,233)	(4,756)	(322)
Others (b)		(88)	315	94
		P6,926	(P6,843)	(P2,262)

- a. In 2010 and 2009, the Group recognized impairment loss on noncurrent assets of SMBHK and San Miguel (Guangdong) Brewery Company Limited (SMGB). Over the past three years, the Group's business performance of SMBHK and SMGB had been adversely affected by factors including economic downturns, fierce market competition, counterfeit products and poor weather conditions.

SMBHK

In 2010, the recoverable amount of SMBHK cash-generating unit (CGU) has been determined using the value in use calculation derived on the cash flow projections based on the business forecasts approved by the management covering a period of five years on which cash flows beyond the covered periods are extrapolated using a steady growth rate of 2%.

Key assumptions used for value in use calculation are as follows:

	2010
Sales volume growth rate	1.7 - 12.6%
Gross contribution rate	40 - 43%
Pre-tax discount rate	9.85%

SMGB

In 2010, the estimates of recoverable amount of SMGB CGU were based on the assets' fair values less costs to sell, determined by reference to the observable market prices for similar assets on which the Group engaged an independent firm of surveyors, LCH (Asia-Pacific) Surveyors Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. In 2009 however, the estimated recoverable amount of the mainland China CGU was determined using value in use calculation. This calculation uses the discounted value of the projected cash flows to be generated over the remaining useful life of the CGU. Cash flows beyond the six-year period were extrapolated using a steady growth rate of 4%.

Key assumptions used for value in use calculation are as follows:

	2009
Sales volume growth rate	5.5 - 7.3%
Gross contribution rate	39 - 40%
Pre-tax discount rate	13.17%

Management determined the growth rate and gross contribution rate based on past experiences, future expected market trends and an intermediate holding company's import plan of beer brewed by the Group.

As of December 31, 2010 and 2009, the Group assessed the recoverable amounts of the CGUs to which these assets belong, and as a result, the carrying amounts of the assets in the CGUs were written down by P4,333 and P3,705, respectively, presented as follows:

	Note	2010	2009
Other charges		P4,182	P3,705
Selling and administrative expenses	29	151	-
		P4,333	P3,705

- b. In 2010 and 2009, the Group recognized provisions for impairment loss on land and idle assets (included under "Other noncurrent assets") amounting to P51 and P54, respectively, computed as the difference between the carrying amount of the assets and their fair value based on reports by qualified property appraisers, less costs to sell (Note 20). In 2010, following the recent appraisal reports, the Group reversed the impairment loss on land amounting to P46 which was included under "Others".
- c. In 2009, the Group reduced the carrying amount of certain assets of SMPPC by a total of P694 after the latter ceased its commercial operations on July 27, 2009.
- d. On December 31, 2008, the Group reviewed the recoverable amount of its investment in shares of stock of Star Dari, Inc. (SDI). It was determined that the carrying amount of the investment is higher than its value in use and an impairment loss of P322 was recognized. The discount rate applied to after tax cash flow projections of SDI was 12%. The impairment loss was allocated fully to goodwill (Note 19).

34. Related Party Disclosures

Transactions with related parties are made at normal market prices. For the years ended December 31, 2010, 2009 and 2008, the Group did not provide any allowance for impairment losses relating to amounts owed by related parties. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

- a. The Parent Company has advances to SMCRP amounting to P3,997 and P2,785 as of December 31, 2010 and 2009, respectively, included as part of "Trade and other receivables" account (Note 10).
- b. The Parent Company has advances to Top Frontier amounting to P2,543 as of December 31, 2010, included as part of "Trade and other receivables" account (Note 10).
- c. SMPI has advances from SMCRP amounting to P1,800 as of December 31, 2010, included as part of "Accounts payable and accrued expenses" account (Notes 13 and 22). SMPI used the proceeds of the advances mainly for the acquisition of additional BOC shares. As of December 31, 2010, SMPI also has outstanding advances to SMCRP amounting to P2 included as part of "Trade and other receivables" account (Note 10).
- d. The significant transactions of the Group and Meralco include the following:

Year	Sales	Purchases of Utilities	Included under "Trade and other receivables" account (Note 10)	Included under "Accounts payable and accrued expenses" account (Note 22)
2010	P17,103	P490	P4,548	P43
2009	P -	P692	P72	P32

In 2010 and 2009, the Group has noncurrent receivables and deposits from Meralco amounting to P87 and P68, respectively (Note 20).

- e. As of December 31, 2010, Vega has advances to LTHI which amounted to P145 included as part of "Trade and other receivables" account (Note 10).

- f. As of December 31, 2010, the Group has outstanding receivables from BOC amounting to P4 included as part of "Trade and other receivables" account (Note 10).
- g. As of December 31, 2010, Petron has noncurrent receivables of P22,435 from PCERP (Note 20). Such advance is subject to interest of 4% per annum.
- h. As of December 31, 2009, the Parent Company has advances to SMEC which amounted to P313 and P2 included as part of "Trade and other receivables" and "Other noncurrent assets" accounts, respectively (Notes 10 and 20).
- i. The compensation of key management personnel of the Group, by benefit type, follows:

	2010	2009	2008
Short-term employee benefits	P408	P378	P200
Retirement costs (income)	(147)	37	19
Share-based payments	31	56	53
	P292	P471	P272

Some of the personnel performing key management functions in certain subsidiaries are employed by the Parent Company. This is covered by a management agreement executed by and between the Parent Company and the subsidiaries. The salaries and benefits of these personnel are billed to the subsidiaries through management fees, with details as follows:

	Note	2010	2009	2008
Short-term employee benefits		P30	P46	P118
Retirement costs	36	-	1	9
Share-based payments	40	24	43	55
	28	P54	P90	P182

35. Significant Agreements and Lease Commitments

Significant Agreements:

Power

Market Participation Agreements (MPA)

SMEC, SPDC, SPPC and PEHI have entered into MPA with the Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member.

Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by Energy Regulatory Commission.

The Group purchases power from WESM during periods when the power generated from power plants are not sufficient to meet customers' power requirements.

Power Supply Agreements

SMEC and SPPC have Power Supply Agreements with various counterparties to supply or sell electricity produced by the power plants. All agreements provide for renewals or extensions subject to mutually agreed terms and conditions by both parties.

The customers are billed based on the time-of-use per kilowatt hour (TOU/kWh). However, as stipulated in the contracts, each customer has to pay the minimum charge based on the contracted power using the basic energy charge and adjustments if customer has not fully taken or failed to consume the contracted power. As of December 31, 2010, all customers are above their minimum contracted power requirements.

Coal Supply Agreement

SMEC entered into a Supply Agreement for Steaming Coal with PT Bumi Resources Tbk's subsidiary PT Kaltim Prima Coal through Topcoal Trading Corporation for the coal requirements of the Sual Power Plant from October 1, 2009 to September 30, 2010. Under the agreement, the parties shall negotiate and agree on the contract price of the coal at least 30 days prior to the delivery. The agreement is renewable at such terms and conditions as agreed upon by the parties in writing. The agreement was renewed on September 30, 2010.

Fuel and Oil

Supply Agreement

Petron and Arabian American Oil Company ("Saudi Aramco") have a term contract to purchase and supply, respectively, 90% of Petron's monthly crude oil requirements at Saudi Aramco's standard far east selling prices. The contract is for a period of one year from October 28, 2008 to October 27, 2009 with automatic one-year extensions thereafter unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities of Petron for such purchases are shown as part of "Accounts payable and accrued expenses - trade" account in the consolidated statements of financial position. The contract was extended until October 27, 2011.

Fuel Supply Contract with NPC

Petron entered into various fuel supply contracts with NPC. Under the agreements, Petron supplies the bunker fuel and diesel fuel oil requirements to selected NPC plants and NPC-supplied IPP plants.

Infrastructure

Concession Agreement

- TADHC

In 2009, the ROP awarded TADHC the Project through a Notice of Award (NOA) issued on May 15, 2009. The Project is proposed to be implemented through a Contract-Add-Operate and Transfer Arrangement, a variant of the Build-Operate-Transfer (BOT) contractual arrangement under Republic Act (RA) No. 6957, as amended by RA 7718, otherwise known as the BOT Law, and its Revised Implementing Rules and Regulations.

On June 22, 2009, TADHC entered into a CA with the ROP, through the DOTC and Civil Aviation Authority of the Philippines. Based on the CA, TADHC has been granted with the concession of the Project which includes the extension or expansion of the Caticlan Airport. Subject to existing law, the CA also grants to TADHC the Franchise to operate and maintain the Caticlan Airport up to the end of the concession period, which is for a period of 25 years, and to collect the fees, rentals and other charges as may be agreed from time to time based on the Parametric Formula as defined in the CA. The CA may be renewed or extended for another 25 years upon written agreement of the parties hereto through the execution of a renewal or extension contract.

