



SAN MIGUEL CORPORATION

July 2, 2012

The Philippine Stock Exchange, Inc.

Disclosure Department
3rd Floor, Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

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

Re: **Offering of Series "2" Preferred Shares**

Gentlemen:

We attach herewith a copy of the following documents in connection with the Offering by the Company of Series "2" Preferred Shares:

- (1) Notice of Filing of Registration Statement dated 26 June 2012 issued by Director Justina F. Callangan of the Corporate Finance Department of the Securities and Exchange Commission (the "SEC"), for the registration of up to 1,067,000,000 Series "2" Preferred Shares with par value of ₱5.00 per share, to be offered by way of public offering, inclusive of shares for oversubscription (the "Offering");
- (2) SEC Form 12-1 (Registration Statement); and
- (3) A copy of the Preliminary Prospectus, as filed with the SEC, covering the above-described Offering.

Very truly yours,


FERDINAND K. CONSTANTINO
Corporate Information Officer



Republic of the Philippines
Department of Finance
SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills, Mandaluyong City 1554
Metro Manila

IN THE MATTER OF

SAN MIGUEL CORPORATION
(Registrant)

REGISTRATION OF SECURITIES

X-----X

NOTICE

Notice is hereby given that on June 26, 2012, a sworn Registration Statement was filed with the Securities and Exchange Commission on behalf of **SAN MIGUEL CORPORATION** (the "Corporation") for the registration of up to 1,067,000,000 Series "2" Preferred Shares with par value of ₱5.00 which shall be offered by way of a public offering, inclusive of shares for oversubscription, broken down as follows:

Public Offering	Offer Price	No. of Shares
1. Base Offer	₱75	960,000,000
2. Oversubscription	₱75	Up to 107,000,000
Total		Up to 1,067,000,000

According to the papers presented on June 26, 2012, the following persons are the key officers/directors of the Corporation:

NAME	POSITION
Eduardo M. Cojuangco, Jr.	Chairman and Chief Executive Officer
Ramon S. Ang	Vice Chairman, President and Chief Operating Officer
Estelito P. Mendoza	Director
Leo S. Alvez	Director
Joselito D. Campos, Jr.	Director
Ferdinand K. Constantino	Director, Senior Vice-President, Chief Finance Officer and Treasurer
Menardo R. Jimenez	Director
Roberto V. Ongpin	Director
Alexander J. Poblador	Director
Eric O. Recto	Director

Thomas A. Tan	Director
Iñigo Zobel	Director
Winston F. Garcia	Independent Director
Reynato S. Puno	Independent Director
Margarito B. Teves	Independent Director
Virgilio S. Jacinto	Senior Vice President – General Counsel and Corporate Secretary
Aurora T. Calderon	Senior Vice President – Senior Executive Assistant to the Office of the President and Chief Operating Officer
Joseph N. Pineda	Senior Vice President – Deputy Chief Finance Officer
Francisco S. Alejo III	President, San Miguel Pure Foods Company, Inc.
Ferdinand A. Tumpalan	President, San Miguel Yamamura Packaging Corp.
Roberto N. Huang	President, San Miguel Brewery Inc.
Bernard D. Marquez	President, Ginebra San Miguel Inc.
Carlos Antonio M. Berba	Managing Director, San Miguel Brewery International Limited
Alan T. Ortiz	President, SMC Global Power Corp.
Eric O. Recto	President, Petron Corporation

Said Registration Statement and other papers/documents attached thereto are open to inspection by interested parties during business hours, and copies thereof, photostatic or otherwise, shall be furnished to every party upon request at such reasonable fees as the Commission may prescribe. The Registration Statement and the Prospectus attached thereto dated June 26, 2012 may also be downloaded at www.sanmiguel.com.ph.

JUSTINA F. CALLANGAN
Acting Director

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 12-1, AS AMENDED

REGISTRATION STATEMENT UNDER THE SECURITIES REGULATION CODE

1. SEC Identification Number **PW 000277**

2. **SAN MIGUEL CORPORATION**
Exact name of registrant as specified in its charter

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

4. **041-000-060-741-V**
BIR Tax Identification Number

5. **Manufacturing, food, beverage and packaging, energy, power, infrastructure, telecommunications**
General character of business of registrant.

6. Industry Classification Code: (SEC Use Only)

7. **No. 40 San Miguel Avenue, Mandaluyong City 1550** **(02) 632-3000**
Address, including postal code, telephone number, FAX number including area code, of registrant's principal offices

8. **N.A.**
If registrant is not resident in the Philippines, or its principal business is outside the Philippines, state name and address including postal code, telephone number and FAX number, including area code, and email address of resident agent in the Philippines.

9. Fiscal Year Ending Date (Month and Day): **December 31**

Computation of Registration Fee

Title of each class of securities to be registered	Amount to be registered	Proposed Maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee
Series "2" Preferred Shares	960,000,000 (Offer Size)	Php75.00	Php72,000,000,000.00	
	Up to 107,00,000 (Oversubscription)	Php75.00	Php8,025,000,000.00	
		TOTAL	Php80,025,000,000.00	Php20,774,437.50

PART I - INFORMATION REQUIRED IN PROSPECTUS

Item 1. Front of the Registration Statement and Outside Front Cover Page of Prospectus.

Set forth in the front of the registration statement and on the outside front cover page of the Prospectus the information required by Part VI, paragraph (A) of "Annex C, as amended".

Item 2. Inside Front Cover and First Two or More Pages of Prospectus.

Set forth on the inside front cover page and the first two or more pages of the Prospectus are the information required by Part VI, paragraph (B) of "Annex C, as amended".

Item 3. Risk Factors and Other Information

Set forth on pages 46-71 of the Prospectus are the information required by Part VI, paragraph (C) and (D) of "Annex C, as amended".

Item 4. Use of Proceeds.

Set forth on page 72 of the Prospectus are the information required by Part VI, paragraph (E) of "Annex C, as amended".

Item 5. Determination of Offering Price.

Set forth on page 73 of the Prospectus are the information required by Part VI, paragraph (F) of "Annex C, as amended".

Item 6. Dilution.

Set forth on page 74 of the Prospectus are the information required by Part VI, paragraph (G) of "Annex C, as amended".

Item 7. Selling Security Holders.

Not applicable.

Item 8. Plan of Distribution.

Set forth on pages 75-78 of the Prospectus are the information required by Part VI, paragraphs (I), (J) and (K) of "Annex C, as amended".

Item 9. Description of Securities to Be Registered.

Set forth on pages 35-45 of the Prospectus are the information required by Part II, paragraph (B) of "Annex C, as amended".

Item 10. Interests of Named Experts and Independent Counsel.

Set forth on page 205 of the Prospectus are the information required by Part VI, paragraph (L) of "Annex C, as amended".

Item 11. Information with Respect to the Registrant.

Information with respect to the registrant:

- (a) Set forth on pages 79-141 of the Prospectus are the information required by Part I, paragraph (A) of "Annex C, as amended", Description of Business;
- (b) Set forth on page 142 and Appendix "C" of the Prospectus are the information required by Part I, paragraph (B) of "Annex C, as amended", Description of Property;
- (c) Set forth on page 143 of the Prospectus are the information required by Part I, paragraph (C) of "Annex C, as amended", Legal Proceedings;
- (d) Set forth on pages 146-147 of the Prospectus are the information required by Part II, paragraph (A)(1) through (4) of "Annex C, as amended", Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters;
- (e) Set forth on pages 161-202 of the Prospectus are the information required by Part III, paragraph (A) of "Annex C, as amended", Management's Discussion and Analysis or Plan of Operation;
- (f) Set forth on page 204 of the Prospectus are the information required by Part III, paragraph (B) of "Annex C, as amended", Changes in and Disagreements With Accountants On Accounting and Financial Disclosure;
- (g) Set forth on pages 148-157 of the Prospectus are the information required by Part IV, paragraph (A) of "Annex C, as amended", Directors, Executive Officers, Promoters and Control Persons;
- (h) Set forth on pages 154-155 of the Prospectus are the information required by Part IV, paragraph (B) of "Annex C, as amended", Executive Compensation;
- (i) Set forth on page 156-157 of the Prospectus are the information required by Part IV, paragraph (C) of "Annex C, as amended", Security Ownership of Certain Record and Beneficial Owners and Management;
- (j) Set forth on page 158 of the Prospectus are the information required by Part IV, Section (D) of "Annex C, as amended", Certain Relationships and Related Transactions.

Item 12. Financial Information

Reviewed Unaudited consolidated financial statements for the three months ended March 31, 2012, Audited consolidated financial statements for the years ended December 31, 2011 and 2010, and Audited consolidated financial statements for the years ended December 31, 2010 and 2009 are included as Appendices to the Prospectus.

**PART II - INFORMATION INCLUDED IN REGISTRATION STATEMENT
BUT NOT REQUIRED IN PROSPECTUS**

Item 13. Other Expenses of Issuance and Distribution.

Set forth on page 72 of the Prospectus are the information required by Part VI, paragraph (M) of "Annex C, as amended".

Item 14. Exhibits.

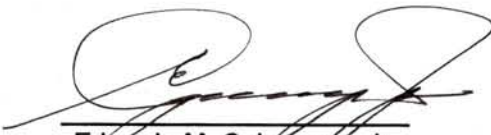
Incorporated herein are the exhibits required by Part VII of "Annex C, as amended".

[Signature page follows.]

SIGNATURES

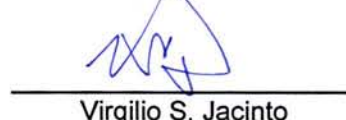
Pursuant to the requirements of the Code, this registration statement is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of MANDALUYONG CITY on JUN 26 2012, 2012.

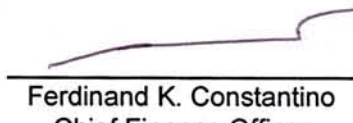
By:


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


 Ramon S. Ang
 Vice Chairman and Chief Operating Officer


 Bella O. Navarra
 Comptroller


 Virgilio S. Jacinto
 Corporate Secretary


 Ferdinand K. Constantino
 Chief Finance Officer

SUBSCRIBED AND SWORN to before me this JUN 26 2012 day of _____ 200__ affiant(s) exhibiting to me their respective passports as competent evidence of identity, as follows:

NAME	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Eduardo M. Cojuangco, Jr.	XX1347206	6 June 2008	Manila, Philippines
Ramon S. Ang	XX0748364	11 July 2011	Manila, Philippines
Bella O. Navarra	XX0284770	1 February 2008	Manila, Philippines
Virgilio S. Jacinto	EB0971552	17 September 2010	Manila, Philippines
Ferdinand K. Constantino	EB5297621	4 May 2012	Manila, Philippines


 Notary Public

Doc. No. 425
 Page No. 86
 Book No. 4
 Series of 2012

CAROL T. DELA PAZ
 Commission No. 0364-12
 Notary Public for Mandaluyong City
 Until Dec 31, 2013
 SMC, 40 Santa Rosa Ave., Mandaluyong City
 Tel No. 57012
 PTR No. 1972891; 02/03/12; Mandaluyong City
 TBP Lifetime Member No. 010580; 02/09/12; Makati City



SAN MIGUEL CORPORATION

Primary Offer in the Philippines of 960,000,000 Series "2" Preferred Shares, with an Oversubscription of up to 107,000,000 Series "2" Preferred Shares

Subseries "2-A": [•]

Subseries "2-B": [•]

Subseries "2-C": [•]

at an Offer Price of ₱75.00 per Share

to be listed and traded on the First Board of The Philippine Stock Exchange, Inc.

Sole Issue Manager and Bookrunner

The Hongkong and Shanghai Banking Corporation Limited

Joint Lead Managers and Bookrunners

[•]

Co-Lead Managers and Bookrunners

[•]

Co-Managers and Bookrunners

[•]

Selling Agents

The Trading Participants of The Philippine Stock Exchange, Inc.

This Prospectus is dated June 26, 2012

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

SAN MIGUEL CORPORATION
Incorporated on August 21, 1913
40 San Miguel Avenue
Mandaluyong City
1550 Philippines
Telephone number (632) 632-3000
<http://www.sanmiguel.com.ph>

This Prospectus relates to the offer and sale by way of a primary offer in the Philippines (the "Offer") of up to 1,067,000,000 cumulative, non-voting, non-participating, non-convertible Series "2" Preferred Shares with a par value of ₱5.00 each (the "Offer Shares") of San Miguel Corporation ("SMC", the "Company" or the "Issuer"), a corporation duly organized and existing under Philippine law. The Offer Shares will be issued out of an increase in the authorized capital stock of the Company.

The Offer Shares are being offered for subscription solely in the Philippines through the Sole Issue Manager, The Hongkong and Shanghai Banking Corporation Limited, and the Joint Lead Managers, [•], Co-Lead Managers, [•], Co-Managers [•], (collectively, the "Joint Bookrunners") and Selling Agents named herein at a subscription price of ₱75.00 per share (the "Offer Price" or the "Issue Price").

On April 18, 2012, the Board of Directors of the Company approved the increase in the authorized capital stock of the Company comprising of 400,000,000 common shares and 1,100,000,000 Series "2" Preferred Shares, both with a par value of ₱5.00 per share. On June 14, 2012, the stockholders of the Company approved the Increase in the authorized capital stock (the "Increase") and delegated to the Board of Directors the authority to determine the terms and conditions of the issuance of the Offer Shares. The Company will seek the approval of the Securities and Exchange Commission ("SEC") for the Increase.

Following the Offer and the approval of the Increase by the SEC, the Company will have (i) 3,790,000,000 common shares, (ii) 970,506,353 Series "1" Preferred Shares and (iii) [•] Series "2" Preferred Shares issued and outstanding. The holders of the Offer Shares do not have identical rights and privileges with holders of the existing common shares and Series "1" Preferred Shares of the Company.

The date of declaration of cash dividends on the Offer Shares will be subject to the discretion of the Board of Directors of the Issuer (the "Board of Directors") to the extent permitted by law. The declaration and payment of dividends (except stock dividends) do not require any further approval from the shareholders.

As and if cash dividends are declared by the Board of Directors, cash dividends on the Series "2" Preferred Shares shall be at the fixed rates of: Subseries "2-A": [•]% per annum; Subseries "2-B": [•]% per annum; and Subseries "2-C": [•]% per annum, in all cases calculated for each share by reference to the Issue Price thereof in respect of each Dividend Period (each, the "Dividend Rate" for the relevant subseries). Subject to limitations on the payment of cash dividends as described in the section on the "Terms of the Offer", dividends on the Series "2" Preferred Shares will be payable once for every Dividend Period on such date set by the Board of Directors at the time of declaration of such dividends (each a "Dividend Payment Date"), which date shall be no later than 15 calendar days from the end of the relevant Dividend Period. A "Dividend Period" shall be the period commencing on the Final Issue Date, as defined in the section on "Terms of the Offer", and having a duration of three (3) months, and thereafter, each of the successive periods of three (3) months commencing on the last day of the immediately preceding Dividend Period up to, but excluding the first day of the immediately succeeding Dividend Period.

The dividends on the Series "2" Preferred Shares will be calculated on a 30/360-day basis and will be paid quarterly in arrears on each Dividend Payment Date, as and if declared by the Board of Directors, provided that, for the first Dividend Period, the first dividend shall be the sum of (a) the dividend accrued from the Final Issue Date up to the end of the first Dividend Period using the Dividend Rate, and (b) such additional amount as may be determined by the Board of Directors taking

into account the fact that the proceeds of the Offer will be placed in a special deposit account of the Bangko Sentral ng Pilipinas ("BSP") pending approval by the SEC of the Increase.

If the Dividend Payment Date is not a Banking Day, cash dividends will be paid on the next succeeding Banking Day, without adjustment as to the amount of cash dividends to be paid.

Unless the Series "2" Preferred Shares are redeemed by SMC on the applicable Optional Redemption Dates (as defined below), the Dividend Rate shall be adjusted thereafter to the higher of: (a) the Dividend Rate, or (b) (i) for Subseries "2-A", if not redeemed on the 5th anniversary from the Final Issue Date of the subseries, the 10-year PDST-F rate plus 3% per annum; (ii) for Subseries "2-B", if not redeemed on the 7th anniversary from the Final Issue Date of the subseries, the 15-year PDST-F rate plus 3% per annum; and (iii) for Subseries 2-C, if not redeemed on the 10th anniversary from the Final Issue Date of the subseries, the 20-year PDST-F rate plus 3% per annum.

The Board of Directors will not declare and pay cash dividends on any Dividend Payment Date where (a) payment of the cash dividend would cause SMC to breach any of its financial covenants or (b) the profits available to SMC to distribute as cash dividends are not sufficient to enable SMC to pay in full both the cash dividends on the Series "2" Preferred Shares and the dividends on all other classes of the shares of SMC that are scheduled to be paid on or before the same date as the cash dividends on the Series "2" Preferred Shares and that have an equal right to dividends as the Series "2" Preferred Shares.

As and if declared by the Board of Directors, SMC may redeem the Series "2" Preferred Shares on the following dates, or on the last day of any Dividend Period thereafter (each an "Optional Redemption Date"), in whole or in part, at a redemption price equal to the relevant Issue Price of the Series "2" Preferred Shares plus any accrued and unpaid cash dividends due them on such Dividend Payment Date as well as all arrears of dividends outstanding (the "Redemption Price"): (i) for Subseries "2-A", the 3rd anniversary from Final Issue Date thereof; (ii) for Subseries 2-B, the 5th anniversary from Final Issue Date thereof; and (iii) for Subseries 2-C, the 7th anniversary from Final Issue Date thereof.

If at anytime, SMC is allowed to redeem more than one subseries, SMC has the option to redeem, without preference or priority, in whole or in part, any or all of the Subseries.

SMC may also redeem the Series "2" Preferred Shares, in whole or in part, at any time prior to any Optional Redemption Date if an Accounting Event, Tax Event or a Special Event (each as defined below) has occurred and is continuing, in each case at the Redemption Price.

Once the Offer Shares are listed in the Philippine Stock Exchange, Inc. ("PSE"), SMC may purchase the Offer Shares at any time in the open market or by public tender or by private contract at any price through the PSE. The Offer Shares so purchased may either be redeemed and cancelled (after the Optional Redemption Date) or kept as treasury shares.

The gross proceeds of the Offer are expected to reach approximately ₱[•]. The net proceeds from the Offer, estimated to be at ₱[•] and determined by deducting from the gross proceeds the total issue management, underwriting and selling fees, registration and listing fees, taxes and other related fees and out-of-pocket expenses, will be used by the Company: (i) to refinance the existing ₱ 72.8 billion perpetual preferred shares of SMC and (ii) for general corporate purposes (see "Use of Proceeds" on page [•]).

The Joint Bookrunners shall receive an estimated underwriting fee of [•]% of the gross proceeds of the Offer, inclusive of amounts to be paid to Selling Agents .

Prior to the Offer, there has been no public market for the Offer Shares. Accordingly, there has been no market price for the Offer Shares derived from day-to-day trading.

No dealer, salesman or any other person has been authorized to give any information or to make any representation not contained in this Prospectus. If given or made, any such information or representation must not be relied upon as having been authorized by the Company or any of the Joint Bookrunners. The distribution of this Prospectus and the offer and sale of the Offer Shares may, in

certain jurisdictions, be restricted by law. The Company and the Joint Bookrunners require persons into whose possession this Prospectus comes, to inform themselves of and observe all such restrictions. This Prospectus does not constitute an offer of any securities, or any offer to sell, or a solicitation of any offer to buy any securities of the Company in any jurisdiction, to or from any person to whom it is unlawful to make such offer in such jurisdiction.

Unless otherwise stated, the information contained in this Prospectus has been supplied by the Company. To the best of its knowledge and belief, the Company (which has taken all reasonable care to ensure that such is the case) confirms that the information contained in this Prospectus is correct, and that there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading in any material respect.

Unless otherwise indicated, all information in the Prospectus is as of the date hereof. Neither the delivery of this Prospectus nor any sale made pursuant to this Prospectus shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Company and its subsidiaries since such date. Market data and certain industry forecasts used throughout this Prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Company and the Joint Bookrunners makes any representation, undertaking or other assurance as to the accuracy or completeness of such information or that any projections will be achieved, or in relation to any other matter, information, opinion or statements in relation to the Offer. Any reliance placed on any projections or forecasts is a matter of commercial judgment. Certain agreements are referred to in this Prospectus in summary form. Any such summary does not purport to be a complete or accurate description of the agreement and prospective investors are expected to independently review such agreements in full.

Each person contemplating an investment in the Offer Shares should make his own investigation and analysis of the creditworthiness of SMC and his own determination of the suitability of any such investment. The risk disclosure herein does not purport to disclose all the risks and other significant aspects of investing in the Offer Shares. A person contemplating an investment in the Offer Shares should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially those high-risk securities. Investing in the Offer Shares involves a higher degree of risk compared to debt instruments. For a discussion of certain factors to be considered in respect of an investment in the Offer Shares, see the section on “Risks Factors” starting on page [•].

The listing of the Offer Shares is subject to the approval of the Board of Directors of the PSE. [An application to list the Offer Shares has been filed with the PSE, but has not yet been approved by the Board of Directors of the PSE]. If approved by the PSE, such approval for listing is permissive only and does not constitute a recommendation or endorsement of the Offer Shares by the PSE. The PSE assumes no responsibility for the correctness of any statements made or opinions expressed in this Prospectus. The PSE makes no representation as to its completeness and expressly disclaims any liability whatsoever for any loss arising from reliance on the entire or any part of the Prospectus.

A REGISTRATION STATEMENT RELATING TO THE PREFERRED SHARES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE PREFERRED SHARES CAN BE ACCEPTED AND NO PART OF THE OFFER PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.

SAN MIGUEL CORPORATION

By:


RAMON S. ANG
President

SUBSCRIBED AND SWORN to before me this JUN 26 2012 in MANDALUYONG CITY, affiant exhibiting to me his Passport No. XX0748364 expiring on 10 July 2016 as competent evidence of identity.

Doc No. 426
Page No. 87
Book No. 1
Series of 2012.

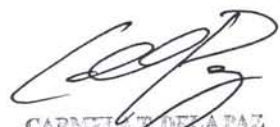

CARMELITA DE LA PAZ
Commission No. 0354-12
Notary Public for Mandaluyong City
Until Dec. 31, 2013
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 57852
PTR No. 1972891; 02/03/12; Mandaluyong City
IDF Lifetime Member No. 010580; 02/09/12; Manila

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Forward-looking Statements

This Prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors which may cause actual results, performance or achievements of SMC to be materially different from any future results; and
- performance or achievements expressed or implied by forward-looking statements.

Such forward-looking statements are based on numerous assumptions regarding the present and future business strategies and the environment in which SMC will operate in the future. Important factors that could cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- the ability of SMC to successfully implement its strategies;
- the ability of SMC to anticipate and respond to consumer trends;
- changes in availability of raw materials used in the production processes of SMC;
- the ability of SMC to successfully manage its growth;
- the condition and changes in the Philippines, Asian or global economies;
- any future political instability in the Philippines, Asia or other regions;
- changes in interest rates, inflation rates and the value of the Peso against the U.S. Dollar and other currencies;
- changes in government regulations, including tax laws, or licensing requirements in the Philippines, Asia or other regions; and
- competition in the beer, liquor, food, packaging, power, fuel and oil, telecommunications, infrastructure and airline industries in the Philippines and globally.

Additional factors that could cause actual results, performance or achievements of SMC to differ materially include, but are not limited to, those disclosed under “Risk Factors” and elsewhere in this Prospectus.

These forward-looking statements speak only as of the date of this Prospectus. SMC and the Joint Bookrunners expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the expectations of SMC with regard thereto or any change in events, conditions, assumptions or circumstances on which any statement is based.

This Prospectus includes forward-looking statements, including statements regarding the expectations and projections of the Issuer for future operating performance and business prospects. The words “believe”, “expect”, “anticipate”, “estimate”, “project” and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Prospectus are forward-looking statements. Statements in this Prospectus as to the opinions, beliefs and intentions of the management of SMC as to such matters at the date of this Prospectus, although the Issuer can give no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Prospectus discloses, under the section “Risk Factors” and elsewhere, important factors that could cause actual results to differ materially from the expectation of the Issuer. All subsequent written and oral forward-looking statements attributable to either the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by cautionary statements.

Definition of Terms

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set forth below.

AAI	Atlantic Aurum Investments BV
ACA	Automatic Cost Adjustment Mechanism
Air Phil	Air Philippines Corporation
ASEAN	The Association of Southeast Asian Nations, consisting of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam
BellTel	Bell Telecommunication Philippines, Inc.
BIR	Bureau of Internal Revenue of the Philippines
Board of Directors	Board of Directors of SMC
BOT	Build operate transfer
bpd	Barrels per day
BSP	Bangko Sentral ng Pilipinas
BSP Rate	The weighted average rate for the purchase of U.S. Dollars with Pesos, as published by the BSP
Clean Air Act	The Philippine Clean Air Act of 1999
Clean Water Act	The Philippine Clean Water Act of 2004
Corporation Code	Batas Pambansa Blg. 68, otherwise known as the Corporation Code of the Philippines
DA	The Department of Agriculture of the Philippines
DAA	Deferred Accounting Adjustment
DENR	Department of Environment and Natural Resources of the Philippines
Distribution Code	The Philippine Distribution Code
DOE	Department of Energy of the Philippines
DOH	Department of Health of the Philippines, including the FDA
DSO	Dairy, spreads and oils
DTI	Department of Trade and Industry of the Philippines
ECA	Energy conversion agreement
ECC	Environmental Compliance Certificate
EIS	Environmental Impact Statement
EISS Law	Philippine Environmental Impact Statement System
EPIRA	Electric Power Industry Reform Act of 2001

ERC	Energy Regulatory Commission of the Philippines
ETPI	Eastern Telecommunications Philippines, Inc.
Expanded VAT Law	The Philippine Republic Act No. 9337
FDA	The Food and Drug Administration of the Philippines
FDDC Act	The Philippine Foods, Drugs and Devices, and Cosmetics Act, as amended by the Food and Drug Administration Act of 2009
FIA	Foreign Investment Act of 1991
FSMA	Financial Services and Markets Act 2000
Grid Code	The Philippine Grid Code
GSMI	Ginebra San Miguel Inc., including as the context requires, its subsidiaries
GWh	Giga-watt hours
Ilijan Power Plant	Natural gas fired combined cycle power plant with installed capacity of 2 x 600 MW located in Ilijan, Batangas
IMF	International Monetary Fund
IMS	Integrated Management System
IPP	Independent Power Producer
IPPA	Independent Power Producer Administrator
IPPA agreement	Independent Power Producer Administration agreement
ISO	International Organization for Standardization
Joint Bookrunners	[•]
LGU	Local government unit
Liberty	Liberty Telecoms Holdings, Inc.
Livestock and Poultry Feeds Act	The Philippine Livestock and Poultry Feeds Act, including its implementing rules and regulations
LPG	Liquefied petroleum gas
LSFO	Low sulfur fuel oil
Magnolia	Magnolia Inc.
MARINA	Maritime Industry Authority of the Philippines
Meat Inspection Code	The Meat Inspection Code of the Philippines
MEQ	Minimum Energy Quantity
Meralco	Manila Electric Company
MRT-7	Metro Rail Transit Line 7
Must Pay Volume	The monthly generation payments SMC Global Power must pay, which comprises a “must pay” amount for electricity sold up to a given volume
MW	Mega-watt

NEA	National Electrification Administration of the Philippines
NPC	National Power Corporation of the Philippines
NVRC	New Ventures Realty Corporation
NYG	Nihon Yamamura Glass Co. Ltd.
Offer	Offering of the Offer Shares
Offer Price	₱75.00 per Share
Oil Deregulation Act	The Philippine Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998
Order	Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005
Packaging Group	San Miguel Yamamura Packaging Corporation, San Miguel Yamamura Packaging International Limited and its subsidiaries, San Miguel Yamamura Corporation and Mindanao Corrugated Fibreboard Inc.
PAL	Philippine Airlines, Inc.
PCGG	Presidential Commission on Good Government
PDS	Philippine Dealing System
PDTC	The Philippine Depository & Trust Corporation
PEMC	Philippine Electricity Market Corporation
Peso or ₱	Philippine Peso, the lawful currency of the Republic of the Philippines
PET	Polyethylene Terephthalate
Petron	Petron Corporation
PFF Act	The Philippine Food Fortification Act of 2000
PFRS	Philippine Financial Reporting Standards
PhilHealth	Philippine Health Insurance Corporation
PIDC	Private Infra Dev. Corporation
PPA	Power purchase agreement
PPP	Public-Private Partnership
Price Act	The Price Act
PSALM	Power Sector Assets and Liabilities Management Corporation
PSC	Power supply contract
PSE	The Philippine Stock Exchange, Inc.
RMP-2	Phase 2 of the Refinery Master Plan of Petron
San Roque IPPA Agreement	IPPA for the operation of the San Roque Power Plant
San Roque Power Plant	Hydroelectric multipurpose power plant with installed capacity of 345 MW located in San Manuel, Pangasinan
Saudi Aramco	Saudi Arabian Oil Company

SCCP	The Securities Clearing Corporation of the Philippines
SEC	Securities and Exchange Commission of the Philippines
SEPC	Sultan Energy Philippines Corp.
Series “1” Preferred Shares	Preferred Shares issued by SMC in 2009
SMB	San Miguel Brewery Inc., including as the context requires, its subsidiaries
SMBIL	San Miguel Brewing International Ltd.
SMC or the Company, or the Parent Company	San Miguel Corporation, a corporation incorporated under the laws of the Republic of the Philippines
SMC Global Power	SMC Global Power Holdings Corp. including, as the context requires, its subsidiaries
SMC Group	SMC and its subsidiaries
SMEC	San Miguel Energy Corporation
SMEII	San Miguel Equity Investments Inc.
SMPFC	San Miguel Pure Foods Company Inc., including as the context requires, its subsidiaries
SMPI	San Miguel Properties, Inc.
SMYAC	San Miguel Yamamura Asia Corporation
SMYPC	San Miguel Yamamura Packaging Corporation
SPDC	Strategic Power Dev. Corp.
SPPC	South Premiere Power Corp.
SRPC	San Roque Power Corporation
SSS	Social Security System
Sual ECA	The ECA between NPC and TeaM Energy
Sual IPPA Agreement	IPPA Agreement for operation of the Sual Power Plant
Sual Power Plant	2 x 500 MW Coal-fired power plant located in Sual, Pangasinan
Subseries	Subseries of the Series “2” Preferred Shares
T+3	three trading days after transaction date
T1 Volume	80% of the statutory rate SMC Global Power charges Meralco for supplying electrical power under the offtake agreement between SMC Global Power and Meralco for the given month multiplied by a factor equal to the volume sold
Tax Code	The Philippine National Internal Revenue Code of 1997, as amended
TCCs	Tax Credit Certificates
TeaM Energy	TeaM Sual Corporation
TPLEX	Tarlac–Pangasinan–La Union Expressway
TransCo	National Transmission Corporation

Underwriting Agreement	Underwriting Agreement, dated as of [•], 2012, among SMC and the Joint Bookrunners
Universal LRT	Universal LRT Corporation (BVI) Limited
VAT	Value added tax
WESM	Wholesale Electricity Spot Market

Executive Summary

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and audited financial statements, including notes thereto, found in the appendices of this Prospectus.

