



**SAN MIGUEL CORPORATION**

May 15, 2012

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

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

Gentlemen:

We submit herewith the attached quarterly report (SEC Form 17-Q) of the Company for the period ended March 31, 2012.

Very truly yours,

**MARY ROSE S. TAN**  
Assistant Corporate Secretary

# COVER SHEET

P W - 2 7 7

S. E. C. Registration Number

S A N

M I G U E L

C O R P O R A T I O N

(Company's Full Name)

N o. 4 0 S a n M i g u e l A v e.

M a n d a l u y o n g C i t y

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

Atty. Mary Rose S. Tan

Contact Person

(632) 632-3000

Company Telephone Number

## SEC FORM

1 2

Month

3 1

Day

1 7 - Q

FORM TYPE

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

STAMPS

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

1. For the quarterly period ended **March 31, 2012**
2. Commission identification number **PW00000227**
3. BIR Tax Identification No **041-000-060-741**
4. Exact name of issuer as specified in its charter **SAN MIGUEL CORPORATION**
5. **Philippines**  
Province, country or other jurisdiction  
of incorporation or organization
6. Industry Classification Code:  (SEC Use Only)
7. **No. 40 San Miguel Avenue,**  
**Mandaluyong City** **1550**  
Address of issuer's principal office Postal Code
8. **(632) 632-3000**  
Issuer's telephone number, including area code
9. **N/A**  
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

|                          |                                                                                 |
|--------------------------|---------------------------------------------------------------------------------|
|                          | Number of shares of common stock and<br>Debt outstanding (as of March 31, 2012) |
| <b>Common Shares</b>     | <b>2,369,297,660</b>                                                            |
| <b>Preferred Shares</b>  | <b>970,506,353</b>                                                              |
| <b>Total Liabilities</b> | <b>P651,201 million</b>                                                         |

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

## PART I--FINANCIAL INFORMATION

### Item 1. Financial Statements.

The unaudited consolidated financial statements of San Miguel Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended March 31, 2012 (with comparative figures as of December 31, 2011 and for the period ended March 31, 2011) and Selected Notes to Consolidated Financial Statements is hereto attached as **Annex "A"**.

### Item 2. Management's Discussion and Analysis of Financial Position and Financial Performance.

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

## PART II--OTHER INFORMATION

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

NONE

## SIGNATURES

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

Issuer **SAN MIGUEL CORPORATION**

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

Date May 15, 2012

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

Date May 15, 2012

SAN MIGUEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
March 31, 2012 and December 31, 2011  
(In Millions)

**ANNEX "A"**

ASSETS

|                                                           | 2012<br>Unaudited | 2011<br>Audited  |
|-----------------------------------------------------------|-------------------|------------------|
| <b>Current Assets</b>                                     |                   |                  |
| Cash and cash equivalents (Notes 7 and 8)                 | P 143,510         | P 128,975        |
| Trade and other receivables - net (Notes 3, 7 and 8)      | 100,287           | 84,472           |
| Inventories                                               | 92,705            | 65,720           |
| Current portion of biological assets - net                | 4,171             | 4,124            |
| Prepaid expenses and other current assets (Notes 7 and 8) | 27,547            | 22,620           |
|                                                           | <u>368,220</u>    | <u>305,911</u>   |
| Assets held for sale                                      | 10                | 2,268            |
| <b>Total Current Assets</b>                               | <u>368,230</u>    | <u>308,179</u>   |
| <b>Noncurrent Assets</b>                                  |                   |                  |
| Investments and advances - net                            | 164,127           | 166,854          |
| Available-for-sale financial assets (Notes 7 and 8)       | 2,219             | 2,068            |
| Property, plant and equipment - net (Note 4)              | 341,198           | 319,626          |
| Investment properties - net                               | 2,955             | 2,850            |
| Biological assets - net of current portion                | 1,869             | 1,812            |
| Goodwill - net                                            | 41,699            | 30,990           |
| Other intangible assets - net                             | 11,294            | 11,407           |
| Deferred tax assets                                       | 8,653             | 8,233            |
| Other noncurrent assets - net (Notes 3, 7 and 8)          | 34,610            | 38,517           |
| <b>Total Noncurrent Assets</b>                            | <u>608,624</u>    | <u>582,357</u>   |
|                                                           | <u>P 976,854</u>  | <u>P 890,536</u> |

LIABILITIES AND EQUITY

|                                                                                    | 2012<br>Unaudited | 2011<br>Audited  |
|------------------------------------------------------------------------------------|-------------------|------------------|
| <b>Current Liabilities</b>                                                         |                   |                  |
| Drafts and loans payable (Notes 7 and 8)                                           | P 103,055         | P 82,588         |
| Accounts payable and accrued expenses (Notes 3, 7 and 8)                           | 84,207            | 61,629           |
| Finance lease liabilities - current portion (Notes 7 and 8)                        | 15,387            | 15,388           |
| Income and other taxes payable                                                     | 10,840            | 9,041            |
| Dividends payable                                                                  | 2,038             | 2,153            |
| Current maturities of long-term debt - net of debt issue costs (Notes 3, 7 and 8)  | 19,275            | 19,453           |
|                                                                                    | <u>234,802</u>    | <u>190,252</u>   |
| Liabilities directly associated with assets held for sale                          | -                 | 578              |
| <b>Total Current Liabilities</b>                                                   | <u>234,802</u>    | <u>190,830</u>   |
| <b>Noncurrent Liabilities</b>                                                      |                   |                  |
| Long-term debt - net of current maturities and debt issue costs (Notes 3, 7 and 8) | 209,254           | 191,967          |
| Deferred tax liabilities                                                           | 12,596            | 11,257           |
| Finance lease liabilities - net of current portion (Notes 7 and 8)                 | 189,043           | 192,873          |
| Other noncurrent liabilities (Notes 7 and 8)                                       | 5,506             | 4,509            |
| <b>Total Noncurrent Liabilities</b>                                                | <u>416,399</u>    | <u>400,606</u>   |
| <b>Equity</b>                                                                      |                   |                  |
| Equity Attributable to Equity Holders of the Parent Company                        |                   |                  |
| Capital stock - common                                                             | 16,397            | 16,397           |
| Capital stock - preferred                                                          | 4,852             | 4,852            |
| Additional paid-in capital                                                         | 103,579           | 103,511          |
| Revaluation increment                                                              | 1,355             | 1,443            |
| Cumulative translation adjustments                                                 | 5,284             | 5,264            |
| Retained earnings:                                                                 |                   |                  |
| Appropriated                                                                       | 24,664            | 24,315           |
| Unappropriated                                                                     | 146,969           | 141,126          |
| Treasury stock                                                                     | (67,430)          | (67,441)         |
|                                                                                    | <u>235,670</u>    | <u>229,467</u>   |
| Amounts recognized directly in equity relating to assets held for sale             | -                 | (53)             |
|                                                                                    | <u>235,670</u>    | <u>229,414</u>   |
| <b>Non-controlling Interests</b>                                                   | 89,983            | 69,686           |
| <b>Total Equity</b>                                                                | <u>325,653</u>    | <u>299,100</u>   |
|                                                                                    | <u>P 976,854</u>  | <u>P 890,536</u> |

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

CERTIFIED CORRECT:

BELL A. C. NAVARRA  
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
For the Period Ended March 31, 2012 and 2011 (Unaudited)  
(In Millions, Except Per Share Data)

|                                                                                             | 2012      | 2011      |
|---------------------------------------------------------------------------------------------|-----------|-----------|
| SALES (Note 2)                                                                              | P 142,039 | P 126,592 |
| COST OF SALES                                                                               | 115,345   | 99,300    |
| GROSS PROFIT                                                                                | 26,694    | 27,292    |
| SELLING AND ADMINISTRATIVE EXPENSES                                                         | (11,853)  | (10,157)  |
| INTEREST EXPENSE AND OTHER FINANCING CHARGES                                                | (7,169)   | (6,757)   |
| INTEREST INCOME                                                                             | 1,102     | 1,451     |
| EQUITY IN NET EARNINGS OF ASSOCIATES                                                        | 1,350     | 630       |
| GAIN ON SALE OF INVESTMENTS<br>AND PROPERTY AND EQUIPMENT                                   | 538       | 50        |
| OTHER INCOME (CHARGES) - Net                                                                | 3,879     | (59)      |
| INCOME BEFORE INCOME TAX                                                                    | 14,541    | 12,450    |
| INCOME TAX EXPENSE                                                                          | 2,806     | 2,414     |
| NET INCOME                                                                                  | P 11,735  | P 10,036  |
| Net Income Attributable to :                                                                |           |           |
| Equity Holders of the Parent Company                                                        | P 8,477   | P 7,138   |
| Non-controlling Interests                                                                   | 3,258     | 2,898     |
|                                                                                             | P 11,735  | P 10,036  |
| Earnings Per Common Share Attributable to Equity<br>Holders of the Parent Company (Note 5): |           |           |
| Basic                                                                                       | P 2.96    | P 2.44    |
| Diluted                                                                                     | P 2.94    | P 2.42    |

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

CERTIFIED CORRECT:

  
BELLA O. NAVARRA  
VP, Corporate Finance - Comptrollership


SAN MIGUEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
For the Period Ended March 31, 2012 and 2011 (Unaudited)  
(In Millions)

|                                                              | <u>2012</u>     | <u>2011</u>     |
|--------------------------------------------------------------|-----------------|-----------------|
| NET INCOME                                                   | <u>P 11,735</u> | <u>P 10,036</u> |
| EXCHANGE DIFFERENCES ON TRANSLATION OF<br>FOREIGN OPERATIONS | (390)           | 183             |
| NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS       | 256             | (748)           |
| INCOME TAX BENEFIT                                           | -               | 4               |
| SHARE IN COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES           | <u>156</u>      | <u>(1)</u>      |
| OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX               | <u>22</u>       | <u>(562)</u>    |
| TOTAL COMPREHENSIVE INCOME - NET OF TAX                      | <u>P 11,757</u> | <u>P 9,474</u>  |
| Comprehensive Income Attributable to :                       |                 |                 |
| Equity Holders of the Parent Company                         | <u>P 8,497</u>  | <u>P 6,654</u>  |
| Non-controlling Interests                                    | <u>3,260</u>    | <u>2,820</u>    |
|                                                              | <u>P 11,757</u> | <u>P 9,474</u>  |

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

CERTIFIED CORRECT:

  
**BELLA D. NAVARRA**  
VP, Corporate Finance - Comptrollership 

SAN MIGUEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
For the Period Ended March 31, 2012 and 2011 (Unaudited)  
(In Millions)