The following are the salient features of the CA:

1. The operations and management of the Caticlan Airport shall be transferred to TADHC, provided that the ROP shall retain the operations and control of air traffic services, national security matters, immigration, customs and other governmental functions and the regulatory powers insofar as aviation security, standards and regulations are concerned at the Caticlan Airport.
2. As concessionaire, TADHC shall have full responsibility in all aspect of the operation and maintenance of the Caticlan Airport and shall collect the regulated and other fees generated from it and from the end users. To guarantee faithful performance of its obligation in respect to the operation and maintenance of the Caticlan Airport, TADHC shall post in favor of the ROP an Operations and Maintenance Performance Security (OMPS) amounting to P25, which must be valid for the entire concession period of 25 years. As of December 31, 2010, TADHC has not paid the OMPS yet since it is due only after the completion of the construction of the Project.
3. Immediately upon receiving the Notice to Commence Implementation (NCI) and provided all conditions precedent in the CA are fulfilled and waived, TADHC shall start all the activities necessary to upgrade and rehabilitate the Caticlan Airport in to a larger and more technologically advanced aviation facility to allow international airport operations.
4. TADHC shall finance the Project cost, while maintaining a debt-to-equity ratio of 70:30. TADHC's estimated capital commitment to develop the Project amounts to P2,500, including possible advances to the ROP for the right of way up to the amount of P466. Such ratio is complied with by TADHC as of December 31, 2010.
5. TADHC shall post a P250 Work Performance Security in favor of the ROP as guarantee for faithful performance by TADHC to develop the Project. This performance security shall be partially released by the ROP from time to time to the extent of the percentage of completion of the Project. In 2010, TADHC has paid P1 premium for the Work Performance Security. The unamortized portion of which was presented as part of the "Prepaid expenses and other current assets - Others" in the consolidated statements of financial position (Note 12).
6. In consideration for allowing TADHC to operate and manage the Caticlan Airport, TADHC shall pay ROP P8 annually. The first payment shall be made immediately upon the turnover by the ROP of the operations and management of the Caticlan Airport to TADHC, and every year thereafter until the end of the concession period. The operations and management of the airport was turned over to TADHC on October 16, 2010.

After the fulfillment of all contractual and legal requirements, the CA became effective on December 7, 2009. The Notice to Commence Implementation issued to TADHC by the DOTC was accepted by TADHC on December 18, 2009.

In accordance with the license granted by the ROP, as expressly indicated in the CA, TADHC presently operates the Caticlan Airport and has started the rehabilitation of the existing airport building and facilities which is part of the Project. However, the upgrade component of the Project has yet to be started as of December 31, 2010.

- ULC BVI

In 2008, the ROP awarded ULC BVI the financing, design, construction, supply, completion, testing, commissioning and operation and maintenance of the MRT Line 7 Project (the "MRT 7 Project") through a NOA issued on January 31, 2008. The MRT Project is proposed to be an integrated transportation system, under a Build-Gradual Transfer-Operate, Maintain and Manage (BGTOM) scheme which is a modified Build-Transfer-Operate (BTO) arrangement under (RA) No. 6957, as amended

by RA 7718, otherwise known as the BOT Law, and its Implementing Rules and Regulations, to address the transportation needs of passengers and to alleviate traffic in Metro Manila, particularly traffic going to and coming from North Luzon.

On June 18, 2008, ULC BVI entered into a CA (MRT 7 Agreement) with the ROP, through the DOTC, for a 25-year concession period, subject to extensions as may be provided for under the CA and by law. Based on the CA, ULC BVI has been granted the right to finance, construct, Operate and Maintain (O&M) the proposed MRT Line 7, which consists of 44-kilometer of road and rail transportation from the Bocaue exit on the North Luzon Expressway to LRT 1 and Metro Rail Transit 3 at North Avenue - Epifanio delos Santos Avenue.

The following are the salient features of the CA:

1. The MRT 7 Project cost shall be financed by ULC BVI through debt and equity at a ratio of approximately 75:25 and in accordance with existing BSP regulations on foreign financing components, if any. Based on the CA, ULC BVI's estimated capital commitment to develop the Project amounts to US\$1,235.60. ULC BVI shall endeavor to have signed the financing agreements not later than 18 months from the signing of the CA.
2. ULC BVI shall post a Performance Security for Construction and O&M in favor of the ROP as guarantee for faithful performance by ULC BVI to develop the Project. This performance security for O&M shall be reduced every year of the concession period to the amounts as specified in the CA.
3. In the event that the MRT 7 Project is not completed by the end of the grace period, which is 100 calendar days following the project completion target as defined in the CA, ULC BVI shall pay the ROP liquidated damages of US\$0.1 for every calendar day of delay.
4. As payment for the gradual transfer of the ownership of the assets of the MRT 7 Project, the ROP shall pay ULC BVI a fixed amortization payment on a semi-annual basis in accordance with the schedule of payment described in the CA. The ROP's amortization payment to ULC BVI shall start when the MRT 7 Project is substantially completed.
5. Net passenger revenue shall be shared by the ROP and ULC BVI on a 30/70 basis.
6. All rail-based revenues above 11.90% internal rate of return of ULC BVI for the MRT 7 Project over the cooperation period, which means the period covering the construction and concession period, shall be shared equally by ULC BVI and the ROP at the end of the concession period. All rail-based revenues above 14% internal rate of return shall wholly accrue to the ROP.
7. The ROP grants the ULC BVI exclusive and irrevocable commercial development rights (including the right to lease or sublease or assign interests in, and to collect and receive any and all income from, but not limited to, advertising, installation of cables, telephone lines, fiber optics or water mains, water lines and other business or commercial ventures or activities over all areas and aspects of the MRT 7 Project with commercial development potentials) from the effectivity date of the CA until the end of the concession period, extendible for another 25 years, subject to the ROP's approval. In consideration of the development rights granted, ULC BVI or its assignee shall pay the ROP 20% of the net income before tax actually realized from the exercise of the development rights.

The Group has determined that the provisions of IFRIC 12 apply to this CA and will be accounted for under the financial asset model. However, as of December 31, 2010, construction of the MRT 7 Project has not yet started.

Telecommunications

Franchise with National Telecommunications Commission (NTC)

In 1994, the Philippine Congress passed RA No. 7692 which granted a franchise to BellTel to install, operate and maintain telecommunications systems throughout the Philippines and for other purposes.

On October 28, 1997, the NTC, under NTC Case No. 92-339, granted a Provisional Authority (PA) to BellTel, valid for eighteen (18) months, or until April 27, 1999, to install, operate and maintain the following telecommunication services, to wit:

- international gateway facility;
- inter-exchange carrier facility;
- VSAT system nationwide;
- Telephone systems in the selected cities and municipalities in the Luzon area;
- Wireless Local Loop telephone systems in the Cities of Muntinlupa, Las Piñas, Pasig, Mandaluyong, Makati, Pasay, Parañaque, Taguig and Marikina; and in the Municipalities of Pateros and San Juan; and
- telephone systems in all economic zones identified under RA No. 7916.

Since then, this PA had been extended several times, the latest extension of which is valid until December 22, 2010 as contained in NTC's order dated September 19, 2009.

In an Order dated October 19, 2007 (CCC Case No. 94-223), the NTC granted BellTel a PA, valid for 18 months or until April 19, 2009, to install, operate and maintain a Mobile Telecommunication Network as set forth in the said Order. This PA was later extended for a period of three (3) years or until April 17, 2012 as per NTC Order dated August 14, 2009.

Prior to the extension of the PA in CCC Case No. 94-229, the NTC has issued a show cause order in January 2009 against BellTel for non-usage of assigned frequencies within the 1710-1720/1805-1815 megahertz band, which are within the wireless local loop band and this was regarded as in violation of the PA and the provisions of RA No. 3846 and NTC Memorandum Circular No. 3-3-96. However, in a decision dated August 4, 2009, the NTC resolved that BellTel has not violated the NTC Order and thus is not liable as charged and the case filed against BellTel was dismissed and closed.

Properties

SMPI-GSIS Put Option

The Put Option between SMPI and GSIS can be exercised within a period of 10 years starting October 2008, which is the first anniversary of the original issuance of the shares to GSIS but effectively became exercisable only in 2010. The option exercise price is equivalent to P300 plus interest on such amount at the rate specified below.

Year	Annual Interest Rate	Amount
1	10%	P330
2	10%	363
3	10%	399
4	10%	439
5	10%	483
6	8%	522
7	8%	564
8	8%	609
9	8%	657
10	8%	710

Any dividends declared and paid to stockholders prior to the exercise of the Put Option by GSIS will be deducted from interest provided above upon exercise of the option. As of December 31, 2010, the carrying amount of the obligation related to the Put Option amounts to P386 and is presented under "Accounts payable and accrued expenses" account in the 2010 consolidated statement of financial position (Note 22). Accretion expense of the obligation under a put option amounts to P2 and is presented as part of "Interest expense and other financing charges" in the consolidated statements of income.

Lease Commitments:

a. Finance Leases

Leases as Lessee

i. IPP Administration Agreements (Note 5)

The IPP Administration Agreements are with the conformity of NPC, a government-owned and controlled corporation created by virtue of Republic Act (RA) No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees the terms of the Agreement and further confirms that for so long as it remains the IPP Counterparty it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

The SMEC, SPDC and SPPC have opened a performance bond of US\$58, US\$20 and US\$60, respectively, with the bank which expires on November 3, 2011, January 25, 2012 and June 16, 2011, respectively.

Relative to the IPPA agreements, SMEC, SPDC and SPPC have to pay PSALM monthly fees for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively.