Prospective investors should read this entire Prospectus fully and carefully, including the section on “Risk Factors”. In case of any inconsistency between this summary and the more detailed information in this Prospectus, then the more detailed portions, as the case may be, shall at all times prevail.

Brief Background on the Company

San Miguel Corporation (“SMC”, the “Company” or the “Parent Company”), together with its subsidiaries (collectively with the Company referred to as the “SMC Group”), is one of the largest companies in the Philippines in terms of market capitalization and is a highly diversified conglomerate. It has leading businesses in beer, liquor, food, packaging, fuel and oil and energy. The traditional businesses of SMC comprise primarily beverage, food and packaging products and property development. SMC has embarked on a diversification strategy and has expanded into a number of businesses, including fuel and oil, power, infrastructure, mining, telecommunications, airline and other businesses outside of its traditional businesses. SMC has implemented this strategy through a series of acquisitions and investments.

As part of its growth strategy, SMC, either directly or through its subsidiaries, has made a series of acquisitions in the fuel and oil, energy, infrastructure, telecommunications, banking, mining and airline industries over the past four years. A summary of these transactions by the SMC Group is set forth below.

- acquired 68.26% equity interest in Petron Corporation (“Petron”)
- acquired the rights, pursuant to Independent Power Producer Administrator (“IPPA”) agreements with Power Sector Assets and Liabilities Management Corporation (“PSALM”) to administer three power plants in Sual, Ilijan and San Roque.
- owns a 32.39% equity interest in the Manila Electric Company (“Meralco”)
- made the following infrastructure acquisitions:
 - a. a 35.0% equity interest in Private Infra Dev Corporation (“PIDC”)
 - b. a 93.0% equity interest in Trans Aire Development Holdings Corp. (“TADHC”, formerly known as Caticlan International Airport Development Corporation)
 - c. a 51.0% equity interest in Universal LRT Corporation (BVI) Limited (“Universal LRT”)
 - d. a 46.53% equity interest in Atlantic Aurum Investments BV (“AAI”)
- made the following telecommunications acquisitions:
 - a. a 41.5% equity interest in Liberty Telecommunications Holdings, Inc. (“Liberty”)
 - b. a 100.0% equity interest in Bell Telecommunications Philippines (“BellTel”)
 - c. a 100% equity interest in A.G.N. Philippines, Inc. (“AGNP”) which holds 40% interest in Eastern Telecommunications Philippines, Inc. (“ETPI”) and 37.7% equity interest in ETPI through its wholly-owned subsidiary, San Miguel Equity Securities, Inc. (“SMESI”)
- acquired a 100.0% equity interest in each of the three concession holders of coal deposits in the Southern Mindanao region – namely, Daguma Agro Minerals, Inc. (“DAMI”), Bonanza Energy Resources, Inc. (“BERI”) and Sultan Energy Phils. Corp.
- acquired 49% equity interest in Trustmark Holdings Corporation (“Trustmark”) and Zuma Holdings and Management Corporation (“Zuma”), the holding companies of Philippine Airlines, Inc. (“PAL”) (through PAL Holdings, Inc.) and Air Philippines Corporation (“Air Phil”), respectively.

Established in 1890 as a single-product brewery, SMC has transformed itself from a market leading beverages, food and packaging business with a globally recognized beer brand, into a large and diversified conglomerate with additional markets, leading businesses and investments in property development, fuel and oil, energy, infrastructure, mining, telecommunications, airline and other businesses. In 2011, the SMC Group accounted for about 4.18% of the country's gross national income and 5.50% of the country's gross domestic product.

The flagship product of SMC, San Miguel Beer, is among the world's largest selling beers and among the top brands in Southeast Asia.

From its original cerveza, SMC now owns a wide range of popular beverage brands and products that extends from beer to hard liquor, bottled water, powdered juice and juice drinks.

The food operations of SMC includes the production and marketing of fresh, ready-to-cook and processed chicken, fresh pork and beef and value-added meats, milk, butter, cheese, margarine, ice cream, flour products, coffee, cooking oil and animal and aquatic feeds.

Through the partnerships it has forged with major international companies, the SMC Group has gained access to the latest technologies and expertise, thereby enhancing its status as a world-class organization.

SMC has strategic partnerships with international companies, among them Nihon Yamamura Glass Company, Ltd. ("NYG"), Hormel Foods International Corporation ("HFIC") of the United States, Super Coffee Corporation Pte Ltd ("SCCPL") of Singapore, Penderyn Pte Ltd. ("Penderyn") and Kirin Holdings Company Limited ("Kirin"), one of the largest beer manufacturing companies in Japan.

The SMC Group is one of the nation's biggest private employers with 17,151 employees as of end of 2011. In addition, the SMC Group contributes to the growth of downstream industries and sustains a network of hundreds of third party suppliers.

Major developments in the SMC Group are discussed in Management's Discussion and Analysis of Financial Position and Performance, found on page [•].

Core Businesses:

Beverages

San Miguel Brewery Inc. ("SMB") has five breweries and one bottling plant in the Philippines strategically located in Luzon, Visayas and Mindanao and operates one brewery each in Hong Kong, Indonesia, Vietnam, Thailand, and two breweries in China. Apart from beer, the SMC Group also produces hard liquor through its majority-owned subsidiary, Ginebra San Miguel, Inc. ("GSMI"). GSMI is one of the world's largest gin producers by volume. It has two distilleries and five bottling plants. Other products of GSMI include non-carbonated ready-to-drink tea, fruit juices and bottled water.

Food

The domestic food operations of SMC are comprised of San Miguel Pure Foods Company, Inc. ("SMPFC") and its subsidiaries, which include San Miguel Foods, Inc. ("SMFI"), San Miguel Mills, Inc. ("SMMI"), The Purefoods-Hormel Company, Inc. ("PF-Hormel"), Magnolia Inc. ("Magnolia") and San Miguel Super Coffeemix Co., Inc. ("SMSCCI").

SMPFC holds in its portfolio the names of some of the most formidable brands in the Philippine food industry, among them, Magnolia, Pure Foods, Monterey, Star, Dari Crème, B-Meg, and Jelly Ace. To date, SMPFC has a product line up that is unparalleled in the industry, offering a variety of food products and services for both individual and food service customers. Its products range from cooking oils, feeds, flour and flour-based products, poultry, fresh and value-added meats, breadfill, dairy and coffee.

The support of SMC and partnerships with major international companies like United States-based HFIC and Singapore-based SCCPL and Penderyn have given SMPFC access to the latest technologies and expertise, allowing it to deliver flavor, freshness, safety, quality and value-for-money to its customers.

SMPFC is a 99.92%-owned business of SMC. It was incorporated in 1956 to engage primarily in the business of manufacturing and marketing of processed meat products. SMPFC is the parent company of the food business. SMPFC, through its subsidiaries, later on diversified into poultry and livestock operations, feeds and flour milling, dairy and coffee operations, franchising and young animal ration manufacturing and distribution. SMPFC was consolidated with SMC in April 2001.

Packaging

The Packaging Group is a total packaging solutions business servicing many of the region's leading food, pharmaceutical, chemical, beverages, spirits and personal care manufacturers. With clients in the Asia-Pacific, Middle East, Africa and the U.S. markets, the Packaging Group 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 tubes, plastic trays, plastic pails and tubs, plastic consumer and industrial containers, crate and pallet leasing, metal closures and two-piece aluminum cans, woven products, industrial laminates and radiant barriers. It is also involved in PET bottle filling, graphics design, packaging research and testing, packaging development and consultation, contract packaging and trading.

Apart from supplying the internal requirements of the SMC Group, the Packaging Group also supplies major Philippine-based multinational corporations such as Nestlé Philippines, Inc., Unilever Philippines Inc., Kraft Foods Phils., Inc., Diageo Philippines, Inc., Del Monte Philippines, Inc., Coca-Cola Bottlers Philippines Inc. and Pepsi-Cola Products Philippines, Inc.

The Packaging Group has eleven international packaging facilities located in China (glass, plastic, paperboard), Vietnam (glass, metal), Malaysia (flexibles, plastic films, woven products and industrial laminates and a packaging research center), Australia (plastics) and New Zealand (plastics). Aside from extending the reach of the packaging business overseas, these facilities also serve the packaging requirements of SMB breweries in China and Vietnam. It also has a presence in Australia through San Miguel Yamamura Knox Pty. Limited which owns 100% of Cospak Group, the largest packaging trading firm in Australia.

Properties

San Miguel Properties, Inc. ("SMPI") was created in 1990 initially as the corporate real estate arm of SMC. It is the primary property subsidiary of the SMC Group, currently 98.45% owned by SMC. SMPI is presently engaged in commercial property development, sale and lease of real properties, management of strategic real estate ventures and corporate real estate services.

New Businesses:

Fuel and Oil

In late 2008, SMC entered into an option agreement to acquire 50.10% of Petron which was partially exercised in April 2010. This move was followed by a tender offer and the acquisition of additional shares from the Ashmore Group. SMC exercised its remaining option in December 2010 and now effectively owns 68.26% of Petron. Petron is the largest integrated oil refining and marketing company in the Philippines, supplying more than a third of the country's refined oil requirements and is the largest liquefied petroleum gas ("LPG") distributor, with a 39.50% market share as of end of 2011, according to the Department of Energy ("DOE"). The core business of Petron involves the refining of crude oil and the marketing and distribution of refined petroleum products, primarily for the domestic market. Petron possesses the most extensive oil distribution infrastructure in the country with more than 30 depots and terminals and over 1,900 service stations in the Philippines. Petron

also exports various petroleum products and petrochemical feedstock, including high sulfur fuel oil, naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

On March 30, 2012, a subsidiary of Petron, Petron Oil & Gas International Sdn Bhd completed the acquisition of 65.00% of Esso Malaysia Berhad, a publicly listed company in Malaysia, 100% of ExxonMobil Malaysia Sdn Bhd, and 100% of ExxonMobil Borneo Sdn Bhd.

Energy

In 2007, SMC began participating in the bidding for power generation companies being privatized by the Philippine government. Two years later, SMC successfully entered into the power generation industry. Through SMC Global Power Holdings Corp. ("SMC Global Power") and its subsidiaries San Miguel Energy Corporation ("SMEC"), Strategic Power Devt. Corp. ("SPDC") and South Premier Power Corp. ("SPPC"), it is now one of the largest power companies in the Philippines based on the contracted capacity that SMC Global Power manages. Currently, the principal activity of SMC Global Power is the sale under the Independent Power Producer Administrator ("IPPA") framework of power generated by power plants in the Philippines that are owned and operated by Independent Power Producers ("IPP"). Under the IPPA framework, the IPPs own and operate their power plants and SMC Global Power, as an IPPA, sells the electricity and determines the amount of energy to be generated by the IPPs.

SMC Global Power is the IPPA for the Sual, Ilijan and San Roque power plants, which have a combined contracted capacity of 2,545 MW. SMC Global Power began acting as IPPA of the Sual power plant in November 2009, the San Roque power plant in March 2010 and the Ilijan power plant in September 2010. The Sual power plant is a coal-fired power plant, the Ilijan power plant is a natural gas-fired power plant and the San Roque power plant is a hydro-electric power plant. In addition to its IPPA power plants, SMC Global Power also owned, from September 2010 through August 25, 2011, a 620 MW oil-fired power plant located in Limay, Bataan. On August 26, 2011, SMC Global Power sold the Limay power plant. SMC Global Power sells power through offtake agreements either directly to customers, including the Meralco and other distribution utilities, electric cooperatives and industrial customers, or through the WESM.

SMC, through SMEC, likewise owns three mining companies which are concession holders of coal deposits in Southern Mindanao.

Infrastructure

SMC, through San Miguel Holdings Corp. ("SMHC"), has invested in companies which hold concessions in various infrastructure projects. SMHC, through its subsidiary, Rapid Thoroughfares, Inc. acquired a 35% stake in PIDC which holds a 35-year concession to build and operate an 88.6 kilometer two-lane expressway that will connect Tarlac, Pangasinan and La Union. SMHC also acquired a 93% stake in TADHC, the company which holds a 25-year build-rehabilitate-operate-transfer arrangement of the Boracay Airport. SMHC also has signed a sale and purchase agreement to acquire up to 51% stake in Universal LRT which holds a 25-year build-transfer-operate concession on the Metro Rail Transit Line 7 ("MRT-7") project, extending the metro rail system servicing Metro Manila. SMHC has acquired 46.53% stake in AAI, a company which has an 80% stake in South Luzon Tollway Corporation ("SLTC"), which holds a 30-year concession (valid until 2035) to operate the 36 km South Luzon Expressway ("SLEX"), one of the three major expressways that link Metro Manila to key southern provinces; and a 52.5% stake in Citra Metro Manila Tollways Corporation, concession holder of the Skyway.

SMC, through Petron, has a 35% interest in Manila North Harbor Port Inc. from Harbour Centre Port Terminal Inc.

Telecommunications

SMC has made investments in the Philippines' telecommunications sector through acquisitions of stakes in Liberty, BellTel and ETPI.

Liberty Telecom

SMC owns 41.50% of Liberty in partnership with Qatar Telecom 32.73% and White Dawn Solutions Holdings, Inc. 18.28%, with the remaining shares owned by the public. Liberty is a telecommunications carrier offering services including nationwide telephone service, data communications, inter-exchange carrier services and international voice and data connectivity services.

BellTel

SMC acquired 100% of BellTel, a full-service telecommunications company which is licensed to provide a range of services throughout the Philippines. The telecommunication license of BellTel authorizes it to provide data services throughout the Philippine archipelago and telephony to all central business districts and special economic zones. BellTel was one of the first companies to deploy point-to-multipoint fixed wireless access technologies delivering multiple product offerings. BellTel has also entered into strategic alliances with operators of underutilized telecommunications infrastructures, such as hybrid fiber-coaxial and fiber optic networks, giving it several cost-effective last mile options for rapid service deployment. In addition, BellTel holds licenses in the 1.7, 3.5 and 24 Ghz spectra, which enable it to provide a wide array of wireless broadband products and services.

ETPI

SMC owns a 37.70% equity interest in ETPI and, through its wholly-owned subsidiary, SMESI, indirectly owns approximately 40% stake in ETPI through its 100% ownership of AGNP. ETPI is a provider of voice, data and internet services to the business process outsourcing market.

Airline

Most recently, SMC, through San Miguel Equity Investments Inc. ("SMEI"), acquired a 49% equity interest in each of Trustmark and Zuma, the holding companies of PAL (through PAL Holdings, Inc.) and Air Phil, respectively. The investment provides an opportunity for SMC to diversify into an industry which has synergies with the existing businesses of SMC. Such investment will likewise augment and supplement the ongoing enhancement of the operations of PAL and Air Phil, and the implementation of the fleet modernization programs with the end in view of enhancing the efficiency, competitiveness and profitability of PAL and Air Phil.

Competitive Strengths

SMC believes that its principal strengths include the following:

Broad exposure to the growing Philippine economy. The Philippines is the fifth largest economy in Southeast Asia (in terms of GDP as of 2011) with 53 consecutive quarters of positive GDP growth since 1999. The Philippines announced a GDP growth of 6.4% during the first quarter of 2012, notwithstanding global market conditions. In addition, the Philippine population is young, highly literate and growing, which provides the Philippine economy with favorable demographics for further growth.

As the Philippines' largest (by market capitalization) and most diversified conglomerate, with revenues accounting for approximately 5% of the Philippine GDP in 2011, and 4.18% of the Philippine GNP in the same year, the SMC Group is broadly exposed to the Philippine economy through its diverse range of businesses spanning the beverages, food, packaging, fuel and oil, energy, telecommunication, infrastructure, property, mining and other industries. Recent acquisitions of SMC in the infrastructure, fuel and oil industries align the Company to key sectors that it believes will benefit from the forecast growth of the Philippine economy.

Market leading positions in key Philippine industries. Many of the businesses of SMC are leaders in their domestic Philippine markets. The current portfolio of SMC encompasses the following businesses, which are market leaders in their respective industries:

Beverages — SMC sells the dominant beer brands in the Philippines, with a total market share of more than 90%. Its products include San Miguel Pale Pilsen, which is the flagship beer of SMB and is sold throughout the world, San Miguel Super Dry, San Mig Light, San Mig Strong Ice and San Miguel Premium All-Malt. Other SMC beers include Cerveza Negra, Red Horse, Gold Eagle, Oktoberfest Brew and Alcoholic Malt Beverage. In addition to its Philippine beer operations, SMB has brewery and sales operations in China, Hong Kong, Thailand, Vietnam and Indonesia and exports to 40 countries. SMC is the world's largest gin seller and the world's third largest distilled spirit seller by volume with some of the most recognizable brands in the Philippine liquor market, including Ginebra San Miguel, GSM Blue, Gran Matador Brandy, Gran Matador Light, Antonov Vodka and Vino Kulafu,. SMC also has a growing non-alcoholic beverages business which produces non-carbonated, ready-to-drink tea and fruit juice products, primarily under the Magnolia brand.

Food — The food business holds numerous market leading positions in the Philippine food industry, offering a broad range of high-quality food products and services to both household and food service customers. SMC has some of the best known brands in the Philippine food industry, such as Magnolia, Pure Foods, Monterey, Star, Dari Crème, B-Meg and Jelly Ace. The food business is conducted through its subsidiary SMPFC.

Packaging — The packaging business has one of the largest packaging operations in the Philippines, producing glass, metal, plastic, aluminum cans, paper, flexibles, PET and other packaging products. The packaging business is the major source for packaging products for the other businesses of SMC. It also supplies its products to major multinational corporations in the Philippines and customers across the Asia-Pacific region, the United States, Africa, Australia and the Middle East. The packaging business is conducted through San Miguel Yamamura Packaging Corporation ("SMYPC"), San Miguel Yamamura Packaging International Limited ("SMYPIL") and its subsidiaries, San Miguel Yamamura Asia Corporation ("SMYAC") and Mindanao Corrugated Fibreboard Inc. ("Mincorr"). SMYPC and SMYPIL are joint venture companies in which SMC holds a 65% equity interest, while SMC holds a 60% equity interest in SMYAC. Mincorr is a wholly-owned subsidiary of SMC.

Fuel and Oil — SMC operates its fuel and oil business through Petron in which SMC holds a 68.26% interest. Petron is the largest integrated oil refining and marketing company in the Philippines, supplying almost 40% of the country's refined oil requirements and is the largest LPG distributor, with a 39.50% market share as of December 2011 (according to the DOE). Petron also possesses the most extensive oil distribution infrastructure in the country with more than 30 depots and terminals and over 1,900 service stations in the Philippines. Petron also exports various petroleum products and petrochemical feedstock, including high sulfur fuel oil, naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

Energy — The energy business is a leader in the Philippine power generation industry in terms of installed capacity. SMC administers three power plants, located in Sual (coal), Ilijan (natural gas) and San Roque (hydroelectric), with a combined capacity of 2,545 MWs, pursuant to IPPA agreements with PSALM and NPC. As of December 31, 2011, SMC was one of the largest IPPAs in the Philippines and held a 23% market share of the total installed power generation capacity for the Luzon power grid and a 17% market share of the national grid. As of March 31, 2012, SMC and its subsidiaries also owns a 32.39% stake in Meralco, the biggest power distributor and private sector utility in the Philippines, which accounted for almost half of all electricity sales in the Philippines in 2011. SMC also has interests and investments in coal mining, copper and gold mining.

Infrastructure — The infrastructure business consists of investments in companies which hold long-term concessions in the Philippines' infrastructure sector. Current projects include the TPLEX Tollway, Boracay Airport and the MRT-7 Light Rail and Road Project. Recently, SMC, through AAI, also invested into SLTC and Skyway. SMC operates with partners in its investments in most of these infrastructure concessions.

Other Operations and Investments — The other operations and investments business of the Company consist principally of interests and investments in property development, telecommunications and airline.

Experienced Management Team. SMC has an extensive pool of experienced managers, with many of its senior managers having been with the Company for more than 20 years. The management team has a deep knowledge and understanding of the Philippine operating environment and has been able to effectively manage SMC through periods of crisis and instability in the Philippines. In addition, the management team has successfully directed the diversification strategy of SMC, including retaining key management personnel from acquired companies, such as Petron, its energy and infrastructure businesses, in order to maintain their expertise and leverage on their industry experience.

Operating Businesses Provide Sustainable Stream of Income and Cash Flows. The beverages, food and packaging businesses of SMC provide SMC with a sustainable stream of income with low capital expenditure requirements. These businesses demonstrated resilience during the global financial crisis and provided SMC with a strong financial base from which to pursue its recent diversification strategy. In the past two years, the energy and fuel and oil businesses have also started to contribute to the income of SMC.

In 2009, SMC generated ₱30,013 million of recurring Earnings Before Interests, Tax, Depreciation and Amortization ("EBITDA") and ₱57,799 million of net income attributable to Parent Company, with ₱6,249 million of capital expenditure. In 2010, they generated ₱52,536 million of recurring EBITDA and ₱ 20,091 million of net income attributable to Parent Company with ₱8,518 million of capital expenditure. In 2011, they generated ₱77,150 million of recurring EBITDA and ₱17,518 million of net income attributable to Parent Company with ₱26,426 million of capital expenditure.

Platform for Significant Future Growth. SMC is well-positioned for significant future growth. In particular, The established businesses of SMC in beverages, food and packaging provide for stable growth annually, while its new businesses are contributing further to this growth.

Beverages: The beverages business is well-positioned to benefit from increasing affluence and population growth in the Philippines. SMC believes there are significant opportunities in the Premium beer market as the Philippine population becomes more affluent. Additionally, the international beer business of SMC is experiencing increased sales through increasing brand recognition in selected overseas markets such as Indonesia, Thailand, Singapore and Hong Kong. SMC intends to expand its liquor business in the southern Philippines and internationally. SMC plans to create rapid deployment task forces, particularly in southern Philippines, where market penetration is low and where there is no existing dealership system. SMC also plans to increase margins by improving the profitability of its non-alcoholic business by rationalizing sales and distribution network to reduce costs, searching for alternative raw materials and optimizing bottle cost and usage. SMB constructed a bottling plant in Sta. Rosa, Laguna to address the higher demand for big package products and rationalize distribution costs.

Food: SMC aims to become the lowest cost producer by securing a stable raw material supply and developing alternative raw materials. SMC also plans to streamline its operations to improve profitability of its established business segments such as poultry, feeds, meat and flour, maximize synergies across operations, and improve margins through outsourcing non-core activities.

Packaging: The packaging business aims to benefit from trade liberalization and globalization in the Asian region, increasing its exports to new markets. In addition, rising environmental awareness provides opportunities for the production of more environmentally friendly products such as heavy metal-free paint glass and recycled PET resin. SMC plans to improve margins by developing alternative sources of raw materials and optimizing recycling efforts to lower its material costs.

Fuel and oil: The Philippines is a net importer of refined petroleum products and is expected to remain dependent on imports. SMC believes that the less urbanized areas in the Philippines are underserved and that there are significant growth opportunities in a growing domestic economy.

The focus of Petron on the Philippine market and its leading position as the largest refinery operator by sales volume with the largest number of service stations present good growth opportunities. Petron plans to continue its service station network expansion and seek growth in complementary non-fuel businesses. It also plans to increase the production of higher margin products. Petron is currently embarking on Phase 2 of the Refinery Master Plan ("RMP-2"), which includes further enhancements to the refinery's operational efficiencies, increase in conversion capability and minimize production of lower value fuel oils.

Energy: SMC is planning to expand its power generating capacity over the next five years, and believes its energy business will benefit from both growing demand for electricity in the Philippines, which is forecast to exceed the growth rates of the Philippine GDP, and shortage in electricity supply, with the industry constrained by aging power generation assets and minimal new capacity. Also, if spot electricity rates move higher as a result of increased demand, the margins of SMC are expected to increase since approximately 21% of the electricity output of SMC is sold into the WESM. SMC aims to protect its fuel supply and hedge its exposures to commodity price rises by acquiring coal and oil businesses.

Infrastructure: SMC believes there are significant opportunities in building or purchasing infrastructure assets in a growing economy that has historically under-invested in infrastructure. In addition, SMC believes its operating licenses will provide strong and stable long-term income streams, as well as serve as a barrier to entry.

Telecommunications: SMC believes its recent acquisitions in the telecommunications industry provide it with exposure to an industry that is expecting high growth as the Philippine population becomes more affluent and spends more on higher margin services. In particular, SMC is currently refining its telecommunications business strategy, where it plans to take advantage of opportunities in digitization of businesses, the emergence of mobile platforms for businesses and the provision of services to consumers. Moreover, companies recently acquired by SMC have a wide bandwidth of spectrum that would enable SMC to be competitive in both current (2G/3G/4G) and future technologies.

Potential to extract synergies across businesses. SMC believes there are significant opportunities to develop and increase synergies across many of its businesses, including:

- **Ancillary business opportunities:** SMC believes it has opportunities within its existing businesses to secure new growth opportunities along the routes of its infrastructure projects by using the relevant land area to conduct business and activities. Potential initiatives of this type include installing SMC-related billboard and other forms of advertisements, building service stations, retail outlets, rest stops and kiosks along toll roads.
- **Immediate distribution channel:** The extensive retail distribution network of SMC provides an effective platform for roll-out of new products and services. For example, the network of over 1,900 Petron service stations provides an immediate distribution channel for retail sales for SMC products.
- **Economies of scale:** SMC believes the size and scale of its distribution network operations will provide significant economies of scale and synergies in production, research and development, distribution, management and marketing. The size and scale of SMC should also result in substantial leverage and bargaining power with suppliers and retailers.
- **Integration:** SMC plans to continue pursuing vertical integration across the established and strategic businesses, such as supplying the fuel and oil and power requirements of its businesses internally and leveraging its power distribution capability through Meralco.