|                                                                             | (in millions)                                               |           |   |                            |                       |                                    |   |       |                    |       |                   |                |                |         |   | Non-controlling Interests | Total Equity |          |   |         |   |         |   |         |
|-----------------------------------------------------------------------------|-------------------------------------------------------------|-----------|---|----------------------------|-----------------------|------------------------------------|---|-------|--------------------|-------|-------------------|----------------|----------------|---------|---|---------------------------|--------------|----------|---|---------|---|---------|---|---------|
|                                                                             | Equity Attributable to Equity Holders of the Parent Company |           |   |                            |                       |                                    |   |       |                    |       |                   |                |                |         |   |                           |              |          |   |         |   |         |   |         |
|                                                                             | Capital Stock                                               |           |   | Additional Paid-in Capital | Revaluation Increment | Cumulative Translation Adjustments |   |       | Fair Value Reserve |       | Retained Earnings |                | Treasury Stock |         |   |                           |              |          |   |         |   |         |   |         |
|                                                                             | Common                                                      | Preferred |   |                            |                       | Translation Reserve                |   |       |                    |       | Appropriated      | Unappropriated |                | Total   |   |                           |              |          |   |         |   |         |   |         |
| As of January 1, 2012 (Audited)                                             | P                                                           | 16,397    | P | 4,852                      | P                     | 103,511                            | P | 1,443 | P                  | 5,662 | P                 | (451)          | P              | 24,315  | P | 141,126                   | P            | (67,441) | P | 229,414 | P | 69,686  | P | 299,100 |
| Foreign currency translation differences                                    |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | (394) |                   | -              |                | -       |   | -                         |              | (394)    |   | (394)   |   | 4       |   | (390)   |
| Share in comprehensive income of associates                                 |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | 156   |                   | -              |                | -       |   | -                         |              | 156      |   | 156     |   | -       |   | 156     |
| Net change in fair value of available-for-sale financial assets, net of tax |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | 258   |                   | -              |                | -       |   | -                         |              | 258      |   | 258     |   | (2)     |   | 256     |
| Other comprehensive income (loss)                                           |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | (394) |                   | 414            |                | -       |   | -                         |              | 20       |   | 20      |   | 2       |   | 22      |
| Net income for the period                                                   |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | -     |                   | -              |                | 8,477   |   | -                         |              | 8,477    |   | 8,477   |   | 3,258   |   | 11,735  |
| Total comprehensive income (loss) for the period                            |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | (394) |                   | 414            |                | -       |   | 8,477                     |              | 8,497    |   | 8,497   |   | 3,260   |   | 11,757  |
| Issuance of capital stock                                                   |                                                             | -         |   | -                          |                       | 5                                  |   | -     |                    | -     |                   | -              |                | -       |   | -                         |              | 5        |   | 5       |   | -       |   | 5       |
| Reissuance of treasury stock                                                |                                                             | -         |   | -                          |                       | 6                                  |   | -     |                    | -     |                   | -              |                | -       |   | 11                        |              | 17       |   | 17      |   | -       |   | 17      |
| Stock options                                                               |                                                             | -         |   | -                          |                       | 57                                 |   | -     |                    | -     |                   | -              |                | -       |   | -                         |              | 57       |   | 57      |   | -       |   | 57      |
| Net addition to non-controlling interests and others                        |                                                             | -         |   | -                          |                       | -                                  |   | (88)  |                    | 53    |                   | -              |                | -       |   | -                         |              | (35)     |   | (35)    |   | 19,189  |   | 19,154  |
| Appropriations - net                                                        |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | -     |                   | 349            |                | (349)   |   | -                         |              | -        |   | -       |   | -       |   | -       |
| Cash dividends (Note 6):                                                    |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | -     |                   | -              |                | (829)   |   | -                         |              | (829)    |   | (829)   |   | (1,376) |   | (2,205) |
| Common                                                                      |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | -     |                   | -              |                | (829)   |   | -                         |              | (829)    |   | (829)   |   | (1,376) |   | (2,205) |
| Preferred                                                                   |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | -     |                   | -              |                | (1,456) |   | -                         |              | (1,456)  |   | (1,456) |   | (776)   |   | (2,232) |
| As of March 31, 2012 (Unaudited)                                            | P                                                           | 16,397    | P | 4,852                      | P                     | 103,579                            | P | 1,355 | P                  | 5,321 | P                 | (37)           | P              | 24,664  | P | 146,969                   | P            | (67,430) | P | 235,670 | P | 89,983  | P | 325,653 |
| As of January 1, 2011 (Audited)                                             | P                                                           | 16,343    | P | 4,852                      | P                     | 101,406                            | P | 1,391 | P                  | 5,241 | P                 | 124            | P              | 5,671   | P | 150,544                   | P            | (69,541) | P | 216,031 | P | 50,794  | P | 266,825 |
| Foreign currency translation differences                                    |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | 253   |                   | -              |                | -       |   | -                         |              | 253      |   | 253     |   | (70)    |   | 183     |
| Share in comprehensive loss of associates                                   |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | -     |                   | (1)            |                | -       |   | -                         |              | (1)      |   | (1)     |   | -       |   | (1)     |
| Net change in fair value of available-for-sale financial assets, net of tax |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | -     |                   | (736)          |                | -       |   | -                         |              | (736)    |   | (736)   |   | (8)     |   | (744)   |
| Other comprehensive income (loss)                                           |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | 253   |                   | (737)          |                | -       |   | -                         |              | (484)    |   | (484)   |   | (78)    |   | (562)   |
| Net income for the period                                                   |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | -     |                   | -              |                | -       |   | 7,138                     |              | 7,138    |   | 7,138   |   | 2,898   |   | 10,036  |
| Total comprehensive income (loss) for the period                            |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | 253   |                   | (737)          |                | -       |   | 7,138                     |              | 6,654    |   | 6,654   |   | 2,820   |   | 9,474   |
| Issuance of capital stock                                                   |                                                             | 10        |   | -                          |                       | 171                                |   | -     |                    | -     |                   | -              |                | -       |   | -                         |              | 181      |   | 181     |   | -       |   | 181     |
| Stock options                                                               |                                                             | -         |   | -                          |                       | 59                                 |   | -     |                    | -     |                   | -              |                | -       |   | -                         |              | 59       |   | 59      |   | -       |   | 59      |
| Addition to non-controlling interests                                       |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | -     |                   | -              |                | -       |   | -                         |              | -        |   | -       |   | 14,906  |   | 14,906  |
| Appropriations - net                                                        |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | -     |                   | -              |                | 929     |   | (929)                     |              | -        |   | -       |   | -       |   | -       |
| Cash dividends (Note 6):                                                    |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | -     |                   | -              |                | -       |   | -                         |              | -        |   | -       |   | -       |   | -       |
| Common                                                                      |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | -     |                   | -              |                | -       |   | (816)                     |              | (816)    |   | (816)   |   | (1,106) |   | (1,922) |
| Preferred                                                                   |                                                             | -         |   | -                          |                       | -                                  |   | -     |                    | -     |                   | -              |                | -       |   | (1,456)                   |              | (1,456)  |   | (1,456) |   | (238)   |   | (1,694) |
| As of March 31, 2011 (Unaudited)                                            | P                                                           | 16,353    | P | 4,852                      | P                     | 101,636                            | P | 1,391 | P                  | 5,494 | P                 | (613)          | P              | 6,600   | P | 154,481                   | P            | (69,541) | P | 220,653 | P | 67,176  | P | 287,829 |

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

CERTIFIED CORRECT:

BELLAR D. NAVARRA  
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Period Ended March 31, 2012 and 2011 (Unaudited)  
(In Millions)

|                                                                           | 2012      | 2011      |
|---------------------------------------------------------------------------|-----------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                               |           |           |
| Income before income tax                                                  | P 14,541  | P 12,450  |
| Adjustments for :                                                         |           |           |
| Depreciation, amortization and others - net                               | 41        | 2,606     |
| Interest expense and other financing charges                              | 7,169     | 6,757     |
| Interest income                                                           | (1,102)   | (1,451)   |
| Equity in net earnings of associates                                      | (1,350)   | (630)     |
| Gain on sale of investments and property and equipment                    | (538)     | (50)      |
| Operating income before working capital changes                           | 18,761    | 19,682    |
| Changes in noncash current assets, certain current liabilities and others | (11,431)  | (11,508)  |
| Cash generated from operations                                            | 7,330     | 8,174     |
| Interest and other financing charges paid                                 | (3,414)   | (2,792)   |
| Income taxes paid                                                         | (1,024)   | (1,489)   |
| Net cash flows provided by operating activities                           | 2,892     | 3,893     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                               |           |           |
| Acquisitions of subsidiaries, net of cash and cash equivalents acquired   | (17,997)  | -         |
| Additions to investments and advances                                     | (16)      | (840)     |
| Additions to property, plant and equipment                                | (8,012)   | (3,331)   |
| Payment of other liabilities                                              | (2,122)   | (14,082)  |
| Payments by (advances to) related parties - net                           | 7,574     | (1,506)   |
| Increase in other noncurrent assets and others                            | (620)     | (383)     |
| Proceeds from sale of investments and property and equipment              | 2,036     | 71        |
| Interest received                                                         | 905       | 1,481     |
| Dividends received from associates                                        | 362       | 362       |
| Net cash flows used in investing activities                               | (17,890)  | (18,228)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                               |           |           |
| Proceeds from :                                                           |           |           |
| Short-term borrowings                                                     | 127,100   | 107,355   |
| Long-term borrowings                                                      | 23,247    | 12,869    |
| Payments of:                                                              |           |           |
| Short-term borrowings                                                     | (121,073) | (113,801) |
| Long-term borrowings                                                      | (5,015)   | (714)     |
| Payment of finance lease liabilities                                      | (4,350)   | (2,979)   |
| Cash dividends paid                                                       | (2,269)   | (1,455)   |
| Dividends paid to non-controlling shareholders                            | (2,283)   | (560)     |
| Proceeds from issuance of capital stock                                   | 5         | 181       |
| Net proceeds from issuance of preferred shares of a subsidiary            | 14,406    | 14,829    |
| Net cash flows provided by financing activities                           | 29,768    | 15,725    |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>       | (235)     | (175)     |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                          | 14,535    | 1,215     |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                     | 128,975   | 125,188   |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>                     | P 143,510 | P 126,403 |

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

CERTIFIED CORRECT:

  
**BELLA O. NAVARRA**  
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION (Parent Only)  
 ACCOUNTS RECEIVABLE - NON-TRADE  
 MARCH 31, 2012  
 (AMOUNTS IN MILLIONS)

|                                 |   | <u>TOTAL</u> | <u>OVER 90 DAYS</u> |
|---------------------------------|---|--------------|---------------------|
| ACCOUNTS RECEIVABLE - NON-TRADE | P | 249          | <u>249</u>          |
| ALLOW. FOR DOUBTFUL ACCOUNTS    |   | <u>(249)</u> |                     |
| NET                             | P | <u>0</u>     |                     |

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**  
**SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in Millions, Except Per Share Data)**

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

The Group prepared its consolidated interim financial statements as of and for the period ended March 31, 2012 and comparative financial statements for the same period in 2011 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, Interim Financial Reporting. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

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

Adoption of New Standards, Amendments to Standards and Interpretations

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

*Amendments to Standard and Interpretations Adopted in 2012*

The Group has adopted the following PFRS starting January 1, 2012 and accordingly, changed its accounting policies in the following areas:

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7, Financial Instruments: Disclosures)*, require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of the consolidated 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 the derecognized financial assets. Entities are required to apply the amendments for annual period beginning on or after July 1, 2011.
- *Deferred Tax: Recovery of Underlying Assets (Amendments to PAS 12, Income Taxes)* introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with PAS 40, *Investment Property*. The exception also applies to investment properties acquired in a business combination accounted for in accordance with PFRS 3 provided the acquirer subsequently measure these assets applying the fair value model. The amendments integrated the guidance of Philippine Interpretation Standards Interpretation Committee (SIC) - 21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets*, into PAS 12, and as a result Philippine Interpretation SIC - 21 has been withdrawn. The effective date of the amendments is for periods beginning on or after January 1, 2012 and is applied retrospectively.

The adoption of these foregoing new or revised standards, amendments to standards and Philippine Interpretations of IFRIC did not have a material effect on the interim consolidated financial statements.

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

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 11, *Joint Arrangements*, which will become mandatory for the Group's 2013 financial statements and will require the equity method for joint ventures and PFRS 9, *Financial Instruments*, which becomes mandatory for the Group's 2015 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt these standards early and the extent of the impact has not been determined.

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

- Presentation of Items of Other Comprehensive Income (*Amendments to PAS 1, Presentation of Financial Statements*). The amendments: (a) require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss; (b) do not change the existing option to present profit or loss and other comprehensive income in two statements; and (c) change the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRS continue to apply in this regard. The effective date of the amendment is for periods beginning on or after January 1, 2013.
- PFRS 10, *Consolidated Financial Statements*, introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: (a) it is exposed or has rights to variable returns from its involvement with that investee; (b) it has the ability to affect those returns through its power over that investee; and (c) there is a link between power and returns. Control is reassessed as facts and circumstances change. PFRS 10 supersedes PAS 27, *Consolidated and Separate Financial Statements* (2008). The new standard is effective for annual periods beginning on or after January 1, 2013.
- PFRS 11, *Joint Arrangements*, focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). It: (a) distinguishes joint arrangements between joint operations and joint ventures; and (b) always requires the equity method for jointly controlled entities that are now called joint ventures; they are stripped of the free choice of using the equity method or proportionate consolidation. PFRS 11 supersedes PAS 31 and Philippine Interpretation SIC-13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. The new standard is effective for annual periods beginning on or after January 1, 2013.
- PFRS 12, *Disclosure of Interests in Other Entities*, contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities; and the effects of those interests on the entity's financial position, financial performance and cash flows. The

new standard is effective for annual periods beginning on or after January 1, 2013.

- PFRS 13, *Fair Value Measurement*, replaces the fair value measurement guidance contained in individual PFRS with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRS. It does not introduce new requirements to measure assets or liabilities at fair value nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The new standard is effective for annual periods beginning on or after January 1, 2013. Early application is permitted and required to be disclosed.
- PAS 19, *Employee Benefits* (amended 2011), includes the following requirements: (a) actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which is currently allowed under PAS 19; and (b) expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The adoption of the amended or revised standard is required for annual periods beginning on or after January 1, 2013.
- PAS 27, *Separate Financial Statements* (2011), supersedes PAS 27 (2008). PAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The adoption of the amendment is required for annual periods beginning on or after January 1, 2013.
- PAS 28, *Investments in Associates and Joint Ventures* (2011), supersedes PAS 28 (2008). PAS 28 (2011) makes the following amendments: (a) PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and, (b) on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or *vice versa*, the entity does not remeasure the retained interest. The adoption of the amended or revised standard is required for annual periods beginning on or after January 1, 2013.
- PFRS 9, *Financial Instruments* (2009) is the first standard issued as part of a wider project to replace PAS 39. 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 the contractual cash flow characteristics of the financial asset. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before January 1, 2012. PFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of PAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of Philippine Interpretation - IFRIC 9, *Reassessment of Embedded Derivatives*. The adoption of the new standard is required for annual periods beginning on or after January 1, 2015.