The IPPA agreements provide the Group with a right to receive a transfer of the power station in case of buyout or termination.

In accounting for the Group's IPP Administration Agreements with PSALM, the Group's management has made a judgment that the IPP Administration Agreement is an agreement that contains a finance lease. The Group's management has made a judgment that it has substantially acquired all the risks and rewards incidental to ownership of the power plants. Accordingly, the Group recognized the capitalized asset and related liability of P209,303 and P208,394 (equivalent to the present value of the minimum lease payments using the Group's incremental borrowing rates for US dollar and Philippine peso payments) as "Power plants" and "Finance lease liabilities" in the consolidated statements of financial position.

The Group's incremental borrowing rates are as follows:

	US Dollar	Philippine Peso
SMEC	3.89%	8.16%
SPDC	3.30%	7.90%
SPPC	3.85%	8.05%

The discount determined at inception of the agreement is amortized over the period of the IPP Administration Agreement and recognized as "Interest expense" in the consolidated statements of income. Interest expense in 2010 amounted to P5,299.

The future minimum lease payments for each of the following periods are as follows:

	Dollar payments	Peso equivalent of dollar payments	Peso payments	Total
Not later than one year	US\$129	P5,671	P6,109	P11,780
More than one year and not later than five years	861	37,731	41,203	78,934
Later than five years	2,486	108,981	114,966	223,947
	3,476	152,383	162,278	314,661
Less: Future finance charges on finance lease liabilities	897	32,888	73,379	106,267
Present values of finance lease liabilities	US\$2,579	P119,495	P88,899	P208,394

The present values of minimum lease payments for each of the following periods are as follows:

	Dollar payments	Peso equivalent of dollar payments	Peso payments	Total
Not later than one year	US\$123	P5,406	P5,529	P10,935
More than one year and not later than five years	743	32,566	30,316	62,882
Later than five years	1,713	81,523	53,054	134,577
	US\$2,579	P119,495	P88,899	P208,394

ii. Automobiles

The Group's finance leases also cover automobiles needed for business operations. These agreements do not allow subleasing. Some leases provide the Group with the option to purchase the equipment at a beneficial price. As of December 31, 2010 and 2009, the net carrying amount of leased transportation equipment was P13 and P30, respectively.

The Group's minimum lease payments of the finance lease liabilities relating to automobiles are as follows:

2010	Minimum lease payable	Interest	Principal
Within one year	P14	P3	P11
After one year but not more than five years	3	1	2
	P17	P4	P13
2009	Minimum lease payable	Interest	Principal
Within one year	P14	P1	P13
After one year but not more than five years	19	2	17
	P33	P3	P30

Leases as Lessor

The Group leases some of its machinery and equipment under finance lease agreements to a third party logistics provider. The Group provides the lessee the option to purchase the equipment at the end of the lease term.

The current finance lease receivables included under "Trade and other receivables" in the consolidated statements of financial position are as follows:

	December 31, 2009		
	Minimum lease receivable	Interest	Principal
Within one year	P5	P -	P5

The Group does not have future lease receivable under finance lease as of December 31, 2010.

b. Operating Leases

Leases as Lessor

The Group has entered into lease agreements on its investment property portfolio, consisting of surplus office spaces (Note 17). These non-cancellable leases will expire up to year 2014. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

As of December 31, 2010, 2009 and 2008, the future minimum lease receipts under non-cancellable operating leases are as follows:

	2010	2009	2008
Within one year	P380	P78	P94
After one year but not more than five years	541	62	114
After five years	52	-	-
	P973	P140	P208

Rent income recognized in profit or loss amounted to P267, P545 and P402 in 2010, 2009 and 2008, respectively.

Leases as Lessee

The Group leases a number of office, warehouse and factory facilities under operating leases. The leases typically run for a period of two to seven years. Some leases provide an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals.

As of December 31, 2010, 2009 and 2008, non-cancellable operating lease rentals are payable as follows:

	2010	2009	2008
Within one year	P866	P35	P290
After one year but not more than five years	2,412	109	748
More than five years	7,196	409	35
	P10,474	P553	P1,073

36. Retirement Plans

The Parent Company and majority of its subsidiaries have funded, noncontributory, defined benefit retirement plans covering all of their permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. Majority of the Group's latest actuarial valuation date is December 31, 2010. Valuations are obtained on a periodic basis.

Retirement costs (benefits) charged by the Parent Company to operations amounted to (P371), P65 and P422 in 2010, 2009 and 2008, respectively, while those charged by the subsidiaries amounted to P656, P529 and P435 in 2010, 2009 and 2008, respectively. The Group's annual contribution to the retirement plans consists of payments covering the current service cost and amortization of past service costs.

The components of retirement costs recognized in profit or loss in 2010, 2009 and 2008 and the amounts recognized in the consolidated statements of financial position as of December 31, 2010 and 2009 are as follows:

	2010	2009	2008
Current service cost	P652	P486	P532
Interest cost	1,082	992	834
Expected return on plan assets	(1,170)	(868)	(772)
Net actuarial loss (gain)	(282)	(64)	49
Effect of curtailment	3	(24)	-
Amortization of transitional liability	-	66	173
Past service costs	-	6	41
Net retirement costs	P285	P594	P857
Actual return on plan assets	P25,920	P6,099	P477

The retirement costs are recognized in the following line items in the consolidated statements of income:

	Note	2010	2009	2008
Cost of sales	27	P143	P123	P144
Selling and administrative expenses	28	142	471	713
	30	P285	P594	P857

The reconciliation of the assets and liabilities recognized in the consolidated statements of financial position is as follows:

	<i>Note</i>	2010	2009
Present value of defined benefit obligation		P18,386	P12,362
Fair value of plan assets		43,964	15,178
		(25,578)	(2,816)
Unrecognized actuarial gain	4	25,846	3,271
Unrecognized past service costs		(1)	(1)
Net retirement liabilities		P267	P454

Net retirement assets and liabilities in 2010 are included as part of "Prepaid and other current assets" and "Others" under "Other noncurrent assets" accounts amounting to P221 and P147, respectively (Notes 12 and 20), and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts amounting to P503 and P132, respectively as of December 31, 2010 (Notes 22 and 24).

Net retirement assets and liabilities in 2009 are included as part of "Prepaid expenses and other current assets" and "Others" under "Other noncurrent assets" accounts amounting to P150 and P160, respectively (Notes 12 and 20), and under "Accounts payable and accrued expenses - others" and "Other noncurrent liabilities" accounts amounting to P572 and P192, respectively (Notes 22 and 24).

The movements in the present value of defined benefit obligation are as follows:

	2010	2009
Balance at beginning of year	P12,362	P11,080
Benefit obligation of a new subsidiary	4,264	-
Interest cost	1,346	992
Current service cost	652	486
Past service costs	-	4
Benefits paid	(2,324)	(1,817)
Actuarial losses	1,919	1,628
Effect of curtailment	163	(11)
Translation adjustments	4	-
Balance at end of year	P18,386	P12,362

The movements in the fair value of the plan assets are as follows:

	2010	2009
Balance at beginning of year	P15,178	P10,232
Plan assets of a new subsidiary	4,443	-
Expected return	1,469	868
Contributions by employer	698	660
Benefits paid	(2,324)	(1,813)
Effect of curtailment	41	-
Actuarial gains	24,451	5,231
Translation adjustments	8	-
Balance at end of year	P43,964	P15,178

Plan assets consist of the following:

	In Percentages	
	2010	2009
Stock trading portfolio	2	4
Fixed income portfolio	52	62
Others	46	34

As of December 31, 2010, the plan assets include 551,670 common shares of the Parent Company with fair market value per share of P163.80.

As of December 31, 2009, the plan assets include 10,000 Class "A" common shares and 20,000 Class "B" common shares of the Parent Company with fair market values per share of P68.50 for Class "A" and Class "B" common shares.

On October 5, 2009, SMCRP exchanged on a one-for-one basis its 6,715,543 Class "A" common shares and 78,606,542 Class "B" common shares to Series "1" preferred shares of the Parent Company at an issue price of P75.00 per share. The fair market value per preferred share was P87.00 as of December 31, 2010.

SMCRP's 38.19% and 21% investment in shares of stock of BOC as of December 31, 2010 and 2009, respectively, is included in the above list of plan assets under "Others".

The overall expected rate of return is determined based on historical performance of investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2010	2009
Discount rate	5 - 8	8 - 11
Salary increase rate	8	8
Expected return on plan assets	10	10

The historical information for the current and previous four annual periods is as follows:

	2010	2009	2008	2007	2006
Present value of the defined benefit obligation	P18,386	P12,362	P11,080	P11,332	P14,236
Fair value of plan assets	43,964	15,178	10,232	10,726	10,241
Deficit (excess) in the plan	(25,578)	(2,816)	848	606	3,995
Experience adjustments on plan liabilities	(132)	927	6	933	(188)

The Group expects to contribute P285 to its defined benefit plans in 2011.

37. Cash Dividends

Cash dividends declared by the Parent Company's BOD to common shareholders amounted to P6.75 per share and P0.70 per share as of December 31, 2010 and 2009, respectively.

Cash dividends declared by the Parent Company's BOD to preferred shareholders amounted to P6.00 per share as of December 31, 2010.