Business Strategies

The principal strategies of SMC include the following:

- **Enhance value of established businesses.** SMC aims to enhance the value of its established businesses through the pursuit of operational excellence, brand enhancement, improving product visibility, targeting regions where SMC has lower market share, implementing pricing strategies and pursuing efficiencies.
- **Continue to diversify into industries that underpin the development and growth of the Philippine economy.** In addition to organic growth, SMC intends to continue to seek strategic acquisition opportunities to position itself for the economic growth and industrial development of the Philippines.
- **Identify and pursue synergies across businesses through vertical integration, platform matching and channel management.** SMC intends to create an even broader distribution network for its products and expand its customer base by identifying synergies across its various businesses. In addition, SMC is pursuing plans to integrate its production and distribution facilities for its established and newly acquired businesses to enable additional cost savings and efficiencies.
- **Invest in and develop businesses with dominant market positions.** SMC intends to further enhance its market position in the Philippines by leveraging its financial resources and experience to continue introducing innovative products and services. Potential investments to develop existing businesses include constructing new power plants and expanding power generation portfolio, building additional service and micro-filling stations and expanding food distribution networks. SMC believes its strong domestic market position provides a brand and effective platform to develop markets for its expanding product portfolio. SMC plans to continue to invest in and develop businesses it believes have the potential to gain dominant positions in their respective markets.
- **Adopt world-leading practices and joint development of businesses.** SMC intends to develop strategic partnerships with global industry leaders, including, for example, Kirin Holdings Company, Limited and NYG in the beverages and packaging businesses. These partnerships provide marketing and expansion opportunities, and they also potentially provide liquidity and opportunities for SMC to divest minority stakes in its businesses creating value for its shareholders.

Risks of Investing

Prospective investors should consider the following risks of investing in the Offer Shares:

1. Macroeconomic risks, including the current and immediate political and economic factors in the Philippines as a principal risk for investing in general;
2. Risks relating to SMC, its subsidiaries and their business and operations; and
3. The absence of a liquid secondary market for the Offer Shares and other risks relating to the Offer Shares.

(for a more detailed discussion, see “Risk Factors” on page [•])

Use of Proceeds

The Offer Price shall be at ₱75.00. The net proceeds from the Offer are estimated to be ₱[•] billion, after deducting expenses relating to the issuance of the Offer Shares. Proceeds of the Offer will be used by the Company: (i) to refinance the existing ₱72.8 billion Series “1” Preferred Shares and (ii) for general corporate purposes. (“Use of Proceeds” on page[•].)

Plan of Distribution

SMC plans to issue the Offer Shares to institutional and retail investors through a public offering to be conducted through the Joint Bookrunners and Selling Agents. ("Plan of Distribution" on page [•].)

Expected Timetable

The timetable of the Offer is expected to be as follows:

Dividend Rate Setting Date	[July 27, 2012]
Start of Offer Period	[August 7, 2012]
Last Day of Offer Period	[August 31, 2012]
Subscription Payment Date	[September 7, 2012]
Filing of Amended Articles of Incorporation and Certificate of Increase in Capital Stock	Not later than [September 14, 2012]
Approval of the Increase in Capital Stock	[October •, 2012]
Listing Date and Commencement of Trading on the PSE	[October •, 2012]

The dates indicated above are subject to market and other conditions and may be changed by the agreement of SMC and the Sole Issue Manager and Bookrunner, subject to the approval by the PSE.

Summary of Financial Information

Prospective purchasers of the Offer Shares should read the summary financial data below together with the financial statements, including the notes thereto, included in this Prospectus and "Management's Discussion and Analysis of Results of Operations and Financial Condition". The summary financial data for the three years ended December 31, 2011, 2010 and 2009 are derived from the audited financial statements of SMC, including the notes thereto, which are found as Appendix "B" of this Prospectus. The detailed financial information for the three years ended December 31, 2011, 2010 and 2009 are found on Appendix "B" of this Prospectus and the three months ended March 31, 2012 and 2011 are found on Appendix "A" of this Prospectus.

The summary financial and operating information of SMC presented below as of and for the years ended December 31, 2011, 2010 and 2009 were derived from the consolidated financial statements of SMC, audited by Manabat Sanagustin & Co. and prepared in compliance with PFRS. The financial and operating information of SMC presented below as of and for the three months ended March 31, 2012 and 2011 were derived from the unaudited consolidated financial statements of SMC prepared in compliance with Philippine Accounting Standards ("PAS") 34, "Interim Financial Reporting" and reviewed by Manabat Sanagustin & Co. in accordance with Philippine Standards on Reviewing Engagements ("PSRE") 2410, "Review of Interim Financial Information performed by the Independent Auditors of the Entity." The information below should be read in conjunction with the consolidated financial statements of SMC and the related notes thereto, which are included in Appendices "A" and "B" of this Prospectus. The historical financial condition, results of operations and cash flows of SMC are no guarantee of its future operating and financial performance.

	As of and for the years ended December 31,			As of and for the three months ended March 31,	
	2011	2010	2009	2012	2011
	(Audited)			(Unaudited)	
	(in millions except per share figures or where otherwise indicated)				
Consolidated Statements of Income Data					
Sales	₱535,775	₱ 246,156	₱ 174,213	₱ 142,039	₱ 126,592
Cost of sales	432,321	173,929	124,295	115,345	99,300
Gross profit	103,454	72,227	49,918	26,694	27,292
Selling and administrative expenses.....	(47,500)	(37,619)	(30,249)	(11,853)	(10,157)
Interest expense and other financing charges	(27,443)	(16,578)	(7,926)	(7,169)	(6,757)
Interest income	4,618	3,023	5,989	1,102	1,451
Equity in net earnings of associates	2,824	6,817	2,816	1,350	630
Gain on sale of investments and property and equipment	1,046	529	50,630	538	50
Other income (charges) – Net.....	(12)	7,095	(6,843)	3,879	(59)
Income before income tax	36,987	35,494	64,335	14,541	12,450
Income tax expense	8,843	11,438	3,706	2,806	2,414
Net income.....	₱ 28,504	₱ 24,056	₱ 60,629	₱ 11,735	₱ 10,036
Attributable to:					
Equity holders of the Parent Company	₱ 17,518	₱ 20,091	₱ 57,799	₱ 8,477	₱ 7,138
Non-controlling interests.....	10,986	3,965	2,830	3,258	2,898
	₱ 28,504	₱ 24,056	₱ 60,629	₱ 11,735	₱ 10,036
Earnings per common share attributable to equity holders of the Parent Company basic.....	₱ 4.97	₱ 6.18	₱ 19.21	₱ 2.96	₱ 2.44
Earnings per common share attributable to equity holders of the Parent Company diluted	₱ 4.94	₱ 6.14	₱ 19.10	₱ 2.94	₱ 2.42
Consolidated Statements of Financial Position Data					
Assets					
Total current assets	₱ 308,179	₱ 279,538	₱ 298,113	₱ 368,230	₱ 308,179
Total noncurrent assets	582,357	550,262	140,378	608,624	582,357
Total assets	₱ 890,536	₱ 829,800	₱ 438,491	₱ 976,854	₱ 890,536

Liabilities and Equity

Current liabilities

Total current liabilities.....	₱ 190,830	₱ 178,224	₱ 94,029	₱ 234,802	₱ 190,830
Total noncurrent liabilities.....	400,606	384,751	103,524	416,399	400,606

Equity

Equity attributable to equity holders of the Parent Company.....	229,414	216,031	213,817	235,670	229,414
Non-controlling interests.....	69,686	50,794	27,121	89,983	69,686
Total equity	299,100	266,825	240,938	325,653	299,100
Total liabilities and equity	₱ 890,536	₱ 829,800	₱ 438,491	₱ 976,854	₱ 890,536

Cash Flow Data

Net cash provided by (used in):

Operating activities.....	₱ 32,207	₱ 45,314	₱ 13,368	₱ 2,892	₱ 3,893
Investing activities	(70,488)	(126,931)	49,155	(17,890)	(18,228)
Financing activities	42,335	(2,226)	32,550	29,768	15,725
Effect of exchange rates changes in cash and cash equivalents.....	(181)	(380)	(2,601)	(235)	(175)
Net increase/(decrease) in cash and cash equivalents	3,873	(84,223)	92,472	14,535	1,215
Cash and cash equivalents at beginning of year	125,188	209,411	116,939	128,975	125,188
Cash and cash equivalents held for sale	(86)	-	-	-	-
Cash and cash equivalents at end of period	₱ 128,975	₱ 125,188	₱ 209,411	₱ 143,510	₱ 126,403

Capitalization

The following table sets forth the unaudited consolidated short-term and long-term debt and capitalization of SMC as of March 31, 2012. This table should be read in conjunction with the more detailed information and reviewed and unaudited financial statements, including notes thereto, found in Appendix "B" in this Prospectus.

(in ₪ Millions)	As of March 31, 2012 (Unaudited)	As adjusted for maximum Issue Size of ₪ [•] Billion
Current Liabilities		
Drafts and loans payable	₪ 103,055	
Accounts payable and accrued expenses	84,207	
Finance lease liabilities – current portion	15,387	
Income and other taxes payable	10,840	
Dividends payable	2,038	
Current maturities of long-term debt – net of debt issue costs	19,275	
Total Current Liabilities	234,802	
Noncurrent Liabilities		
Long term debt – net of current maturities and debt issue costs	209,254	
Deferred tax liabilities	12,596	
Finance lease liabilities – net of current portion	189,043	
Other noncurrent liabilities	5,506	
Total Non-current Liabilities	416,399	
Equity		
Common stock – ₪ 5.00 par value	16,397	
Authorized – 3,390,000,000 shares		
Issued – 3,279,447,613 shares		
Preferred stock – ₪ 5.00 par value	4,852	
Authorized – 1,110,000,000 shares		
Issued – 970,506,353 shares		
Additional paid-in capital	103,579	
Revaluation Surplus	1,355	
Cumulative Translation Adjustments	5,284	
Retained earnings		
Appropriated	24,664	
Unappropriated	146,969	
Treasury Stock	(67,430)	
Equity attributable to equity holders of the parent	235,670	
Non-controlling interests	89,983	
Total Equity	325,653	
Total Capitalization	976,854	

Terms of the Offer

The following does not purport to be a complete listing of all the rights, obligations and privileges attaching to or arising from the Offer Shares. Some rights, obligations or privileges may be further limited or restricted by other documents and subject to final documentation. Prospective shareholders are enjoined to perform their own independent investigation and analysis of the Issuer and the Offer Shares. Each prospective shareholder must rely on its own appraisal of the Issuer and the Offer Shares and its own independent verification of the information contained herein and any other investigation it may deem appropriate for the purpose of determining whether to invest in the Offer Shares and must not rely solely on any statement or the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective shareholder's independent evaluation and analysis.

Issuer	San Miguel Corporation ("SMC", the "Company")
Offer Size	₱72 billion with an oversubscription of up to ₱8.025 billion
Instrument	Series "2" cumulative, non-voting, non-participating, non-convertible preferred shares (the "Series 2" Preferred Shares") consisting of up to One Billion One Hundred Million (1,100,000,000) preferred shares. The Series "2" Preferred Shares will be issued in up to three subseries out of an increase in authorized capital stock ("Increase"). All subscription payments received in the Offer (as this term is used below) will fund the Increase.
The Offer	<p>SMC, through the Selling Agents, is offering for subscription up to 1,067,000,000 Series "2" Preferred Shares (the "Offer").</p> <p>The Series "2" Preferred Shares will be issued in [up to] three subseries:</p> <ul style="list-style-type: none"> ▪ Subseries "2-A"; ▪ Subseries "2-B"; and ▪ Subseries "2-C". <p>The Board of Directors approved the Increase on April 18, 2012. On June 14, 2012, the stockholders of SMC approved the Increase and delegated to the Board of Directors the authority to determine the terms and conditions of the issuance of the Offer Shares.</p> <p>The application for Increase will be filed within five Banking Days from Subscription Payment Date (as this term is defined below), and is expected to be approved by the SEC no later than October [•], 2012, provided that SMC reserves the right to file the application for Increase at any time after the start of the Offer Period.</p> <p>SMC shall issue the Offer Shares within five Banking Days from the approval by the SEC of the Increase (the "Final Issue Date").</p>
Subscription Payment Date	Targeted to be on September [7], 2012
Use of Proceeds	SMC shall apply ₱[•] of the total subscription payments to the payment of fees and expenses of the Offer; ₱[•] to the redemption of Series "1" Preferred Shares; and ₱[•] for general corporate purposes.

Par Value	The Series “2” Preferred Shares have a par value of ₱5.00 per share.
Issue Price	The Series “2” Preferred Shares shall be offered at a price of ₱75.00 per share.
Dividend Rate	<p>As and if cash dividends are declared by the Board of Directors, cash dividends on the Series “2” Preferred Shares shall be at the fixed rates of:</p> <ul style="list-style-type: none"> • Subseries “2-A”: [•]% per annum; • Subseries “2-B”: [•]% per annum; and • Subseries “2-C”: [•]% per annum <p>in all cases calculated for each share by reference to the Issue Price thereof in respect of each Dividend Period (each, the “Dividend Rate” for the relevant subseries).</p>
Dividend Rate Step-Up	<p>Unless the Series “2” Preferred Shares are redeemed by SMC on the applicable Optional Redemption Dates (as defined below under “Optional Redemption and Purchase”), the Dividend Rate shall be adjusted thereafter to the higher of:</p> <p>(a) the Dividend Rate, or</p> <p>(b) (i) for Subseries “2-A”, if not redeemed on the fifth anniversary from the Final Issue Date of the subseries, the 10-year PDST-F rate plus 3% per annum;</p> <p>(ii) for Subseries “2-B”, if not redeemed on the seventh anniversary from the Final Issue Date of the subseries, the 15-year PDST-F rate plus 3% per annum; and</p> <p>(iii) for Subseries “2-C”, if not redeemed on the tenth anniversary from the Final Issue Date of the subseries, the 20-year PDST-F rate plus 3% per annum.</p>
Dividend Payment Dates	<p>Subject to limitations described in “Conditions on Payment of Cash Dividends”, dividends on the Series “2” Preferred Shares will be payable once for every Dividend Period on such date set by the Board of Directors at the time of declaration of such dividends (each a “Dividend Payment Date”), which date shall be no later than 15 calendar days from the end of the relevant Dividend Period. A “Dividend Period” shall be the period commencing on the Final Issue Date and having a duration of three months, and thereafter, each of the successive periods of three months commencing on the last day of the immediately preceding Dividend Period up to, but excluding the first day of the immediately succeeding Dividend Period.</p> <p>The dividends on the Series “2” Preferred Shares will be calculated on a 30/360-day basis and will be paid quarterly in arrears on each Dividend Payment Date, as and if declared by the Board of Directors, provided that, for the first Dividend Period, the first dividend shall be the sum of (a) the dividend accrued from the Final Issue Date up to the end of the first Dividend Period using the Dividend Rate, and (b) such additional amount as may be determined by the Board of Directors taking into account the fact</p>

	<p>that the proceeds of the Offer will be placed in a special deposit account of the BSP pending approval by the SEC of the Increase,</p> <p>If the Dividend Payment Date is not a Banking Day, cash dividends will be paid on the next succeeding Banking Day, without adjustment as to the amount of cash dividends to be paid.</p>
Conditions on Payment of Cash Dividends	<p>The declaration of cash dividends will be subject to the discretion of the Board of Directors to the extent permitted by law.</p> <p>The Board of Directors will not declare and pay cash dividends on any Dividend Payment Date where (a) payment of the cash dividend would cause SMC to breach any of its financial covenants or (b) the profits available to SMC to distribute as cash dividends are not sufficient to enable SMC to pay in full both the cash dividends on the Series "2" Preferred Shares and the dividends on all other classes of the shares of SMC that are scheduled to be paid on or before the same date as the cash dividends on the Series "2" Preferred Shares and that have an equal right to dividends as the Series "2" Preferred Shares.</p> <p>If the profits available to distribute as dividends are, in the opinion of the Board of Directors, not sufficient to enable SMC to pay in full on the same date both cash dividends on the Series "2" Preferred Shares and the dividends on other shares that have an equal right to dividends as the Series "2" Preferred Shares, SMC is required first, to pay in full, or to set aside an amount equal to, all dividends scheduled to be paid on or before that Dividend Payment Date on any shares with a right to dividends ranking in priority to that of the Series "2" Preferred Shares; and second, to pay cash dividends on the Series "2" Preferred Shares and any other shares ranking equally with the Series "2" Preferred Shares as to participation in profits pro rata to the amount of the cash dividends scheduled to be paid to them. The amount scheduled to be paid will include the amount of any dividend payable on that date and any arrears on past cumulative dividends on any shares ranking equal in the right to dividends with the Series "2" Preferred Shares.</p> <p>Any such cash dividends deferred or not declared in accordance with the above provisions shall constitute "Arrears of Dividends" which shall accrue cash dividends at the prevailing Dividend Rate.</p> <p>The profits available for distribution are, in general and with some adjustments, equal to the accumulated, realized profits of SMC less accumulated, realized loss.</p> <p>Cash dividends on the Series "2" Preferred Shares will be cumulative. If for any reason the Board of Directors of SMC does not declare a cash dividend on the Series "2" Preferred Shares for a Dividend Period, SMC will not pay a cash dividend on the Dividend Payment Date for that Dividend Period. However, on any future Dividend Payment Date on which cash dividends are declared, holders of the Series "2" Preferred Shares must receive the accrued and unpaid cash dividends due them on such Dividend Payment Date as well as all Arrears of Dividends to the holders of the Series "2" Preferred Shares prior to such Dividend Payment Date.</p>

	<p>Holders of the Series “2” Preferred Shares shall not be entitled to participate in any other or further dividends, cash, property or stock beyond the dividends specifically payable on the Series “2” Preferred Shares.</p> <p>SMC will covenant that, in the event (a) any cash dividends due with respect to any Series “2” Preferred Shares then outstanding for any period are not declared and paid in full when due; (b) where there remains outstanding Arrears of Dividends; or (c) any other amounts payable under the terms and conditions described in this Prospectus are not paid in full when due for any reason, then it will not declare or pay any dividends or other distributions in respect of, or repurchase or redeem, securities ranking <i>pari passu</i> with, or junior to, the Series “2” Preferred Shares (or contribute any moneys to a sinking fund for the redemption of any securities ranking <i>pari passu</i> with, or junior to, the Series “2” Preferred Shares) until any and all Arrears of Dividends and accrued but unpaid cash dividends have been paid to the holders of the Series “2” Preferred Shares.</p>
Optional Redemption and Purchase	<p>As and if declared by the Board of Directors, SMC may redeem the Series “2” Preferred Shares on the following dates, or on the last day of any Dividend Period thereafter (each an “Optional Redemption Date”) in whole or in part, at a redemption price equal to the relevant Issue Price of the Series “2” Preferred Shares plus any accrued and unpaid cash dividends due them on such Dividend Payment Date as well as all Arrears of Dividends outstanding (the “Redemption Price”):</p> <ul style="list-style-type: none"> (i) For Subseries “2-A”, the third anniversary from Final Issue Date thereof; (ii) For Subseries “2-B”, the fifth anniversary from Final Issue Date thereof; and (iii) For Subseries “2-C”, the seventh anniversary from Final Issue Date thereof. <p>If at anytime, SMC is allowed to redeem more than one Subseries, SMC has the option to redeem, without preference or priority, in whole or in part, any or all of the Subseries.</p> <p>SMC may also redeem the Series “2” Preferred Shares, in whole or in part, at any time prior to any Optional Redemption Date if an Accounting Event, Tax Event or a Special Event (each as defined below) has occurred and is continuing, in each case at the Redemption Price.</p> <p>Once the Series “2” Preferred Shares are listed on the PSE, SMC may purchase the Series “2” Preferred Shares at any time in the open market or by public tender or by private contract at any price through the PSE. The Series “2” Preferred Shares so purchased may either be redeemed and cancelled (after the Optional Redemption Date) or kept as treasury shares.</p>
No Sinking Fund	<p>SMC has not established, and currently has no plans to establish, a sinking fund for the redemption of the Series “2” Preferred Shares.</p>

Accounting Event	An accounting event ("Accounting Event") shall occur if an opinion of any recognized person authorized to perform auditing services in the Republic of the Philippines has stated that there is more than an insubstantial risk that the funds raised through the issuance of the Series "2" Preferred Shares may no longer be recorded as "equity" pursuant to the PFRS, or such other accounting standards which succeed PFRS, as adopted by the Republic of the Philippines, applied by SMC for drawing up its consolidated financial statements for the relevant financial year.
Tax Event	A tax event ("Tax Event") shall occur if dividend payments become subject to higher withholding tax or any new tax (including a higher rate of an existing tax) as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such tax cannot be avoided by use of reasonable measures available to SMC.
Special Event	<p>SMC may redeem in whole, or in part, at any time after Final Issue Date but prior to [31 October 2012] at the Redemption Price upon a Special Event (as defined below).</p> <p>A "Special Event" will be deemed to have occurred if SMC receives either (i) notice from a court, tribunal, or government authority with relevant competence that SMC is restrained or otherwise prohibited from redeeming the Series "1" Preferred Shares in accordance with their terms or (ii) advice from legal counsel to SMC in the Republic of Philippines with relevant experience and competence in such matter that it should not redeem the Series "1" Preferred Shares in order to comply with any relevant ruling, determination, or other similar order from a court, tribunal or governmental authority with relevant competence for making such orders.</p>
Taxation	<p>Subject to the proviso set forth below, all payments in respect of the Series "2" Preferred Shares are to be made free and clear of any deductions or withholding for or on account of any future taxes or duties imposed by or on behalf of Republic of the Philippines, including but not limited to, stamp, issue, registration, documentary, value added or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, SMC will pay additional amounts so that holders of the Series "2" Preferred Shares will receive the full amount of the relevant payment which otherwise would have been due and payable. Provided, however, that SMC shall not be liable for, and the foregoing payment undertaking of SMC shall not apply to: (a) the applicable final withholding tax applicable on dividends earned on the Series "2" Preferred Shares prescribed under the Tax Code (as may amended from time to time), (b) any expanded value added tax which may be payable by any holder of the Series "2" Preferred Shares on any amount to be received from SMC under the Offer and (c) any withholding tax on any amount payable to any holder of Series "2" Preferred Shares or any entity which is a non-resident foreign corporation.</p> <p>Documentary stamp tax for the primary issue of the Series "2" Preferred Shares and the documentation, if any, shall be for the account of SMC.</p> <p>The applicable taxes to any subsequent sale of the Series "2" Preferred Shares by any holder of the Series "2" Preferred Shares</p>

	shall be for the account of the said holder.
Liquidation Rights	<p>In the event of a return of capital in respect of the liquidation, dissolution or winding up of the affairs of SMC but not on a redemption or purchase by SMC of any of its share capital, the holders of the Series “2” Preferred Shares at the time outstanding will be entitled to receive, in Pesos out of the assets of SMC available for distribution to shareholders, together with the holders of any other of the shares of SMC ranking, as regards repayment of capital, <i>pari passu</i> with the Series “2” Preferred Shares and before any distribution of assets is made to holders of any class of the shares of SMC ranking after the Series “2” Preferred Shares as regards repayment of capital, liquidating distributions in an amount equal to the Redemption Price as of (and including) the date of commencement of the winding up of SMC or the date of any such other return of capital, as the case may be. If, upon any return of capital in the winding up of SMC, the amount payable with respect to the Series “2” Preferred Shares and any other of shares of SMC ranking as to any such distribution <i>pari passu</i> with the Series “2” Preferred Shares are not paid in full, the holders of the Series “2” Preferred Shares and of such other shares will share proportionately in any such distribution of the assets of SMC in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Series “2” Preferred Shares will have no right or claim to any of the remaining assets of SMC and will not be entitled to any further participation or return of capital in a winding up.</p>
Form, Title and Registration of the Series “2” Preferred Shares	<p>Once the Series “2” Preferred Shares are listed on the PSE, the Series “2” Preferred Shares will be issued in scripless form through the electronic book-entry system of SMC Stock Transfer Service Corporation as registrar for the Offer, and lodged with PDTC as depository agent on listing date through PSE trading participant nominated by the applicants. In anticipation of the eventual listing of the Series “2” Preferred Shares on the PSE, applicants shall indicate in the proper space provided for in the Application Form (as defined below under “Offer Period” the name of a PSE trading participant under whose name their Shares will be registered.</p> <p>After listing date, shareholders may request the registrar, through their nominated PSE trading participant, to (a) open a scripless registry account and have their holdings of the Series “2” Preferred Shares registered under their name (“name-on-registry account”), or (b) issue stock certificates evidencing their investment in the Series “2” Preferred Shares. Any expense that will be incurred in relation to such registration or issuance shall be for the account of the requesting shareholder.</p> <p>Legal title to the Series “2” Preferred Shares will be shown in an electronic register of shareholders (the “Registry of Shareholders”) which shall be maintained by the registrar. The registrar shall send a transaction confirmation advice confirming every receipt or transfer of the Series “2” Preferred Shares that is effected in the Registry of Shareholders (at the cost of the requesting shareholder). The registrar shall send (at the cost of SMC) at least once every year a statement of account to all shareholders named in the Registry of Shareholders, except certificated shareholders and depository participants, confirming</p>

	the number of shares held by each shareholder on record in the Registry of Shareholders. Such statement of account shall serve as evidence of ownership of the relevant shareholder as of the given date thereof. Any request by shareholders for certifications, reports or other documents from the registrar, except as provided herein, shall be for the account of the requesting shareholder.
Selling and Transfer Restrictions	After listing, the subsequent transfers of interests in the Series “2” Preferred Shares shall be subject to normal selling restrictions for listed securities as may prevail in the Philippines from time to time.
Governing Law	The Series “2” Preferred Shares will be issued pursuant to the laws of the Republic of the Philippines.