- 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 Philippine Securities and Exchange Commission (SEC) issued a notice dated August 5, 2011 that defers the adoption of this interpretation indefinitely.

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## 2. Segment Information

### Operating Segments

The reporting format of the Group’s operating segments is determined by the Group’s risks and rates of return which are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products produced and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group’s reportable segments are beverage, food, packaging, power 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 products, 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, metal closures and two-piece aluminum cans, woven products, industrial laminates and radiant barriers. It is also involved in crate and plastic pallet leasing, 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 Corporation (Meralco), electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market (WESM).

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

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

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

#### Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transfers are eliminated in consolidation.

Financial information about reportable segments follow:

|                     | Beverage |        | Food   |        | Packaging |       | Power Generation and Distribution |      | Fuel and Oil |         | Infra-structure |      | Telecommu-<br>nications |      | Others |       | Eliminations |         | Consolidated |         |
|---------------------|----------|--------|--------|--------|-----------|-------|-----------------------------------|------|--------------|---------|-----------------|------|-------------------------|------|--------|-------|--------------|---------|--------------|---------|
|                     | 2012     | 2011   | 2012   | 2011   | 2012      | 2011  | 2012                              | 2011 | 2012         | 2011    | 2012            | 2011 | 2012                    | 2011 | 2012   | 2011  | 2012         | 2011    | 2012         | 2011    |
| <b>Sales</b>        |          |        |        |        |           |       |                                   |      |              |         |                 |      |                         |      |        |       |              |         |              |         |
| External sales      | P21,99   | P22,13 | P22,39 | P20,59 | P4,76     | P4,95 | P19,14                            | P16, | P73,431      | P62,761 |                 |      | I                       |      | P -    | P     | P -          | P       | P142,039     | P126,59 |
| Inter-segment sales | 31       |        | 1      | -      | 1,089     | 727   | 219                               | 197  | 1,224        | 1,289   | -               | -    | -                       | -    | -      | -     | (2,564)      | (2,214) | -            | -       |
| Total sales         | P22,02   | P22,13 | P22,39 | P20,59 | 5,85      | P5,67 | P19,36                            | P16, | P74,655      | P64,050 |                 |      | I                       |      | P -    | P -   | (P2,564)     | (P2,21) | P142,039     | P126,59 |
| <b>Results</b>      |          |        |        |        |           |       |                                   |      |              |         |                 |      |                         |      |        |       |              |         |              |         |
| Segment results     | P5,03    | P4,97  | P65    | P1,55  | P51       | P46   | P4,95                             | P3,  | P4,618       | P6,996  | I               |      | 0                       | 0    | (P976) | (P169 | P154         | P12     | P14,841      | P17,13  |

### 3. Related Party Disclosures

The Parent Company, certain subsidiaries and their shareholders and associates in the normal course of business, purchase products and services from one another. Transactions with related parties are made at normal market prices. 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.

|                                                     | Relationship<br>with Related<br>Parties | Period                                     | Revenue<br>From<br>Related<br>Parties | Purchases<br>From<br>Related<br>Parties | Amounts<br>Owed by<br>Related<br>Parties | Amounts<br>Owed to<br>Related<br>Parties |
|-----------------------------------------------------|-----------------------------------------|--------------------------------------------|---------------------------------------|-----------------------------------------|------------------------------------------|------------------------------------------|
| Petron Corporation                                  |                                         |                                            |                                       |                                         |                                          |                                          |
| Employee Retirement<br>Plan (PCERP)                 | Retirement<br>plan                      | <b>March 31, 2012</b><br>December 31, 2011 | <b>P -</b><br>-                       | <b>P -</b><br>-                         | <b>P 16,008</b><br>23,247                | <b>P -</b><br>-                          |
| Meralco                                             | Associate                               | <b>March 31, 2012</b><br>December 31, 2011 | <b>9,846</b><br>32,871                | <b>346</b><br>494                       | <b>6,384</b><br>4,166                    | <b>35</b><br>60                          |
| SMC Retirement Plan<br>(SMCRP)                      | Retirement<br>plan                      | <b>March 31, 2012</b><br>December 31, 2011 | -<br>-                                | -<br>-                                  | <b>5,802</b><br>5,755                    | -<br>-                                   |
| Top Frontier Investment<br>Holdings, Inc.           | Associate                               | <b>March 31, 2012</b><br>December 31, 2011 | -<br>-                                | -<br>-                                  | <b>2,537</b><br>2,592                    | -<br>-                                   |
| Petrochemical Asia (HK)<br>Limited                  | Associate                               | <b>March 31, 2012</b><br>December 31, 2011 | -<br>-                                | -<br>-                                  | <b>687</b><br>701                        | -<br>-                                   |
| Atlantic Aurum<br>Investments BV                    | Associate                               | <b>March 31, 2012</b><br>December 31, 2011 | -<br>-                                | -<br>-                                  | <b>525</b><br>537                        | <b>90</b><br>-                           |
| Liberty<br>Telecommunications<br>Holdings, Inc.     | Associate                               | <b>March 31, 2012</b><br>December 31, 2011 | -<br>47                               | -<br>-                                  | <b>433</b><br>433                        | -<br>-                                   |
| Ginebra San Miguel, Inc.<br>Retirement Plan         | Retirement<br>plan                      | <b>March 31, 2012</b><br>December 31, 2011 | -<br>-                                | -<br>-                                  | <b>137</b><br>137                        | -<br>-                                   |
| Thai San Miguel<br>Liquor Co. Ltd.                  | JVC                                     | <b>March 31, 2012</b><br>December 31, 2011 | -<br>-                                | -<br>-                                  | <b>118</b><br>118                        | -<br>-                                   |
| Hormel Netherlands, BV                              | Shareholder<br>in a subsidiary          | <b>March 31, 2012</b><br>December 31, 2011 | -<br>-                                | -<br>-                                  | <b>35</b><br>19                          | -<br>-                                   |
| Private Infra Dev<br>Corporation                    | Associate                               | <b>March 31, 2012</b><br>December 31, 2011 | <b>60</b><br>95                       | -<br>-                                  | <b>23</b><br>13                          | -<br>-                                   |
| Manila North Harbour<br>Port Inc.                   | Associate                               | <b>March 31, 2012</b><br>December 31, 2011 | -<br>-                                | <b>14</b><br>-                          | <b>11</b><br>6                           | -<br>-                                   |
| Kirin Holdings Company,<br>Limited and subsidiaries | Shareholder<br>in a subsidiary          | <b>March 31, 2012</b><br>December 31, 2011 | <b>2</b><br>19                        | <b>1</b><br>18                          | <b>4</b><br>4                            | -<br>-                                   |
| Bank of Commerce<br>(BOC)                           | Associate                               | <b>March 31, 2012</b><br>December 31, 2011 | <b>4</b><br>31                        | -<br>-                                  | <b>3</b><br>13                           | -<br>-                                   |
| Limay Energen Corp.                                 | Associate                               | December 31, 2011                          | -                                     | 1,393                                   | -                                        | -                                        |
| Super Coffee Corporation<br>Pte. Ltd.               | Shareholder<br>in a subsidiary          | <b>March 31, 2012</b><br>December 31, 2011 | -<br>-                                | -<br>-                                  | -<br>-                                   | <b>43</b><br>61                          |
| Others                                              | Others                                  | <b>March 31, 2012</b><br>December 31, 2011 | -<br>1                                | <b>76</b><br>76                         | <b>4</b><br>4                            | <b>195</b><br>205                        |
| <b>March 31, 2012</b>                               |                                         |                                            | <b>P9,912</b>                         | <b>P437</b>                             | <b>P32,711</b>                           | <b>P363</b>                              |
| December 31, 2011                                   |                                         |                                            | P33,064                               | P1,981                                  | P37,745                                  | P326                                     |

- Amounts owed by related parties consist of trade and non-trade receivables, share in expenses and cash advances.
- Amounts owed to related parties consist of trade payables, professional fees and cash advances.

- c. The Parent Company has advances to SMCRP amounting to P5,802 and P5,755 as of March 31, 2012 and December 31, 2011, respectively, included as part of “Trade and other receivables” account in the consolidated statements of financial position.
- d. Petron has outstanding advances to PCERP for some investment opportunities, included as part of “Other noncurrent assets” account in the consolidated statements of financial position.
- e. Golden Food and Dairy Creamery Corporation has an outstanding loan from BOC amounting to P198 and P204, as of March 31, 2012 and December 31, 2011, respectively, included as part of “Long-term debt” account in the consolidated statements of financial position.
- f. San Miguel Brewery Hong Kong has an outstanding loan from BOC amounting to US\$30 as of March 31, 2012, included as part of “Long-term debt” account in the consolidated statements of financial position.

#### 4. Property, Plant and Equipment

Property, plant and equipment consist of:

March 31, 2012

|                                            | January 1, 2012 | Additions and Transfers | Disposals and Reclassifications | Currency Translation Adjustments | March 31, 2012 |
|--------------------------------------------|-----------------|-------------------------|---------------------------------|----------------------------------|----------------|
| Cost:                                      |                 |                         |                                 |                                  |                |
| Land and land improvements                 | P16,408         | P453                    | P312                            | P6                               | P17,1          |
| Buildings and improvements                 | 32,662          | 33                      | (239)                           | (199)                            | 32,2           |
| Power plants                               | 214,319         | -                       | -                               | -                                | 214,3          |
| Refinery and plant equipment               | 37,810          | -                       | 4,365                           | -                                | 42,1           |
| Service stations and other equipment       | 6,070           | 410                     | 11,995                          | -                                | 18,4           |
| Machinery and equipment                    | 86,664          | 332                     | 604                             | (423)                            | 87,1           |
| Telecommunications equipment               | 7,394           | 134                     | 1                               | -                                | 7,5            |
| Transportation equipment                   | 10,880          | 359                     | (35)                            | (7)                              | 11,1           |
| Tools and small equipment                  | 2,507           | 45                      | (85)                            | 10                               | 2,4            |
| Office equipment, furniture and fixtures   | 4,806           | 37                      | (56)                            | (9)                              | 4,7            |
| Molds                                      | 809             | 37                      | (43)                            | (1)                              | 8              |
| Leasehold improvements                     | 1,551           | 5                       | 97                              | -                                | 1,6            |
| Construction in progress                   | 21,009          | 6,167                   | (30)                            | (1)                              | 27,1           |
|                                            | 442,889         | 8,012                   | 16,886                          | (624)                            | 467,1          |
| Accumulated depreciation and amortization: |                 |                         |                                 |                                  |                |
| Land improvements                          | 2,612           | 36                      | (5)                             | (2)                              | 2,6            |
| Buildings and improvements                 | 12,100          | 268                     | (290)                           | (46)                             | 12,0           |
| Power plants                               | 10,628          | 1,296                   | -                               | -                                | 11,9           |
| Refinery and plant equipment               | 18,579          | 507                     | -                               | -                                | 19,0           |
| Service stations and other equipment       | 4,221           | 158                     | -                               | -                                | 4,3            |
| Machinery and equipment                    | 48,620          | 1,002                   | (5)                             | (136)                            | 49,4           |
| Telecommunications equipment               | 5,406           | 82                      | -                               | -                                | 5,4            |
| Transportation equipment                   | 2,947           | 199                     | (31)                            | (6)                              | 3,1            |
| Tools and small equipment                  | 1,810           | 50                      | (89)                            | 5                                | 1,7            |
| Office equipment, furniture and fixtures   | 3,724           | 82                      | (182)                           | (7)                              | 3,6            |
| Molds                                      | 638             | 56                      | (20)                            | (1)                              | 6              |
| Leasehold improvements                     | 655             | 23                      | 8                               | (1)                              | 6              |
|                                            | 111,940         | 3,759                   | (614)                           | (194)                            | 114,8          |