On February 10, 2011, the Parent Company's BOD declared cash dividends at P1.50 per share, payable on February 18, 2011 to all preferred shareholders as of February 4, 2011.

On March 14, 2011, the Parent Company's BOD declared cash dividends at P0.35 per share, payable on April 11, 2011 to all common shareholders as of March 28, 2011.

38. Basic and Diluted Earnings Per Share

Basic and Diluted EPS is computed as follows:

	Note	2010	2009	2008
Income from continuing operations attributable to equity holders of the Parent Company		P20,091	P57,799	P13,935
Dividends on preferred shares for the period (a)		(5,823)	(1,281)	-
Net income from continuing operations attributable to common shareholders (b)		14,268	56,518	13,935
Income from discontinued operations attributable to equity holders of the Parent Company (c)	8	-	-	5,413
Net income attributable to common shareholders of the Parent Company (d)		P14,268	P56,518	P19,348
Weighted average number of common shares outstanding (in millions) - basic (e)		2,310	2,942	3,157
Effect of dilution - common		14	17	12
Weighted average number of common shares outstanding (in millions) - diluted (f)		2,324	2,959	3,169
Common:				
Basic EPS from continuing operations (b/e)		P6.18	P19.21	P4.41
Basic EPS from discontinued operations (c/e)		-	-	1.72
		P6.18	P19.21	P6.13
Diluted EPS from continuing operations (b/f)		P6.14	P19.10	P4.40
Diluted EPS from discontinued operations (c/f)		-	-	1.71
		P6.14	P19.10	P6.11

39. Supplemental Cash Flow Information

Supplemental information with respect to the consolidated statements of cash flows is presented below:

- a. Changes in noncash current assets and certain current liabilities and others are as follows (amounts reflect actual cash flows rather than increases or decreases of the accounts in the consolidated statements of financial position):

	2010	2009	2008
Trade and other receivables	P12,241	P558	P728
Inventories	2,178	1,085	(4,100)
Prepaid expenses and other current assets	(3,686)	(874)	759
Accounts payable and accrued expenses	7,581	6,393	1,779
Income and other taxes payable and others	(5,202)	(8,345)	(457)
	P13,112	(P1,183)	(P1,291)

- b. Acquisition of subsidiaries - SMC Global, SRC, Petron, TCCI, PHC, PSCL, BellTel, TADHC, ULCBM, AGNP, IGI and SMPI-GSIS JVC in 2010 and JHK Investments and HLC in 2009 (Note 5).

	Note	2010	2009
Cash and cash equivalents		P42,729	P193
Trade and other receivables - net		32,953	1,243
Inventories		35,315	664
Prepaid expenses and other current assets		4,599	23
Investment and advances - net		16,092	-
Property, plant and equipment - net		175,650	1,430
Investment properties - net		121	-
Assets held for sale		823	-
Other intangible assets - net		9,279	20
Deferred tax assets		430	72
Other noncurrent assets - net		23,437	-
Drafts and loans payable		(34,987)	(839)
Accounts payable and accrued expenses		(28,114)	(2,076)
Income and other taxes payable		(1,267)	-
Current maturities of long-term debt - net of debt issue costs		(9,193)	-
Deferred tax liabilities		(2,539)	(40)
Long-term debt - net of current maturities and debt issue costs		(43,452)	-
Other noncurrent liabilities		(151,777)	(88)
Non-controlling interests		(25,518)	(211)
Net assets		44,581	391
Cash and cash equivalents		(42,729)	(193)
Goodwill in subsidiaries	5, 19	24,456	1,296
Investment at equity		(1,444)	-
Revaluation increment		(1,396)	-
Gain on acquisition of a subsidiary	5, 33	(4,490)	-
Net cash flows		P18,978	P1,494

40. Share-Based Transactions

ESPP

Under the ESPP, 80,396,659 shares (inclusive of stock dividends declared) of the Parent Company's unissued shares have been reserved for the employees of the Group until 2010. All permanent Philippine-based employees of the Group, who have been employed for a continuous period of one year prior to the subscription period, will be allowed to subscribe at 15% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee may acquire at least 100 shares of stock through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to the Parent Company until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from the exercise date. The current portion of subscriptions receivable as of December 31, 2010 and 2009 amounted to P170 and P141, respectively, presented as part of "Non-trade" under "Trade and other receivables" account (Note 10). The noncurrent portion of P1,002 and P363 as of December 31, 2010 and 2009, respectively, is reported as part of "Noncurrent receivables and deposits" under "Other noncurrent assets" account (Note 20).

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions. The shares pertaining to withdrawn or cancelled subscriptions shall remain issued shares and shall revert to the pool of shares available under the ESPP.

The table below shows the number and weighted average exercise prices of grants:

	2010	
	Number of Shares	Weighted Average Exercise Price
Class "A"		
Subscribed during the year	24,323,050	P60.31
Cancelled during the year	(173,250)	(59.09)
Class "B"		
Subscribed during the year	1,272,800	P58.39
Cancelled during the year	(11,600)	(50.45)

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company shall be considered as common shares without distinction.

	2009		2008	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Class "A"				
Subscribed during the year	2,189,450	P42.46	3,745,100	P42.36
Cancelled during the year	(248,100)	(50.62)	(3,125,900)	(53.07)
Class "B"				
Subscribed during the year	2,688,750	44.92	2,602,450	41.53
Cancelled during the year	(383,700)	(60.18)	(2,602,450)	(62.10)

The average market prices of the shares granted were P70.96, P49.95 and P49.83 per share in 2010, 2009 and 2008, respectively, for Class "A" common shares and P68.69, P52.84 and P48.87 per share in 2010, 2009 and 2008, respectively, for Class "B" common shares.

The average remaining contractual life of the ESPP was 1.55, 1.41 and 0.60 years as of December 31, 2010, 2009 and 2008, respectively, for Class "A" common shares and 0.83, 1.66 and 0.46 years as of December 31, 2010, 2009 and 2008, respectively, for Class "B" common shares.

LTIP

The Parent Company also maintains LTIP for executives of the Group. The options are exercisable at the fair market value of the Parent Company shares as of date of grant, with adjustments depending on the average stock prices of the prior three months. A total of 54,244,905 shares, inclusive of stock dividends declared, are reserved for the LTIP over its 10-year life. The LTIP is administered by the Executive Compensation Committee of the Parent Company's BOD.

On June 26, 2008, the Parent Company approved the grant of stock options to 742 executives consisting of 7,456,452 shares based on the closing price of the Parent Company's share, computed in accordance with the provisions of LTIP. Also on June 25, 2009, the Parent Company approved the grant of stock options to 755 executives consisting of 5,750,941 shares.

Options to purchase 14,038,733 shares and 17,211,921 shares in 2010 and 2009, respectively, were outstanding at the end of each year. Options which were exercised and cancelled totaled about 13,232,699 shares and 3,230,094 shares in 2010 and 2009, respectively.

The stock options granted under the LTIP cannot be assigned or transferred by a participant and are subject to a vesting schedule. After one complete year from the date of the grant, 33% of the stock option becomes vested. Another 33% is vested on the second year and the remaining option lot is fully vested on the third year.

Vested stock options may be exercised at any time, up to a maximum of eight years from the date of grant. All unexercised stock options after this period are considered forfeited.

A summary of the status of the outstanding share stock options and the related weighted average exercise price under the LTIP is shown below:

	2010	
	Number of Share Stock Options	Weighted Average Exercise Price
Class "A"		
Balance at beginning of year	22,054,784	P57.39
Exercised during the year	(8,734,635)	(58.74)
Expired during the year	(180,290)	(56.94)
Balance at end of year	13,139,859	P56.50
Class "B"		
Balance at beginning of year	11,998,933	P70.21
Exercised during the year	(4,503,677)	(70.83)
Expired during the year	(266,520)	(74.39)
Balance at end of year	7,228,736	P69.66

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company shall be considered as common shares without distinction.

	2009		2008	
	Number of Share Stock Options	Weighted Average Exercise Price	Number of Share Stock Options	Weighted Average Exercise Price
Class "A"				
Balance at beginning of year	20,203,940	P56.71	16,056,434	P62.36
Granted during the year	4,922,958	58.05	5,219,517	40.50
Exercised during the year	(2,711,190)	(52.61)	(29,170)	(56.53)
Expired during the year	(360,924)	(62.58)	(1,042,841)	(62.58)
Balance at end of year	22,054,784	P57.39	20,203,940	P56.71
Class "B"				
Balance at beginning of year	11,911,370	P69.94	10,359,853	P76.79
Granted during the year	843,627	58.05	2,236,935	40.50
Exercised during the year	(518,904)	(41.30)	-	-
Expired during the year	(237,160)	(84.71)	(685,418)	(77.39)
Balance at end of year	11,998,933	P70.21	11,911,370	P69.94

The shares covered by the LTIP are offered for subscription to the participants for three years from approval of the LTIP by the SEC.

The fair value of equity-settled share options granted is estimated as at the date of grant using Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. Expected volatility is estimated by considering average share price volatility.