Other Terms of the Offer	
Offer Period	<p>The offer period shall commence on [August 7, 2012] and end on [August 31, 2012] (the “Offer Period”). SMC and the Joint Bookrunners reserve the right to extend or terminate the offer period with the approval of the SEC and the PSE.</p> <p>Applications shall be considered irrevocable upon submission to any Joint Bookrunner or Selling Agent, and shall be subject to the terms and conditions of the Offer as stated in this Prospectus and in the application to subscribe and purchase form (the “Application Form”). Applications to subscribe to the Series “2” Preferred Shares (each an “Application”) must be received by the Receiving Agent not later than [•], Manila time on [•] if filed through a Selling Agent, or not later than [•] Manila time on [•] if filed directly with the Joint Bookrunners. Applications received thereafter or without the required documents and/or full payments will be rejected.</p>
Minimum Subscription to the Series “2” Preferred Shares	Each Application shall be for a minimum of [•] Series “2” Preferred Shares, and thereafter, in multiples of [•] Series “2” Preferred Shares. No Application for multiples of any other number of Series “2” Preferred Shares will be considered.
Eligible Investors	<p>The Series “2” Preferred Shares may be owned or subscribed to by any person, partnership, association or corporation regardless of nationality, subject to limits under Philippine law. However, under certain circumstances, SMC may reject an Application or reduce the number of Series “2” Preferred Shares applied for subscription or purchase.</p> <p>Subscription to the Series “2” Preferred Shares may be restricted in certain jurisdictions. Foreign investors interested in subscribing or purchasing the Series “2” Preferred Shares should inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. Foreign investors, both corporate and individual, warrant that their purchase of the Series “2” Preferred Shares will not violate the laws of their jurisdiction and that they are allowed to acquire,</p>

	purchase and hold the Series “2” Preferred Shares.
Procedure for Application	<p>Application Forms may be obtained from any of the Joint Bookrunners and Selling Agents. All Applications shall be evidenced by the Application Form, duly executed in each case by an authorized signatory of the applicant and accompanied by two (2) completed signature cards, the corresponding payment for the Series “2” Preferred Shares covered by the Application and all other required documents including documents required for registry with the registrar and depository agent. The duly executed Application Form and required documents should be submitted to the Joint Bookrunners or Selling Agents on or prior to the set deadline for submission of Applications for Bookrunners and Selling Agents, respectively. If the applicant is a corporation, partnership, or trust account, the Application must be accompanied by the following documents:</p> <ul style="list-style-type: none"> a. a certified true copy of the applicant’s latest articles of incorporation and by-laws and other constitutive documents, each as amended to date, duly certified by the corporate secretary; b. a certified true copy of the applicant’s SEC certificate of registration, duly certified by the corporate secretary; and c. a duly notarized corporate secretary’s certificate setting forth the resolution of the applicant’s board of directors or equivalent body authorizing (i) the purchase of the Series “2” Preferred Shares indicated in the application and (ii) the designated signatories for the purpose, including their respective specimen signatures.
Payment for the Series “2” Preferred Shares	<p>The Issue Price of the Series “2” Preferred Shares must be paid in full upon submission of the Application.</p> <p>Payment shall be in the form of either:</p> <ul style="list-style-type: none"> (i) a Metro Manila clearing Cashier’s/Manager’s or corporate check or personal check drawn against a bank account with a BSP-authorized agent bank located in Metro Manila and dated as of the date of submission of the Application Form covering the entire number of Series “2” Preferred Shares covered by the same Application. Checks should be made payable to “SMC Preferred Shares Offer”; or (ii) for applicants submitting their Application to any of the Joint Bookrunners or Selling Agents, (a) through the Real Time Gross Settlement facility of the BSP to the Joint Bookrunner or Selling Agent to whom such Application was submitted or (b) via direct debit to their deposit account maintained with the Joint Bookrunner or Selling Agent.
Acceptance/Rejection of Applications	<p>The actual number of Series “2” Preferred Shares that an Applicant will be allowed to subscribe to is subject to the confirmation of the Joint Bookrunners. SMC reserves the right to accept or reject, in whole or in part, or to reduce any application due to any grounds specified in the underwriting agreement to be entered into by SMC. Applications which were unpaid or where payments were insufficient and those that do not comply with the terms of the Offer shall be rejected. Moreover, any payment received pursuant to the Application does not constitute as</p>

	<p>approval or acceptance by SMC of the Application.</p> <p>An Application, when accepted, shall constitute an agreement between the applicant and SMC for the subscription to the Series “2” Preferred Shares at the time, in the manner and subject to terms and conditions set forth in the Application Form and those described in this Prospectus for the Offer. Notwithstanding the acceptance of an Application by SMC, all application payments may be returned by SMC to the applicants without interest if the approval of the Increase is not obtained by [•].</p>
Refunds of Application Payments	<p>In the event that the number of Series “2” Preferred Shares to be allotted to an applicant, as confirmed by a Joint Bookrunner or Selling Agent, is less than the number covered by its Application, or if an Application is wholly or partially rejected by SMC, then SMC shall refund, without interest, within five Banking Days from the end of the Offer Period, all, or a portion of the payment corresponding to the number of Series “2” Preferred Shares wholly or partially rejected. All refunds shall be made through the Joint Bookrunner or Selling Agent with whom the applicant has filed the Application at the applicant's risk.</p>
Tentative Listing and Trading Date	<p>The Series “2” Preferred Shares are expected to be listed on the PSE not later than [•]. Trading of the Series “2” Preferred Shares shall commence on the same date. Shareholders may trade their Series “2” Preferred Shares by giving appropriate written instructions to any PSE trading participant.</p>
Receiving Agent	SMC Stock Transfer Service Corporation
Registrar and Paying Agent	SMC Stock Transfer Service Corporation
Refund	<p>In the unlikely event that the Increase is not approved by the SEC by [•] or a Special Event occurs prior to the Final Issue Date, all payments made by the applicant for the Series “2” Preferred Shares shall be returned in full and without interest to such applicants within five Banking Days from [•] (if the refund is being made due to non-approval by the SEC of the Increase) or Final Issue Date (if the refund is being made due to a Special Event), in accordance with the procedure for refund set out in the Application Form for the Offer.</p>

Description of the Series “2” Preferred Shares

Set forth below is information relating to the Series “2” Preferred Shares. This description is only a summary and is qualified by reference to Philippine law and Amended Articles of Incorporation and Amended By-laws of SMC, copies of which are available at the SEC.

Share Capital of SMC

A Philippine corporation may issue common or preferred shares, or such other classes of shares with such rights privileges or restrictions as may be provided for in the articles of incorporation and the by-laws of the corporation.

As of May 31, 2012, SMC has an authorized capital stock of ₱22,500,000,000.00, divided into 3,390,000,000 common shares and 1,110,000,000 Series “1” Preferred Shares, both with par value of ₱5.00. The Company had a total of 3,279,555,758 common shares issued, of which 2,369,405,805 are outstanding shares and 910,149,953 are treasury shares, and 970,506,353 Series “1” Preferred Shares.

The Offer Shares

On April 18, 2012, the Board of Directors approved the increase in the authorized capital stock of SMC and the creation of Series “2” Preferred Shares as follows:

<i>Current Authorized Capital Stock</i>	<i>Amendment</i>
₱22.50 Billion, divided into <ul style="list-style-type: none">• 3,390,000,000 Common Shares and• 1,110,000,000 Series “1” Preferred Shares all with par value of ₱5.00 per share.	₱30 Billion, divided into <ul style="list-style-type: none">• 3,790,000,000 Common Shares• 1,110,000,000 Series “1” Preferred Shares and• 1,100,000,000 Series “2” Preferred Shares all with par value of ₱5.00 per share.

On June 14, 2012, the stockholders of SMC approved the increase in the authorized capital stock as stated above and delegated to the Board of Directors the authority to determine the terms and conditions of the issuance of the Offer Shares.

Issuance of Series “2” Preferred Shares

The Series “2” Preferred Shares will be Philippine Peso-denominated, perpetual, cumulative, non-participating and non-voting, and may be issued in subseries or tranches, each with different features on dividend rate, redemption and adjustment of dividend rate. The number of Series “2” Preferred Shares to be allocated to each subseries or tranche shall be determined by the Board of Directors.

SMC is considering exercising its option to redeem the Series “1” Preferred Shares, which may be redeemed beginning the third anniversary from their issue date. The redemption will be funded by the proceeds of the issuance of the Series “2” Preferred Shares.

The shares will have a par value of ₱5.00 per share and with the following features:

(a) **Dividends** – The Board of Directors shall have the sole discretion to declare dividends on the Series “2” Preferred Shares, provided that SMC has unrestricted retained earnings, and provided that the rate of dividend or formula for determining the same rate shall be indicated in the relevant enabling resolutions.

It is envisioned that the dividends, if and when declared by the Board of Directors, will be payable quarterly, beginning on the third month after the issue date and every three months thereafter, and calculated by reference to the Issue Price.

The holders of Series “2” Preferred Shares shall not be entitled to any participation or share in the retained earnings remaining after dividend payment shall have been made on the shares as aforementioned, nor shall they be entitled to any other kind of dividend payment whether cash, property, or stock, other than corresponding to the dividend rate determined by the Board of Directors.

For the dividend rights on the Offer Shares, please see “Terms of the Offer” on page [].

(b) **Conversion** - The Series “2” Preferred Shares may be convertible into common shares, as determined by the Board of Directors, on terms and conditions (including conversion period, conversion ratio and price) to be determined and fixed by the Board of Directors in the relevant Enabling Resolutions.

However, as determined by the Board of Directors, the Offer Shares are not convertible into common shares.

(c) **Redemption** – SMC has the option, but not the obligation, to redeem all or part of the Series “2” Preferred Shares at a price and at such time that the Board of Directors shall determine. The Series “2” Preferred Shares, when redeemed, shall not be considered retired and may be re-issued by SMC at a price to be determined by the Board of Directors.

As and if declared by the Board of Directors, SMC may redeem the Series “2” Preferred Shares on the Redemption Price.

If at anytime, SMC is allowed to redeem more than one Subseries, SMC has the option to redeem, without preference or priority, in whole or in part, any or all of the Subseries.

SMC has not established, and currently has no plans to establish, a sinking fund for the redemption of the Offer Shares.

SMC may purchase the Offer Shares at any time after the date of listing with the PSE, in the open market or by public tender or by private contract at any price through the PSE. The Offer Shares so purchased may either be redeemed and cancelled (after the Optional Redemption Date) or kept as treasury shares.

For a more detailed discussion, please see “Terms of the Offer” on page [].

(d) **Liquidation** – In the event of liquidation, dissolution, bankruptcy or winding up of SMC, the outstanding Series “2” Preferred Shares, together with any outstanding Series “1” Preferred Shares, shall have preference in payment, in full or, if the assets of SMC are insufficient, on a pro-rata basis as among holders of Series “1” Preferred Shares and Series “2” Preferred Shares, of the Issue Price of their shares plus any previously declared and unpaid dividends, before any asset of SMC is paid or distributed to holders of the common shares of SMC.

In the event of a return of capital in respect of liquidation, dissolution or winding up of the affairs of SMC but not on a redemption or purchase by SMC of any of its share capital, the holders of the Offer Shares at the time outstanding will be entitled to receive, in Pesos out of the assets of SMC available for distribution to shareholders, together with the holders of any other of the shares of SMC ranking, as regards repayment of capital, *pari passu* with the Offer Shares and before any distribution of assets is made to holders of any class of shares ranking after the Offer Shares as regards repayment of capital, liquidating distributions in an amount equal to the Redemption Price of (and including) the date of commencement of the winding up of SMC or the date of any such other return of capital, as the case may be. If, upon any return of capital in the winding up of SMC, the amount payable with respect to the Offer Shares and any other of the shares of SMC ranking as to any such distribution *pari passu* with the Offer Shares are not paid in full, the holders of the Offer Shares and of such other shares will share proportionately in any such distribution of the assets of SMC in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount

of the liquidating distribution to which they are entitled, the holders of the Offer Shares will have no right or claim to any of the remaining assets of SMC and will not be entitled to any further participation or return of capital in a winding up.

(e) **Voting Rights** – Holders of the Series “2” Preferred Shares shall not be entitled to vote except in cases expressly provided by law. Thus, the holders of the Series “2” Preferred Shares are not eligible, for example, to vote for or elect the Board of Directors of SMC. Holders of the Series “2” Preferred Shares, including the Offer Shares, however, may vote on matters which the Corporation Code considers significant corporate acts that may be implemented only with the approval of shareholders, including those holding shares denominated as non-voting in the articles of incorporation. The following acts require the approval of the shareholders representing at least two-thirds of the issued and outstanding capital stock of SMC in a meeting duly called for the purpose:

- Amendment of the Amended Articles of Incorporation (including any increase or decrease of capital stock);
- Delegation to the Board of Directors of the power to amend or repeal the Amended By-laws or to adopt a new by-laws;
- Sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the assets of SMC;
- Incurring, creating or increasing bonded indebtedness;
- Increase or decrease of capital stock;
- Merger or consolidation of SMC with another corporation or corporations;
- Investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which SMC was organized;
- Ratification of contracts of a director or an officer with SMC;
- Extension or shortening of the corporate term of SMC;
- Declaration and issuance of stock dividends; and
- Dissolution of SMC.

However, for the amendment of the Amended By-laws of SMC, the approval of the shareholders representing at least a majority of the issued and outstanding capital stock of SMC in a meeting duly called for the purpose is required.

(f) **Pre-emptive Rights** – Holders of the Series “2” Preferred Shares including the Offer Shares, shall have no pre-emptive right to any issue or disposition of any share of any class of SMC.

It is envisioned that the Series “2” Preferred Shares will be listed on the PSE within one month from Subscription Payment Date, subject to compliance with the requirements of the PSE.

General Effect on Rights of Existing Shareholders

Other than the dividend rate (including adjustments thereto) and the redemption date, it is envisioned that the Series “2” Preferred Shares will have the same features as the Series “1” Preferred Shares. The Series “1” Preferred Shares and Series “2” Preferred Shares both enjoy certain preferences over common shares in terms of dividends and in the event of liquidation, dissolution, bankruptcy or winding up of SMC.

- Under the terms of the Series “1” Preferred Shares and the terms of the Series “2” Preferred Shares, no dividend shall be declared and paid on the common shares of SMC unless cash dividends shall have been declared and paid to all Series “1” and Series “2” Preferred Shares.
- In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of SMC, holders of Series “1” and Series “2” Preferred Shares shall be paid the issue price of their shares plus any previously declared and unpaid dividends before any asset of SMC is paid or distributed to the holders of the common shares.

For a better appreciation of the features of the Series “2” Preferred Shares and the effect of the issuance thereof on the rights of the common stockholders, set out below is a comparison of the features of the common shares of SMC with the Series “1” and Series “2” Preferred Shares as presented to the stockholders of SMC.

	COMMON SHARES	SERIES “1” PREFERRED SHARES	SERIES “2” PREFERRED SHARES
Entitlement to Dividends	<p><u>Declaration of Dividends at the Option of the Board</u></p> <p>The holders of common shares may be entitled to receive dividends upon declaration made at the sole option of the Board of Directors.</p> <p><u>No Fixed Dividend Rate</u></p> <p>There is no fixed dividend rate for common shares.</p> <p>Historically, SMC declares a cash dividend of ₱0.35 on a quarterly basis.</p>	<p><u>Declaration of Dividends at the Option of the Board</u></p> <p>The holders of Series “1” Preferred Shares shall be entitled to receive cash dividends upon declaration made at the sole option of the Board of Directors.</p> <p><u>Fixed Dividend Rate</u></p> <p>The annual dividends for Series “1” Preferred Shares shall be based on the 5-year PDST-F rate plus a spread which the Board of Directors has authorized Management to determine (“Dividend Rate”) calculated in respect of each share by reference to the issue price thereof (the “Issue Price”).</p> <p>On this basis and pursuant to such authority granted to Management, the Dividend Rate has been determined to be eight percent (8%) per annum.</p> <p><u>Dividend Rate Adjustment</u></p> <p>Unless the Series “1” Preferred Shares are redeemed at the end of the fifth year of the issue date thereof (the “Issue Date”), the Dividend Rate shall be adjusted to the higher of: (i) the Dividend Rate; and (ii) the prevailing 10-year PDST-F Rate (or such</p>	<p><u>Declaration of Dividends at the Option of the Board</u></p> <p>The holders of Series “2” Preferred Shares shall be entitled to receive cash dividends upon declaration made at the sole option of the Board of Directors.</p> <p><u>Fixed Dividend Rate</u></p> <p>The dividend rate shall be determined by the Board of Directors prior to the Issue Date.</p> <p><u>Dividend Rate Adjustment</u></p> <p>Dividend rate adjustment, if any, shall be determined by the Board of Directors prior to the Issue Date</p>

COMMON SHARES	SERIES "1" PREFERRED SHARES	SERIES "2" PREFERRED SHARES
	<p>successor benchmark rate) as displayed under the heading "Bid Yield" as published on the PDEX page (or successor page) of Bloomberg (or successor electronic service provider) at approximately 11:30 a.m., Manila time on the date corresponding to the end of the fifth year from the Issue Date (or if not available, the PDST-F Rate on the banking day prior to such date, or if still not available, the nearest preceding date on which the PDST-F Rate is available, but if such nearest preceding date is more than five days prior to the date corresponding to the end of the fifth year from the Issue Date, the Board of Directors at its reasonable discretion shall determine the appropriate substitute rate), plus a spread of up to 300 basis points, in either case calculated in respect of each share by reference to the Issue Price.</p>	
<p><u>Subordinate to Series "1" and Series "2" Preferred Shares</u></p> <p>No dividend shall be declared and paid to holders of common shares unless cash dividends shall have been declared and paid to all holders of the Series "1" and Series "2" Preferred Shares.</p>	<p><u>When Payable</u></p> <p>The dividends declared shall be payable quarterly, beginning on the third month after the Issue Date of the Series "1" Preferred Shares and every three months thereafter (each, a "Dividend Payment Date").</p>	<p><u>When Payable</u></p> <p>It is envisioned that the dividends declared shall be payable quarterly, beginning on the third month after the Issue Date of the Series "2" Preferred Shares and every three months thereafter (each, a "Dividend Payment Date").</p>
<p><u>Non-cumulative</u></p> <p>The dividends on the common shares are non-</p>	<p><u>Cumulative</u></p> <p>The dividends on the Series "1" Preferred</p>	<p><u>Cumulative</u></p> <p>It is envisioned that the dividends on the Series</p>

COMMON SHARES		SERIES "1" PREFERRED SHARES	SERIES "2" PREFERRED SHARES
cumulative.		Shares are cumulative. (This means that if the profits in any year are not enough to pay the preferred dividends, the deficiency is made up from the profits of the subsequent year.)	"2" Preferred Shares shall be cumulative. (This means that if the profits in any year are not enough to pay the preferred dividends, the deficiency is made up from the profits of the subsequent year.)
		<u>Non-Participating</u>	<u>Non-Participating</u>
		The holders of the Series "1" Preferred Shares shall not be entitled to any participation or share in the retained earnings remaining after dividend payment shall have been made on said Series "1" Preferred Shares.	The holders of the Series "2" Preferred Shares shall not be entitled to any participation or share in the retained earnings remaining after dividend payment shall have been made on said Series "2" Preferred Shares. The holders of the Series "2" Preferred Shares shall not be entitled to participate or share in any other distribution or payment of dividends other than corresponding to the dividend rate prescribed in the Enabling Resolutions.
Redeemability		<u>Non-redeemable</u>	<u>Redeemable</u>
Common Shares are not redeemable.		<p>The Series "1" Preferred Shares are redeemable in whole or in part, at the sole option of the Company, at the end of three years from the Issue Date or on any Dividend Payment Date thereafter, at the price equal to the Issue Price plus any accumulated unpaid cash dividends.</p> <p>The Series "1" Preferred Shares, when redeemed, shall not be considered retired and may be re-issued by the Company at a price to be determined by the Board of Directors.</p>	<p>It is envisioned that the Series "2" Preferred Shares shall be redeemable in whole or in part, at the sole option of the Company.</p> <p>The Series "2" Preferred Shares, when redeemed, shall not be considered retired and may be re-issued by the Company at a price to be determined by the Board of Directors.</p> <p>Series "2" Preferred Shares are also perpetual or have no stated maturity.</p>

	COMMON SHARES	SERIES "1" PREFERRED SHARES	SERIES "2" PREFERRED SHARES
		Series "1" Preferred Shares are also perpetual or have no stated maturity.	
Rights Upon Liquidation/ Dissolution/ Bankruptcy/ Winding Up	<u>Subordinate to Series "1" and Series "2" Preferred Shares</u> The right of the holders of Common Shares to receive any asset of the Company in case of liquidation, dissolution, bankruptcy or winding up of the Company is subordinate to the holders of the Series "1" and Series "2" Preferred Shares.	<u>Preference over Common Shares upon Liquidation</u> In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of the Company, the holders of the Series "1" Preferred Shares shall enjoy preference in the payment, in full, or if the remaining assets of the Company are insufficient, on a pro-rata basis as among all holders of outstanding Series "1" and Series "2" Preferred Shares, of the Issue Price of their shares plus any previously declared and unpaid dividends, before any asset of the Company is paid or distributed to the holders of Common Shares.	<u>Preference over Common Shares upon Liquidation</u> In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of the Company, the holders of the Series "1" Preferred Shares and the Series "2" Preferred Shares shall enjoy preference in the payment, in full, or if the remaining assets of the Company are insufficient, on a pro-rata basis as among all holders of outstanding Series "1" and Series "2" Preferred Shares, of the Issue Price of their shares plus any previously declared and unpaid dividends, before any asset of the Company is paid or distributed to the holders of Common Shares.
Voting Rights	<u>With Voting Rights</u> Common stockholders have the right to vote on all matters requiring stockholders' approval. Under the Corporation Code, the following corporate actions require the approval of the stockholders of a corporation: <ol style="list-style-type: none"> 1. Amendment of articles of incorporation; 	<u>No Voting Rights</u> The holders of the Series "1" Preferred Shares shall not be entitled to vote except in the following instances: <ol style="list-style-type: none"> 1. Amendment of articles of incorporation; 	<u>No Voting Rights</u> The holders of the Series "2" Preferred Shares shall not be entitled to vote except in the following instances: <ol style="list-style-type: none"> 1. Amendment of articles of incorporation; 2. Adoption and

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| <ul style="list-style-type: none"> 2. Adoption and amendment of by-laws; 3. Sale, lease exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; 4. Incurring, creating or increasing bonded indebtedness; 5. Increase or decrease of capital stock; 6. Merger or consolidation with another corporation or other corporations; 7. Investment of corporate funds in another corporation or business; 8. Dissolution; 9. Removal of directors; 10. Ratification of the contract of a self-dealing director or officer/ratification of act of a disloyal director who obtains profits to the prejudice of the corporation; 11. Extension or shortening of the corporate term; 12. Declaration of stock dividends; 13. Approval of management contracts; and 14. Delegation of the power to amend or repeal by-laws or adopt new by-laws to the board of directors or trustees. | <ul style="list-style-type: none"> 2. Adoption and amendment of by-laws; 3. Sale, lease exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; 4. Incurring, creating or increasing bonded indebtedness; 5. Increase or decrease of capital stock; 6. Merger or consolidation with another corporation or other corporations; 7. Investment of corporate funds in another corporation or business; and 8. Dissolution. | <ul style="list-style-type: none"> amendment of by-laws; 3. Sale, lease exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; 4. Incurring, creating or increasing bonded indebtedness; 5. Increase or decrease of capital stock; 6. Merger or consolidation with another corporation or other corporations; 7. Investment of corporate funds in another corporation or business; and 8. Dissolution. |
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Pre-Emptive Right	<u>No Pre-Emptive Right</u>	<u>No Pre-Emptive Right</u>	<u>No Pre-Emptive Right</u>
	There shall be no pre-emptive right to any issuance of common shares.	The holders of the Series "1" Preferred Shares shall have no pre-emptive right to any issue or disposition of any share of any class of the Company.	The holders of the Series "2" Preferred Shares shall have no pre-emptive right to any issue or disposition of any share of any class of the Company.
PSE Listing	<u>Listed with the PSE</u>	<u>Listed with the PSE</u>	<u>Not Listed with the PSE</u>
	The common shares of the Company are listed with and traded on the PSE.	The Series "1" Preferred Shares are listed with the PSE.	The Series "2" Preferred Shares will be listed with the Philippine Stock Exchange (PSE) within one (1) month from Issue Date, subject to the requirements of the PSE.

Upon approval of the increase in the authorized capital stock of the Company, the resulting increase and distribution of shares of SMC shall be as follows:

	Present Authorized Capital	Proposed Increase	Resulting Authorized Capital
Common Shares	3,390,000,000	400,000,000	3,790,000,000
Series "1" Preferred Shares	1,110,000,000	0	1,110,000,000
Series "2" Preferred Shares	- o -	1,100,000,000	1,100,000,000
Total	<u>4,500,000,000</u>	<u>1,500,000,000</u>	<u>6,000,000,000</u>
	₱22,500,000,000	₱7,500,000,000	₱30,000,000,000

Other Rights and Incidents Relating to the Series "2" Preferred Shares

Following are other rights and incidents relating to the Series "2" Preferred Shares, which may also apply to other classes of shares of SMC.

Derivative Suit

Philippine law recognizes the right of a shareholder to institute, under certain circumstances, proceedings on behalf of the corporation in a derivative action in circumstances where the corporation itself is unable or unwilling to institute the necessary proceedings to redress wrongs committed against the corporation or to vindicate corporate rights, as for example, where the directors themselves are the malefactors.

Appraisal Rights

The Corporation Code grants a shareholder a right of appraisal in certain circumstances where he has dissented and voted against a proposed corporate action, including:

- an amendment of the articles of incorporation which has the effect of adversely affecting the rights attached to his shares or of authorizing preferences in any respect superior to those of outstanding shares of any class or shortening the term of corporate existence;
- the sale, lease, exchange, transfer, mortgage, pledge or other disposal of all or substantially all of the assets of the corporation;
- the extension of corporate term;
- the investment of corporate funds in another corporation or business for any purpose other than the primary purpose for which the corporation was organized; and
- a merger or consolidation.

In these circumstances, the dissenting shareholder may require the corporation to purchase his shares at a fair value which, in default of agreement, is determined by three disinterested persons, one of whom shall be named by the shareholder, one by the corporation, and the third by the two thus chosen. The SEC will, in the event of a dispute, determine any question about whether a dissenting shareholder is entitled to this right of appraisal. The dissenting shareholder will be paid if the corporate action in question is implemented and the corporation has unrestricted retained earnings sufficient to support the purchase of the shares of the dissenting shareholders.

Shareholders' Meetings

At the annual meeting or at any special meeting of shareholders of the Company, the latter may be asked to approve actions requiring shareholder approval under Philippine law.

Quorum

The Corporation Code provides that, except in instances where the assent of shareholders representing two-thirds of the outstanding capital stock is required to approve a corporate act (usually involving the significant corporate acts where even non-voting shares may vote, as identified above) or where the by-laws provide otherwise, a quorum for a meeting of shareholders will exist if shareholders representing a majority of the capital stock are present in person or by proxy.

Voting

At each shareholders' meeting, each shareholder shall be entitled to vote in person, or by proxy, all shares held by him which have voting power, upon any matter duly raised in such meeting.

The By-laws of SMC provide that proxies shall be in writing and signed and in accordance with the existing laws, rules and regulations of the SEC. Duly accomplished proxies must be submitted to the office of the Corporate Secretary not later than 10 trading days prior to the date of the shareholders' meeting.

Fixing Record Dates

The Board of Directors has the authority to fix in advance the record date for shareholders entitled: (a) to notice of, to vote at, or to have their votes voted at, any shareholders' meeting; (b) to receive payment of dividends or other distributions or allotment of any rights; or (c) for any lawful action or for making any other proper determination of shareholders' rights. The Board of Directors may, by resolution, direct the stock transfer books of the Company be closed for a period not exceeding 20 days preceding the date of any meeting of shareholders. The record date shall in no case be more than 60 days or less than 35 days preceding such meeting of shareholders.

Accounting and Auditing Requirements/Rights of Inspection

Philippine stock corporations are required to file copies of their annual financial statements with the SEC. Corporations whose shares are listed on the PSE are also required to file quarterly and annual reports with the SEC and the PSE. Shareholders are entitled to request copies of the most recent financial statements of the corporation which include a statement of financial position as of the end of the most recent tax year and a profit and loss statement for that year. Shareholders are also entitled to inspect and examine the books and records that the corporation is required by law to maintain.

The Board of Directors is required to present to shareholders at every annual meeting a financial report of the operations of the corporation for the preceding year. This report is required to include audited financial statements.

Changes in Control

There is no provision in the Amended Articles of Incorporation and Amended By-laws of SMC which would delay, deter or prevent a change in control of SMC. There are no existing arrangements to which SMC is a party or which are otherwise known to SMC that may result in a change in control of SMC.

Risk Factors

General Risk Warning

An investment in the Offer Shares involves a number of risks. The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance and there may be a large difference between the buying price and the selling price of the Offer Shares. The occurrence of any of the following events, or other events not currently anticipated, could have a material adverse effect on the business, financial condition, results of operations and cause the market price of the Offer Shares to decline. All or part of an investment in the Offer Shares could be lost.

Investors deal in a range of investments each of which may carry a different level of risk.

Prudence Required

The risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study on the trading of these securities before commencing any trading activity. Investors may request publicly-available information on the Offer Shares and SMC from the SEC and PSE.

Professional Advice

An investor should seek professional advice if he or she is uncertain of, or has not understood, any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially high risk securities.

Risk Factors

This Prospectus contains forward-looking statements that involve risks and uncertainties. SMC adopts what it considers conservative financial and operational controls and policies to manage its business risks. The actual results may differ significantly from the results discussed in the forward-looking statements. See section "Forward-Looking Statements" of this Prospectus. Factors that might cause such differences, thereby making the offering speculative or risky, may be summarized into those that pertain to the business and operations of SMC, in particular, and those that pertain to the over-all political, economic, and business environment, in general. These risk factors and the manner by which these risks shall be managed are presented below. The risk factors discussed in this section are of equal importance and are only separated into categories for easy reference.

Investors should carefully consider all the information contained in this Prospectus including the risk factors described below, before deciding to invest in the Offer Shares. The business, financial condition and results of operations of the Company could be materially and adversely affected by any of these risk factors.

Risks Related to the Company and the SMC Group

Risks associated with diversification of businesses and acquisition of new businesses

The traditional businesses of SMC comprise primarily of beverage, food, packaging products, and property development. SMC recently has embarked on a diversification strategy and has expanded into a number of new businesses, including energy, fuel and oil, infrastructure, mining, telecommunications and other businesses outside of its traditional businesses. SMC has implemented this strategy through a series of acquisitions and investments and intends to continue to pursue its diversification strategy. SMC intends to make further acquisitions and investments to enhance its product and brand portfolio and realize other strategic and cost benefits.