(forward)

|                                          | January 1, 2012 | Additions and Transfers | Disposals and Reclassifications | Currency Translation Adjustments | March 31, 2012 |
|------------------------------------------|-----------------|-------------------------|---------------------------------|----------------------------------|----------------|
| Accumulated impairment losses:           |                 |                         |                                 |                                  |                |
| Land improvements                        | P385            | P-                      | P-                              | P-                               | P3             |
| Buildings and improvements               | 3,812           | -                       | (1)                             | (84)                             | 3,7            |
| Machinery and equipment                  | 7,007           | -                       | (47)                            | (114)                            | 6,8            |
| Telecommunications equipment             | 45              | -                       | -                               | -                                |                |
| Transportation equipment                 | 13              | -                       | -                               | (1)                              |                |
| Tools and small equipment                | 20              | -                       | -                               | (1)                              |                |
| Office equipment, furniture and fixtures | 41              | -                       | -                               | (1)                              |                |
|                                          | 11,323          | -                       | (48)                            | (201)                            | 11,0           |
| Net book value                           | P319,626        | P4,253                  | P17,548                         | (P229)                           | P341,1         |

### March 31, 2011

|                                            | January 1, 2011 | Additions and Transfers | Disposals and Reclassifications | Currency Translation Adjustments | March 31, 2011 |
|--------------------------------------------|-----------------|-------------------------|---------------------------------|----------------------------------|----------------|
| Cost:                                      |                 |                         |                                 |                                  |                |
| Land and land improvements                 | P15,277         | P370                    | (P107)                          | (P18)                            | P15,5          |
| Buildings and improvements                 | 32,224          | 235                     | 5,788                           | (84)                             | 38,1           |
| Power plants                               | 214,899         | -                       | -                               | -                                | 214,8          |
| Refinery and plant equipment               | 37,286          | 3                       | 6                               | -                                | 37,2           |
| Service stations and other equipment       | 5,319           | 71                      | 34                              | -                                | 5,4            |
| Machinery and equipment                    | 85,763          | 413                     | (4,227)                         | (246)                            | 81,7           |
| Telecommunications equipment               | 1,002           | -                       | -                               | -                                | 1,0            |
| Transportation equipment                   | 8,615           | 68                      | (396)                           | (1)                              | 8,2            |
| Tools and small equipment                  | 2,327           | 115                     | (21)                            | (24)                             | 2,3            |
| Office equipment, furniture and fixtures   | 4,194           | 57                      | (1,171)                         | (5)                              | 3,0            |
| Molds                                      | 702             | 65                      | (28)                            | -                                | 7              |
| Leasehold improvements                     | 1,237           | 1                       | -                               | -                                | 1,2            |
| Construction in progress                   | 6,097           | 1,933                   | (32)                            | 3                                | 8,0            |
|                                            | 414,942         | 3,331                   | (154)                           | (375)                            | 417,7          |
| Accumulated depreciation and amortization: |                 |                         |                                 |                                  |                |
| Land improvements                          | 2,462           | 35                      | (3)                             | 1                                | 2,4            |
| Buildings and improvements                 | 10,732          | 256                     | (3,941)                         | (31)                             | 7,0            |
| Power plants                               | 5,611           | 1,344                   | -                               | -                                | 6,9            |
| Refinery and plant equipment               | 16,545          | 515                     | (6)                             | -                                | 17,0           |
| Service stations and other equipment       | 3,742           | 142                     | (14)                            | -                                | 3,8            |
| Machinery and equipment                    | 46,652          | 837                     | 2,430                           | (133)                            | 49,7           |
| Telecommunications equipment               | 678             | 32                      | -                               | -                                | 7              |
| Transportation equipment                   | 2,389           | 156                     | 331                             | -                                | 2,8            |
| Tools and small equipment                  | 1,691           | (14)                    | 42                              | (16)                             | 1,7            |
| Office equipment, furniture and fixtures   | 3,585           | 64                      | 1,373                           | (3)                              | 5,0            |
| Molds                                      | 510             | 205                     | (165)                           | -                                | 5              |
| Leasehold improvements                     | 555             | 44                      | 6                               | (1)                              | 6              |
|                                            | 95,152          | 3,616                   | 53                              | (183)                            | 98,6           |
| Accumulated impairment losses:             |                 |                         |                                 |                                  |                |
| Land improvements                          | 412             | -                       | -                               | -                                | 4              |
| Buildings and improvements                 | 3,829           | -                       | -                               | (9)                              | 3,8            |
| Machinery and equipment                    | 7,403           | -                       | (8)                             | (5)                              | 7,3            |
| Transportation equipment                   | 12              | -                       | -                               | -                                |                |
| Tools and small equipment                  | 20              | -                       | -                               | -                                |                |
| Office equipment, furniture and fixtures   | 41              | -                       | -                               | -                                |                |
|                                            | 11,717          | -                       | (8)                             | (14)                             | 11,6           |
| Net book value                             | P308,073        | (P285)                  | (P199)                          | (P178)                           | P307,4         |

Depreciation and amortization charged to operations amounted to P3,759 and P3,616 in March 2012 and 2011, respectively.

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## 5. Basic and Diluted Earnings Per Share (EPS)

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

Diluted EPS is computed in the same manner, adjusted for the effects of the shares issuable to employees and executives under the Parent Company's 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.

Basic and Diluted EPS is computed as follows:

|                                                                                  | <b>March</b>  |             |
|----------------------------------------------------------------------------------|---------------|-------------|
|                                                                                  | <b>2012</b>   | <b>2011</b> |
| Income attributable to equity holders of the Parent Company                      | <b>P8,477</b> | P7,138      |
| Less dividends on preferred shares for the period (a)                            | <b>1,456</b>  | 1,456       |
| Net income attributable to common shareholders of the Parent Company (b)         | <b>P7,021</b> | P5,682      |
| Weighted average number of common shares outstanding (in millions) - basic (c)   | <b>2,369</b>  | 2,331       |
| Effect of dilution - common                                                      | <b>16</b>     | 14          |
| Weighted average number of common shares outstanding (in millions) - diluted (d) | <b>2,385</b>  | 2,345       |
| Common:                                                                          |               |             |
| Basic EPS (b/c)                                                                  | <b>P2.96</b>  | P2.44       |
| Diluted EPS (b/d)                                                                | <b>P2.94</b>  | P2.42       |

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## 6. Dividends

Cash dividends declared by the Parent Company's Board of Directors (BOD) to common shareholders amounted to P0.35 per share both in March 2012 and 2011.

On April 18, 2012, the Parent Company's BOD declared cash dividend at P0.35 per share, payable on May 28, 2012 to all common shareholders as of May 4, 2012.

Cash dividends declared by the Parent Company's BOD to preferred shareholders amounted to P1.50 per share both in March 2012 and 2011.

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## 7. Financial Risk Management Objectives and Policies

### Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Interest Rate Risk
- Foreign Currency Risk
- Commodity Price Risk
- Liquidity Risk
- Credit Risk

This note presents information about the Group's exposure to each of the foregoing risks, the Group's objectives, policies and processes for measuring and managing these risks, and the Group's management of capital.

The Group's principal non-trade related financial instruments include cash and cash equivalents, available-for-sale (AFS) financial assets, financial assets at FVPL, short-term and long-term loans, and derivative instruments. These financial instruments, except financial assets at FVPL and 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's 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 8 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 P1,148 and P962 in 2012 and 2011, 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 March 31, 2012 and December 31, 2011, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

| March 31, 2012                 | <1 Year                        | 1-2 Years                      | >2-3 Years                     | >3-4 Years         | >4-5 Years        | >5 Years           | Total    |
|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------|-------------------|--------------------|----------|
| <b>Fixed rate</b>              |                                |                                |                                |                    |                   |                    |          |
| Philippine peso-denominated    | P14,217                        | P1,897                         | P28,129                        | P1,212             | P6,162            | P26,430            | P78,047  |
| Interest rate                  | 4.25% - 9.33%                  | 4.25% - 9.33%                  | 4.25% - 9.33%                  | 4.25% - 9.33%      | 4.25% - 9.33%     | 4.25% - 10.5%      |          |
| Foreign currency-denominated   |                                |                                |                                |                    |                   |                    |          |
| (expressed in Philippine peso) |                                |                                |                                |                    |                   |                    |          |
| Interest rate                  | -                              | -                              | 25,649<br>2%                   | 12,876<br>7%       | -                 | -                  | 38,525   |
| <b>Floating rate</b>           |                                |                                |                                |                    |                   |                    |          |
| Philippine peso-denominated    | 1,025                          | 875                            | 947                            | 11,550             | -                 | -                  | 14,397   |
| Interest rate                  | PDST-F +<br>margin             | PDST-F +<br>margin             | PDST-F +<br>margin             | PDST-F +<br>margin |                   |                    |          |
| Foreign currency-denominated   |                                |                                |                                |                    |                   |                    |          |
| (expressed in Philippine peso) |                                |                                |                                |                    |                   |                    |          |
| Interest rate                  | 4,411                          | 12,545                         | 27,084                         | 50,499             | 5,886             | -                  | 100,425  |
|                                | LIBOR and<br>THBFX<br>+ margin | LIBOR and<br>THBFX<br>+ margin | LIBOR +<br>margin              | LIBOR +<br>margin  | LIBOR +<br>margin |                    |          |
|                                | P19,653                        | P15,317                        | P81,809                        | P76,137            | P12,048           | P26,430            | P231,394 |
| December 31, 2011              | <1 Year                        | 1-2 Years                      | >2-3 Years                     | >3-4 Years         | >4-5 Years        | >5 Years           | Total    |
| <b>Fixed rate</b>              |                                |                                |                                |                    |                   |                    |          |
| Philippine peso-denominated    | P15,040                        | P513                           | P29,284                        | P1,270             | P6,048            | P26,230            | P78,385  |
| Interest rate                  | 6.3212% -<br>9.33%             | 6.3212% -<br>9.33%             | 6.3212% -<br>9.33%             | 5.4885% -<br>9.33% | 6.145% -<br>9.33% | 6.3212% -<br>10.5% |          |
| Foreign currency-denominated   |                                |                                |                                |                    |                   |                    |          |
| (expressed in Philippine peso) |                                |                                |                                |                    |                   |                    |          |
| Interest rate                  | -                              | -                              | 26,216<br>2%                   | -                  | 13,152<br>7%      | -                  | 39,368   |
| Floating rate                  |                                |                                |                                |                    |                   |                    |          |
| Philippine peso-denominated    | 1,025                          | 875                            | 1,104                          | 11,550             | -                 | -                  | 14,554   |
| Interest rate                  | PDST-F +<br>margin             | PDST-F +<br>margin             | PDST-F +<br>margin             | PDST-F +<br>margin |                   |                    |          |
| Foreign currency-denominated   |                                |                                |                                |                    |                   |                    |          |
| (expressed in Philippine peso) |                                |                                |                                |                    |                   |                    |          |
| Interest rate                  | 3,577                          | 4,115                          | 13,323                         | 59,656             | 997               | -                  | 81,668   |
|                                | LIBOR and<br>THBFX<br>+ margin | LIBOR and<br>THBFX<br>+ margin | LIBOR and<br>THBFX<br>+ margin | LIBOR +<br>margin  | LIBOR +<br>margin |                    |          |
|                                | P19,642                        | P5,503                         | P69,927                        | P72,476            | P20,197           | P26,230            | P213,975 |

### 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 is as follows:

|                                                       | <b>March 31, 2012</b> |                            | <b>December 31, 2011</b> |                            |
|-------------------------------------------------------|-----------------------|----------------------------|--------------------------|----------------------------|
|                                                       | <b>US<br/>Dollar</b>  | <b>Peso<br/>Equivalent</b> | <b>US<br/>Dollar</b>     | <b>Peso<br/>Equivalent</b> |
| <b>Assets</b>                                         |                       |                            |                          |                            |
| Cash and cash equivalents                             | <b>US\$1,753</b>      | <b>P75,259</b>             | US\$1,386                | P60,759                    |
| Trade and other receivables                           | <b>1,083</b>          | <b>46,453</b>              | 567                      | 24,879                     |
| AFS financial assets                                  | <b>25</b>             | <b>1,073</b>               | 20                       | 862                        |
| Noncurrent receivables                                | <b>289</b>            | <b>12,395</b>              | 44                       | 1,918                      |
|                                                       | <b>3,150</b>          | <b>135,180</b>             | 2,017                    | 88,418                     |
| <b>Liabilities</b>                                    |                       |                            |                          |                            |
| Drafts and loans payable                              | <b>424</b>            | <b>18,193</b>              | 88                       | 3,878                      |
| Accounts payable and accrued expenses                 | <b>1,488</b>          | <b>63,808</b>              | 661                      | 28,990                     |
| Long-term debt (including current maturities)         | <b>3,110</b>          | <b>133,488</b>             | 2,761                    | 121,036                    |
| Finance lease liabilities                             | <b>2,550</b>          | <b>109,353</b>             | 2,574                    | 112,751                    |
| Other noncurrent liabilities                          | <b>77</b>             | <b>3,304</b>               | 10                       | 434                        |
|                                                       | <b>7,649</b>          | <b>328,146</b>             | 6,094                    | 267,089                    |
| Net foreign currency-denominated monetary liabilities | <b>(US\$4,499)</b>    | <b>(P192,966)</b>          | (US\$4,077)              | (P178,671)                 |