The inputs to the model used to measure the fair value of the shares granted in 2009 are as follows:

	2009 Grant	
	Class "A"	Class "B"
Dividend yield	2.41%	2.41%
Expected volatility	53%	43%
Historical volatility	53%	43%
Risk-free interest rate	5.15% to 7.76%	5.15% to 7.76%
Expected life option	1 to 8 years	1 to 8 years
Weighted average share price	58.05	58.05

The weighted average fair value of options granted in 2009 was P19.24 for Class "A" common shares and P16.19 for Class "B" common shares.

The range of exercise prices for options outstanding was P58.05 to P40.50 as of December 31, 2010 and 2009 for Class "A" common shares and P58.05 to P40.50 as of December 31, 2010 and 2009 for Class "B" common shares.

The average remaining contractual life of the LTIP was 1.05, 1.11 and 1.43 years as of December 31, 2010, 2009 and 2008, respectively, for Class "A" common shares and 0.83, 0.63 and 1.30 years as of December 31, 2010, 2009 and 2008, respectively, for Class "B" common shares.

Share-based payment charged to operations, included under "Administrative expenses - others" account, amounted to P315, P236 and P258 in 2010, 2009 and 2008, respectively.

41. Financial Risk Management Objectives and Policies

Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Interest Rate Risk
- Foreign Currency Risk
- Commodity Price Risk
- Liquidity Risk
- Credit Risk

This note presents information about the Group's exposure to each of the foregoing risks, the Group's objectives, policies and processes for measuring and managing these risks, and the Group's management of capital.

The Group's principal non-trade related financial instruments include cash and cash equivalents, AFS financial assets, short-term and long-term loans, and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The Group's trade-related financial assets and financial liabilities such as trade and other receivables, noncurrent receivables and deposits, accounts payable and accrued expenses, finance lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The Group's outstanding derivative instruments such as commodity and currency options, forwards and swaps are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency, interest rate and commodity price risks arising from the Group's operating and financing activities.

The BOD has the overall responsibility for the establishment and oversight of the Group's risk management framework. The BOD has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the BOD on its activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group's accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the Group's long-term borrowings and investment securities. Investments acquired or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investment securities acquired or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

On the other hand, the Group's investment policy is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the Group's operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any;
- fair value reserves arising from increases or decreases in fair values of AFS financial assets reported as part of other comprehensive income; and
- hedging reserves arising from increases or decreases in fair values of hedging instruments designated in qualifying cash flow hedge relationships reported as part of other comprehensive income.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P910 and P301 in 2010 and 2009, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

As at December 31, 2010 and 2009, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

December 31, 2010	<1 year	1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total
Fixed rate							
Philippine peso-denominated Interest rate	P6,963 6.73% - 9.33%	P15,004 6.5% - 9.33%	P476 7.25% - 9.33%	P29,249 7.25% - 9.33%	P1,234 5.4885% - 9.33%	P27,322 7% - 10.5%	P80,248
Floating rate							
Philippine peso-denominated Interest rate	1,667 PDST-F +margin	2,000 PDST-F +margin	1,000 PDST-F +margin	800 PDST-F +margin	11,550 PDST-F +margin	-	17,017
Foreign currency-denominated (expressed in Philippine peso)	4,092 LIBOR, THBFX and VNIBOR +margin	4,080 LIBOR, THBFX and VNIBOR +margin	3,583 LIBOR and THBFX +margin	3,520 LIBOR and THBFX +margin	58,721 LIBOR +margin	-	73,996
Interest rate	P12,722	P21,084	P5,059	P33,569	P71,505	P27,322	P171,261
December 31, 2009	<1 year	1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total
Fixed rate							
Philippine peso-denominated Interest rate	P -	P -	P14,545 6.50% - 8.25%	P -	P23,670 7.25% - 8.875%	P2,810 10.50%	P41,025
Floating rate							
Philippine peso-denominated Interest rate	-	400 PDST-F +margin	1,400 PDST-F +margin	400 PDST-F +margin	800 PDST-F +margin	-	3,000
Foreign currency-denominated (expressed in Philippine peso)	1,081 THBFX, VNIBOR +margin; and discount from PBOC lending rate	1,081 THBFX, VNIBOR +margin; and discount from PBOC lending rate	28,335 LIBOR, THBFX, VNIBOR +margin	119 THBFX +margin	59 THBFX +margin	-	30,675
Interest rate	P1,081	P1,481	P44,280	P519	P24,529	P2,810	P74,700

Foreign Currency Risk

The Group's functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The Group's exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The Group's risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using a combination of non-derivative and derivative instruments such as foreign currency forwards, options or swaps to manage its foreign currency risk exposure.

Short-term currency forward contracts (deliverable and non-deliverable) and options are entered into to manage foreign currency risks arising from importations, revenue and expense transactions, and other foreign currency-denominated obligations. Currency swaps are entered into to manage foreign currency risks relating to long-term foreign currency-denominated borrowings.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their Philippine peso equivalents are as follows:

	2010		2009	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$1,456	P63,812	US\$2,817	P130,134
Trade and other receivables	299	13,120	96	4,413
Noncurrent receivables	3	151	101	4,656
	1,758	77,083	3,014	139,203
Liabilities				
Drafts and loans payable	139	6,065	137	6,332
Accounts payable and accrued expenses	965	42,290	98	4,528
Long-term debt (including current maturities)	1,333	73,995	664	30,674
Finance lease liabilities	2,636	115,556	-	-
Other noncurrent liabilities	1	35	-	-
	5,074	237,941	899	41,534
Net foreign currency-denominated monetary assets (liabilities)	(US\$3,316)	(P160,858)	US\$2,115	P97,669

The Group reported net foreign exchange gains (losses) amounting to P8,366, (P2,256) and (P7,298) in 2010, 2009 and 2008, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Peso to US Dollar
December 31, 2008	47.52
December 31, 2009	46.20
December 31, 2010	43.84

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios. Foreign exchange movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in unrealized and realized foreign exchange gains or losses;
- translation reserves arising from increases or decreases in foreign exchange gains or losses recognized directly as part of other comprehensive income; and
- hedging reserves arising from increases or decreases in foreign exchange gains or losses of the hedged item and the hedging instrument.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations) as of December 31, 2010 and 2009:

2010	P1 decrease in the US dollar exchange rate		P1 increase in the US dollar exchange rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P29,066)	(P20,462)	P29,066	P20,462
Trade and other receivables	(7,634)	(5,438)	7,634	5,438
Noncurrent receivables	(29)	(23)	29	23
	(36,729)	(25,923)	36,729	25,923
Drafts and loans payable	2,592	74	(2,592)	(74)
Accounts payable and accrued expenses	12,905	289	(12,905)	(289)
Long-term debt (including current maturities)	16,873	940	(16,873)	(940)
Finance lease liabilities	2,636	-	(2,636)	-
Other noncurrent liabilities	1	1	(1)	(1)
	35,007	1,304	(35,007)	(1,304)
	(P1,722)	(P24,619)	P1,722	P24,619

2009	P1 decrease in the US dollar exchange rate		P1 increase in the US dollar exchange rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P2,685)	(P1,743)	P2,685	P1,743
Trade and other receivables	(7)	(93)	7	93
Noncurrent receivables	(100)	(61)	100	61
	(2,792)	(1,897)	2,792	1,897
Drafts and loans payable	69	109	(69)	(109)
Accounts payable and accrued expenses	8	95	(8)	(95)
Long-term debt (including current maturities)	600	424	(600)	(424)
	677	628	(677)	(628)
	(P2,115)	(P1,269)	P2,115	P1,269

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

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices. The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost.

The Parent Company enters into commodity derivative transactions on behalf of its subsidiaries and affiliates to reduce cost by optimizing purchasing synergies within the Group and managing inventory levels of common materials.

Commodity Swaps, Futures and Options. Commodity swaps, futures and options are used to manage the Group's exposures to volatility in prices of certain commodities such as fuel oil, crude oil, aluminum, soybean meal and wheat.

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

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group's objectives to manage its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps or surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of December 31, 2010 and 2009.

2010

	Carrying Amount	Contractual Cash Flow	1 year or less	> 1 year - 2 years	> 2 years - 5 years	Over 5 years
Financial Assets						
Cash and cash equivalents	P125,188	P125,188	P125,188	P -	P -	P -
Trade and other receivables - net	75,904	75,904	75,904	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	249	249	249	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	193	193	193	-	-	-
AFS financial assets	3,597	3,597	-	3,597	-	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	24,783	24,783	-	24,783	-	-
Financial Liabilities						
Drafts and loans payable	74,128	75,057	75,057	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	69,198	69,198	69,198	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	71	71	71	-	-	-
Long-term debt (including current maturities)	168,927	209,335	22,250	28,947	126,378	31,760
Finance lease liabilities (including current portion)	208,407	314,678	11,794	18,479	60,458	223,947
Other noncurrent liabilities (excluding noncurrent retirement liabilities, ARO and IRO)	16,168	16,168	-	16,168	-	-

2009

	Carrying Amount	Contractual Cash Flow	1 year or less	> 1 year - 2 years	> 2 years - 5 years	Over 5 years
Financial Assets						
Cash and cash equivalents	P209,411	P209,411	P209,411	P -	P -	P -
Trade and other receivables - net	49,082	49,082	49,082	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	202	202	202	-	-	-
AFS financial assets	351	351	-	351	-	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	5,933	5,933	-	-	5,933	-
Financial Liabilities						
Drafts and loans payable	56,789	56,925	56,925	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities)	30,708	30,708	30,708	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	111	111	111	-	-	-
Long-term debt (including current maturities)	72,962	89,747	4,836	5,318	75,526	4,067
Finance lease liabilities	30	33	14	19	-	-
Other noncurrent liabilities (excluding noncurrent retirement liabilities)	19,393	19,393	-	7,803	11,590	-

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables and investment securities. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk. The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on the credit risk.