The diversification strategy of SMC involves a number of risks and challenges, including the substantial financial investments required to implement this strategy, diversion of the time of management and resources to focus on implementing the strategy and managing a broader scope of businesses and risks inherent in making new acquisitions and investments. Growth through acquisitions involves business risks, including unforeseen contingent risks, latent business liabilities and other challenges that may only become apparent after the acquisition is finalized, such as the successful integration and management of the acquired business by SMC, retention of key personnel, joint sales and marketing efforts, management of a larger business and diversion of the attention of management from other ongoing business matters. In addition, there is no assurance that SMC will achieve the anticipated benefits, expected returns, strategic benefits or synergies of an acquisition, or that SMC will be as successful in new businesses as it has been in its traditional businesses. Failure to successfully implement its diversification strategy, to integrate acquired businesses or to realize the anticipated benefits of acquisitions or investments could materially and adversely affect the business, financial condition, results of operations and prospects of SMC.

Ability of the largest shareholder of SMC to influence the corporate actions

Top Frontier Investment Holdings Inc. ("Top Frontier") is the single largest shareholder of SMC and holds approximately 61.11% of the common shares of SMC. Top Frontier may control approximately 82% of the voting rights of the common shares should it exercise its option to acquire an additional 20.8% of the common shares from other corporate shareholders of SMC on or prior to November 19, 2012. Top Frontier is able to influence the business of SMC through its ability to vote on corporate actions that require Board and shareholders' approval. The interests of Top Frontier may differ from the interests of the other shareholders of SMC.

Possible disagreements among partners of joint ventures of SMC

The businesses of some of the subsidiaries of SMC are conducted through joint ventures with other partners, including Kirin Holdings Company Limited for beverages, Hormel Foods Corporation for processed meats, and Nihon Yamamura Glass Co., Ltd. for various packaging products. Cooperation among the joint venture partners on business decisions is crucial to the sound operation and financial success of these joint venture companies. Although SMC maintains good relationships with its joint venture partners, there is no assurance that these relationships could be sustained in the future or that problems will not develop. For example, the joint venture partners of SMC may be unable or unwilling to fulfill their obligations, take actions contrary to its policies or objectives, or experience financial difficulties. If any of these events occur, the businesses of these joint ventures could be severely disrupted, which could have a material adverse effect on the financial condition of SMC and results of operations.

Dependence on trademarks and proprietary rights

The SMC Group uses various brand names and trademarks, including "San Miguel", "Ginebra San Miguel", "Purefoods", "Magnolia", "Star", "Dari Creme", "Petron", "Gasul", and other intellectual property rights to prepare, package, advertise, distribute and sell its products. Protection of those brands and intellectual property rights is important in maintaining the distinctive corporate and market

identities of the SMC Group. If third parties sell products which use counterfeit versions of SMC brands or otherwise look like SMC brands, consumers may confuse SMC products with products that they consider to be inferior. This could negatively impact the brand image and sales of the SMC Group, particularly the beverage and food businesses. In addition, the SMC Group has been granted numerous trademark registrations covering its brands and products, and has filed, and expects to continue to file, trademark applications seeking to protect newly developed brands and products.

The SMC Group continuously and diligently monitors products released in the market that may mislead consumers as to the origin of such products and attempt to ride on the goodwill of the brands and other proprietary rights of the SMC Group. For example, SMPFC retains independent external counsels to alert SMPFC of any such attempts and to enjoin third parties from the use of colorable imitations of the brands and/or marked similarities of SMPFC in general appearance or packaging of products, which may constitute trademark infringement and unfair competition.

There is no assurance that third parties would not challenge, invalidate or circumvent any existing or future trademarks issued to, or licensed by, the SMC Group. Any failure to protect the proprietary rights of the SMC Group could severely harm the competitive position of the SMC Group, which could materially and adversely affect the business, financial condition, results of operations and prospects, as well as the reputation of the SMC Group.

Manpower complement

Any loss of key personnel, and an inability on the part of the SMC Group to replace such personnel and to train and retain replacement personnel, could materially and adversely affect the ability of the SMC Group to provide products and services to its customers. Continued losses of trained personnel could also result in the SMC Group incurring additional expenses in hiring and training replacement personnel, and it may take time for these new personnel to reach the level of technical skill and expertise of the personnel they are replacing. In addition, the SMC Group has relied and will continue to rely significantly on the continued individual and collective contributions of its senior management team. If any of the key personnel of the SMC Group are unable or unwilling to continue in their present positions, or if they join a competitor or formed a competing business, the SMC Group may not be able to replace them easily, and its business may be significantly disrupted. Any of the foregoing could have a material adverse effect on the business, financial condition and results of operations of the SMC Group.

Labor disruptions

The SMC Group has faced labor disruptions in the past. While it considers its labor relations to be good, there is no assurance that it will not experience future disruptions to its operations due to disputes or other issues with its employees, which could materially and adversely affect its business, financial condition and results of operations.

Changes in the legal and regulatory environment

The business and operations of the SMC Group are subject to a number of national and local laws, rules and regulations governing several different industries in the Philippines and other countries where it conducts business.

For instance, although Petron operates in a deregulated industry, the Philippine government has intervened from time to time to restrict increases in the retail sales prices of petroleum products. On October 2, 2009, former President Gloria Macapagal-Arroyo declared a state of national calamity in view of the devastation caused by typhoons “Ondoy” and “Pepeng”. President Arroyo subsequently issued Executive Order No. 839 (“EO 839”) mandating that prices of petroleum products in Luzon be kept at October 15, 2009 levels effective October 23, 2009. As a result of the price freeze, Petron was unable to raise prices, which adversely affected its profitability for the period EO 839 was in effect. Although EO 839 was lifted on November 16, 2009, there is no assurance that the Philippine government will not invoke similar measures or reinstate price regulation in the future with respect to the oil industry.

The energy business of SMC, which is conducted through its wholly owned subsidiary SMC Global Power, is also subject to extensive regulation in the Philippines, including the Electric Power Industry Reform Act of 2001 ("EPIRA"). As of the date of this Prospectus, several bills relevant to the energy sector have been filed with both houses of the Congress of the Philippines. Some of the proposed bills, if enacted, would impose additional costs on SMC Global Power, including by requiring direct remittances to local government units of financial benefits set aside for host communities and by redefining the term "host communities" to include all areas that protect and maintain the watersheds that supply a particular dam or hydroelectric power generation facility. Several bills proposing amendments to the EPIRA have also been filed, some of which would include changes to the ability of power generators and distributors to pass on costs or allowable system losses to end-users. The enactment and implementation of any such bills or amendments to EPIRA, or other changes to the energy regulation, could have a material adverse effect on the business, financial condition and results of operations or rules and regulations governing the power industry which could materially reduce revenues and profitability for SMC Global Power.

The operations of the SMC Group are also subject to various taxes, duties and tariffs. For example, import duties for crude oil and petroleum products for Petron were increased in January 1, 2005 from 3% to 5% and then decreased again to 3% in 2006. The Philippine government imposed an additional 12% value added tax ("VAT") on the sale or importation of petroleum products in 2006 and then reduced VAT to 0% as of July 4, 2010, except for certain types of aviation gas. Therefore, there is no assurance that taxes applicable to the SMC Group will not be increased again in the future.

Also, for San Miguel Brewery, beer is subject to an excise tax, and increases in excise taxes or value added taxes, or VAT, may reduce overall consumption of the products of SMC, its profit margins or both. An additional 8% increase in the excise tax rates applicable to beer was implemented on January 1, 2009 and the same rate increase of 8% was implemented on January 1, 2011. Additional non-scheduled increases in excise tax or VAT rates are also possible. House Bill No. 5727, which has been transmitted to the Senate of the Philippines, proposes to restructure and increase the excise taxes imposed on manufacturers and importers of alcohol products, such as distilled spirits, wines, and fermented liquors. Previous increases in excise tax rates have adversely affected the sales volume of SMC. The scheduled increases in excise tax or other increases in excise tax or other taxes to which the SMC Group is subject to may (i) reduce consumption of the products of the SMC Group if passed on to the consumers by way of upward price adjustments, (ii) reduce the margins of the SMC Group if prices remain unchanged or (iii) have both such effects if additional taxes are not fully passed on to the consumers.

In addition, the Philippine government may periodically implement measures aimed at protecting consumers from rising prices, which may constrain the ability of the SMC Group to pass on price increases to distributors who sell its products, as well as its customers. Implementation of any such measures could have a material adverse effect on the business, financial condition and results of operations of the SMC Group.

While the SMC Group believes that it has at all relevant times materially complied with all applicable laws, rules and regulations, there is no assurance that changes in laws, rules or regulations or the interpretation thereof, will not result in the SMC Group having to incur substantial additional costs or capital expenditures to upgrade or supplement its existing facilities or being subject to an increased rate of taxation or fines and penalties.

Exposure to safety, health and environmental costs and liabilities

The businesses of the SMC Group span several industries and are subject to a variety of laws, rules and regulations that impose limitations, prohibitions and standards with respect to health and safety as well as the use, discharge, emission, treatment, release, disposal and management of, regulated materials and waste, and hazardous substances. Safety, health and environmental laws and regulations in the Philippines have become increasingly stringent and it is possible that these laws and regulations will become significantly more stringent in the future. The adoption of new safety, health and environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments in the future may require additional capital expenditures or the incurrence of additional operating expenses in order to comply with such laws and to maintain current operations as well as any costs related to fines and penalties.

Furthermore, if the measures implemented by the SMC Group to comply with these new laws and regulations are not deemed sufficient by governmental authorities, compliance costs may significantly exceed current estimates. If the SMC Group fails to meet safety, health and environmental requirements, it may be subject to administrative, civil and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against the SMC Group, as well as orders that could limit or halt its operations. There is no assurance that the SMC Group will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings relating to safety, health and environmental matters in the future, the costs of which could be material. Environmental compliance and remediation costs at sites on which its facilities are located and related litigation and proceedings could materially and adversely affect the cash flow of SMC, its results of operations and financial condition.

Outbreaks of disease

Several countries in Asia and Europe have in recent years reported cases of avian influenza, or bird flu. While there have been no known outbreaks of bird flu in the Philippines or any known cases of human-to-human transmission of bird flu, there is no assurance that the virus will not mutate, thereby causing a human pandemic in the Philippines and elsewhere. A false positive case of avian flu in 2005 contributed to decreased growth in the Philippine poultry industry in that year. Any outbreaks could significantly decrease consumer demand for products of the SMC Group, adversely affect its ability to adequately staff its operations, and severely disrupt the distribution networks for its products, as well as the general level of economic activity in the Philippines, and elsewhere in the Asia Pacific region.

The SMC Group has adopted policies and controls at its food business facilities to prevent the outbreak or recurrence of diseases. However, there is no assurance that the policies and controls of SMC will be successful in preventing disease outbreaks or recurrences in the future or that any future actual or suspected outbreak of bird flu or any other contagious disease, in the Philippines or elsewhere will not occur. Any occurrence of such events could not have a material adverse effect on the financial condition and results of operations of the SMC Group.

Availability of raw materials

The products and businesses of the SMC Group, specifically on the foods, beverage, packaging, fuel and oil and energy businesses, depend on raw materials most of which are procured from third parties, including purchases of some critical raw materials. These raw materials are subject to price volatility caused by a number of factors, including changes in global supply and demand, foreign exchange rate fluctuations, weather conditions and governmental controls.

For example, the recent decrease in supply of global crops has contributed, and may continue to contribute to, higher prices for wheat, malted barley and adjuncts for beer and molasses for liquor, which are among the most important raw materials for the flour and beverages businesses. The beverages operations also depend heavily on the supply of water and although the beer business uses its own deep wells for water at several breweries, it is still reliant on a third party source for the Polo brewery.

The prices of certain raw materials used in the flour and feeds businesses have increased significantly in 2011. Wheat prices rose by 16% due to the imposition of an export ban in Russia following the occurrence of drought in late 2010 as well as flooding in Australia both of which affected global supply. The feeds business, on the other hand, was hit by cost increases in feed ingredients specifically corn and cassava due to insufficient local supply brought about by adverse weather conditions. Thus, while the agro-industrial and flour businesses were able to sustain revenue growth, increases in raw material costs resulted in a profit squeeze.

The packaging business of the SMC Group also needs to obtain sufficient quantities of quality raw materials, including glass, aluminum, paper, plastics and composites in a timely manner and requires a significant amount of electricity in order to maintain its operations.

SMC Global Power, through its subsidiary, SMEC, entered into a coal supply contract with Topcoal Trading Corporation (“Topcoal”), which in turn is contractually obligated to source coal for SMC Global Power from PT Bumi Resources Tbk, Noble Resources Pte. Ltd. and Banpu Public Company Limited Thailand. If Topcoal were to cease to perform its obligations under its coal supply contract with SMEC, the disruption of coal supply may materially affect the operations of SMC Global Power.

The SMC Group may also face increased costs or shortages in the supply of raw materials due to the imposition of new laws, regulations or policies. For example, in Mindanao in the southern part of the Philippines, a significant portion of the population is Muslim, and consequently all of its poultry processing plants in that region are halal-certified. Legislation has been proposed to require additional halal certification for feedmills that supply poultry farms from which halal products are sourced. If this proposed legislation is enacted and implemented, certain raw materials may have to be eliminated from the poultry feeds of the SMC Group used in this region. This could increase the cost of poultry feeds and the cost of poultry production in the region, which could materially reduce net income and profitability.

Although the SMC Group actively monitors the availability and prices of raw materials, there is no assurance that these items will be supplied in adequate quantities or at the required quality to meet its needs or will not be subject to significant price fluctuations in the future. While the SMC Group may, in certain limited instances, be able to shift to alternative raw materials to produce its products, there is no assurance that it will be able to reduce its reliance on these raw materials in the future. The SMC Group may only have a limited ability to hedge against commodity prices and any hedging activities may not work as planned. Moreover, market prices of raw materials could increase significantly if there are material shortages due to, among other things, competing usage, drastic changes in weather or natural disasters. There is no assurance that any increases in product costs could be passed on to consumers. As a result, any significant shortages or material increase in the market price of such raw materials could have a material adverse effect on the financial and operating performance of the SMC Group.

Changes in consumer preference or purchasing power

The ability of the SMC Group to successfully develop and launch new products and maintain demand for existing products depends on the acceptance of such products by consumers and their purchasing power and disposable income levels, which may be adversely affected by unfavorable economic developments in the Philippines. A significant decrease in disposable income levels or consumer purchasing power in the target markets of the food and beverage businesses could materially and adversely affect the financial position and financial performance of the SMC Group. Consumer preferences may shift for a variety of reasons, including changes in culinary, demographic and social trends or leisure activity patterns. Concerns about health effects due to negative publicity regarding alcohol consumption, negative dietary effects or other factors may also affect consumer purchasing patterns of food and beverage products. If the marketing strategies of the SMC Group are not successful or do not respond timely or effectively to changes in consumer preferences, the business and prospects of the SMC Group could be materially and adversely affected.

For example, sales of beer are tied closely to consumers’ purchasing power and disposable income levels. In periods of economic uncertainty or downturns, consumers may purchase more hard liquor and less beer or they may purchase less alcoholic beverages, either of which would affect the financial performance of SMB. Demand for many of the food products of SMPFC is tied closely to consumers’ purchasing power. In 2008, the macroeconomic slowdown in the Philippines negatively affected sales volumes in its flour and dairy, spreads and oils businesses, as consumers prioritized staple commodities such as rice over bread and bread spreads.

SMC intends to enhance the value proposition of its food and beverage products which would make the businesses and prospects more closely related to the consumers' needs. The SMC Group has pursued in the past, and intends to continue to pursue, marketing campaigns focused on creating awareness of and influencing consumer preferences towards its brands. For example, recent advertising campaigns by the poultry business of SMPFC have featured celebrity endorsers to encourage consumers to purchase marinated cut-ups and choice cuts from its Magnolia Chicken Stations. However, SMPFC cannot guarantee that such marketing strategies will be successful.

Foreign exchange risk

A substantial portion of the revenues of the SMC Group is denominated in Philippine Pesos, while a substantial portion of its expenses, including raw material, crude oil purchases and foreign currency denominated debt service costs, are denominated in U.S. Dollars. In 2010 and 2011, 90.40% and 95%, respectively, of the revenues of SMC were denominated in Philippine Pesos, while 4.64% and 10.24%, respectively, of its cost of goods sold were denominated in U.S. Dollars. In addition, as of December 31, 2011, the percentage of the outstanding debt of SMC that was denominated in U.S. Dollars was 56.29% on an actual basis

In addition, the financial reporting currency of SMC is Peso, and therefore depreciation of the Peso would result in increases in the foreign currency denominated expenses of SMC as reflected in its Peso financial statements, and could also result in foreign exchange losses resulting from the revaluation of foreign currency denominated assets and liabilities, including increases in the Peso amounts of the foreign currency denominated debt obligations of SMC, thereby adversely affecting the results of operations and financial condition of SMC. In addition, there is no assurance that SMC could increase its Peso-denominated product prices to offset increases in costs resulting from any depreciation of the Peso.

The value of the Peso against the U.S. Dollar has fluctuated throughout the years. Since January 1, 2007, the Peso reached a low of ₱49.984 per U.S. Dollar on November 20, 2008 and as of June 14, 2012, the Peso trades at ₱42.61 per U.S. Dollar.

While SMC uses a combination of natural hedges, which involve holding U.S. Dollar-denominated assets and liabilities, and derivative instruments to manage its exchange rate risk exposure, its exchange rate exposures are not fully protected. There is no assurance that the value of the Peso will not decline or continue to fluctuate significantly against the U.S. Dollar and any significant future depreciation of the Peso could have a material adverse effect on the margins, results of operations and financial condition of SMC.

In addition, changes in currency exchange rates may result in significantly higher domestic interest rates, liquidity shortages and capital or exchange controls. This could result in a reduction of economic activity, economic recession, sovereign or corporate loan defaults, lower deposits and an increased cost of funds. The foregoing events, if they occur, could have a material adverse effect on the business, financial condition, liquidity and results of operations of SMC.

Availability of financing

The expansion and growth plans of the SMC Group are expected to be funded through a combination of internally generated funds and external fund raising activities, including debt financing. The continued access of the SMC Group to debt financing as a source of funding for new projects and acquisitions and for refinancing maturing debt is subject to many factors, many of which are outside of its control. For example, political instability, an economic downturn, social unrest, or changes in the Philippine regulatory environment could increase the cost of borrowing of the SMC Group or restrict its ability to obtain debt financing. There is no assurance that the SMC Group will be able to arrange financing on acceptable terms, if at all. Any inability of the SMC Group to obtain financing from banks and other financial institutions or from capital markets would adversely affect the ability of the SMC Group to execute its expansion and growth strategies as well as its financial condition and prospects.

Uninsured losses

The SMC Group may not be fully insured against, and insurance may not be available for, unexpected losses caused by natural disasters, breakdowns or other events that could affect the facilities and processes used by its businesses. Any unexpected losses caused by such events against which it is not fully insured could have a material adverse effect on its business, financial condition and results of operations. Any accident at the operations of the SMC Group facilities could result in significant losses. It could suffer a decline in production, receive adverse publicity and be forced to invest significant resources in addressing such losses, both in terms of time and money. There is no assurance that there will not be work-related or other accidents in the future. Furthermore, there is no assurance that amicable settlements will be secured in the future or that accidents will not result in future litigation or regulatory action against the SMC Group. Such events could materially and adversely affect its financial condition and results of operations.

Outsourcing

SMC outsources most of its beverage, food and packaging manufacturing, production and distribution operations to third party contractors. To ensure the timely production and distribution of its products, the SMC Group continuously monitors the efficiency and manufacturing capabilities of the relevant production facilities. However, from time to time, any of them could experience operational issues that could cause production shortages and distribution delays. If one or more of the contract manufacturers of the SMC Group or distributors fails to or is unable to manufacture, produce or distribute products timely, in sufficient quantities or at satisfactory quality levels, its ability to bring products to the market and its reputation could suffer, which could have a material adverse effect on the business and financial performance of SMC, as well as prospects. In addition, there is no assurance that it will continue to find new contract manufacturers or distributors in line with increased customer demand in the future, which could materially and adversely affect the business and prospects of SMC.

Disruption of operations

The facilities and operations of the SMC Group could be severely disrupted by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, natural disasters and other unforeseen circumstances and problems. For example, SMPFC decided to cease operations at its Marikina plant after it was severely damaged when Typhoon Ondoy hit Metro Manila in September 2009. As a result of that closure, SMPFC was not able to meet volume demand during the period while it was transferring production capacity to its Cavite plant and third-party contracted plants, and the revenues of SMPFC were adversely affected during the fourth quarter of 2009. These disruptions could result in product run-outs, facility shutdown, equipment repair or replacement, increased insurance costs, personal injuries, loss of life and unplanned inventory build-up, all of which could have a material adverse effect on the business, financial condition and results of operations of the SMC Group.

Product liability claims

The success of the SMC Group depends largely upon consumers' perception of the reliability and quality of its products. Any event or development that detracts from the perceived reliability or quality of the products of the SMC Group could materially reduce demand for its products. For example, a contamination of SMPFC products by bacteria or other external agents, whether arising accidentally or through deliberate third-party action, could potentially result in product liability claims. While no material product liability claim has been filed against the SMC Group, any such product liability claim, whether or not successful, could damage the reputation of the SMC Group and its products. These problems may have a material adverse effect on the financial condition, prospects and customer demand for the products of the SMC Group, which may result in reduced sales and profitability of the affected products.

Risks Relating to the Beverages Business

Price elasticity of SMB products

The substantial majority of beer drinkers in the Philippines belong to the lower socio-economic classes, where discretionary income is limited. Accordingly, the beer market in the Philippines is highly price elastic. If SMB raises the prices of its products, sales volumes will likely decline or slow down which may result in a lower level of net sales. On April 1, 2008, SMB raised the selling prices of its beer products by an average of 7%, primarily in response to sharp increases in the prices of the raw materials of SMB in 2007 and 2008. Despite the cost pressures and price increases, however, the sales volume of SMB still grew by 4% in 2008, albeit at a slower rate than its hefty volume growth in 2007. In 2011, SMB also increased its selling prices by an average of 4% in May in response to the excise tax hike and higher production costs.

The price increase in 2011 and the sluggish global economy resulted in the slowdown of sales volume growth of approximately 1%. Price elasticity of demand for the products of SMB may limit its ability to pass on increases in excise taxes, raw material costs or other expenses, which may negatively affect the financial results and financial performance of SMB.

Challenge of increasing beer sales

SMB has a strategy to increase its sales by increasing its market share, in terms of both the beer market and the overall market for alcoholic beverages, and by increasing the total size of the beer market. Both parts of this strategy involve uncertainties and risks, and SMB can offer potential investors no assurance that it will be successful in implementing its strategy. For example, the strategy of SMB to increase its sales of higher-priced, higher-margin products depends on its ability to convince consumers to pay more than they have historically paid for beer, and SMB may not be successful in this respect, either for its existing higher-priced products or in respect of any new products that it may introduce. Failure by SMB to implement its strategy to increase the volume of its sales would negatively affect the financial results and growth prospects of SMB.

Competition in the business

SMB operates in a competitive environment. The Philippine alcoholic beverage industry in general is highly competitive, and, while SMB estimates that it has the largest market share in the Philippines with respect to beer, SMB cannot assure prospective investors that it will be able to maintain its current market share for beer, or that it will be able to increase its market share in the future. SMB faces competition from another domestic producer, which sells both its own brand and foreign brands it produces under license, and from foreign brewers. SMB also competes with producers of other alcoholic beverages, primarily gin, rum, brandy and recently, alcopops which are close substitutes to beer. In the beer industry, and more generally the alcoholic beverage industry, competitive factors generally include price, product quality, brand awareness and loyalty, distribution coverage, and the ability to respond effectively to shifting consumer tastes and preferences. SMB also competes with other discretionary items, including both other food and beverage products and other goods and services generally. The consolidation of the competitors of SMB, the entrance of a new, larger competitor into the Philippine market, or unanticipated actions or irrational behavior by existing competitors, could lead to downward pressure on prices or a decline in the market share of SMB. Any such event could materially and adversely affect the financial position and financial performance of SMB.

Seasonality of business

The sales of SMB are affected by seasonality in customer purchase patterns. In the Philippines, alcoholic beverages, including those produced by SMB, experience increased sales during the summer and Christmas season and typically decline in the third quarter as a result of rainy weather. For example, from 2006 to 2008, on average, 26.50% of the net sales of SMB were in the first three months of the year and 23.70% were in the second quarter; while 22.70% were in the third quarter, typically the slowest period for sales, and 27.10% were in the last three months of the year. However, seasonality pattern for beer demand exhibited changes in recent years primarily in view of climate change affecting weather pattern (e.g., heavy rains, onslaught of typhoons and drought). As a result

of this pattern, the financial position and performance of SMB may fluctuate significantly from quarter to quarter.

Demand for products

Although SMB continuously seeks to enhance the efficiency and manufacturing capabilities of its production facilities, SMB may, from time to time, experience production difficulties that may cause shortages and delays in deliveries, as is common in the manufacturing industry. SMB cannot assure prospective investors that it will not experience production difficulties in the future and cannot assure prospective investors that it will be able to increase the efficiency and manufacturing capabilities of its production facilities in line with increased customer demand in the future. Furthermore, SMB cannot assure prospective investors that it will be able to meet increasing demand for its products without having to incur significant additional capital expenditures in the future.

Relationship with dealers

The products of SMB are primarily sold through dealers. Although many of these dealers have been dealing with SMB for many years, there is no assurance that these dealers will continue to purchase and distribute the products of SMB, or that these dealers can continue to effectively distribute the products of SMB without delays or interruptions. In addition, the financial instability of, contractual disputes with, or labor disruptions at, the dealers of SMB could disrupt the distribution of the products of SMB and adversely affect its business.

Risks Relating to Food Business

Outbreaks of animal disease

The fresh meats and poultry businesses of SMPFC are subject to risk of losses caused by outbreaks of disease at any of the hog, cattle or poultry farms owned or contracted by SMPFC. The livestock industry in the Philippines has experienced outbreaks of disease in the past. In particular, an industry-wide porcine epidemic diarrhea outbreak that affected several of the facilities of SMPFC in the second quarter of 2008 and the third quarter of 2010 and a porcine reproductive and respiratory syndrome outbreak at contract growing facilities in the second and third quarters of 2008 negatively affected revenue growth in the fresh meats business of SMPFC during those periods.

In addition, actual or suspected outbreaks of avian flu or other emerging diseases in the poultry facilities of SMPFC could negatively affect its poultry business. While there have been no known cases of avian flu in the Philippines to date, a false positive case of avian flu in 2005 contributed to decreased growth in the Philippine poultry industry during that year.

To mitigate this risk, SMPFC has adopted policies and controls in its facilities to prevent the outbreak or recurrence of diseases, including the separation of its hog breeding, nursery and growing operations, bird proofing to prevent the entry of outside birds into its poultry farms and implementation of strict visitor screening and sanitation procedures for entrance to any of its poultry facilities. However, SMPFC cannot assure prospective investors that its policies and controls will be successful in preventing disease outbreaks or recurrences. Any such outbreak or recurrence could have a material adverse effect on the business, financial condition and results of operations of SMPFC.

Competition in the food industry

The Philippine food industry is, in general, highly competitive. While SMPFC currently enjoys market leadership across several of its product categories, SMPFC cannot assure prospective investors that it will be able to maintain or grow its current market share. In the food industry, competitive factors generally include price, product quality, brand awareness, distribution coverage, customer service and the ability to respond effectively to shifts in consumer tastes and preferences. Consolidation of the competitors of SMPFC, the entry of new, larger competitors into the Philippine food market or other actions or irrational behavior by the competitors of SMPFC could exert downward pressure on prices or cause the market share of SMPFC to decline. Any failure by SMPFC to successfully compete with

its competitors would have a material adverse effect on its business, financial condition, results of operations and prospects.

In order to maintain its customer base and market share, SMPFC has continuously developed new and innovative products to meet its customers' demands. If its competitors are able to develop more innovative or better quality products or less expensive products of similar quality, SMPFC may not be able to maintain its competitive edge or market share, and the financial condition, business, results of operations and prospects of SMPFC would be materially and adversely affected.

Some of the products of SMPFC are regarded as commodity products, including certain products from its feeds, flour, fresh meat & poultry businesses, and regional businesses which represented 50.2% of sales in 2011.