The Group reported net foreign exchange gains amounting to P3,689 and P1,440 in 2012 and 2011, 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:

|                   | <b>Philippine Peso to US Dollar</b> |
|-------------------|-------------------------------------|
| December 31, 2010 | 43.84                               |
| March 31, 2011    | 43.39                               |
| December 31, 2011 | 43.84                               |
| March 31, 2012    | 42.92                               |

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 March 31, 2012 and December 31, 2011:

| <b>March 31, 2012</b>                            | <b>P1 Decrease in the<br/>US Dollar Exchange Rate</b> |                             | <b>P1 Increase in the<br/>US Dollar Exchange Rate</b> |                             |
|--------------------------------------------------|-------------------------------------------------------|-----------------------------|-------------------------------------------------------|-----------------------------|
|                                                  | <b>Effect on<br/>Income before<br/>Income Tax</b>     | <b>Effect on<br/>Equity</b> | <b>Effect on<br/>Income before<br/>Income Tax</b>     | <b>Effect on<br/>Equity</b> |
| Cash and cash equivalents                        | (P1,368)                                              | (P1,343)                    | P1,368                                                | P1,343                      |
| Trade and other receivables                      | (215)                                                 | (1,018)                     | 215                                                   | 1,018                       |
| AFS financial assets                             | -                                                     | (25)                        | -                                                     | 25                          |
| Noncurrent receivables                           | (24)                                                  | (281)                       | 24                                                    | 281                         |
|                                                  | (1,607)                                               | (2,667)                     | 1,607                                                 | 2,667                       |
| Drafts and loans payable                         | 6                                                     | 422                         | (6)                                                   | (422)                       |
| Accounts payable and<br>accrued expenses         | 463                                                   | 1,348                       | (463)                                                 | (1,348)                     |
| Long-term debt (including<br>current maturities) | 3,080                                                 | 2,187                       | (3,080)                                               | (2,187)                     |
| Finance lease liabilities                        | 2,548                                                 | 1,784                       | (2,548)                                               | (1,784)                     |
| Other noncurrent<br>liabilities                  | 11                                                    | 74                          | (11)                                                  | (74)                        |
|                                                  | 6,108                                                 | 5,815                       | (6,108)                                               | (5,815)                     |
|                                                  | P4,501                                                | P3,148                      | (P4,501)                                              | (P3,148)                    |

| December 31, 2011                                | P1 Decrease in the<br>US Dollar Exchange Rate |                     | P1 Increase in the<br>US Dollar Exchange Rate |                     |
|--------------------------------------------------|-----------------------------------------------|---------------------|-----------------------------------------------|---------------------|
|                                                  | Effect on<br>Income before<br>Income Tax      | Effect on<br>Equity | Effect on<br>Income before<br>Income Tax      | Effect on<br>Equity |
| Cash and cash equivalents                        | (P1,219)                                      | (P1,020)            | P1,219                                        | P1,020              |
| Trade and other receivables                      | (199)                                         | (508)               | 199                                           | 508                 |
| AFS financial assets                             | -                                             | (20)                | -                                             | 20                  |
| Noncurrent receivables                           | (25)                                          | (36)                | 25                                            | 36                  |
|                                                  | (1,443)                                       | (1,584)             | 1,443                                         | 1,584               |
| Drafts and loans payable                         | 6                                             | 86                  | (6)                                           | (86)                |
| Accounts payable and<br>accrued expenses         | 322                                           | 563                 | (322)                                         | (563)               |
| Long-term debt (including<br>current maturities) | 2,761                                         | 1,933               | (2,761)                                       | (1,933)             |
| Finance lease liabilities                        | 2,572                                         | 1,800               | (2,572)                                       | (1,800)             |
| Other noncurrent<br>liabilities                  | 7                                             | 8                   | (7)                                           | (8)                 |
|                                                  | 5,668                                         | 4,390               | (5,668)                                       | (4,390)             |
|                                                  | P4,225                                        | P2,806              | (P4,225)                                      | (P2,806)            |

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

#### Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices. The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost.

The Parent Company enters into commodity derivative transactions on behalf of its subsidiaries and affiliates to reduce cost by optimizing purchasing synergies within the Group and managing inventory levels of common materials.

*Commodity Swaps, Futures and Options.* Commodity swaps, futures and options are used to manage the Group's exposures to volatility in prices of certain commodities such as fuel oil, crude oil, aluminum, soybean meal and wheat.

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

### Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group's objectives to manage its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps or surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of March 31, 2012 and December 31, 2011.

#### **March 31, 2012**

|                                                                                                                                                                      | <b>Carrying<br/>Amount</b> | <b>Contractual<br/>Cash Flow</b> | <b>1 Year<br/>or Less</b> | <b>&gt; 1 Year<br/>- 2 Years</b> | <b>&gt; 2 Years<br/>- 5 Years</b> | <b>Over<br/>5 Years</b> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------------|---------------------------|----------------------------------|-----------------------------------|-------------------------|
| <b>Financial Assets</b>                                                                                                                                              |                            |                                  |                           |                                  |                                   |                         |
| Cash and cash equivalents                                                                                                                                            | <b>P143,510</b>            | <b>P143,510</b>                  | <b>P143,510</b>           | <b>P -</b>                       | <b>P -</b>                        | <b>P -</b>              |
| Trade and other receivables<br>- net                                                                                                                                 | <b>100,287</b>             | <b>100,287</b>                   | <b>100,287</b>            | <b>-</b>                         | <b>-</b>                          | <b>-</b>                |
| Derivative assets (included<br>under "Prepaid expenses<br>and other current assets"<br>account in the<br>consolidated statements<br>of financial position)           | <b>167</b>                 | <b>167</b>                       | <b>167</b>                | <b>-</b>                         | <b>-</b>                          | <b>-</b>                |
| Financial assets at FVPL<br>(included under "Prepaid<br>expenses and other<br>current assets" account in<br>the consolidated<br>statements of financial<br>position) | <b>211</b>                 | <b>211</b>                       | <b>211</b>                | <b>-</b>                         | <b>-</b>                          | <b>-</b>                |
| AFS financial assets                                                                                                                                                 | <b>2,219</b>               | <b>2,219</b>                     | <b>-</b>                  | <b>2,219</b>                     | <b>-</b>                          | <b>-</b>                |
| Noncurrent receivables and<br>deposits - net (included<br>under "Other noncurrent<br>assets" account in the<br>consolidated statements<br>of financial position)     | <b>19,972</b>              | <b>19,972</b>                    | <b>-</b>                  | <b>19,972</b>                    | <b>-</b>                          | <b>-</b>                |
| <i>(forward)</i>                                                                                                                                                     |                            |                                  |                           |                                  |                                   |                         |

|                                                                                                                                                                | Carrying<br>Amount | Contractual<br>Cash Flow | 1 Year<br>or Less | > 1 Year<br>- 2 Years | > 2 Years<br>- 5 Years | Over<br>5 Years |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------------|-------------------|-----------------------|------------------------|-----------------|
| <b>Financial Liabilities</b>                                                                                                                                   |                    |                          |                   |                       |                        |                 |
| Drafts and loans payable                                                                                                                                       | P 103,055          | P 103,498                | P 103,498         | P -                   | P -                    | P -             |
| Accounts payable and<br>accrued expenses<br>(excluding current<br>retirement liabilities and<br>IRO)                                                           | 83,893             | 83,893                   | 83,893            | -                     | -                      | -               |
| Derivative liabilities<br>(included under<br>“Accounts payable and<br>accrued expenses”<br>account in the<br>consolidated statements<br>of financial position) | 132                | 132                      | 132               | -                     | -                      | -               |
| Long-term debt (including<br>current maturities)                                                                                                               | 228,529            | 267,962                  | 29,815            | 25,185                | 183,364                | 29,598          |
| Finance lease liabilities<br>(including current<br>portion)                                                                                                    | 204,430            | 295,569                  | 17,945            | 19,404                | 64,968                 | 193,252         |
| Other noncurrent liabilities<br>(excluding noncurrent<br>retirement liabilities, IRO<br>and ARO)                                                               | 3,245              | 3,245                    | -                 | 3,245                 | -                      | -               |

December 31, 2011

|                                                                                                                                                                      | Carrying<br>Amount | Contractual<br>Cash Flow | 1 Year<br>or Less | > 1 Year<br>- 2 Years | > 2 Years<br>- 5 Years | Over<br>5 Years |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------------|-------------------|-----------------------|------------------------|-----------------|
| <b>Financial Assets</b>                                                                                                                                              |                    |                          |                   |                       |                        |                 |
| Cash and cash equivalents                                                                                                                                            | P128,975           | P128,975                 | P128,975          | P -                   | P -                    | P -             |
| Trade and other receivables<br>- net                                                                                                                                 | 84,472             | 84,472                   | 84,472            | -                     | -                      | -               |
| Derivative assets (included<br>under “Prepaid expenses<br>and other current assets”<br>account in the<br>consolidated statements<br>of financial position)           | 121                | 121                      | 121               | -                     | -                      | -               |
| Financial assets at FVPL<br>(included under “Prepaid<br>expenses and other<br>current assets” account in<br>the consolidated<br>statements of financial<br>position) | 194                | 194                      | 194               | -                     | -                      | -               |
| AFS financial assets                                                                                                                                                 | 2,068              | 2,068                    | -                 | 2,068                 | -                      | -               |
| Noncurrent receivables and<br>deposits - net (included<br>under “Other noncurrent<br>assets” account in the<br>consolidated statements<br>of financial position)     | 27,471             | 27,471                   | -                 | 27,471                | -                      | -               |

(forward)

|                                                                                                                                                                | Carrying<br>Amount | Contractual<br>Cash Flow | 1 Year<br>or Less | > 1 Year<br>- 2 Years | > 2 Years<br>- 5 Years | Over<br>5 Years |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------------|-------------------|-----------------------|------------------------|-----------------|
| Financial Liabilities                                                                                                                                          |                    |                          |                   |                       |                        |                 |
| Drafts and loans payable                                                                                                                                       | P82,588            | P83,078                  | P83,078           | P -                   | P -                    | P -             |
| Accounts payable and<br>accrued expenses<br>(excluding current<br>retirement liabilities and<br>IRO)                                                           | 61,424             | 61,424                   | 61,424            | -                     | -                      | -               |
| Derivative liabilities<br>(included under<br>“Accounts payable and<br>accrued expenses”<br>account in the<br>consolidated statements<br>of financial position) | 118                | 118                      | 118               | -                     | -                      | -               |
| Long-term debt (including<br>current maturities)                                                                                                               | 211,420            | 252,614                  | 30,092            | 15,206                | 177,748                | 29,568          |
| Finance lease liabilities<br>(including current<br>portion)                                                                                                    | 208,261            | 295,587                  | 17,675            | 28,483                | 48,443                 | 200,986         |
| Other noncurrent liabilities<br>(excluding noncurrent<br>retirement liabilities, IRO<br>and ARO)                                                               | 2,348              | 2,348                    |                   | 2,348                 | -                      | -               |

### 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 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 March 31, 2012 and December 31, 2011, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

|                                           | March 31,       | December 31, |
|-------------------------------------------|-----------------|--------------|
| Cash and cash equivalents                 | <b>P143,510</b> | P128,975     |
| Trade and other receivables - net         | <b>100,287</b>  | 84,472       |
| Derivative assets                         | <b>167</b>      | 121          |
| Financial assets at FVPL                  | <b>211</b>      | 194          |
| AFS financial assets                      | <b>2,219</b>    | 2,068        |
| Noncurrent receivables and deposits - net | <b>19,972</b>   | 27,471       |
|                                           | <b>P266,366</b> | P243,301     |

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 (financial assets at 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.

The Group, except for BOC which is subject to certain capitalization requirements by the BSP, is not subject to externally imposed capital requirements.

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## **8. 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 financial 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 the transaction price is based on 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 the consolidated statements of changes 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 at FVPL shall be recognized in profit or loss when the right to receive payment has been established.

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

The combined carrying amounts of financial assets under this category amounted to P378 and P315 as of March 31, 2012 and December 31, 2011, respectively.

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

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables shall be recognized as part of “Interest income” in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an 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 are subject to an insignificant risk of changes in value.