Goods are subject to retention of title clauses so that in the event of default, the Group would have a secured claim. Where appropriate, the Group obtains collateral or arranges master netting agreements.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments

The Group recognizes provision for impairment losses based on specific and collective impairment tests, when objective evidence of impairment has been identified either on an individual account or on a portfolio level.

Financial information on the Group's maximum exposure to credit risk as of December 31, 2010 and 2009, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	<i>Note</i>	2010	2009
Cash and cash equivalents	9	P125,188	P209,411
Trade and other receivables - net	10	75,904	49,082
Derivative assets	12	249	202
Financial assets at FVPL	12	193	-
AFS financial assets	14	3,597	351
Noncurrent receivables and deposits - net	20	24,783	5,933
		P229,914	P264,979

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

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

Financial and Other Risks Relating to Livestock

The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling prices of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces of supply and demand, and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below.

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken in all dressing plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.
- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.
- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at reasonable price.

Other Market Price Risk

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

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its businesses and maximize shareholder value.

The Group manages its capital structure and makes adjustments, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock and cumulative translation adjustments are excluded from capital for purposes of capital management.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business, operation and industry.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

There were no changes in the Group's approach to capital management during the year.

42. Financial Assets and Financial Liabilities

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

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P125,188	P125,188	P209,411	P209,411
Trade and other receivables - net	75,904	75,904	49,082	49,082
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	249	249	202	202
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	193	193	-	-
AFS financial assets	3,597	3,597	351	351
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	24,783	24,783	5,933	5,933
Financial Liabilities				
Drafts and loans payable	74,128	74,128	56,789	56,789
Accounts payable and accrued expenses (excluding current retirement liabilities in 2010 and 2009 and IRO in 2010)	69,198	69,198	30,708	30,708
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	71	71	111	111
Long-term debt (including current maturities)	168,927	182,030	72,962	77,773
Finance lease liabilities (including current portion)	208,407	208,407	30	30
Other noncurrent liabilities (excluding noncurrent retirement liabilities in 2010 and 2009 and ARO and IRO in 2010)	16,168	15,764	19,393	17,854

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Trade and Other Receivables and Noncurrent Receivables and Deposits. The carrying amount of cash and cash equivalents and receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of long-term receivables, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

Financial Assets at FVPL and AFS Financial Assets. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets. Unquoted equity securities are carried at cost less impairment.

Drafts and Loans Payable and Accounts Payable and Accrued Expenses. The carrying amount of drafts and loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. As of December 31, 2010 and 2009, discount rates used range from 1.3% to 5.7% and 4.3% to 8.0%, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

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

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

Derivative Instruments Accounted for as Hedges

Cash Flow Hedges

Commodity Options

In 2008, the Group has outstanding bought and sold options designated as hedge of forecasted purchases of fuel oil with a notional quantity of 12,000 metric tons. The call and put options were exercised at various calculation dates in 2009 with specified quantities on each calculation date. These option contracts were used to hedge the commodity price risk of the Group's commitments. There was no ineffective portion on these hedges. The amount charged to profit or loss in 2009 amounted to P159.

As of December 31, 2010 and 2009, the Group has no outstanding options designated as hedge on the purchase of commodity.

Other Derivative Instruments Not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in profit or loss. Details are as follows:

Freestanding Derivatives

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

Currency Forwards

As of December 31, 2010, the Group has outstanding non-deliverable foreign currency forward contracts to hedge existing and anticipated US\$ denominated receivables. These forwards have an aggregate notional amount of US\$110 with various maturities in 2011. As of December 31, 2010, the net negative fair value of these currency forwards amounted to P8.

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

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2010 and 2011. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps as of December 31, 2010 and 2009 is 450 and 1,875 metric tons, respectively. As of December 31, 2010 and 2009, the positive fair value of these swaps amounted to P16 and P60, respectively.

Commodity Options

The Group has outstanding bought and sold options covering its wheat requirements with notional quantities as of December 31, 2010 and 2009 of 49,532 and 59,874 metric tons, respectively. These options can be exercised at various calculation dates in 2010 and 2011 with specified quantities on each calculation date. As of December 31, 2010 and 2009, the net positive (negative) fair value of these options amounted to P54 and (P6), respectively.

Embedded Derivatives

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

Embedded Currency Forwards

As of December 31, 2010 and 2009, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$244 and US\$112, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. As of December 31, 2010 and 2009, the net positive fair value of these embedded currency forwards amounted to P127 and P73, respectively.

Embedded Currency Options

As of December 31, 2010 and 2009, the total outstanding notional amount of currency options embedded in non-financial contracts amounted to US\$26 and US\$36, respectively. These non-financial contracts consist mainly of sales agreements. These embedded options are not clearly and closely related to their host contracts. As of December 31, 2010 and 2009, the net negative fair value of these embedded currency options amounted to P11 and P36, respectively.

For the years ended December 31, 2010, 2009 and 2008, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P660, P962 and (P10,718), respectively.

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Balance at beginning of year	P91	(P2,162)
Net changes in fair value of derivatives:		
Designated as accounting hedges	-	77
Non-accounting hedges	660	914
	751	(1,171)
Less fair value of settled instruments	573	(1,262)
Balance at end of year	P178	P91

Fair Value Hierarchy

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

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2010 and 2009. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

2010

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	P3	P246	P249
Financial assets at FVPL	193	-	193
AFS financial assets	2,477	1,120	3,597
Financial Liabilities			
Derivative liabilities	-	71	71

2009

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	P65	P137	P202
AFS financial assets	239	112	351
Financial Liabilities			
Derivative liabilities	11	100	111

As of December 31, 2010 and 2009, the Group has no financial instruments valued based on Level 3. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The disclosure on fair value hierarchy is only presented for December 31, 2010 and 2009 as comparative information is not required in 2009, which was the first year of application of the amended PFRS 7.

43. Registration with the Board of Investments (BOI)

o SMPFC

SMFI

SMFI was registered with the BOI on a non-pioneer status as a New Producer of Animal Feeds for its Mariveles, Bataan plant and as a New Producer of Chicken (Dressed) for its Orion, Bataan farm in August 2006 and July 2007, respectively.

Under the terms of SMFI's BOI registration and subject to certain requirements as provided in the Omnibus Code of 1987, SMFI is entitled to incentives which included, among others, ITH for a period of four (4) years from January 2007 for Animal Feeds and from October 2007 for Dressed Chicken (can be extended to maximum of 8 years provided certain conditions are met).

SMFI's (formerly Monterey) Sumilao Hog Project (Sumilao Project) was registered with the BOI under Registration No. 2008-192, in accordance with the provisions of the Omnibus Investment Code of 1987 on a pioneer status as New Producer of Hogs on July 30, 2008. As a BOI-registrant, the Sumilao Project is entitled to incentives which included, among others, income tax holiday (ITH) for a period of six (6) years, extendable under certain conditions to eight (8) years, from February 2009 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

PF-Hormel

The existing registration of PF-Hormel with the BOI was made on May 18, 2006 in accordance with the provisions of the Omnibus Investments Code of 1987 as a new producer of processed meat products on a non-pioneer status. Under the terms of this new registration, PF-Hormel is entitled to certain tax incentives, including ITH for four years from July 2007, or from the actual start of commercial operations, whichever comes first, but in no case earlier than the date of registration.

PF-Hormel's new registered activity with the BOI commenced commercial operations in July 2007 and began to avail tax incentives since then.

o Petron

Isomerization and Gas Oil Hydrotreater Units

On January 7, 2004, the BOI approved Petron's application under RA 8479, otherwise known as the Downstream Oil Industry Deregulation Act (RA 8479), for new investments at its Bataan Refinery for an Isomerization Unit and a Gas Oil Hydrotreater ("Project"). The BOI is extending the following major incentives:

- a. ITH for five years without extension or bonus year from January 2005 for the Project and March 2005 for LVN Isomerization or actual start of commercial operations, whichever is earlier.
- b. Duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- c. Tax credit on domestic capital equipment on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.
- d. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse.
- e. Exemption from real property tax on production equipment or machinery.
- f. Exemption from contractor's tax.

Mixed Xylene, Benzene, Toluene (BTX) and Propylene Recovery Units

On October 20, 2005, Petron registered with the BOI under the Omnibus Investments Code of 1987 (Executive Order 226) as: (1) a non-pioneer, new export producer status of Mixed Xylene; (2) a pioneer, new export product status of Benzene and Toluene; and (3) a pioneer, new domestic producer status of Propylene. Under the terms of its registration, Petron is subject to certain requirements principally that of exporting at least 70% of the production of the mentioned petrochemical products every year except for the produced propylene.