Importation of lower priced products

SMPFC may face increased competition from less expensive imports to the Philippines as import duties on those products are decreased or eliminated. The Philippines is a signatory to several free trade agreements, including the ASEAN Free Trade Agreement, the ASEAN-China Free Trade Agreement, the ASEAN-Korea Free Trade Area Agreement, the Japan-Philippines Economic Partnership Agreement, the ASEAN-Japan Comprehensive Economic Partnership and the ASEAN-Australia-New Zealand Free Trade Area Agreement and the ASEAN-India Free Trade Area Agreement. SMPFC is subject to increasing competition from lower-priced imported products, resulting from decreases in trade barriers under the terms of such trade agreements. For example, as of January 1, 2010, import duties on certain value-added products, such as instant coffee, was reduced from 5% to zero on imports from other ASEAN countries (although the 40% tariff on luncheon meats from China remains in place). SMPFC has already experienced the effects of increased competition as a result of the elimination of these import duties and expects that competition from imported products will continue to increase. If SMPFC is unable to compete effectively with lower-priced imports, its market share and sales will decrease, and its business, financial condition, results of operations and prospects may be materially and adversely affected.

Growth of supermarkets and consolidation of wholesale buyers

The Philippine retail market has historically been highly fragmented among numerous small neighborhood stores, groceries and more traditional wet markets. These small neighborhood stores serve limited geographical areas and purchase relatively small quantities of the products of SMPFC from distributors and larger supermarkets. In recent years, larger supermarkets have begun to gain market share in the Philippines. There is a risk that the business of SMPFC may become concentrated in fewer, larger customers, which could increase the relative bargaining power of these customers. SMC cannot assure prospective investors that supermarkets or one of these larger customers will not exert downward pressure on wholesale prices of its products, which may have a material adverse effect on the financial condition and results of operations of SMPFC.

In addition, traditional wet markets remain a major source of food products for many Philippine consumers. Because the government may periodically move to protect consumers from rising prices, SMPFC may be constrained from passing on price increases to wet market retailers who sell its poultry, fresh meats and value-added meats products.

Exposure to credit risks of customers

SMPFC is exposed to the credit risk of its customers, and defaults on material payments owed to SMPFC by customers could significantly reduce its operating cash flows and liquidity, as well as have a material adverse effect on its financial condition and results of operations. Some of the customers of SMPFC could also experience cash flow difficulties or become subject to liquidation, which could in turn lead to SMPFC experiencing long delays in collection of payments, if at all.

Trade receivables are non-interest bearing and are generally on 30-day term. As of December 31, 2011, over 70% of the trade receivables of SMPFC are due within 30 days.

SMPFC cannot provide any assurance that its exposure to the risk of delayed payments from its customers or defaults in payment by its customers will not increase, or that it will not experience losses or cash flow constraints as a result. If any of these events were to occur, the financial condition and results of operations of SMPFC could be materially and adversely affected.

Short-term contracts

As is common in the industries in which SMPFC operates, SMPFC does not have long-term contracts with its customers, and, consequently, its revenues are subject to short-term variability resulting from the seasonality of, and other fluctuations in demand for, its products. The customers of SMPFC have no obligation to place new orders with SMPFC following the expiration of their current obligations, and may cancel, reduce or delay orders for a variety of reasons. The level and timing of orders placed by its customers may vary due to a number of factors including:

- seasonality and other fluctuations in demand for products of SMPFC;
- the competitiveness of the selling prices of SMPFC in the industry;
- customer satisfaction with the level of service SMPFC provides; and
- customers' inventory management.

SMPFC has experienced terminations of, and reductions and delays in, its customers' orders in the past. Furthermore, terminations of, or reductions or delays in, orders placed by its customers or inability by SMPFC to substitute new orders for cancelled orders, could lower its facility utilization rates, which would materially decrease the revenues and profitability of SMPFC. In addition, seasonality in demand for its products could materially and adversely affect the results of operations and financial results of SMPFC from quarter to quarter.

Risks Relating to Packaging Business

Handling of products

Lack of care in the handling or storage by distributors of products produced by the customers of the packaging business of SMC, tampering, vandalism or terrorist activities could result in the contamination or adulteration of the finished products. There is no assurance that products packaged by the packaging business of SMC would not be contaminated during manufacturing, distribution or retail process. Any lack of care or tampering of such products, especially in instances where it is not readily capable of detection, could negatively impact the reputation of the packaging business of SMC products and have a material adverse effect on its business, results of operations and prospects.

Competition and challenges in product development and production processes

In order to compete in the packaging material industry, the packaging business is required to continually develop and implement product innovations and improve its production technology, processes and efficiencies. The success of the packaging business may also depend on its ability to identify and meet changing customer requirements and trends in the industry. Any failure to timely develop and introduce new products, or enhance existing products, in response to changing customer requirements or industry standards could have a material adverse effect on its business, financial performance and prospects.

In addition, research and development of any new technology or production methods require significant capital investments and could take a significant amount of time. Moreover, there is no assurance that the packaging business of SMC will successfully develop such technology and production methods, or that they will be accepted by existing customers or attract new customers. These factors could have a material adverse effect on its business, financial performance and prospects.

Risks Relating to Fuel and Oil Business

Volatility of price of crude oil

Petron purchases a significant portion of its crude oil from Saudi Arabian Oil Company ("Saudi Aramco"). For example, in 2011, Petron purchased approximately 74% of its total crude oil supply requirements from Saudi Aramco. Saudi Aramco, the state-owned national oil company of Saudi Arabia, is the ultimate parent company of Aramco Overseas Company B.V. ("AOC"), which was the major stockholder of Petron until July 2008. Under the terms of the contract Petron entered into with Saudi Aramco in 2008, Petron may purchase up to 140 MBCD of various Saudi Aramco crudes. Pricing is determined through a formula that is linked to international industry benchmarks. The contract is automatically renewed annually, unless either Petron or Saudi Aramco decides to terminate the contract upon at least 60-days' notice prior to its expiration date. The supply of imported crude oil by Saudi Aramco is subject to a variety of factors beyond the control of Petron, including the political developments and instability of Saudi Arabia and the rest of the Middle East, government regulations with respect to the oil and energy industry in those regions, weather conditions and overall economic conditions in the Middle East. A disruption in the operations of Saudi Aramco or its decision to amend or terminate the contract could negatively impact the crude oil supply of Petron. If the supply of crude oil from Saudi Aramco is disrupted, Petron would be required to replace this supply from other sources, including through spot market purchases. Depending on market conditions at the time of the disruption, these purchases from other sources could be at higher prices than its purchases from Saudi Aramco, which would adversely affect the financial results of Petron.

While the refinery of Petron in Limay, Bataan (the "Refinery") is configured to process predominantly light and sweet crudes, most of which are Middle East crudes, it is capable of processing other types of crude oil. In line with its crude oil optimization strategy, Petron is exploring the utilization of various types of crude oil, other than those supplied by Saudi Aramco. However, there can be no assurance that Petron will be able to convert to other types of crude oil efficiently or in a timely manner.

If Petron is unable to obtain an adequate supply of crude oil or is only able to obtain such supply at unfavorable prices, its margins and results of operations would be materially and adversely affected.

Competition in the oil industry

Petron faces intense competition in the sale of petroleum and other related products in the Philippines. Petron competes with a number of multinational, national, regional and local competitors in the refined petroleum products business for market share of petroleum products sales. Because of the commodity nature of oil products, competition in the Philippine domestic and international markets for refined petroleum products is based primarily on price as adjusted to account for differences in product specifications and transportation and distribution costs.

The competitiveness of Petron will depend on its ability to manage costs, increase efficiency at its Refinery, effectively hedge against fluctuations in crude oil prices and maximize utilization of its assets and operations. If Petron is unable to compete effectively with its competitors, its financial condition and results of operations, as well as its business prospects, could be materially and adversely affected.

In addition, the Philippine oil industry is affected by ongoing smuggling and illegal trading of petroleum products. These illegal activities have resulted in decreases in sales volume and sales price for legitimate oil market participants in the Philippines. The ability of Petron to compete effectively will depend to a certain extent on the proper enforcement of regulations by the government.

Intensive capital requirements

The business of Petron is capital intensive. Specifically, the processing and refining of crude oil and the purchase, construction and maintenance of machinery and equipment require substantial capital expenditures.

The ability of Petron to maintain and increase its sales, net income and cash flows depends upon its continued capital spending. The current business strategies of Petron involve various upgrades to its Refinery, the construction of new facilities and the expansion of its service station networks.

If Petron fails to complete its capital expenditure projects on time or at all or within budget, or to operate such facilities at their designed capacity, it may be unable to increase its sales and profits or to capture additional market share as planned, and its business, results of operations and financial condition could be adversely affected.

In addition, Petron has recently incurred a substantial amount of indebtedness to finance its capital expenditure projects, a significant portion of which is due in five years or less.

The ability of Petron to complete its capital expenditure projects and meet its debt servicing obligations will depend in part on its ability to generate sufficient cash flows from its operations and obtain adequate additional financing. There can be no assurance that Petron will be able to generate sufficient cash flows from its operations or obtain adequate financing for its capital expenditure projects or to meet its debt servicing obligations, on acceptable terms or at all. Failure by Petron to finance and successfully implement its capital expenditure projects could adversely affect its business, financial condition and results of operations.

Product substitution or government-mandated product formulations

As a result of high oil prices and environmental concerns, the use of alternative fuels such as natural gas, ethanol and coco-methyl ester fuel blends have become more attractive to the customers of Petron. In the event that alternative fuels become more affordable and available than petroleum products, customers may shift from petroleum to these alternative fuels not offered by Petron resulting in lower sales volume. In recent years, the government has also enacted regulations mandating inclusion of a percentage of alternative fuels in gasoline fuels sold or distributed by every oil company and may increase this requirement in the future. If Petron does not respond effectively to product substitutions or government-mandated product formulations in the future, its business and prospects may be adversely affected.

Compliance with laws and regulations

The operations of the business of Petron are subject to a number of national and local laws and regulations, including safety, health, environmental and zoning laws and regulations. These laws and regulations impose controls on air and water discharges, on the storage, handling, discharge and disposal of waste, location of storage facilities, and other aspects of the operations of the business of Petron. Failure to comply with relevant laws and regulations may result in financial penalties or administrative or legal proceedings against Petron, including the revocation or suspension of the licenses or operation of the facilities of Petron.

Petron has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. In addition, Petron has made and expects to continue to make capital expenditures on an ongoing basis to comply with safety, health, environmental and zoning laws and regulations. For example, Petron built a light virgin naphtha isomerization unit and gas oil hydrotreater in 2006 to ensure the Refinery complied with the standards mandated by the Philippine Clean Air Act.

There can be no assurance that Petron will be in compliance with applicable laws and regulations or will not become involved in future litigation or other proceedings or be held responsible in any future litigation or proceedings relating to safety, health, environmental and zoning matters, the costs of which could be material. In addition, safety, health, environmental and zoning laws and regulations in the Philippines have become increasingly stringent. There can be no assurance that the adoption of new safety, health, environmental and zoning laws and regulations, new interpretations of existing laws, increased governmental enforcement of safety, health, environmental and zoning laws or other developments in the future will not result in Petron being subject to fines and penalties or having to incur additional capital expenditures or operating expenses to upgrade or relocate its facilities.

For example in November 2001, the City of Manila, citing concerns of safety, security and health, issued an ordinance reclassifying the area occupied by the main storage facility of Petron in

Pandacan, Manila, from industrial to commercial, effectively rendering its continued operation in Pandacan illegal and necessitating a relocation of the storage facility. While Petron has concrete plans to relocate the main storage facility out of Pandacan, there is no assurance that there will be no material effect on the timely delivery of products to the customers of Petron.

Sales to government-managed power plants

The largest customers of Petron as of March 2012 are the government-managed power plants which are due for privatization, which collectively comprised approximately 2.80% of the total sales of Petron for the three months ended March 31, 2012.

Petron does not have long-term supply contracts with such government-managed power plants, and there is no assurance that Petron will continue to be able to supply the fuel requirements of these power plants. These power plants will continue to be managed by the government until they are sold by PSALM pursuant to the EPIRA. The loss or reduction of business from these power plants could adversely impact the sales and results of operations of Petron.

Insurance claims

Petron uses a combination of insurance and reinsurance to cover its properties and certain potential liabilities. The insurance coverage of Petron includes property, marine cargo and third party liability. The business interruption insurance of Petron has a US\$79.7 million limit that covers losses at the Refinery. All of the insurance policies of Petron are provided by its wholly-owned subsidiary, Petrogen Insurance Corporation ("Petrogen"), and a very large portion of the risks of Petron are reinsured with leading local and S&P "A" rated foreign reinsurers through its wholly-owned captive insurance subsidiary, Overseas Ventures Insurance Corporation Ltd. ("Ovincor"). Petron estimates the liabilities associated with the risks retained by it, in part, by considering historical claims, experience and other actuarial assumptions which, by their nature, are subject to a degree of uncertainty and variability. Among the causes of this uncertainty and variability are unpredictable external factors affecting future inflation rates, discount rates, litigation trends, legal interpretations and actual claim settlement patterns. If the number or severity of claims for which Petron is insured increases, or if it is required to accrue or pay additional amounts because the claims prove to be more severe than its original assessments, the financial condition, results of operations and cash flows of Petron may be materially and adversely affected.

Risks Relating to the Energy Business

Participation in the power industry

SMC Global Power has a brief operating history, having commenced operation of its power business in November 2009 with the acquisition of IPPA rights for the Sual power plant, followed by the acquisition of IPPA rights for the San Roque and Ilijan power plants in March and September 2010, respectively.

SMC Global Power faces many challenges, including: (1) developing the expertise required to successfully act as IPPA of its recently acquired power portfolio, and to own and operate the power generation capacity that it intends to develop or acquire; (2) attracting and retaining customers, suppliers and managers in the power industry, in particular those in the regional markets into which SMC Global Power is expanding, such as Visayas and Mindanao; and (3) successfully competing with companies engaged in similar businesses in the same markets, some of which may be larger in size, have a longer operating history and have greater expertise and financial resources. In addition, SMC Global Power may incur substantial expenditures in developing its business and bidding for or otherwise acquiring new assets. There is no assurance that SMC Global Power will be a successful participant in the power industry.

Price fluctuations

Since the wholesale electricity spot market ("WESM") for Luzon began operating in June 2006, WESM prices have fluctuated substantially. Unlike most other commodities, electric power can only

be stored on a very limited basis and generally must be produced concurrently with its use. As a result, power prices are subject to significant volatility from supply and demand imbalances. Since June 2006, WESM clearing prices have fluctuated significantly from a high of ₱62.0 per KWh to a low of less than ₱0 per KWh when there is excess capacity. Prices for power may also fluctuate substantially due to other factors outside of the control of SMC Global Power, including:

- increases and decreases in generation capacity in the markets of SMC Global Power, including the addition of new supplies of power from existing competitors or new market entrants as a result of the development of new power plants, expansion of existing power plants or additional transmission capacity;
- changes in power transmission or fuel transportation capacity constraints or inefficiencies;
- power supply disruptions, including power plant outages and transmission disruptions;
- changes in the demand for power or in patterns of power usage, including the potential development of demand-side management tools and practices;
- climate, weather conditions, natural disasters, wars, embargoes, terrorist attacks and other catastrophic events;
- availability of competitively priced alternative power sources;
- development of new fuels and new technologies for the production of power; and
- changes in the power market and government regulations and legislation.

In 2010 and 2011, 72% and 86%, respectively, of the revenue of SMC Global Power from sales of power from the IPPA power plants were derived from sales made under bilateral contracts, and 28% and 14%, respectively, were derived from sales made through the WESM. All of the power supplied to SMC Global Power by the IPPA power plants that is not sold pursuant to bilateral contracts is sold through the WESM at prices determined by the market and will be exposed to price volatility and market fluctuations. These factors could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

Significant sales to Meralco

In 2011, the total volume sold to Meralco from Sual and Ilijan were 14.58% and 99.93%, respectively, through power offtake agreements. All of these agreements expire in December 2012. When the current power offtake agreements with Meralco expire or are otherwise renegotiated, they may be renewed for lower electricity volumes than in the past or on different terms, including under different pricing terms. Meralco has commenced preparations to enter the power generation business and is expected to become a direct competitor of SMC Global Power.

The business, cash flows, earnings, results of operations and financial condition of SMC Global Power could be materially and adversely affected if Meralco does not renew its power offtake agreements with SMC Global Power under favorable terms or at all and SMC Global Power is unable to find new customers to replace it.

Operating Capacities of IPPA power plants

A number of factors could prevent the IPPA power plants from generating or delivering power. These factors include risks relating to:

- breakdown or failure of power generation equipment, transmission lines, pipelines or other equipment or processes, leading to unplanned outages and operational issues;
- flaws in equipment design or in power plant construction;
- issues with the quality of or interruptions in the supply of key inputs, including water, fuel or other key inputs;
- material changes in legal, regulatory or licensing requirements;
- the inability to obtain or the cancellation of required regulatory permits and approvals;
- operator error;
- performance below expected levels of output or efficiency;
- industrial actions by workers affecting the IPPA power plants, the generation capacity of which is managed by SMC Global Power;
- pollution or environmental contamination affecting the operation of the power plants;

- force majeure and catastrophic events including fires, explosions, earthquakes, volcanic eruptions, floods and terrorist acts that could cause forced outages, suspension of operations, personal injury, loss of life, severe damage and destruction of the power plant; and
- planned and unplanned power outages due to maintenance, expansion and refurbishment such as, for example, the planned outage of the Sual power plant for scheduled maintenance between August 11, 2012 to September 9, 2012 (for unit 2 of the plant) and between September 7 to October 6, 2012 (for unit 1 of the plant).

If any of the foregoing risks or any similar risk materializes, the ability of one or more IPPA power plants to generate or deliver power could be substantially affected, thereby decreasing or eliminating revenues that SMC Global Power can derive from selling the power generated by the IPPA power plants. In addition, if SMC Global Power is unable to deliver power for prolonged periods in excess of those allowed by its offtake agreements, its customers may have a right to terminate those offtake agreements, and replacement offtake agreements may not be entered into on comparable terms or at all, thereby exposing SMC Global Power to price volatility in the WESM. Any of the foregoing could have a material adverse effect on its business, financial condition and results of operations.

Unavailability of insurance product for the IPPA business model

SMC Global Power does not have business interruption insurance and is uninsured for liabilities which may be incurred, or any direct or indirect costs and losses suffered, as a result of any business interruption that SMC Global Power may experience. SMC Global Power believes that there is no business interruption insurance available for the IPPA business model under which SMC Global Power is currently operating. Accordingly, any uninsured liabilities or direct or indirect losses, including any third party claims that result in an interruption to its business could have a material adverse effect on its financial condition and results of operations.

No direct contractual relationship with IPPs

SMC Global Power is dependent on the IPPA power plants to generate power pursuant to its dispatch requirements, and for the IPPs to comply with their contractual obligations to NPC under their IPP agreements. SMC Global Power does not have a direct contractual relationship with the IPPs and cannot directly enforce the IPP agreements against the IPPs. Failure by an IPP to comply with its obligations under its IPP agreement may significantly reduce or eliminate power generation volumes or increase costs, thereby decreasing or eliminating revenues that SMC Global Power can derive from selling the power generated by the IPPA power plants. Any claims for damages for breach, or other entitlement, benefit or relief under the IPPA agreement arising from the breach of the IPPs, its IPP agreement obligations must be claimed by SMC Global Power against PSALM. The IPPA agreements do not permit set-off of claims, and SMC Global Power is only entitled to payment of its claim after PSALM has received payment from the IPP of its corresponding claim. Accordingly, SMC Global Power bears the risks associated with the lack of direct recourse against the IPPs, delays in the enforcement of its claims and other risks related to pursuing claims or legal proceedings against a state-owned entity such as PSALM. Any of these factors could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

Disruptions in fuel supply may adversely affect the profitability of SMC Global Power. SMC Global Power is responsible, at its own cost, for supplying the Sual power plant with the fuel that is necessary for the plant to generate the power required by SMC Global Power. NPC is responsible for securing the natural gas and diesel fuel supply for the Ilijan power plant. There is a risk that the fuel supplies to these power plants could be interrupted or disrupted, or that there will be insufficient fuel in the open market or insufficient transportation capacity available to ensure that these power plants receive fuel supplies sufficient for their operations on a timely basis or at all. For example, in January and February 2010, the Sual power plant unit 2 was shut down for 38 days due to the lack of adequate coal supplies for the Sual power plant. The supply disruptions resulted from difficulties in sourcing high calorific coal for the Sual power plant during the first three months after SMC Global Power became the IPPA for the Sual power plant. While these disruptions have not recurred since then, there is no assurance that similar disruptions in coal fuel supply would not occur in the future.

Any of these events could affect the ability of the power plants to generate sufficient electricity on a timely basis to meet the dispatch requirements of SMC Global Power, and reduce revenues from the sale of power from the Sual and/or Ilijan power plants, which could have material adverse effects on its financial condition and results of operations.

Challenges in implementing growth strategy

Implementing the growth strategy of SMC Global Power may involve: (1) substantial investments in new power generation facilities; (2) acquisitions relating to existing power generation capacity; and (3) entering into strategic alliances and partnerships. The success of SMC Global Power in implementing its strategy will depend on, among other things, its ability to identify and assess investment and acquisition opportunities as well as potential partners, its ability to successfully finance, close and integrate investments, acquisitions and relevant technologies for the production of power, its ability to manage construction of planned greenfield power projects within technical, cost and timing specifications, its ability to control costs and maintain sufficient operational, financial and internal controls, the strength of the Philippine economy (including overall growth and income levels) and the overall levels of business activity in the Philippines. The future growth of SMC Global Power may be adversely affected if it is unable to make these investments or to pursue these acquisitions, or if these investments and acquisitions prove unsuccessful.

SMC Global Power is in discussions with contractors and equipment suppliers for the award of EPC contracts on a fixed price turn-key basis or equipment supply agreements for the planned greenfield power projects. SMC Global Power is also contemplating several additional potential investments and acquisitions, but has not entered into any definitive commitment or agreement for any such contemplated investment or acquisition. If general economic and regulatory conditions or market and competitive conditions change, or if operations do not generate sufficient funds or other unexpected events occur, SMC Global Power may decide to delay, modify or forego some of its planned or contemplated projects or alter aspects of its growth strategy, and its future growth prospects could be materially and adversely affected.

The growth strategy of SMC Global Power will also place significant demands on its management, financial and other resources. In particular, continued expansion will increase the challenges for financial and technical management, recruitment, training and retention of sufficient skilled technical and management personnel and developing and improving its internal administrative infrastructure. Any inability to meet these challenges could disrupt its business, reduce its profitability and adversely affect its results of operations and financial condition.

Development of greenfield power projects

The development of greenfield power projects involves substantial risks that could give rise to delays, cost overruns, unsatisfactory construction or development or the total or partial loss of the interest of SMC Global Power in the project such as:

- the inability to secure adequate financing;
- the inability to negotiate acceptable fuel purchase agreements and offtake agreements;
- equipment shortages or quality problems with equipment, material or labor or the breakdown or failure of equipment or processes;
- opposition to the projects of SMC Global Power from local communities or special-interest groups;
- the need to incur significant expenses for preliminary engineering, permits and legal and other expenses before determining whether a project is feasible, economically attractive or capable of being financed;
- engineering and environmental problems;
- construction and operational delays, or unanticipated cost overruns;
- failure by key contractors and vendors to timely and properly perform;
- adverse environmental (including inclement weather) conditions;
- social unrest and terrorism; and
- other fortuitous events.

Any such delays, cost overruns, unsatisfactory construction or development or the total or partial loss of the interests in its projects could have a material adverse effect on its business, financial condition, results of operation and future growth prospects.

SMC Global Power may not succeed in its endeavors to conduct coal exploration and extraction activities. The strategy includes the acquisition and development of coal mines to provide a source of coal fuel supply for its planned and contemplated greenfield power projects. However, since SMC Global Power is focused primarily on power generation (either through IPPA agreements or as owner of newly acquired or newly constructed power plants), SMC Global Power may not be successful in developing the knowledge, experience or expertise necessary for the successful operation of the coal mines it may develop or acquire, whether on its own or in conjunction with a joint venture partner. In addition, acquisition, development and operation of coal mines will require significant managerial, operational and financial resources.

As with all mining exploration projects, there is a risk that the coal assets of SMC Global Power may not become commercially viable due to project delays, cost overruns, changes in market circumstances or a project not producing coal consistent with reserve estimates of the expected quantity, quality or grade. The economic feasibility of mining projects is based on a number of factors, including the accuracy of reserve estimates, capital and operating costs, government regulations relating to prices, taxes and royalties, land tenure, land use, environmental protection, and pricing of any coal which may be produced. It is possible that actual costs and economic returns of new mining operations may differ materially from its best estimates. It is not unusual for new mining operations to experience unexpected problems during the start-up phase and to require more capital than anticipated.

In addition, the exploration and exploitation of coal reserves in the Philippines are subject to regulation by the DOE and the Philippine Department of Environment and Natural Resources ("DENR"). The local governments where the coal mines are located may also impose additional restrictions on mining operations.

These regulations may relate to, among others, production, development, exploration, exports, imports, taxes and royalties, labor standards, occupational health, waste disposal, protection and remediation of the environment, mine decommissioning and rehabilitation, mine safety, toxic substances, transportation safety and emergency response and other matters.

Any new laws or regulations, or changes in the enforcement or interpretation of existing laws or regulations, may require substantial increases in operating costs in order to obtain approvals required by, or to otherwise comply with the conditions imposed by, such new or revised laws and regulations. There is a risk that such new or revised approvals could not be obtained on a timely basis, or at all.

Moreover, SMC Global Power will have to rely on permits, licenses, operating agreements with third-party claim owners and land access agreements to conduct its mining operations. In particular, SMC Global Power is currently party to coal operating contracts pursuant to which it may conduct its mining operations. Each of the coal operating contracts has a term of ten years from its original contract date. There is a risk that one or more of these contracts may not be renewed due to lack of agreement between the parties.

In view of the foregoing, SMC Global Power may not be able to achieve the intended economic benefits of its coal mining projects, which in turn could materially and adversely affect its business, financial condition, results of operations and growth prospects.

Limitations on the expansion of portfolio

SMC Global Power participates actively in public auctions of existing power generation capacities that are being privatized by PSALM as asset sales or under the IPPA framework. Although SMC Global Power intends to make additional acquisitions through these auctions in the future, there is no assurance that SMC Global Power will be successful in bidding for other existing power generation capacities. There is also no assurance that those auctions will be conducted according to announced schedules, as auctions have been postponed and dissemination of auction guidelines have been delayed in the past. In addition, bids may also not be successful for reasons beyond the control of

SMC Global Power, including an auction not attracting the required number of bids or bids not meeting minimum reserve prices.

Failure to acquire existing power generation capacity, or to integrate the acquired power plant into its business in a cost effective manner, could materially and adversely impact its business, financial condition and results of operations.

Significant finance lease obligations

SMC Global Power has significant finance lease obligations and substantial long-term debt obligations. As of December 31, 2011, the noncurrent liabilities of SMC Global Power included finance lease liabilities (net of current portion) of ₱192,823 million and long-term debt (net of debt issue costs) of ₱21,725 million.

As of December 31, 2011, the current liabilities of SMC Global Power of ₱33,428 million and finance lease liabilities (current portion) of ₱15,364 million.

The level of finance lease obligations and debt could:

- require SMC Global Power to dedicate a substantial portion of its cash flow from operations to debt and other payment obligations, thereby decreasing the availability of its cash flow for business operations, including expansion and acquisitions;
- increase the vulnerability of SMC Global Power to general adverse economic and industry conditions; and
- prevent SMC Global Power from accessing credit or equity markets to satisfy its repayment obligations as they become due on favorable terms, or at all.

Increased competition in the Philippine power industry

In recent years, the Philippine government has implemented measures designed to establish a competitive energy market. These measures include (1) the privatization of at least 70% of the NPC-owned-and-controlled power generation capacities, (2) the grant of a concession to operate transmission facilities and (3) the establishment of the WESM in Luzon and Visayas, which has resulted in a more transparent price-setting mechanism and competitive pricing. The continuing privatization of the Philippine power industry has created a more competitive environment and resulted in the emergence of new and numerous competitors. These competitors may have greater financial resources, and have more extensive operational experience and other capabilities than SMC Global Power, giving them the ability to respond to operational, technological, financial and other challenges more quickly than SMC Global Power. These competitors may therefore be more successful than SMC Global Power in acquiring or becoming IPPAs for existing power generation facilities or in obtaining financing for, and constructing, new power generation facilities. The type of fuel that competitors use for their generation facilities may also allow them to produce power at a lower cost and to sell electricity at a lower price. SMC Global Power may therefore be unable to meet the competitive challenges it will face.