The Group’s cash and cash equivalents, trade and other receivables and noncurrent receivables and deposits are included in this category.

The combined carrying amounts of financial assets under this category amounted to P263,769 and P240,918 as of March 31, 2012 and December 31, 2011, respectively.

*HTM Investments.* HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group’s management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Any interest earned on the HTM investments shall be

recognized as part of “Interest income” in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of “Interest income” in the consolidated statements of income. Gains or losses are recognized in profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process.

As of March 31, 2012 and December 31, 2011, 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 the consolidated statements of changes 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 and debt securities included under “Available-for-sale financial assets” account are classified under this category.

The carrying amounts of financial assets under this category amounted to P2,219 and P2,068 as of March 31, 2012 and December 31, 2011, respectively.

#### *Financial Liabilities*

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

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

The Group’s derivative liabilities are classified under this category.

The carrying amounts of financial liabilities under this category amounted to P132 and P118 as of March 31, 2012 and December 31, 2011, respectively.

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

part of the effective interest rate of the liability.

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

The combined carrying amounts of financial liabilities under this category amounted to P623,152 and P566,041 as of March 31, 2012 and December 31, 2011, respectively.

#### Debt Issue Costs

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

#### Derecognition of Financial Assets and Financial Liabilities

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

- the rights to receive cash flows from the asset have 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 the reporting date whether a financial asset or group of financial assets is impaired.

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

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

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

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

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

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

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

### Classification of Financial Instruments Between Debt and Equity

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

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

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

### Offsetting Financial Instruments

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

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of March 31, 2012 and December 31, 2011:

|                                                                                                                                                    | March 31, 2012  |                 | December 31, 2011 |            |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|-------------------|------------|
|                                                                                                                                                    | Carrying Amount | Fair Value      | Carrying Amount   | Fair Value |
| <b>Financial Assets</b>                                                                                                                            |                 |                 |                   |            |
| Cash and cash equivalents                                                                                                                          | <b>P143,510</b> | <b>P143,510</b> | P128,975          | P128,975   |
| Trade and other receivables - net                                                                                                                  | <b>100,287</b>  | <b>100,287</b>  | 84,472            | 84,472     |
| Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)        | <b>167</b>      | <b>167</b>      | 121               | 121        |
| Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position) | <b>211</b>      | <b>211</b>      | 194               | 194        |
| AFS financial assets                                                                                                                               | <b>2,219</b>    | <b>2,219</b>    | 2,068             | 2,068      |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)  | <b>19,972</b>   | <b>19,972</b>   | 27,471            | 27,471     |
| <b>Financial Liabilities</b>                                                                                                                       |                 |                 |                   |            |
| Drafts and loans payable                                                                                                                           | <b>103,055</b>  | <b>103,055</b>  | 82,588            | 82,588     |
| Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)                                                           | <b>83,893</b>   | <b>83,893</b>   | 61,424            | 61,424     |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)       | <b>132</b>      | <b>132</b>      | 118               | 118        |
| Long-term debt (including current maturities)                                                                                                      | <b>228,529</b>  | <b>242,416</b>  | 211,420           | 228,523    |
| Finance lease liabilities (including current portion)                                                                                              | <b>204,430</b>  | <b>204,430</b>  | 208,261           | 208,261    |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)                                                            | <b>3,245</b>    | <b>3,245</b>    | 2,348             | 2,348      |

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 March 31, 2012 and December 31, 2011, discount rates used for Philippine peso-denominated loans range from 2.5% to 5.7% and 1.7% to 5.4%, respectively. The discount rates used for foreign currency-denominated loans range from 0.3% to 1.0% as of March 31, 2012 and December 31, 2011. 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 are discussed below.

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

#### Derivative Instruments Accounted for as Hedges

##### Freestanding Derivatives

For the purpose of hedge accounting, hedges are classified as either: a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized

firm commitment (except for foreign currency risk); b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or c) hedges of a net investment in foreign operations.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an 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 expired, sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

As of March 31, 2012 and December 31, 2011, 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 the consolidated statements of changes 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 affects 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 March 31, 2012 and December 31, 2011, the Group has no outstanding derivatives accounted for as cash flow hedge.

*Net Investment Hedge.* As of March 31, 2012 and December 31, 2011, the Group has no hedge of a net investment in a foreign operation.

*Other Derivative Instruments Not Designated as Hedges*

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in profit or loss. Details are as follows:

*Freestanding Derivatives*

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

*Currency Forwards*

As of March 31, 2012 and December 31, 2011, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$549 and US\$220, respectively, and with various maturities in 2012. As of March 31, 2012 and December 31, 2011, the net positive (negative) fair value of these currency forwards amounted to (P12) and P40, respectively.

*Currency Options*

The Group entered into short-term currency options with an aggregate notional amount of US\$985 and with net negative fair value of P45 as of March 31, 2012. The Group has no outstanding currency option agreements as of December 31, 2011.

*Commodity Swaps*

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2012. 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 March 31, 2012 and December 31, 2011 is 2,055 and 845 metric tons, respectively. As of March 31, 2012 and December 31, 2011, the net negative fair value of these swaps amounted to P4 and P13, respectively.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2012. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps as of March 31, 2012 and December 31, 2011 is 1.2 and 1.8 million barrels, respectively. As of March 31, 2012 and December 31, 2011, the positive fair value of these swaps amounted to P192 and P147, respectively.

*Commodity Options*

The Group has outstanding bought and sold options covering its wheat requirements with notional quantities as of March 31, 2012 and December 31, 2011 of 99,337 and 47,083 metric tons, respectively. These options can be exercised at various calculation dates in 2012 with specified quantities on each calculation date. As of March 31, 2012 and December 31, 2011, the net positive (negative) fair value of these options amounted to P19 and (P5), respectively.

As of March 31, 2012 and December 31, 2011, the Group has outstanding bought and sold options covering its soybean meal requirements with notional quantity of 5,625 and 7,439 metric tons, respectively. These options can be exercised at various calculation dates in 2012 with specified quantities on each calculation date. As of March 31, 2012 and December 31, 2011, the positive (negative) fair value of these options amounted to P6 and (P5), respectively.

As of March 31, 2012 and December 31, 2011, the Group has outstanding commodity options covering its crude oil requirements with notional quantity of 1.5 and 1.3 million barrels, respectively. These call and put options can be exercised at various calculation dates in 2012 with specified quantities on each calculation date. The net positive (negative) fair value of these options as of March 31, 2012 and December 31, 2011 amounted to (P100) and P47, respectively.

#### **Embedded Derivatives**

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

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

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

#### *Embedded Currency Forwards*

As of March 31, 2012 and December 31, 2011, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$216 and US\$201, 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 March 31, 2012 and December 31, 2011, the net positive (negative) fair value of these embedded currency forwards amounted to P79 and (P2), respectively.

#### *Embedded Currency Options*

As of March 31, 2012 and December 31, 2011, the total outstanding notional amount of currency options embedded in non-financial contracts amounted to US\$20 and US\$24, 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 March 31, 2012 and December 31, 2011, the net negative fair value of these embedded currency options amounted to P8 and P11, respectively.

For the periods ended March 31, 2012 and 2011 and December 31, 2011 and 2010, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P76), (P1,662), P182, and P660, respectively.

#### **Fair Value Hierarchy**

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

The table below analyzes financial instruments carried at fair value, by valuation method as of March 31, 2012 and December 31, 2011. 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.

**March 31, 2012**

|                              | <b>Level 1</b> | <b>Level 2</b> | <b>Total</b> |
|------------------------------|----------------|----------------|--------------|
| <b>Financial Assets</b>      |                |                |              |
| Derivative assets            | <b>P12</b>     | <b>P155</b>    | <b>P167</b>  |
| Financial assets at FVPL     | <b>211</b>     | <b>-</b>       | <b>211</b>   |
| AFS financial assets         | <b>1,276</b>   | <b>943</b>     | <b>2,219</b> |
| <b>Financial Liabilities</b> |                |                |              |
| Derivative liabilities       | <b>1</b>       | <b>131</b>     | <b>132</b>   |

**December 31, 2011**

|                              | <b>Level 1</b> | <b>Level 2</b> | <b>Total</b> |
|------------------------------|----------------|----------------|--------------|
| <b>Financial Assets</b>      |                |                |              |
| Derivative assets            | <b>P2</b>      | <b>P119</b>    | <b>P121</b>  |
| Financial assets at FVPL     | <b>194</b>     | <b>-</b>       | <b>194</b>   |
| AFS financial assets         | <b>1,069</b>   | <b>999</b>     | <b>2,068</b> |
| <b>Financial Liabilities</b> |                |                |              |
| Derivative liabilities       | <b>10</b>      | <b>108</b>     | <b>118</b>   |

As of March 31, 2012 and December 31, 2011, the Group has no financial instruments valued based on Level 3. During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

## 9. Events After the Reporting Date

a. *Investment in Trustmark Holdings Corporation (Trustmark) and Zuma Holdings and Management Corporation (Zuma)*

On March 28, 2012, the BOD of the Parent Company approved its investment, through San Miguel Equity Investments Inc. (SMEII), in the Philippine Airlines, Inc. (PAL) and Air Philippines Corporation (Air Phil). On April 3, 2012, the Parent Company, through SMEII, and the Lucio Tan Group signed investment agreements whereby SMEII agreed to subscribe to unissued common shares constituting 49% of the outstanding capital stock of Trustmark and Zuma, the holding companies of PAL and Air Phil, respectively. The investment resulted in the Parent Company indirectly owning a minority stake in PAL and Air Phil.

b. *Issuance of Bonds by San Miguel Brewery Inc. (SMB)*

On April 2, 2012, SMB completed the offering of its Philippine Peso-denominated fixed rate bonds in the aggregate principal amount of P20,000 (“P20 billion Bonds”) with its issuance of the P20 billion Bonds and receipt of the proceeds amounting to P20,000. The P20 billion Bonds consisted of the following: Series D Bonds with the aggregate principal amount of P3,000 having a term of 5 years and 1 day beginning on April 2, 2012 (“Issue Date”) and ending on April 3, 2017, with a fixed

interest rate of 6.05% per annum; Series E Bonds with an aggregate principal amount of P10,000 having a term of 7 years beginning on Issue Date and ending on April 2, 2019, with a fixed interest rate of 5.93% per annum; and Series F Bonds with an aggregate principal amount of P7,000 having a term of 10 years beginning on Issue Date and ending on April 2, 2022, with a fixed interest rate of 6.60% per annum. The Series E Bonds and Series F Bonds of the P20 billion Bonds were listed on Philippine Dealing & Exchange Corp. on the same date.

On April 3, 2012, SMB completed the payment of the aggregate principal amount of the Series A fixed rate bonds ("Series A Bonds") of P13,590, which matured on the same day. The Series A Bonds form part of the P38,800 fixed rate bonds that were issued by SMB in 2009. Part of the proceeds of SMB's P20 billion Bonds offering was used to settle the Series A Bonds maturity.

On April 13, 2012, SMB made a partial prepayment of its P300 term facility in the amount of US\$100. A subsequent partial prepayment was made on April 27, 2012 in the amount of US\$50. Part of the proceeds of SMB's P20 billion Bonds offering was used for the said prepayments.

c. *Share Purchase Agreement with CIMB Bank Berhad (CIMB) for the Sale of Equity Ownership in Bank of Commerce (BOC)*

On May 8, 2012, the Parent Company through San Miguel Properties, Inc. (SMPI), together with the other stockholders of BOC, namely, SMCRP and Q-Tech Alliance Holdings, Inc., have executed a share purchase agreement with CIMB for the sale of up to 65,083,087 fully paid ordinary shares, equivalent to a 58% equity interest in BOC for a total consideration of up to approximately P12,000. Under the provisions of the agreement, the completion of the sale is subject to certain closing conditions, inclusive of the mandatory approvals from the Monetary Board of the Bangko Sentral ng Pilipinas and the Bank of Negara Malaysia.

CIMB is a 99.99% subsidiary of CIMB Group Sdn Bhd. of Malaysia while the Parent Company owns 98.45% of the outstanding stock of SMPI.

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## 10. Other Matters

- a. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.
- b. There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.
- c. Certain amounts in prior year have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations for any period.
- d. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- e. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.