As a registered enterprise, Petron is entitled to the following benefits on its production of petroleum products used as petrochemical feedstock:

- a. ITH: (1) for four years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Mixed Xylene subject to base figure of 120,460 metric tons per year representing Petron's highest attained production volume for the last three (3) years; (2) for six years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Benzene and Toluene; and (3) for six years from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Propylene.
- b. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming parts thereof for ten years from start of commercial operations.
- c. Simplification of custom procedures.
- d. Access to Customs Bonded Manufacturing Warehouse (CBMW) subject to Custom rules and regulations provided firm exports at least 70% of production output.
- e. Exemption from wharfage dues, any export tax, duty, imposts and fees for a ten year period from date of registration.
- f. Importation of consigned equipment for a period of ten years from the date of registration subject to the posting of re-export bond.
- g. Exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 70% production.
- h. Petron may qualify to import capital equipment, spare parts, and accessories at zero duty from date of registration up to June 5, 2006 pursuant to Executive Order (EO) No. 313 and its Implementing Rules and Regulations.

Fluidized Bed Catalytic Cracker (PetroFCC) Unit

On December 20, 2005, the BOI approved Petron's application under RA 8479 for new investment at its Bataan Refinery for the PetroFCC. Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

- a. ITH for five years without extensions or bonus year from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to a rate of exemption computed based on the % share of product that are subject to retooling.
- b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- c. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment. This shall be equivalent to the difference between the tariff rate and the three percent (3%) duty imposed on the imported counterpart.
- d. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.
- e. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse.
- f. Exemption from real property tax on production equipment or machinery.
- g. Exemption from contractor's tax.

Grease Manufacturing Plant

In December 2005, the BOI approved Petron's application under RA 8479 as an Existing Industry Participant with New Investment in Modernization of the firm's Grease Manufacturing Plant in Pandacan, Manila. The BOI is extending the following major incentives:

- a. ITH for a period of five years without extension or bonus year from March 2006 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to base figure of 845 metric tons of grease product representing Petron's highest attained sales volume prior to rehabilitation.
- b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- c. Tax credit on domestic capital equipment on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.
- d. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.
- e. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse.
- f. Exemption from real property tax on production equipment or machinery.
- g. Exemption from contractor's tax.

70 MW Coal-Fired Power Plant (Lima, Bataan)

On November 3, 2010, Petron registered with the BOI as new operator of a 70 MW Coal-Fired Power Plant on a pioneer status with non-pioneer incentives under the Omnibus Investments Code of 1987 (Executive Order No. 226). Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

- a. ITH for four years from July 2012 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration limited to the revenue generated from the electricity sold to the grid.
- b. Importation of consigned equipment for a period of ten years from the date of registration subject to the posting of re-export bond.
- c. Zero percent (0%) duty from date of registration up to June 16, 2011 for imported capital equipment, spare parts and accessories.

Yearly certificates of entitlement have been timely obtained by Petron to support its ITH credits.

44. Events After the Reporting Date

a. *Increase in BOC ownership*

On January 13, 2011, SMPI acquired additional 7.16% of the outstanding capital stock of BOC, by way of a Deed of Sale of Shares with Assignment of Subscription Rights from Valiant Ventures and Development Holdings, Inc., consisting of: (i) 2,800,000 outstanding and issued common shares of stock and; (ii) the subscription rights to 5,237,265 common shares of stock for a total consideration of P876.

The said acquisition has been approved by SMPI's BOD in its meeting held on December 8, 2010.

b. *Purchase of Manila North Harbour Port Inc.*

On January 3, 2011, Petron entered into a Share Sale and Purchase Agreement with Harbour Centre Port Terminal Inc. for the purchase of 35% of Manila North Harbour Port Inc.'s outstanding and issued capital stock.

c. *SMC Global issuance of bonds*

On January 28, 2011, SMC Global carried out a US\$300, 7%, 5 year bond issue under Regulations of the U.S. Securities Act of 1933, as amended. SMC Global has filed an application for listing of the bond issue in the Singapore Exchange Securities Trading Limited and does not intend to register any securities subject of the proposed bond issue under the U.S. Securities Act and the Philippine Securities Regulation Code.

d. *SMPFC*

On January 20, 2011, the SEC favorably considered SMPFC's Registration Statement covering the registration of 15,000,000 preferred shares with a par value of P10.00 per share.

On January 26, 2011, the PSE approved, subject to certain conditions, the application of SMPFC to list up to 15,000,000 preferred shares with a par value of P10.00 per share to cover SMPFC's follow-on preferred shares offering at an offer price of P1,000.00 per share and with a dividend rate determined by management on the dividend rate setting date.

On February 10, 2011, the SEC issued the order for the registration of SMPFC's 15,000,000 preferred shares with a par value of P10.00 per share and released the Certificate of Permit to Offer Securities for Sale.

On February 11, 2011, SMPFC's BOD approved the terms of the preferred shares offer.

SMPFC, through the underwriters and selling agents, offered 15,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares with 5-year maturity at an offer price of P1,000.00 per share during the period February 14 to 25, 2011. The dividend rate was set at 8% per annum with dividend payment dates on March 3, June 3, September 3 and December 3 of each year calculated on a 30/360-day basis, as and if declared by SMPFC's BOD. Optional redemption of the preferred shares prior to 5th year from issuance date was provided under certain conditions (i.e., accounting, tax or change of control events). Unless the preferred shares are redeemed by SMPFC on its 5th year anniversary, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 8% or the ten-year PDST-F rate prevailing on the optional redemption date plus 3.33% per annum.

On March 3, 2011, SMPFC's 15,000,000 preferred shares with par value of P10.00 per share were listed with the PSE.

e. *Top Frontier*

On February 2, 2011, the BOD of Top Frontier declared cash dividends amounting to P139.50 per share or a total of P363 to preferred shareholders of record as of February 2, 2011. The cash dividend was paid on February 10, 2011.

45. Other Matters

a. *Contingencies*

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

- Deficiency Excise Tax

On April 12, 2004 and May 26, 2004, the Parent Company was assessed by the BIR for deficiency excise tax on one of its beer products. The Parent Company contested the assessments before the Court of Tax Appeals (CTA) (1st Division) under CTA case numbers 7052 and 7053. In the opinion of management and its legal counsel, the Parent Company has strong legal grounds to contest the assessments.

In relation to the aforesaid contested assessments, the Parent Company, on January 31, 2006, filed with the CTA (1st Division), under CTA case number 7405, a claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it. An independent Certified Public Accountant (CPA) commissioned by the CTA to conduct an examination, verification and audit to validate the documents supporting the claim for refund has submitted a report stating, among other things, that the claim is properly supported by the relevant documents.

The above assessment cases (CTA case numbers 7052 and 7053) and claim for refund (CTA case number 7405), which involve common questions of fact and law, had been consolidated and are now deemed submitted for decision by the CTA.

On November 27, 2007, the Parent Company filed with the CTA (3rd Division), under CTA case number 7708, a second claim for refund, also in relation to the contested assessments, as it was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate. An independent CPA was likewise commissioned by the CTA in this case for the purpose of conducting an examination, verification and audit of the documents supporting the aforesaid claim. In a report recently submitted to the CTA, the independent CPA stated that the second claim is properly supported by the relevant documents.

On January 11, 2008, the BIR addressed a letter to the Parent Company, appealing to the Parent Company to settle its alleged tax liabilities subject of CTA case numbers 7052 and 7053 "in order to obviate the necessity of issuing a Warrant of Distrainment and Garnishment and/or Levy." The Parent Company's external legal counsel responded to the aforesaid letter and met with appropriate officials of the BIR and explained to the latter the unfairness of the issuance of a Warrant of Distrainment and Garnishment and/or Levy against the Parent Company, especially in view of the Parent Company's pending claims for refund. As of March 14, 2011, the BIR has taken no further action on the matter.

On July 24, 2009, the Parent Company filed its third claim for refund with the CTA, under CTA case number 7953, also in relation to the contested assessments. This case is now undergoing trial.

On January 7, 2011, the CTA under CTA case number 7708 rendered its decision in this case, granting the Parent Company's petition for review on its claim for refund and ordering respondent Commissioner of Internal Revenue to refund or issue a tax credit certificate in favor of the Parent Company in the amount of P926, representing erroneously, excessively and/or illegally collected and over paid excise taxes on "San Mig Light" during the period from December 1, 2005 up to July 31, 2007.

- Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron. The assessment relates to Petron's use of P659 worth of Tax Credit Certificates ("TCCs") to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron is contesting the BIR's assessment before the CTA. In July 1999, the CTA ruled that, as a fuel supplier of Board of Investments-registered companies, Petron is a qualified transferee of the TCCs. Following an unfavorable ruling from the CTA En Banc, Petron filed an appeal to the Supreme Court. A Resolution was issued by the Supreme Court (1st Division) on September 13, 2010 denying with finality The Commissioner of Internal Revenue's motion for reconsideration of the Decision dated July 28, 2010.

In November 1999, the BIR issued a P284 assessment against Petron for deficiency excise taxes for the years 1995 to 1997. The assessment results from the cancellation by the Philippine Department of Finance ("DOF") of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. In August 2006, the CTA denied Petron's petition, ordering it to pay the BIR P580 representing the P284 unpaid deficiency excise from 1995 to 1997, and 20% interest per annum computed from December 4, 1999. In July 2010, the Philippine Supreme Court ("SC") nullified the assessment against Petron and declared Petron as a valid transferee of the TCCs. The BIR filed a motion for reconsideration, which remains pending.