Loss of tax exemptions and incentives

SMC Global Power benefits from certain tax exemptions and tax incentives until July 2014, such as a four-year income tax holiday on income tax due on revenues derived from its power generation activities, deductions from taxable income subject to certain capital requirements and duty-free importation of capital equipment, spare parts and accessories.

If these tax exemptions or tax incentives are revoked or repealed, the income from these sources will be subject to corporate income tax, which, as at the date of this Prospectus, is 30% of net taxable income; in addition, the importation of capital equipment, spare parts and accessories will be subject to import duties. As a result, the tax expense of SMC Global Power would increase and its profitability would decrease. There have also been reports in the Philippine press that the Philippine government may in the future discontinue its policy of granting tax incentives for similar types of projects, and there is no assurance that SMC Global Power will be able to obtain and benefit from similar tax incentives for future projects. The expiration, non-renewal, revocation or repeal of these tax

exemptions and tax incentives, and any associated impact on SMC Global Power, could have a material adverse effect on the business, financial condition and results of operations.

Dependence on transmission infrastructure

The transmission infrastructure in the Philippines continues to experience constraints on the amount of electricity that can be delivered from power plants to customers, as well as limited interconnectivity between the Luzon-Visayas grid and the lack of any interconnectivity between the Luzon-Visayas grid and the Mindanao grid.

If these transmission constraints continue, the ability of SMC Global Power to supply electricity from its IPPA power plants and its planned and contemplated greenfield power projects, as well as the ability of SMC Global Power to increase its geographical reach, will be adversely affected. This constraint could have a material adverse effect on the business and growth of revenues from the sale of power.

Market limitations under the EPIRA

The EPIRA limits a participant's market share to 30% per regional grid and 25% of the national grid by installed capacity. Based on industry data from the DOE, SMC Global Power had a 23% market share of the Luzon grid and a 17% market share of the national grid. The DOE has publicly stated that the existing market share of SMC Global Power should be considered in evaluating its participation in PSALM's privatization of its existing power generation capacity. As a result, SMC Global Power may not receive permission to increase its capacity and market share in the future if the proposed increases would cause SMC Global Power to exceed the permitted capacity or market share. An inability to expand and grow the power business could materially and adversely affect the business and prospects of SMC Global Power.

Regulation by the ERC

Sales to distribution utilities constituted approximately 79% of the revenue from sales of power from the IPPA power plants as of end 2011. While rates charged by SMC Global Power under its offtake agreements, including those with distribution utilities, are not regulated by ERC, the rates that distribution utility customers charge to their customers are subject to review and approval by the ERC.

Accordingly, the ability of distribution utility customers to pay SMC Global Power largely depends on their ability to pass on their power costs to their customers.

There is no assurance that the ERC will permit the distribution utility customers to increase their rates or that subsequent reviews by the ERC will not result in cancellation of any such increases or require such customers to refund payments previously received from their customers. In addition, there is no assurance that any rate increases approved by the ERC will not be overturned by Philippine courts on appeal. Any restriction on the ability of distribution utilities to pass on such costs or any intervention in such rates could have a material adverse effect on the business, financial conditions and results of operations.

Risks Relating to Infrastructure Business

Challenges in operating infrastructure business

The ability of SMC to successfully grow and operate its infrastructure business is subject to various risks and uncertainties, including:

- the need to procure materials, equipment and services at reasonable costs and on a timely basis;
- reliance on third party providers and consultants, in particular for those aspects of the business where SMC has limited expertise or experience;
- the possible need to raise additional financing to fund the projects, which SMC may be unable to obtain on satisfactory commercial terms or at all;

- errors or delays in the design, engineering, construction, installation, inspection, commissioning, management or operation of each project; and
- delays or denials of required approvals, including required environmental approvals.

Occurrence of any of the foregoing or a failure by SMC to successfully operate its infrastructure business could have a material adverse effect on its business, financial condition and results of operations.

Inability to secure tariff increases

The commercial success of the infrastructure business and projects of SMC depends in part on the ability of the affiliates of SMC to impose tariff increases. While tariff increases are permitted contractually pursuant to pricing formulas set forth in the applicable concession agreements, tariff increases may not be feasible commercially due to various factors, including competition and price sensitivity in consumer demand. Any constraint on the ability of the infrastructure business to increase tariffs could have a material adverse effect on its business, financial condition and results of operations.

Decrease in utilization

The commercial success of the infrastructure business of SMC depends on the ability of its projects to maintain or attract increases in utilization. External events may decrease the numbers of vehicles, airplanes or passengers that utilize the infrastructure facilities of SMC. For example, rising oil prices could result in less passenger vehicle journeys, which could decrease revenue received from road tolls. Higher oil prices could also increase the cost of airfare for consumers, which could decrease passenger numbers at the Boracay airport. Any decrease in utilization or any factor that would decrease utilization could have a material adverse effect on the business, financial condition, results of operations and prospects of SMC.

Risks Relating to Other Businesses of SMC

Rapid changes in technology

The telecommunications sector has been characterized recently by rapid technological changes. There is no assurance that these developments will not result in competition from providers of new services or the need for the telecommunications business of SMC to make substantial capital expenditures to upgrade its facilities. The future success of the telecommunications business of SMC will depend, in part, on its ability to anticipate or adapt to such changes and to offer services that meet customer demands on a competitive and timely basis. The telecommunications business of SMC may be unable to obtain new technologies on a timely basis or on satisfactory terms or implement them in an appropriate or effective manner. Future development of new technologies, services or standards could require significant changes to the telecommunications business model, negatively impact its existing businesses and necessitate significant new investments. In addition, new products and services may be expensive to develop and may result in increased competition. Such strategic initiatives and technological developments could require SMC to incur significant additional capital expenditures. There is no assurance that SMC would be able to adopt and successfully implement new technologies. In addition, there is no assurance on how emerging and future technological changes will affect the operations or the competitiveness of the telecommunications services. Rapid technological changes could materially reduce the revenues and profitability of the telecommunications business of SMC, and its results of operations and prospects.

Competition in the telecommunications industry

The market for communication services in the Philippines is intensely competitive. SMC expects competition to increase as the Philippine telecommunications industry continues to grow. There is also uncertainty as to the pace and extent of growth in subscriber demand and the extent to which prices for airtime and line rental will change. There is no assurance that SMC will be able to compete successfully against current or future competitors.

The principal competitors of SMC include Philippine Long Distance Telephone Company and Globe Telecom, Inc., which are relatively larger companies that may have greater market presence as well as greater engineering resources and experience. Many of the voice and data communications customers of these telecommunications companies may also prefer to use companies that provide multiple services for their telecommunications needs, rather than using those companies controlled by SMC. If SMC is not able to compete successfully with these companies, such inability could have a material adverse effect on the business, financial condition, results of operations and prospects.

Risks Relating to the Philippines

Concentration of operations and assets in the Philippines

Historically, the financial condition and results of operations of SMC have been influenced, and will continue to be influenced, to a significant extent by the overall performance of the Philippine economy. In particular, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Peso and the imposition of exchange controls. In 2011, the SMC Group accounted for about 4.18% of the country's gross national income and 5.50% of the country's gross domestic product.

In addition, demand for many of the products of SMC is tied closely to domestic consumer purchasing power and disposable income levels, which may be adversely affected by unfavorable economic developments in the Philippines. For example, in 2008, the macroeconomic slowdown in the Philippines negatively affected sales volumes in the flour and DSO businesses of SMC, as consumers prioritized staple commodities such as rice over bread and bread spreads. Similarly, with respect to the beverages business of SMC, unfavorable economic developments may induce consumers of the beverage products of SMC to purchase more private label or economy brands, sales of which produce lower profit margins. As the businesses expand their product and brand portfolios in higher-priced Premium market segments in their respective industries, their businesses and prospects will be increasingly affected by any deterioration in consumer purchasing power. Any decrease in consumer purchasing power and disposable income levels could have a material adverse effect on the financial and operating performance of SMC.

In addition, global financial, credit and currency markets have, since the second half of 2007, experienced, and may continue to experience, significant dislocations and liquidity disruptions. There is significant uncertainty as to the potential for a continued downturn in the United States and Europe, as well as the global economy, which could cause economic conditions in the Philippines to deteriorate. Any downturn in the Philippine economy may negatively impact consumer sentiment and general business conditions in the Philippines, which may materially reduce the revenues, profitability and cash flows. Moreover, there is no assurance that current or future government policies would continue to be conducive to sustaining economic growth.

Acts of terrorism in the Philippines

The Philippines has been subject to a number of terrorist attacks since 2000, and the Philippine army has been in conflict with groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. Acts of terrorism, violent crime and similar events could have a material adverse effect on the business, financial condition, results of operations and prospects of the Company.

Natural catastrophes

The Philippines has experienced a number of major natural catastrophes over the years including typhoons, volcanic eruptions and earthquakes that may materially disrupt and adversely affect the business operations of SMC. There is no assurance that the insurance coverage SMC maintains for these risks will adequately compensate it for all damages and economic losses resulting from natural catastrophes.

Philippine credit rating

International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are resident in the Philippines, such as SMC. There is no assurance that Moody's, S&P or other international credit rating agencies will not downgrade the credit rating of the Philippines in the future. Any such downgrade could have a material adverse effect on liquidity in the Philippine financial markets and the ability of the Philippine government and Philippine companies, including SMC, to raise additional financing, and will increase borrowing and other costs.

Foreign exchange controls

The Philippines currently does not have any foreign exchange controls in effect. However, the BSP has statutory authority, with the approval of the President of the Philippines, during a foreign exchange crisis or in times of national emergency, to: (i) suspend temporarily or restrict sales of foreign exchange; (ii) require licensing of foreign exchange transactions; or (iii) require the delivery of foreign exchange to the BSP or its designee banks for the issuance and guarantee of foreign currency-denominated borrowings.

SMC purchases certain critical key inputs from abroad and requires foreign currency to make these purchases. There is no assurance that foreign exchange controls will not be imposed by the Philippine government in the future. Any foreign currency restrictions could severely curtail the ability of SMC to pay for certain key inputs or to meet its foreign currency payment obligations, which could materially and adversely affect its financial condition and results of operations.

Management of risks

SMC has been able to survive major economic and political crises brought about by domestic and international developments through the implementation of its core strategies, including least cost formulations, efficiencies improvement, market leadership, innovation and regional diversification. Constant monitoring of market allows the Company to detect risk exposures and react to the external environment appropriately. Although there is no assurance that the Company will be able to fully overcome the adverse effects of any or all crisis, it has in place a system of financial prudence and corporate governance that provides the foundation for its risk management initiatives.

Risks Related to the Offer Shares

Volatility of market price

The market price of the Offer Shares could be affected by various factors, including:

- general market, political and economic conditions;
- changes in earnings estimates and recommendations by financial analysts;
- changes in market valuations of listed stocks, in general, and stocks of other conglomerates;
- changes to government policy, legislation or regulations, and
- general operational and business risks.

In addition, many of the risks described within this section could materially and adversely affect the market price of the Offer Shares.

Payment of dividends

Under the terms and conditions governing the Offer Shares, the Company may pay no dividends or less than full dividends on a Dividend Payment Date. Holders of the Offer Shares will not receive dividends on a Dividend Payment Date or for any period during which the Company does not have retained earnings out of which to pay dividends.

Preference of Offer Shares

The obligations of SMC in respect of the Offer Shares are subordinated to all of the indebtedness of the Company, and it will not make any payments under the Offer Shares unless it can satisfy in full all of its other obligations that rank senior to the Offer Shares.

The obligations of SMC under the Offer Shares are unsecured and will, in the event of the winding-up of the Company, rank junior in right of payment to all indebtedness of the Company and junior in right of payment to securities of, or claims against, the Company which rank or are expressed to rank senior to the Offer Shares. Accordingly, the obligations of SMC under the Offer Shares will not be satisfied unless SMC can satisfy in full all of its other obligations ranking senior to the Offer Shares.

There is no agreement or instrument that limits the ability of SMC to incur additional indebtedness that ranks senior to or *pari passu* with the Offer Shares.

Insufficient distributions upon liquidation

Upon any voluntary or involuntary dissolution, liquidation or winding up of SMC, holders of Offer Shares will be entitled only to the available assets of the Company remaining after the indebtedness of SMC is satisfied. If any such assets are insufficient to pay the full amount due to the holders of the Offer Shares, then holders of Offer Shares shall share ratably in any such distribution of assets in proportion to the full distributions to which they would otherwise be respectively entitled.

Contractual limitations of SMC

SMC has and will continue to have a certain amount of outstanding indebtedness. The current terms of the financing agreements of SMC contain provisions that could limit the ability of the Company to make payments on the Offer Shares. Also, SMC may in the future, directly or indirectly through its subsidiaries, enter into other financing agreements which may restrict or prohibit the ability of the Company to make payments on the Offer Shares. There can be no assurance that existing or future financing arrangements will not adversely affect the ability of SMC to make payments on the Offer Shares.

Redemption at sole right of the Issuer

The Offer Shares are only redeemable at the option of the Issuer on the Optional Redemption Date as defined in the "Terms of the Offer". Accordingly, if a holder of Offer Shares wishes to obtain the cash value of the investment, the holder will have to sell the Offer Shares in the secondary market.

Issuance and listing after Subscription Payment Date

Since the Offer Shares will not be created until the SEC approves the increase in authorized capital stock of the Company, and will not be listed on the PSE until such SEC approval and the approval of PSE for the listing application of the Company are obtained, the sale of the Offer Shares or any rights thereto prior to the Final Issue Date cannot be made through the stock exchange.

At the time that the Offer Shares are subscribed until the date of approval of the increase in authorized capital stock of the Company, the sale of subscription rights to the Offer Shares may be treated as sale of shares and subject to documentary stamp tax, capital gains tax (on any gain derived from the sale thereof) or donor's tax (in case of donation or sale of the subscription rights to the Offer Shares for a price below the subscription rights' fair market value).

Similarly, after the approval of the increase in authorized capital stock but before the listing of the Offer Shares, the sale of the Offer Shares will be subject to documentary stamp tax, capital gains tax (on any gain derived from the sale thereof) or donor's tax (in case of donation or sale of the Offer Shares for a price below its fair market value).

Market for the Offer Shares

The Company cannot guarantee that the market for the Offer Shares will always be active or liquid upon their listing on the PSE.

Limited liquidity

The Joint Bookrunners are not obligated to create a trading market for the Offer Shares and any such market making will be subject to the limits imposed by applicable law, and may be interrupted or discontinued at any time without notice. Accordingly, the Company cannot predict whether an active or liquid trading market for the Offer Shares will develop or if such a market develops, if it can be sustained. Consequently, a shareholder may be required to hold his Offer Shares for an indefinite period of time or sell them for an amount less than the Offer Price.

Effect of non-payment of dividends on trading

If dividends on the Offer Shares are not paid in full, or at all, the Offer Shares may trade at a lower price than they might otherwise have traded if dividends had been paid. The sale of Offer Shares during such a period by a holder of Offer Shares may result in such holder receiving lower returns on the investment than a holder who continues to hold the Offer Shares until dividend payments resume. In addition, because of the dividend limitations, the market price for the Offer Shares may be more volatile than that of other securities that do not have these limitations.

Inability to reinvest at a similar return on investment upon redemption

On the Optional Redemption Date or at any time redemption occurs, SMC may redeem the Offer Shares at the Redemption Price, as described in “Description of the Offer Shares”. At the time of redemption, interest rates may be lower than at the time of the issuance of the Offer Shares and, consequently, the holders of the Offer Shares may not be able to reinvest the proceeds at a comparable interest rate or purchase securities otherwise comparable to the Offer Shares.

Limited voting rights

Holders of Offer Shares will not be entitled to elect the Board of Directors of the Company. Except as specifically set forth in the Amended Articles of Incorporation and as provided by Philippine law, holders of Offer Shares will have no voting rights (see “Description of the Offer Shares” on page [•]).

Use of Proceeds

The gross proceeds of the Offer will amount to ₱[•]. The Company estimates that the net proceeds of the Offer shall amount to approximately ₱[•], after underwriting fees, commissions and expenses. Estimated fees, commissions and expenses relating to the Issue are as follows:

Fees, Commissions and Expenses	In ₱ Millions
Gross Underwriting Fees for the Offer Shares being sold by the Company	
Taxes to be paid by the Company	
Philippine SEC filing and legal research fee	
Estimated PSE listing and processing fee	
Estimated legal and other professional fees	
Estimated other expenses	
TOTAL	

Of the net proceeds of the Offer, SMC intends to use ₱[•] to redeem all of the Series “1” Preferred Shares. The remaining proceeds after the redemption shall be used by SMC for general corporate purposes.

No amount of the proceeds is to be used to reimburse any officer, director, employee, or shareholder, for services rendered, assets previously transferred, money loaned or advanced, or otherwise.

Except for the underwriting fees, issue management fees and expenses related to the Offer, no amount of the proceeds will be utilized to pay any outstanding financial obligations to the Joint Bookrunners.

In the event of any deviation from or adjustment in the planned use of proceeds, SMC shall inform the SEC and the holder of Offer Shares at least 30 days prior to the implementation of such deviation or adjustment. Any material or substantial adjustments to the use of proceeds, as indicated above, should be approved by the Board of Directors of the Company and disclosed to the SEC and PSE.

The Company shall disclose to the PSE through the Online Disclosure System (“OdiSy”) any disbursements from the proceeds generated from the Offer.

Determination of Offer Price

The Offer Price of ₱75.00 is at a premium to the Series “2” Preferred Share’s par value per share of ₱5.00. The Offer Price was arrived at by dividing the desired gross proceeds of ₱[•] by the amount of Offer Shares allocated for the Offering.

Prior to the Offering, there has been no public market for the Offer Shares.

Dilution

The Offer Shares will not have any dilutive effect on the rights of the holders of the common shares of the Company as these are non-voting, non-convertible and non-participating.

Plan of Distribution

SMC plans to issue the Offer Shares to institutional and retail investors in the Philippines through a public offering to be conducted through the Joint Bookrunners and Selling Agents. The Offer does not include an international offering.

Joint Bookrunners

The Hongkong and Shanghai Banking Corporation Limited (“HSBC”), [•], [•], [•] (collectively, the “Joint Bookrunners”) have agreed to distribute and sell the Offer Shares at the Issue Price, pursuant to an Underwriting Agreement to be entered into with SMC (the “Underwriting Agreement”). Subject to the fulfillment of the conditions provided in the Underwriting Agreement, the Joint Bookrunners have committed to underwrite the following amounts on a firm basis:

**The Hongkong and Shanghai Banking
Corporation Limited**

TOTAL

The Underwriting Agreement may be terminated in certain circumstances prior to payment being made to SMC of the net proceeds of the Offer Shares.

The underwriting and selling fees to be paid by the Company in relation to the Offer shall be equivalent to [•]% of the gross proceeds of the Offer. This shall be inclusive of fees to be paid to the Joint Bookrunners and Selling Agents, if any, and commissions to be paid to the Trading Participants of the PSE.

The Joint Bookrunners are duly licensed by the SEC to engage in the underwriting or distribution of the Offer Shares. The Joint Bookrunners may, from time to time, engage in transactions with and perform services in the ordinary course of its business, for SMC or any of its subsidiaries.

The Joint Bookrunners have no direct relations with SMC in terms of ownership by either of their respective major shareholder/s, and have no right to designate or nominate any member of the Board of Directors of SMC.

The Joint Bookrunners have no contract or other arrangement with SMC by which it may return to SMC any unsold Offer Shares.

HSBC Philippines is a branch of The Hongkong and Shanghai Banking Corporation Limited, a global corporation headquartered in London, United Kingdom, providing a comprehensive range of financial services to customers. HSBC has been doing business in the Philippines for over 135 years, and currently employs over 8,000 people in the country. HSBC has a universal banking license and carries out its investment banking activities through its Global Capital Markets department.

Sale and Distribution

The distribution and sale of the Offer Shares shall be undertaken by the Joint Bookrunners who shall sell and distribute the Offer Shares to third party buyers/investors. The Joint Bookrunners are authorized to organize a syndicate of Selling Agents and solicit dealers and/or selling agents for the purpose of the Offer. Of the [•] Offer Shares to be offered, 80% or [•] Offer Shares are being offered through the Joint Bookrunners for subscription and sale to Qualified Institutional Buyers and the general public. The Company plans to make available 20% or [•] Offer Shares for distribution to the respective clients of the 134 Trading Participants of the PSE, acting as Selling Agents. Each Trading Participant shall be allocated [•] Offer Shares (computed by dividing the Offer Shares allocated to the Trading Participants by 134), subject to reallocation as may be determined by the PSE. Trading Participants may undertake to purchase more than their allocation of [•] shares. Any requests for shares in excess of [•] may be satisfied via the reallocation of any Offer Shares not taken up by other Trading Participants.

The Company will not allocate any Offer Shares for the Local Small Investors. As defined in the PSE Revised Listing Rules, a Local Small Investor is a share subscriber whose subscription does not exceed ₱25,000.00. The Offer will have a minimum subscription amount of ₱[•], which is beyond the prescribed maximum subscription amount for Local Small Investors.

Prior to the close of the Offer Period, any Offer Shares not taken up by the Trading Participants shall be distributed by the Joint Bookrunners directly to their clients and the general public. All Offer Shares not taken up by the Trading Participants, general public and the Joint Bookrunners' clients shall be purchased by the Joint Bookrunners pursuant to the terms and conditions of the Underwriting Agreement.

Term of Appointment

[The engagement of the Joint Bookrunners shall subsist so long as the SEC Permit to Sell remains valid, unless otherwise terminated pursuant to the Underwriting Agreement.]

Manner of Distribution

The Joint Bookrunners shall, at their discretion, determine the manner by which proposals for subscriptions to, and issuances of, the Offer Shares shall be solicited, with the primary sale of the Offer Shares to be effected only through the Joint Bookrunners. The Joint Bookrunners may appoint other entities, including trading participants, to sell on their behalf.

No shares are designated to be sold to specific persons.

Offer Period

The Offer Period shall commence at [•] on [•] and end at [•] on [•], or such other date as may be mutually agreed between the Company and the Joint Bookrunners.

Application to Purchase

The requirements to purchase the Offer Shares are discussed under the "Terms of the Offer".

An applicant who is exempt from or is not subject to withholding tax or who claims reduced tax treaty rates shall, in addition, be required to submit the following requirements to the relevant Joint Bookrunners or Selling Agent (together with their applications) who shall then forward the same to the Registrar and Paying Agent, subject to acceptance by the Company as being sufficient in form and substance: (i) certified true copy of the original tax exemption certificate, ruling or opinion issued by the BIR on file with the Applicant as certified by its duly authorized officer; (ii) with respect to tax treaty relief, proofs to support applicability of reduced treaty rates, consularized proof of tax domicile issued by the relevant tax authority of the holder of the Offer Shares, and original or SEC-certified true copy of the SEC confirmation that the relevant entity is not doing business in the Philippines; (iii) an original of the duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status, undertaking to immediately notify the Company and the Registrar and Paying Agent of any

suspension or revocation of its tax exempt status and agreeing to indemnify and hold the Company, the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or reduced withholding of the required tax; and (iv) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities.

Minimum Purchase

A minimum purchase of [•] shares shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of [•] shares.

Refunds

In the event an Application is rejected or the amount of Offer Shares applied for is scaled down, the Joint Bookrunners or the Selling Agents, upon receipt of such rejected or scaled down Applications, shall notify the applicant concerned that his Application has been rejected or the amount of Offer Shares applied for is scaled down, and refund the amount paid by the applicant with no interest thereon. With respect to an applicant whose Application was rejected, refund shall be made by the Joint Bookrunners or the Selling Agent by making the check payment of the applicant concerned available for his retrieval. With respect to an applicant whose Application has been scaled down, refund shall be made by the issuance by the concerned Joint Bookrunner or Selling Agent of its own check payable to the order of the applicant and crossed "Payees' Account Only" corresponding to the amount in excess of the accepted Application. All checks shall be made available for pick up by the applicants concerned at the office of the Joint Bookrunner or Selling Agent to whom the rejected or scaled down Application was submitted within five Banking Days after the last day of the Offer Period. The Company shall not be liable in any manner to the applicant for any check payment corresponding to any rejected or scaled-down Application which is not returned by the relevant Joint Bookrunner; in which case, the relevant Joint Bookrunner or Selling Agent shall be responsible directly to the applicant for the return of the check or otherwise the refund of the payment.

Secondary Market

Once the Offer Shares are listed in the PSE, SMC may purchase the Offer Shares at any time in the open market or by public tender or by private contract at any price through the PSE. The Offer Shares so purchased may either be redeemed and cancelled (after the Optional Redemption Date) or kept as treasury shares.

Registry of Shareholders

The Offer Shares will be issued in scripless form through the electronic book-entry system of SMC Stock Transfer Service Corporation as Registrar for the Offer, and lodged with PDTC as depository agent on listing date through the PSE trading participants nominated by the applicants. Applicants shall indicate in the proper space provided for in the Application Form the name of the PSE trading participant under whose name their Offer Shares will be registered.

Legal title to the Offer Shares will be shown in an electronic register of shareholders (the "Registry of Shareholders") which shall be maintained by the Registrar. The Registrar shall send a Registry confirmation advice confirming every receipt or transfer of the Offer Shares that is effected in the Registry of Shareholders (at the cost of the requesting shareholder). The Registrar shall send (at the cost of the Company) at least once every quarter a statement of account to all shareholders named in the Registry of Shareholders, except certificated shareholders and depository participants, confirming the number of Offer Shares held by each shareholder on record in the Registry of Shareholders. Such statement of account shall serve as evidence of ownership of the relevant shareholder as of a given date thereof. Any request by the holders of Offer Shares for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting shareholder (please see "The Philippine Stock Market -- Amended Rule on Lodgment of Securities" on page [•]).

Expenses

All out-of-pocket expenses, including but not limited to, registration with the SEC, printing, publication, communication and signing expenses incurred by the Joint Bookrunners in the negotiation and execution of the transaction will be for the account of SMC irrespective of whether the Offer is completed. Such expenses are to be reimbursed upon presentation of a composite statement of account. See “Use of Proceeds” on page [•] for details of expenses.

The Company

OVERVIEW

SMC is the Philippines' largest and most diversified conglomerate by market capitalization and total assets, with revenues accounting for approximately 5% of the Philippine GDP in 2011. Originally founded in 1890 as a single brewery in the Philippines, SMC has transformed itself from a market-leading beverages, food and packaging business with a globally recognized beer brand, into a large and diversified conglomerate with additional market-leading businesses and investments in the Philippines' energy, fuel and oil, infrastructure, telecommunications, financial and mining industries. As of the date of this Prospectus, SMC has a portfolio of companies that is interwoven into the economic fabric of the Philippines, benefiting from, as well as contributing to, the development and economic progress of the Philippines. The common shares of SMC were listed on the PSE on November 5, 1948, and as of March 31, 2012, SMC had a market capitalization of ₱269,376 million, with a common share price of ₱113.70. The consolidated sales of SMC and EBITDA in 2011 were ₱535,775 million and ₱77,150 million, respectively.

Corporate Transformation of SMC

Established in 1890 as a single brewery in the Philippines, the SMC Group has become a Philippine market leader in its established businesses in beverages, food and packaging industries with 17,151 employees and more than 100 production facilities in the Asia-Pacific region as of December 31, 2011. The extensive portfolio of SMC products grew to include beer, liquor, non-alcoholic beverages, poultry, animal feeds, flour, meat, dairy products, coffee and various packaging products.

In 2007, in light of the opportunities presented by the global financial crises, the Philippine government's ongoing program of asset and industry privatization and the strong cash position of SMC enhanced by recent divestments and the strong cash flow generated by its established businesses, SMC adopted an aggressive business diversification program. The program channeled the resources of the Company into what it believes were attractive growth sectors, aligned with the development and growth of the Philippine economy. SMC believes this strategy will achieve a more diverse mix of revenue and operating income, better position the Company to access capital, present different growth opportunities and mitigate the impact of downturns and business cycles.