- f. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual statements of financial position date, except for Note 26 (c-1) of the 2011 Audited Consolidated Financial Statements that remain outstanding as of March 31, 2012. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended March 31, 2012.
- h. The effects of seasonality or cyclicity on the interim operations of the Group's businesses are not material.
- i. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end of March 31, 2012. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE**

**INTRODUCTION**

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended March 31, 2012 (with comparative figures as of December 31, 2011 and for the period ended March 31, 2011). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at March 31, 2012, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

**I. 2012 TRANSACTIONS**

- On August 12, 2011, the Board of Directors (BOD) of the Parent Company approved the investment in the oil refining and marketing business in Malaysia through the acquisition of 65% equity interest in Esso Malaysia Berhad (EMB) and 100% equity interest in its wholly-owned associate businesses ExxonMobil Malaysia Sdn Bhd (EMMSB) and ExxonMobil Borneo Sdn Bhd (EMBSB). On August 17, 2011, the share purchase agreement was signed between the Parent Company and Exxon Mobil International Holdings Inc., wherein the Parent Company has the right to assign its interest in the investment to any of its subsidiaries.

On January 11, 2012, the Executive Committee of Petron Corporation (Petron) approved Petron's investment in the downstream oil business of ExxonMobil in Malaysia.

On January 20, 2012, the Parent Company approved the assignment of the share purchase agreement to Petron Oil and Gas International Sdn Bhd (Petron International), an indirect wholly-owned subsidiary of Petron.

On March 16, 2012, Petron International served on the BOD of EMB a notice of mandatory take-over offer (the "Notice") to acquire all the remaining 94,500,000 shares representing approximately 35% of the total voting shares of EMB. The cash offer price is Malaysian Ringgit 3.59 per share, subject to adjustments as specified in the Notice and subsequently disclosed by EMB to the Malaysian Stock Exchange.

The mandatory take-over offer was required under the laws of Malaysia governing listed corporations and resulted from the acquisition by Petron International of 175,500,000 EMB shares, representing approximately 65% of the voting shares of EMB.

On March 30, 2012, Petron International completed the acquisition of 65% of EMB, 100% of EMMSB, and 100% of EMBSB for an aggregate purchase price of US\$577.3 million.

- On January 27, 2012, Ginebra San Miguel, Inc. (GSMI) acquired 100% of the outstanding capital stock of East Pacific Star Bottlers Phils Inc. (EPSBPI) for ₱200 million.
- On March 16, 2012, the Securities and Exchange Commission approved the amendment of the Articles of Incorporation and By-Laws of the Parent Company. These amendments pertain to the extension of the corporate term of the Parent Company for another fifty (50) years from August 21, 2013, and the change of the date of the annual regular meeting of the stockholders from second Tuesday of May to second Tuesday of June, as approved on the March 14, 2011 and June 7, 2011 meeting of the Parent Company's BOD and stockholders, respectively.
- On February 15, 2012, the sale of San Miguel (Thailand) Co. Ltd. (SMTCL) was completed. This is pursuant to the share sale and purchase agreement signed on December 7, 2011, between San Miguel Foods and Beverage International Limited (SMFBIL) and Pepsi Thai Trading Co. for the sale of all of the outstanding shares of SMFBIL in SMTCL.

The Group recognized a net gain of ₱63 million from the sale.

- On February 23, 2012, the Parent Company through San Miguel (Vietnam) Co. Ltd. (SMVCL) completed the sale of its building and land use rights located in the Amata Industrial Zone, Vietnam to PepsiCo International-Vietnam Company for US\$12 million and recognized a gain amounting to ₱354 million.
- In 2011, the Parent Company through San Miguel Yamamura Packaging International Limited (SMYPIL) and Nihon Yamamura Glass Co., Ltd. (NYG), entered into a non-binding Memorandum of Understanding (MOU), wherein NYG offered to buy 51% equity interest in PT San Miguel Yamamura Utama Indoplas (SMYUI). On December 2, 2011, the BOD unanimously accepted NYG's offer and approved the share sale transaction as contemplated in the MOU. The transaction was completed on January 31, 2012.

The Group recognized a net gain of ₱26 million from the sale.

## II. FINANCIAL PERFORMANCE

### 2012 vs. 2011

San Miguel Corporation's consolidated sales revenue for the first quarter of 2012 amounted to more than ₱142,039 million, 12% higher than last year. Most of the businesses posted revenue growth versus last year with increased volumes and selling prices. Corresponding March 2012 year-to-date consolidated operating income amounted to ₱14,841 million, 13% below last year as a result of lower margins for Petron and the food businesses resulting from higher fuel cost and higher cost of raw materials, respectively.

With the equity in net earnings of associates, particularly that of the Manila Electric Company (Meralco), and foreign exchange gains, net of financing and other charges, SMC's March year-to-date 2012 resulting income before non-controlling interests amounted to ₱11,735 million, 17% above same period last year. Net income attributable to the equity holders of the Parent Company amounted to ₱8,477 million, 19% higher than last year.

### **2011 vs. 2010**

San Miguel Corporation's consolidated sales revenue for first quarter of 2011 amounted to ₱126,592 million, nearly three times higher than 2010's level. The consolidation of Petron and SMC Global Power Holdings Corp. (SMC Global) brought in additional revenue of ₱78,893 million in the first quarter while most of the existing businesses showed revenue growth versus 2010. Correspondingly, first quarter 2011 consolidated operating income amounted to ₱17,135 million, almost three times higher than 2010's level.

Equity in net earnings of associates decreased in 2011 mainly due to consolidation of San Miguel Energy Corp. and Strategic Power Devt. Corp., formerly associates of SMC in the first quarter of 2010, net of SMC Global's share in net income of Meralco in the first quarter of 2011.

Net financing charges increased to ₱5,306 million from ₱1,081 million mainly due to higher debt balance in 2011 and the interest expense on finance lease liabilities of SMC Global.

With the equity in net earnings of associates, net of financing and other charges, the Group's resulting consolidated net income attributable to equity holders of the Parent Company amounted to ₱7,138 million, more than twice that of 2010's net income.

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

#### **1. BEVERAGES**

##### **2012 vs. 2011**

###### **a. San Miguel Brewery Inc. (SMB)**

San Miguel Brewery Inc. and Subsidiaries' first quarter 2012 consolidated revenues reached more than ₱18,345 million, 5% higher than last year. This was achieved on sales volumes of about 55 million cases, 4% below year-ago level. March year-to-date 2012 selling prices were higher with the price increase in May 2011.

With domestic beer's controlled fixed costs and the significant improvement in beer international operating performance, consolidated operating income for the first quarter of 2012 ended at ₱5,299 million, 5% higher than last year.

###### **b. GSMI**

With soft demand for GSMI's GSM Blue and Gran Matador, the hard liquor sales volume for the first quarter of 2012 reached only about 6 million cases, which volume is lower compared to last year. This resulted to a March year-to-date sales revenue of ₱3,659 million, 20% lower than last year's level.

Although margin was better than last year due to the price increase implemented in April 2011, first three months consolidated operations resulted to an operating loss of ₱115 million.

### **2011 vs. 2010**

#### **a. SMB**

The consolidated statement of income of SMB Group for the first quarter of 2011 reflects the financial performance of SMB Group's domestic and international businesses including Iconic Beverages Inc., Brewery Properties Inc. (BPI), San Miguel Brewing International Limited (SMBIL) and the subsidiaries of BPI and SMBIL while the first quarter 2010 statement of income reflects the consolidated results of both domestic and international operations excluding BPI and its subsidiary.

SMB Group posted first quarter consolidated revenues at ₱17,530 million, 9% higher than 2010's level. This was due to volumes of about 56 million cases, surpassing 2010 level by 9%.

With increased volumes, consolidated operating income improved at ₱5,063 million, higher by 9% versus 2010.

#### **b. GSMI**

GSMI's 2011 first quarter consolidated sales revenue ended at ₱4,552 million, 18% below 2010's level. This is on hard liquor sales volume of about 8 million cases.

With lower domestic liquor volumes, first quarter consolidated operating income amounted to ₱85 million, significantly lower than 2010's level.

## **2. PACKAGING**

### **2012 vs. 2011**

San Miguel Yamamura Packaging Group's (SMYPG) March 2012 year-to-date sales revenue amounted to ₱5,850 million, 3% higher than last year. This is a result of higher domestic crates sales as well as increased metal can sales, particularly exports and continued higher sales volume of composites business. This translated to a consolidated operating income for the first quarter of 2012 of ₱511 million, 11% higher than last year.

### **2011 vs. 2010**

SMYPG's March 2011 year-to-date sales revenue amounted to ₱5,678 million, 2% higher than in 2010. Increase in revenues was led by higher glass volume brought by new Australian and other export markets, new accounts for paper business and higher sales in the international operations.

However, due to higher cost of fuel, raw materials and competitive pricing in the export market, consolidated operating income amounted to ₱461 million, 8% lower than 2010.

### **3. FOOD**

#### **2012 vs. 2011**

San Miguel Pure Foods Group's consolidated revenues for the first quarter of 2012 was ₱22,399 million, 9% higher than last year. All domestic food clusters were able to grow their revenues from last year level with increased volumes led by the value-added businesses' sustained strong volume performance and aided by better flour and feeds prices.

Consolidated operating income reached ₱659 million, significantly lower than previous year's level. This is on account of persistent high cost of raw materials, particularly wheat and corn, and lower supply of cassava – the lower cost corn-substitute.

#### **2011 vs. 2010**

For the first quarter, San Miguel Pure Foods Group posted consolidated revenues of ₱20,590 million, 10% higher than 2010. Significant volume growth was seen in poultry; basic meats; butter, milk and cheese; ice cream; coffee; and regional operations; while better prices were noted in the feeds and flour businesses.

Although higher cost of raw materials tempered margin growth, this did not prevent the Food Group from reaching consolidated operating income of ₱1,558 million, 15% greater than 2010. Largely driven by poultry, flour and value added meats businesses; the group continues to derive margin improvements from product innovations and higher operating efficiencies.

### **4. POWER**

#### **2012 vs. 2011**

SMC Global's net generation from the power plants totaled almost 3.9 million megawatt hours (MWH) as of March 2012. This is 11% higher than the same period last year owing to Ilijan's planned shutdown in 2011 for annual maintenance. Also, San Roque increased generation due to a 24-hour 95MW minimum load plant utilization, to comply with the requirement of the National Irrigation Administration.

With new bilateral contracts and improved average selling prices, consolidated revenues grew 19% over last year to reach ₱19,363 million. Aided by Ilijan's lower power purchase this year and San Roque's higher spot market prices, consolidated operating income increased by 46% to ₱4,958 million.

#### **2011 vs. 2010**

The four power plants – Sual, Limay, San Roque and Ilijan dispatched energy totaling 3.51 million megawatt hours as of March 2011. This is more than double of 2010 with the addition of the Ilijan Power Plant to the group's portfolio and increased generation of Sual Plant. Consolidated revenue was 43% higher than 2010 at ₱16,329 million.

Despite lower Wholesale Electricity Spot Market prices, consolidated operating income reached ₱3,399 million for the first quarter, 59% higher than 2010. This is mainly due to the increased generation of Sual plant given adequate coal inventory and better plant utilization coupled with the additional income contribution of the Ilijan plant.

## **5. FUEL AND OIL**

### **2012 vs. 2011**

Petron delivered first quarter 2012 volumes of over 12 million barrels, 4% above last year as most products posted positive growth. Total domestic volumes rose to 8% resulting to an overall market share which increased to 38.5% - No. 1 in the local oil industry. At the same time, Dubai crude oil averaged US\$116 per barrel in the first quarter of 2012 versus US\$100 per barrel last year over the same period. With these, three months revenue reached ₱74,655 million, 17% higher than last year. However, with reduced petrochemical margins, and higher production costs, operating income for the first quarter of 2012 amounting to ₱4,618 million is significantly lower than last year.

### **2011 vs. 2010**

Petron delivered first quarter revenues of ₱64,050 million, 15% higher than 2010. This was achieved with continued better selling prices on sales volume of 11.5 million barrels.

Correspondingly, year-to-date March 2011 operating income ended at ₱6,996 million, significantly higher than 2010's level.

## **III. FINANCIAL POSITION**

### **2012 vs. 2011**

The Group's consolidated total assets as of March 31, 2012 amounted to ₱976,854 million, ₱86,318 million higher than 2011, mainly due to the consolidation of ExxonMobil and proceeds from the net availments of long-term debt:

Cash and cash equivalents increased by ₱14,535 million in 2012 mainly due to the net availments of long-term debt and short-term loan, collection of noncurrent receivables from Petron Corporation Employee Retirement Plan (PCERP), proceeds from sale of investments and property and equipment and net cash provided by operations, net of the acquisition of ExxonMobil and EPSBPI, major capital expenditures at the Petron refinery such as the RMP 2 and Refinery Solid Fuel Fired Power Plant, payment of dividends and finance lease liabilities and payment in full of liabilities related to the acquisition of Meralco shares of stock by SMC Global.