In May 2002, the BIR issued a P254 assessment against Petron for deficiency excise taxes for the years 1995 to 1998. The assessment results from the cancellation by the DOF of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. In May 2007, the CTA second division denied Petron's petition, ordering Petron to pay the BIR P601 representing Petron's P254 unpaid deficiency excise taxes for the taxable years 1995 to 1998, and 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. Petron appealed the decision to the CTA *en banc*, which ruled in favor of Petron, reversing the unfavorable decision of the CTA second division. The BIR is contesting the CTA *en banc* decision before the SC where the case is still pending as of March 14, 2011.

There are duplications in the TCCs subject of the three assessments described above. Excluding these duplications, the aggregate deficiency excise taxes, excluding interest and penalties, resulting from the cancellation of the subject TCCs amount to P911.

- Pandacan Terminal Operations

In November 2001, the City of Manila enacted City Ordinance No. 8027 ("Ordinance 8027") reclassifying the areas occupied by the oil terminals of Petron, Shell and Chevron from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, Petron, together with Shell and Chevron, entered into a Memorandum of Understanding ("MOU") with the City of Manila and DOE, agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance 8027. In December 2002, in reaction to the MOU, Social Justice Society ("SJS") filed a petition with the SC against the Mayor of Manila asking that the latter be ordered to enforce Ordinance 8027. In April 2003, Petron filed a petition with the Regional Trial Court ("RTC") to annul Ordinance 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance 8027.

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance ("Ordinance 8119"), which applied to the entire City of Manila. Ordinance 8119 allowed Petron (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance 8119, which was thought to effectively repeal Ordinance 8027, in April 2007, the RTC dismissed the petition filed by Petron questioning Ordinance 8027.

However, on March 7, 2007, in the case filed by SJS, the SC rendered a decision (the "March 7 Decision") directing the Mayor of Manila to immediately enforce Ordinance 8027. On March 12, 2007, Petron, together with Shell and Chevron, filed motions with the SC seeking intervention and reconsideration of the March 7 Decision, on the ground that the SC failed to consider supervening events, notably (i) the passage of Ordinance 8119 which supersedes Ordinance 8027, as well as (ii) the RTC orders preventing the implementation of Ordinance 8027. Petron, Shell, and Chevron also noted the possible ill-effects on the entire country arising from the sudden closure of the oil terminals in Pandacan.

On February 13, 2008, the SC resolved to allow Petron, Shell and Chevron to intervene, but denied their motion for reconsideration. In its February 13 resolution (the "February 13 Resolution"), the Supreme Court also declared Ordinance 8027 valid, dissolved all existing injunctions against the implementation of the Ordinance 8027, and directed Petron, Shell and Chevron to submit their relocation plans to the RTC. Petron, Shell and Chevron have sought reconsideration of the February 13 Resolution. In compliance with the February 13 Resolution, Petron, Shell and Chevron have submitted their relocation plans to the RTC.

In May 2009, Manila City Mayor Alfredo Lim approved Ordinance No. 8187 ("Ordinance 8187"), which repealed Ordinance 8027 and Ordinance 8119, and permitted the continued operations of the oil terminals in Pandacan.

In June 2009, petitions were filed with the SC, seeking the nullification of Ordinance 8187 and enjoining its implementation. These petitions are still pending as of March 14, 2011.

- Oil Spill Incident in Guimaras

On August 11, 2006, M/T Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, capsized 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice ("DOJ") and the Special Board of Marine Inquiry ("SBMI"), both agencies found the owners of M/T Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, who are charterers.

- Bataan Realty Property Tax Cases

Petron has three pending real property tax cases with the Province of Bataan, arising from three real property tax assessments. The first is for an assessment made by the Municipal Assessor of Limay, Bataan in 2006 for the amount of P86.4 covering Petron's isomerization and gas oil hydrotreater facilities which enjoy, among others, a five-year real property tax exemption under the Oil Deregulation Law per the Board of Investments Certificates of Registration. The second is for an assessment made also in 2006 by the Municipal Assessor of Limay for P17 relating to the leased foreshore area on which the pier of Petron's Refinery is located. In 2007, the Bataan Provincial Treasurer issued a Final Notice of Delinquent Real Property Tax requiring Petron to settle the amount of P2,168 allegedly in delinquent real property taxes as of September 30, 2007, based on a third assessment made by the Provincial Assessor covering a period of 13 years from 1994 to 2007. The third assessment cited Petron's non-declaration or under-declaration of machineries and equipment in the Refinery for real property tax purposes and its failure to pay the corresponding taxes for the said period.

Petron timely contested the assessments by filing appeals with the Local Board of Assessment Appeals ("LBAA"), and posted the necessary surety bonds to stop collection of the assessed amount.

However, with regard to the third assessment, notwithstanding the appeal to the LBAA and the posting of the surety bond, the Provincial Treasurer, acting on the basis of the Final Notice of Delinquent Real Property Tax relating to the third assessment, proceeded with the publication of the public auction of the assets of Petron, which was set for October 17, 2007. Due to the

Provincial Treasurer's refusal to cancel the auction sale, Petron filed a complaint for injunction on October 8, 2007 before the RTC to stop the auction sale. A writ of injunction stopping the public auction until the final resolution of the case was issued by the RTC on November 5, 2007.

A motion to dismiss filed by the Provincial Treasurer on the ground of forum-shopping was denied by the RTC. However, a similar motion based on the same ground of forum shopping was filed by the Provincial Treasurer before the LBAA and the motion was granted by the LBAA in December 2007. On appeal by Petron, the Central Board of Assessment Appeals ("CBAA"), in August 2008, remanded the case to the LBAA for factual determination, effectively granting Petron's appeal and reversing the LBAA's dismissal of the case.

The RTC issued a Decision dated June 25, 2010 upholding Petron's position and declared null and void the demand on Petron for the payment of realty taxes in the amount of P1,731 made by the Provincial Assessor of Bataan and the levy of the properties of Petron. The Court issued a Writ of Prohibition permanently prohibiting, preventing and restraining the Provincial Treasurer of Bataan from conducting a public auction of the properties of Petron or selling the same by auction, negotiated sale, or any act of disposition pending the finality of the disposition by the LBAA or CBAA, as the case maybe, on the pending appeal made by Petron from the revised assessment of the Provincial Assessor of Bataan.

b. *Top Frontier*

On November 27, 2009, Top Frontier acquired 857,115,914 common shares of the issued and outstanding common shares of the Parent Company for a total of P64,284. To acquire an additional 327,000,000 Class "B" common shares of the Parent Company under the SPA with Q-Tech Alliance Holdings Inc. (Q-Tech), Top Frontier conducted a tender offer before such acquisition pursuant to the 35% threshold under the mandatory provisions of the Securities Regulation Code.

Under the tender offer, Top Frontier accepted a total of 49,629,119 Class "A" common shares and 31,773,965 Class "B" common shares tendered by the Parent Company's shareholders at the offer price of P75.00 per share, for a total consideration of P6,105. On April 13, 2010, Top Frontier acquired 327,000,000 Class "B" common shares of the Parent Company held by Q-Tech at the price of P66.00 per share. The tendered shares and the 327,000,000 Class "B" common shares were crossed in the PSE on April 13, 2010. As of December 31, 2010, Top Frontier had total shareholdings of 1,265,518,998 common shares of the Parent Company.

The SPA with Q-Tech also provides a grant of call option to Top Frontier for the purchase of 301,666,675 Class "B" common shares of the Parent Company at P70.00 per share. The call option may be exercised by Top Frontier until March 31, 2011 or such later date as may be mutually agreed upon by the parties in writing. On March 8, 2011, Top Frontier has notified Q-Tech of its intention to exercise the call option within the period specified in the SPA.

Top Frontier entered into an Option Agreement with 44 Corporations in 2009 wherein Top Frontier has exclusive right to acquire 476,722,639 Class "A" and 16,652,544 Class "B" common shares of the Parent Company at P75.00 per share for which Top Frontier paid an amount of US\$200 as advances. The call option may be exercised by Top Frontier until November 12, 2012. Any further extension of the term of the option period shall require the written consent and approval of both parties.

c. *Commitments*

The outstanding purchase commitments of the Group as of December 31, 2010 amounted to P237.

Amount authorized but not yet disbursed for capital projects as of December 31, 2010 is approximately P4,856.

d. *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries and associates to Philippine peso were closing rates of P43.84 in 2010 and P46.20 in 2009 for consolidated statements of financial position accounts; and average rates of P45.12, P47.64 and P44.47 in 2010, 2009 and 2008, respectively, for income and expense accounts.



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The Company's common stock is listed and traded at the Philippine Stock Exchange. Authorized common stock is divided into 60% Class A and 40% Class B shares, with the same rights and privileges. However, only Filipino citizens or corporations or associations at least 60% of the capital of which is owned by Filipino citizens can own Class A shares. SMC American Depositary Receipts are traded over-the-counter in the United States. Morgan Guaranty and Trust Company of New York serves as depository bank.

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