Trade and other receivables increased by ₱15,815 million in 2012 mainly due to the consolidation of ExxonMobil's balance and dividend receivable from Meralco, net of the collection of December 2011 trade receivable balances and the return of the option deposit on the acquisition of the remaining 53.47% stake in Atlantic.

Inventories increased by ₱26,985 million in 2012 mainly due to the increase in volume and price of finished products and crude oil inventory of Petron and the consolidation of ExxonMobil's balance.

Prepaid expenses and other current assets increased by ₱4,927 million in 2012 mainly due to the excess input tax over VAT payable of Petron and SMC Global and the consolidation of ExxonMobil's balance.

Assets held for sale decreased by ₱2,258 million mainly due to the completion of the sale of SMTCL and SMYUI on February 15 and January 31, 2012, respectively, and of SMVCL's building and land use rights in the Amata Industrial Zone in Vietnam on February 23, 2012.

Available-for-sale (AFS) financial assets increased by ₱151 million in 2012 mainly due to the fair value adjustment of the investment in shares of stock of Indophil Resources NL (Indophil), net of the effect of translation adjustments for the period, net disposal of Petron's AFS financial assets for the period and fair value adjustments on other AFS financial assets of the Group.

Property, plant and equipment increased by ₱21,572 million in 2012 mainly due to the consolidation of ExxonMobil and EPSBPI's balance and major capital projects at the refinery such as the RMP 2 and Refinery Solid Fuel Fired Power Plant of Petron, net of the depreciation for the period.

Goodwill increased by ₱10,709 million in 2012 mainly due to the recognition of goodwill upon the consolidation of ExxonMobil with Petron and EPSBPI with GSMI, net of translation adjustments during the period.

Deferred tax assets increased by ₱420 million mainly due to the recognition of deferred tax on Net Operating Loss Carry Over (NOLCO) by the Parent Company and GSMI and the consolidation of ExxonMobil's balance, net of the effect of recognition of deferred tax on foreign exchange gains of the Parent Company.

Other noncurrent assets decreased by ₱3,907 million in 2012 mainly due to the payment of noncurrent receivables made by PCERP, net of the consolidation of ExxonMobil's balance.

Drafts and loans payable increased by ₱20,467 million in 2012 mainly due to the consolidation of ExxonMobil's balance and the net availments made during the period to support the financial requirements of the Group's operations.

Accounts payable and accrued expenses increased by ₱22,578 million mainly due to the consolidation of ExxonMobil's balance, net of the payment in full of the liability related to the acquisition of Meralco shares of stock by SMC Global.

The increase in income and other taxes payable of ₱1,799 million, represents the income tax due for the first quarter of 2011 of SMB, Petron and SMC Global and the consolidation of ExxonMobil's balance.

Dividends payable decreased by ₱115 million mainly due to the payments made by San Miguel Yamamura Packaging Corporation, SMYPIL and GSMI, which were outstanding as of December 31, 2011.

Liabilities directly associated with assets held for sale were reversed as a result of the completion of the sale of SMTCL and SMYUI on February 15 and January 31, 2012, respectively.

Long-term debt increased by ₱17,109 million in 2012 mainly due to the issuance of corporate notes by Petron and San Miguel Brewery Hong Kong and the consolidation of EPSBPI's balance, net of payments made by Petron and San Miguel Yamamura Asia Corporation and translation adjustments for the period.

Deferred tax liabilities increased by ₱1,339 million in 2012 mainly due to the consolidation of ExxonMobil's balance.

Finance lease liabilities decreased by ₱3,831 million mainly due to payments and foreign exchange gains, net of the recognition of effective interest for the period.

Other noncurrent liabilities increased by ₱997 million in 2012 mainly due to the consolidation of ExxonMobil's balance.

Amounts recognized directly in equity relating to assets held for sale were reversed as a result of the completion of the sale of SMTCL and SMYUI on February 15 and January 31, 2012, respectively.

Non-controlling interests (NCI) increased by ₱20,297 million in 2012 mainly due to the recognition of NCI upon the consolidation of ExxonMobil, issuance of preferred shares by Petron Global and the share of NCI in the net income of mainly Petron, SMB and San Miguel Pure Foods Company, Inc. (SMPFC), net of dividends declared.

### **2011 vs. 2010**

The Group's consolidated total assets as of March 31, 2011 amounted to ₱854,686 million, ₱24,886 million or 3% higher than 2010, mainly due to:

Inventories increased by ₱22,886 million in 2011 mainly due to increase in volume and price of crude oil inventory of Petron; early arrival of soybean meal shipment and increase in prices of feeds costs, wheat and meat materials of SMPFC; and increase in molasses and cassava chips inventory of GSML.

Current biological assets increased by ₱326 million in 2011 due to the increase in volume of growing poultry livestock and hogs coupled with higher feed costs.

Prepaid expenses and other current assets increased by ₱1,869 million in 2011 mainly due to additional excess input tax of the Group.

AFS financial assets decreased by ₱875 million in 2011 mainly due to the fair value and translation adjustments of the investment in shares of stock of Indophil.

Drafts and loans payable decreased by ₱6,476 million in 2011 mainly due to payments made by Petron and the Parent Company.

Accounts payable and accrued expenses increased by ₱11,344 million in 2011 mainly due to increase in liabilities of Petron for: a) crude oil and petroleum product importation (due to higher cost and volume of crude importation in March 31, 2011) and b) purchases for the Petron refinery project, and reclassification to current portion of the amount due next year for the acquisition of Meralco shares of stock, net of payments made during the period.

Finance lease liabilities decreased by ₱1,249 million mainly due to payments made during the period and translation adjustments, net of interest expense for the period.

The increase in income and other taxes payable of ₱2,558 million, represents the income tax due for the first quarter of 2011 of SMC Global, SMB, Petron and SMPFC.

Dividends payable increased by ₱1,600 million in 2011 mainly due to a) the dividends payable of the Parent Company to its common shareholders (which was subsequently paid on April 11, 2011) and b) SMB's dividends payable to its non-controlling stockholders (which was subsequently paid on April 11, 2011), net of the dividends payable in 2010 subsequently paid by PF-Hormel in 2011 to its non-controlling stockholder.

Long-term debt increased by ₱11,508 million in 2011 mainly due to issuance of bonds by SMC Global, net of payments made by Petron, SMFBIL and GSMI and translation adjustments.

Deferred tax liabilities decreased by ₱1,764 million in 2011 mainly due to utilization of the deferred tax on the NOLCO by Petron and the recognition of deferred tax for the depreciation expense of SMC Global due to timing differences.

Other noncurrent liabilities decreased by ₱13,639 million in 2011 mainly due to reclassification to current liabilities of the amount due next year related to the acquisition of Meralco shares of stock.

Cumulative translation adjustments decreased by ₱484 million in 2011 mainly due to the translation of foreign subsidiaries' net assets. The exchange rates used for net assets in March 31, 2011 were ₱43.39 to US\$1 (₱43.84 in December 31, 2010) and ₱43.785 to US\$1 as of March 31, 2011 (₱45.996 as of March 31, 2010) for income and expense items.

Appropriated retained earnings increased by ₱929 million in 2011 mainly due to additional appropriation made by GSMI, for capital expenditures which include, among others, distillery replacement and maintenance projects and bottling plants' building and equipment rehabilitation and maintenance.

Non-controlling interests increased by ₱16,382 million in 2011 mainly due to the preferred shares issued by SMPFC, which is presented as part of NCI, and share of non-controlling stockholders in the net income of SMB and Petron, net of dividends declared.

## Equity

The increase (decrease) in equity is due to:

| <i>(In millions)</i>                 | <b>March 31</b> |             |
|--------------------------------------|-----------------|-------------|
|                                      | <b>2012</b>     | <b>2011</b> |
| Addition to non-controlling interest | <b>₱19,154</b>  | ₱14,906     |
| Income during the period             | <b>11,735</b>   | 10,036      |
| Issuance of capital stock            | <b>79</b>       | 240         |
| Effect of translation adjustments    | <b>22</b>       | (562)       |
| Cash dividends                       | <b>(4,437)</b>  | (3,616)     |
|                                      | <b>₱26,553</b>  | ₱21,004     |

## IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

| <i>(In millions)</i>                            | <b>March 31</b> |             |
|-------------------------------------------------|-----------------|-------------|
|                                                 | <b>2012</b>     | <b>2011</b> |
| Net cash flows provided by operating activities | <b>₱2,892</b>   | ₱3,893      |
| Net cash flows used in investing activities     | <b>(17,890)</b> | (18,228)    |
| Net cash flows provided by financing activities | <b>29,768</b>   | 15,725      |

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

Net cash flows used in investing activities included the following:

| <i>(In millions)</i>                                                   | <b>March 31</b> |             |
|------------------------------------------------------------------------|-----------------|-------------|
|                                                                        | <b>2012</b>     | <b>2011</b> |
| Payment by (advances to) related parties                               | <b>₱7,574</b>   | (₱1,506)    |
| Proceeds from sale of investments and property and equipment           | <b>2,036</b>    | 71          |
| Interest received                                                      | <b>905</b>      | 1,481       |
| Dividends received from associates                                     | <b>362</b>      | 362         |
| Additions to investments and advances                                  | <b>(16)</b>     | (840)       |
| Payment of other liabilities                                           | <b>(2,122)</b>  | (14,082)    |
| Additions to property, plant and equipment                             | <b>(8,012)</b>  | (3,331)     |
| Acquisition of subsidiaries, net of cash and cash equivalents acquired | <b>(17,997)</b> | -           |
| Increase in other noncurrent assets and others                         | <b>(620)</b>    | (383)       |

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

| <i>(In millions)</i>                              | <b>March 31</b> |             |
|---------------------------------------------------|-----------------|-------------|
|                                                   | <b>2012</b>     | <b>2011</b> |
| Proceeds from long-term debt - net                | <b>₱18,232</b>  | ₱12,155     |
| Net proceeds from issuance of preferred shares    | <b>14,406</b>   | 14,829      |
| Proceeds from (payment of) short-term loans - net | <b>6,027</b>    | (6,446)     |
| Proceeds from issuance of capital stock           | <b>5</b>        | 181         |
| Payment of finance lease liabilities              | <b>(4,350)</b>  | (2,979)     |
| Payments of dividends                             | <b>(4,552)</b>  | (2,015)     |

The effect of exchange rate changes on cash and cash equivalents amounted to (₱235 million) and (₱175 million) in March 31, 2012 and 2011, respectively.

## V. KEY PERFORMANCE INDICATORS

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

|                                                                                  | <b>March<br/>2012</b>        | <b>December<br/>2011</b> |
|----------------------------------------------------------------------------------|------------------------------|--------------------------|
| <u>Liquidity:</u>                                                                |                              |                          |
| Current Ratio                                                                    | <b>1.57</b>                  | 1.61                     |
| <u>Solvency:</u>                                                                 |                              |                          |
| Debt to Equity Ratio                                                             | <b>2.00</b>                  | 1.98                     |
| Asset to Equity Ratio                                                            | <b>3.00</b>                  | 2.98                     |
| <u>Profitability:</u>                                                            |                              |                          |
| Return on Average Equity Attributable to Equity Holders<br>of the Parent Company | <b>14.58%</b>                | 7.87%                    |
| Interest Rate Coverage Ratio                                                     | <b>3.02</b>                  | 2.81                     |
|                                                                                  | <b>Period Ended March 31</b> |                          |
|                                                                                  | <b>2012</b>                  | <b>2011</b>              |
| <u>Operating Efficiency:</u>                                                     |                              |                          |
| Volume Growth (Decline)                                                          | <b>(1%)</b>                  | 1%                       |
| Revenue Growth                                                                   | <b>12%</b>                   | 183%                     |
| Operating Margin                                                                 | <b>10.45%</b>                | 13.54%                   |

The manner by which the Group calculates the indicators is as follows:

| KPI                                                                           | Formula                                                                                                                              |
|-------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| Current Ratio                                                                 | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$                                                                           |
| Debt to Equity Ratio                                                          | $\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Non-controlling Interests + Equity}}$                                  |
| Asset to Equity Ratio                                                         | $\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Non-controlling Interests + Equity}}$                                       |
| Return on Average Equity Attributable to Equity Holders of the Parent Company | $\frac{\text{Net Income*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$                              |
| Interest Rate Coverage Ratio                                                  | $\frac{\text{Earnings Before Interests, Taxes, Depreciation and Amortization}}{\text{Interest Expense and Other Financing Charges}}$ |
| Volume Growth                                                                 | $\left( \frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior period Net Sales}} \right) - 1$              |
| Revenue Growth                                                                | $\left( \frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$                                           |
| Operating Margin                                                              | $\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$                                                                   |

\* Annualized for quarterly reporting