Since January 1, 2008, SMC, either directly or through its subsidiaries, has made a series of acquisitions in the fuel and oil, energy, infrastructure, mining, telecommunications, banking and airline industries in the past four years, as outlined below:

- **Fuel and Oil:** SMC acquired a 38.20% interest in Petron on August 31, 2010, which was increased to 68.26% on December 15, 2010. On March 30 2012, an affiliate of SMC, Petron Oil & Gas International Sdn Bhd, completed the acquisition of 65% of Esso Malaysia Berhad, a publicly listed company in Malaysia, 100% of ExxonMobil Malaysia Sdn Bhd, and 100% of ExxonMobil Borneo Sdn Bhd.
- **Energy:** SMC acquired a 27% interest in power distributor Meralco on October 27, 2008, and is now at 32.39%. In addition, SMC has administration rights for three power plants in Sual, Ilijan and San Roque under IPPA agreements which commenced on November 6, 2009, January 26, 2010 and June 26, 2010, respectively, and which will expire on October 24, 2024, June 4, 2022 and May 1, 2028, respectively.
- **Infrastructure:** SMC acquired a 35% interest in PIDC, which is developing the 88.6-kilometer Tarlac-Pangasian-La Union expressway, on September 11, 2009. SMC also acquired a 93% interest in TADHC (formerly known as Caticlan International Airport Development Corporation) on April 29, 2010, and a 51% interest in Universal LRT, the concession holder for the MRT-7 Rail and Road Project, on November 8, 2010. SMHC has acquired 46.53% stake in AAI, a company which has an 80% stake in SLTC, which holds a 30-year concession (valid until 2035) to operate the 36 km SLEX, one of the three major expressways that links Metro Manila to key southern provinces; and a 52.50% stake in Citra Metro Manila Tollways Corporation, concession holder of the Skyway.

SMC, through Petron, has a 35% interest in Manila North Harbor Port Inc. from Harbour Centre Port Terminal Inc.

- **Mining:** SMC acquired a 100% interest in the concession holders of the DAMI, BERI and Sultan coal deposits; on January 29, 2010, January 29, 2010 and May 13, 2010, respectively. SMC also has a 3.99% interest in Indophil Resources NL, which indirectly holds a 15% interest in an entity with rights to explore, develop, and operate the Tampakan gold and copper project, on October 15, 2010.
- **Telecommunications:** SMC through Vega Telecom, Inc. ("Vega") acquired 41.50% of Liberty in partnership with Qatar Telecom 32.73% and White Dawn Solutions Holdings, Inc. 18.28%, with the remaining shares owned by the public. SMC acquired 100% of BellTel, a full-service telecommunications company which is licensed to provide a range of services throughout the Philippines. In 2011, SMC, through Vega, acquired 100% of the outstanding and issued shares of stock of AGNP, the beneficial owner of approximately 40% of ETPI, inclusive of the existing businesses, investments and telecommunications service facilities of ETPI. On October 20, 2011, the Parent Company through its wholly-owned subsidiary, SMESI, acquired 37.70% of the outstanding and issued shares of stock of ETPI.
- **Banking:** SMC through SMPI acquired an interest in Bank of Commerce ("BOC"). However, SMPI, together with the other stockholders of BOC, executed a share purchase agreement with CIMB Bank Berhad for the sale of a 58% equity interest in BOC.
- **Other Investment:** Most recently, SMC, through SMEII, acquired a 49% equity interest in each of Trustmark and Zuma, the holding companies of PAL (through PAL Holdings, Inc.) and Air Phil, respectively. The investment provides an opportunity for SMC to diversify into an industry which has synergies with the existing businesses of SMC. Such investment will likewise augment and supplement the ongoing enhancement of the operations of PAL and Air Phil, and the implementation of the fleet modernization programs with the end in view of enhancing the efficiency, competitiveness and profitability of PAL and Air Phil.

The Businesses of SMC

Today, SMC is one of the largest and most diverse business groups in the Philippines. The new portfolio encompasses the following businesses, which are market leaders in their respective industries:

Beverages — The beverages business consists of brewing, distilling, selling, marketing and distributing beer, liquor and non-alcoholic beverages. San Miguel sells the dominant beer brands in the Philippines, with a total market share of more than 90%. Its products include San Miguel Pale Pilsen, which is the flagship beer of SMB and is sold throughout the world, San Miguel Super Dry, San Mig Light, San Mig Strong Ice and San Miguel Premium All-Malt. Other SMC beers include Cerveza Negra, Red Horse, Gold Eagle, Oktoberfest Brew and Alcoholic Malt Beverage. In addition to its Philippine beer operations, SMB has brewery and sales operations in China, Hong Kong, Thailand, Vietnam and Indonesia and exports to 40 countries. SMC is the world's largest gin producer by volume with some of the most recognizable brands in the Philippine liquor market, including Ginebra San Miguel, GSM Blue, Gran Matador Brandy, Gran Matador Light, Antonov Vodka and Vino Kulafu. SMC also has a growing non-alcoholic beverages business which produces non-carbonated, ready-to-drink tea and fruit juice products, primarily under the Magnolia brand. SMC conducts its beverages business through majority owned subsidiaries: SMB for beer and GSMI for liquor and non-alcoholic beverages.

Food — The food business holds numerous market leading positions in the Philippine food industry, offering a broad range of high-quality food products and services to both household and food service customers. The business is organized into business clusters: Agro-Industrial (poultry, feeds and fresh meats); Value-Added Meats (processed meats); Milling (flour and flour products); and DSO (dairy products, spreads, oils), ice cream, coffee, food service, retail and miscellaneous businesses. SMC has some of the best known brands in the Philippine food industry, such as Purefoods, Magnolia, Monterey, Star, Dari Crème and B-Meg. The food business is conducted through SMPFC. In addition to its Philippine operations, the food business has operations in Indonesia and Vietnam.

Packaging — The packaging business has one of the largest packaging operations in the Philippines, producing glass, metal, plastic, aluminum cans, paper, flexibles, PET and other packaging products. The packaging business is the major source for packaging products for the other businesses of SMC. It also supplies its products to major multinational corporations in the Philippines and customers across the Asia-Pacific region, the United States, Africa, Australia and the Middle East. The packaging business is conducted through the Packaging Group.

Properties – SMPI was created in 1990 initially as the corporate real estate arm of SMC. It is the primary property subsidiary of the SMC Group, currently 98.45% owned by SMC. SMPI is presently engaged in commercial property development, sale and lease of real properties, management of strategic real estate ventures and corporate real estate services.

Fuel and Oil — SMC operates its fuel and oil business through Petron in which SMC holds a 68.26% interest. Petron is the largest integrated oil refining and marketing company in the Philippines, supplying almost 40% of the country's refined oil requirements and is the largest LPG distributor, with a 39.50% market share as of December 2011 (based on the data of the DOE). The core business of Petron involves the refining of crude oil and the marketing and distribution of refined petroleum products, mainly for the Philippine market. Petron possesses the most extensive oil distribution infrastructure in the country with more than 30 depots and terminals and over 1,900 service stations in the Philippines. Petron also exports various petroleum products and petrochemical feedstock, including high sulfur fuel oil, naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

Energy — The energy business is a leader in the Philippine power generation industry in terms of installed capacity. SMC administers three power plants, located in Sual (coal), Ilijan (natural gas) and San Roque (hydroelectric), with a combined capacity of 2,545 MWs, pursuant to IPPA agreements with PSALM and NPC. As of December 31, 2011, SMC was one of the largest IPPAs in the Philippines and held a 23% market share of the total installed power generation capacity for the Luzon power grid and a 17% market share of the national grid. As of March 31, 2012, SMC and its subsidiaries also owns a 32.39% stake in Meralco, the biggest power distributor and private sector

utility in the Philippines, which accounted for almost half of all electricity sales in the Philippines in 2010. SMC also has interests and investments in coal, copper and gold mining,

Infrastructure — The infrastructure business of SMC consists of investments in companies which hold long-term concessions in the Philippines' infrastructure sector. Current projects include the TPLEX Tollway, Boracay Airport and Manila's MRT-7 Light Rail and Road Project.

SMC, through SMHC, invested in 46.50% of AAI. AAI has indirect equity interests in Citra Metro Manila Tollways Corporation and SLTC, and holds the concessions to construct, operate and maintain the Skyway and SLEX, respectively.

SMC operates with partners in its investments in most of these infrastructure concessions.

Other Operations and Investments

Recently, SMC approved its investment, through SMEII, in PAL and Air Phil. On April 3, 2012, SMC, through SMEII signed investment agreements whereby SMEII subscribed to unissued common shares constituting 49% of the outstanding capital stock of Trustmark and Zuma, the holding companies of PAL (through PAL Holdings, Inc.) and Air Phil, respectively. The investment resulted in SMC indirectly owning a minority stake in PAL and Air Phil.

The following table sets forth the contribution of each of the businesses of SMC to its revenues for the periods indicated:

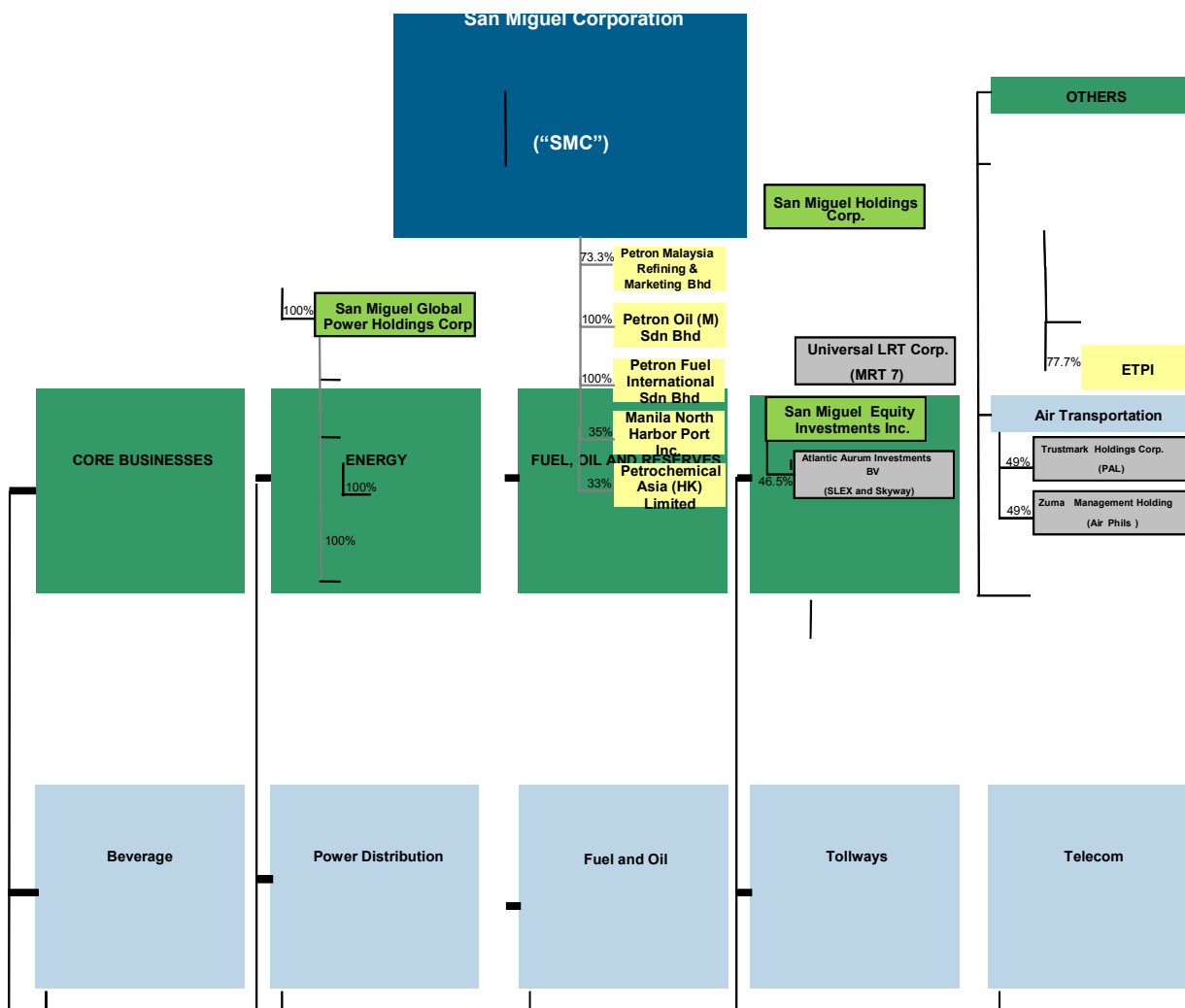
	2009		2010		2011		2012 First Quarter	
	Revenues	%	Revenues	%	Revenues	%	Revenues	%
	(in millions)		(in millions)		(in millions)		(in millions)	
Beverages	₱82,735	47.549	₱ 90,407	36.73	₱ 87,076	16.25	₱ 21,994	15.48
Food	77,220	44.33	80,415	32.67	89,549	16.71	22,398	15.77
Energy	—	—	45,636	18.54	70,737	13.20	19,144	13.48
Packaging	14,258	8.18	19,268	7.83	18,943	3.54	4,761	3.35
Fuel and Oil	—	—	10,383	4.22	269,116	50.23	73,431	51.70
Infrastructure	—	—	—	—	116	0.02	21	0.01
Other Operations and Investments	—	—	—	—	238	0.04	299	0.21
Total	₱ 174,213	100%	₱ 246,109	100%	₱ 535,775	100%	₱ 142,039	100%

The foreign operations of the SMC Group in 2011 contributed about 5% of consolidated sales and 2.13% of consolidated net income. Foreign sales are broken down by market as follows:

Market	(%) to Consolidated Sales		
	2009	2010	2011
China	3.29	2.45	1.25
Indonesia	2.49	2.36	1.28
Vietnam	2.07	1.50	0.84
Others	3.40	3.65	1.63

Corporate Organization

Set forth below is the corporate organizational chart of SMC as of the date of this Prospectus.



None of the SMC Group companies is involved in any bankruptcy or receivership proceedings. Except as disclosed in this Prospectus, none of the SMC Group companies is involved in any reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business which has a material effect on SMC.

Strengths

SMC believes that its principal strengths include the following:

Broad exposure to the growing Philippine economy. The Philippines is the fifth largest economy in Southeast Asia (in terms of GDP as of 2010) with 53 consecutive quarters of positive GDP growth since 1999. The Philippines announced a GDP growth of 6.4% during the first quarter of 2012, despite global market conditions. In addition, the Philippine population is young, comparably literate and growing, which provides the Philippine economy with favorable demographics for further growth.

As the Philippines' largest (by market capitalization) and most diversified conglomerate, with revenues accounting for approximately 5% of the Philippine GDP in 2011, and 4.18% of the Philippine GNP in the same year. The SMC Group is broadly exposed to the Philippine economy through its diverse range of businesses spanning the beverages, food, packaging, fuel and oil, energy, telecommunication, infrastructure, property, mining and other industries. Recent acquisitions of SMC in the infrastructure, fuel and oil industries aligns SMC to key sectors that it believes will benefit from the forecast growth of the Philippine economy.

Market leading positions in key Philippine industries. Many of the businesses of SMC are leaders in their domestic Philippine markets.

- **Beverages:** The domestic beer business of SMC has consistently dominated the Philippine beer market. Based on the Canadean data, the products of SMB captured a high market share of more than 90% in 2010. SMC also is the world's largest gin producer by volume. It also has a growing non-alcoholic beverages business which produces non-carboanated ready to drink tea, fruit juices and water.
- **Food:** The food business is the dominant domestic food producer in the segments in which it operates, with numerous market leading positions. SMC controls the leading brands in the poultry, feeds, meats, flour and bread spreads markets, including Magnolia, Purefoods, Monterey, B-Meg, Star, Dari Crème and JellyAce.
- **Packaging:** The packaging business is the market leader in the domestic packaging industry and the main supplier to the substantial packaging requirements of the beverages and food businesses.
- **Energy:** SMC is one of the largest IPPAs in the Philippines, holding a 23% market share of the total installed capacity of the Luzon power grid and a 17% market share of the national grid. SMC also holds a 32.39% stake in Meralco, the Philippines' biggest power distributor and private sector utility, accounting for almost half of all net electricity sales in the Philippines. The energy trading team comprises ex-PSALM traders who were pioneers in wholesale electricity spot market trading.
- **Fuel and oil:** Petron is the largest oil refining and marketing company in the Philippines, supplying almost 40% of the country's refined oil requirements and is the largest LPG distributor with a 39.5% market share as of December 2011 (based on data from the DOE). Petron possesses the most extensive petroleum product distribution infrastructure in the Philippines, with more than 30 depots and terminals and over 1,900 service stations.

Experienced management team. SMC has an extensive pool of experienced managers, and many senior managers have been with SMC for more than 20 years. The management team has a deep knowledge and understanding of the Philippine operating environment and has been able to effectively manage SMC through periods of crisis and instability in the Philippines. In addition, the management team has recently successfully directed the diversification strategy of SMC, including

retaining key management personnel from acquired companies, such as Petron, energy and infrastructure businesses, in order to maintain their expertise and leverage their industry experience.

Operating Businesses Provide Sustainable Stream of Income and Cash Flows. The beverages, food and packaging businesses provide SMC with a sustainable stream of income with low capital expenditure requirements. These businesses demonstrated resilience during the global financial crisis and provided SMC with a strong financial base from which to pursue its recent diversification strategy.

In 2009, SMC generated ₱30,013 million of recurring EBITDA and ₱57,799 million of net income attributable to Parent Company, with ₱6,249 million of capital expenditure. In 2010, they generated ₱52,536 million of recurring EBITDA and ₱ 20,091 million of net income attributable to Parent Company with ₱8,518 million of capital expenditure. In 2011, they generated ₱77,150 million of recurring EBITDA and ₱17,518 million of net income attributable to Parent Company with ₱26,426 million of capital expenditure.

Platform for Significant Future Growth. SMC is well-positioned for significant future growth. In particular, the established businesses of SMC in beverages, food and packaging provide for stable growth annually, while its new businesses are expected to contribute further to this growth.

- **Beverages:** The beverages business of SMC is well-positioned to benefit from increasing affluence and population growth in the Philippines. SMC believes there are significant opportunities in the Premium beer market as the Philippine population becomes more affluent. Additionally, the international beer business of SMC is experiencing increased sales through increasing brand recognition in selected overseas markets such as Indonesia, Thailand, Singapore and Hong Kong. SMC intends to expand its liquor business in the southern Philippines and internationally. SMC plans to create rapid deployment task forces, particularly in southern Philippines, where market penetration is low and where there is no existing dealership system. SMC also plans to increase margins by improving the profitability of its non-alcoholic business by rationalizing sales and distribution network to reduce costs, searching for alternative raw materials and optimizing bottle cost and usage. The beverage business of SMC plans to introduce new products and new package formats which strategy can increase consumer interest and overall market size, as well as address the needs of an increasingly fragmenting market, especially in high growth segments.
- **Food:** SMC aims to become the lowest cost producer by securing a stable raw material supply and developing alternative raw materials. SMC also plans to streamline its operations to improve profitability of its established business segments such as poultry, feeds, meat and flour; maximize synergies across operations, and improve margins through outsourcing non-core activities.
- **Packaging:** The packaging business of SMC aims to benefit from trade liberalization and globalization in the Asian region, increasing its exports to new markets. In addition, rising environmental awareness provides opportunities for the production of more environmentally friendly products such as heavy metal-free paint glass and recycled PET resin. SMC plans to improve margins by developing alternative sources of raw materials and optimizing recycling efforts to lower its material costs.
- **Fuel and oil:** The Philippines is a net importer of refined petroleum products and is expected to remain dependent on imports. SMC believes that the less urbanized areas in the Philippines are underserved and that there are significant growth opportunities in a growing domestic economy. The focus of Petron on the Philippine market and its leading position as the largest refinery operator by sales volume with the largest number of service stations, present good growth opportunities. SMC plans to continue its service station network expansion and seek growth in complementary non-fuel businesses. SMC also plans to increase the production of higher margin products. Petron is currently embarking on Phase 2 of the Refinery Master Plan ("RMP-2"), which includes further enhancements to the refinery's operational efficiencies, increase in conversion capability and minimize production of lower value fuel oils.

- **Energy:** SMC is planning to expand its power generating capacity over the next five years, and believes its energy business will benefit from both growing demand for electricity in the Philippines, which is forecast to exceed the growth rates of the Philippine GDP, and shortage in electricity supply, with the industry constrained by aging power generation assets and minimal new capacity. Also, if spot electricity rates move higher as a result of increased demand, the margins of SMC are expected to increase since approximately 21% of the electricity output of SMC is sold into the WESM. SMC aims to protect its fuel supply and hedge its exposures to commodity price rises by acquiring coal and oil businesses.
- **Infrastructure:** SMC believes there are significant opportunities in building or purchasing infrastructure assets in a growing economy that has historically under-invested in infrastructure. In addition, SMC believes its operating licenses will provide strong and stable long-term income streams, as well as serve as a barrier to entry.
- **Telecommunications:** SMC believes its recent acquisitions in the telecommunications industry provide it with exposure to an industry that is expecting high growth as the Philippine population becomes more affluent and spends more on higher margin services. In particular, SMC is currently refining its telecommunications business strategy, where it plans to take advantage of opportunities in digitization of businesses, the emergence of mobile platforms for businesses and the provision of services to consumers. Moreover, companies recently acquired by SMC have a wide bandwidth of spectrum that would enable SMC to be competitive in both current (2G/3G/4G) and future technologies.

Potential to extract synergies across businesses. SMC believes there are significant opportunities to develop and increase synergies across many of its businesses, including:

- **Ancillary business opportunities:** SMC believes it has opportunities within its existing businesses to secure new growth opportunities in its new businesses by using the relevant areas to conduct business and activities. Potential initiatives of this type include installing SMC Group advertisements and building service stations, retail outlets, rest stops and kiosks along toll roads.
- **Immediate distribution channel:** The extensive retail distribution network of SMC provides an effective platform for roll-out of new products and services. For example, the network of more than 1,900 service stations of Petron provides an immediate distribution channel for retail sales for SMC beverage and food products.
- **Economies of scale:** SMC believes the size and scale of its distribution network operations will provide significant economies of scale and synergies in production, research and development, distribution, management and marketing. The size and scale of SMC should also result in substantial leverage and bargaining power with suppliers and retailers.
- **Integration:** SMC plans to continue pursuing vertical integration across the established and strategic businesses, such as supplying the fuel and oil and power requirements of its businesses internally and leveraging its power distribution capability through Meralco.

Business Strategies

The principal strategies of SMC include the following:

- **Enhance value of established businesses.** SMC aims to enhance the value of its established businesses through the pursuit of operational excellence, brand enhancement, improving product visibility, targeting regions where SMC has lower market share, implementing pricing strategies and pursuing efficiencies.
- **Continue to diversify into industries that underpin the development and growth of the Philippine economy.** In addition to organic growth, SMC intends to continue to seek strategic acquisition opportunities to position itself for the economic growth and industrial development of the Philippines.

- **Identify and pursue synergies across businesses through vertical integration, platform matching and channel management.** SMC intends to create an even broader distribution network for its products and expand its customer base by identifying synergies across its various businesses. In addition, SMC is pursuing plans to integrate its production and distribution facilities for its established and newly acquired businesses to enable additional cost savings and efficiencies.
- **Invest in and develop businesses with dominant market positions.** SMC intends to further enhance its market position in the Philippines by leveraging its financial resources and experience to continue introducing innovative products and services. Potential investments to develop existing businesses include constructing new power plants and expanding power generation portfolio, building additional service and micro-filling stations and expanding food distribution networks. SMC believes its strong domestic market position provides a brand and effective platform to develop markets for its expanding product portfolio. SMC plans to continue to invest in and develop businesses it believes have the potential to gain dominant positions in their respective markets.
- **Adopt world-leading practices and joint development of businesses.** SMC intends to develop strategic partnerships with global industry leaders, including, for example, Kirin and NYG in the beverages and packaging businesses. These partnerships provide marketing and expansion opportunities, and they also potentially provide liquidity and opportunities for SMC to divest minority stakes in its businesses creating value for its shareholders.

COMPLIANCE WITH ENVIRONMENTAL LAWS

The SMC Group is in compliance with environmental laws, except where such non-compliance will not have a material adverse effect on the business of SMC. On an annual basis, operating expenses incurred by the SMC Group to comply with environmental laws are not significant or material relative to the total costs and revenues of the SMC Group.

EMPLOYEES

As of December 31, 2011, the SMC Group had 17,151 employees. Substantially all of the employees are based in the Philippines and other areas in the Asia-Pacific region. As of December 31, 2011, the approximate number of employees in each of the businesses is set forth below:

Number of Employees

Beverages	6,019
Food and Agribusiness	3,700
Power Generation	33
Packaging	3,318
Infrastructure	16
Fuel and Oil (Petron)	1,340
Other Operations and Investment	<u>2,725</u>
Total	17,151

As of December 31, 2011, approximately 15.60% of the employees are parties to various collective bargaining agreements. A total of 36 labor unions represent the employees of the businesses. Since 1995, the SMC Group has not experienced any strikes or work stoppages. The SMC Group considers its relationship with its employees to be good.

Within the ensuing 12 months, SMC may require additional hiring of employees to support its business expansion, the number of which cannot be determined.

BEVERAGES BUSINESS

The beverages business of SMC had sales of ~~P~~87,255 million in 2011. The beverages business can be divided into beer, liquor and non-alcoholic operations. The beer operations are conducted principally through its 51% owned subsidiary SMB which includes the brewery operations in the Philippines, and in Hong Kong, China, Vietnam, Thailand and Indonesia. The liquor and non-alcoholic operations are conducted through its 77.60% owned subsidiary GSMI. GSMI has two distilleries located in the Philippines and Thailand. The following table sets forth certain information with respect to SMC's beer and liquor sales in 2011:

	Sales	%
	(in millions of ₱)	
Beer.....	71,910	82%
Liquor and Non-Alcoholic Beverages.....	15.345	18%
Total	87,255	100%

Beer Business

In 2011, the domestic beer operations of SMB were the largest contributor to the beverages business of SMC, and accounted for 82% of sales of the beverages business. SMB markets its beer primarily under the San Miguel brand. San Miguel branded beer products include San Miguel Pale Pilsen, which is SMB's flagship beer, as well as San Miguel Super Dry, San Mig Light, San Mig Strong Ice, Red Horse, Gold Eagle, Cerveza Negra, Oktoberfest Brew, San Miguel Premium All-Malt and Alcoholic Malt Beverages.

Philippine Beer Industry

The Philippines is the third largest beer market in Southeast Asia (Vietnam, Thailand, the Philippines, Indonesia, Malaysia and Singapore) and the sixth largest beer market in greater Asia by sales volume. In 2011, sales volume for beer in the Philippines was 16.5 million hectoliters.

Beer consumption is closely tied to consumer income and tends to grow and contract with the economy. Consumer income has been improving in recent years supported by favourable Philippine economic performance. The Company believes there is a positive correlation between per capita GDP and beer consumption in the Philippines, as illustrated in the following figure.

Philippine Region	GDP Per Capita (2009)	Beer Consumption Per Capita
Mindanao.....	11.9	11.0.
Visayas.....	12.9	13.3
South Luzon Area.....	12.3	9.5
Central Luzon Area.....	10.8	12.4
Greater Manila Area	40.8	41.8
National Average	15.5	17.4

The beer market in the Philippines is highly concentrated. According to Canadean, SMC had more than 90% share of the market in 2010. The other key local brewery is Asia Brewery Inc. ("ABI"), which sells beer brands such as Beer na Beer and Colt 45. Imported beer comprises a small proportion of the market and its distribution is normally limited to upscale hotels, bars, restaurants and supermarkets in Metro Manila.

The Philippines is composed of over 7,100 islands which makes distribution highly complex and expensive and represents a significant barrier to market entry for new brewers looking to distribute nationally. Canadean forecasts that the Philippine beer market is expected to grow by about 9% in 2010 and 4% in 2011.

Competitive Strengths

SMB believes that its principal strengths include the following:

- **Highly recognizable beer brand domestically as well as in Southeast Asia.** SMB had a total Philippine market share of more than 90% in 2010, producing all the top four beer brands in the country, namely San Miguel Pale Pilsen, Red Horse, San Mig Light and Gold Eagle according to Canadean.
- **Highly efficient distribution system.** SMB has the largest and most efficient distribution system for beer in the Philippines with almost half a million on-premise and off-premise outlets nationwide.
- **Strong cost leadership.** SMB also maintains a strong cost leadership position through high productivity and efficiency, as well as cost control measures, which facilitate pricing flexibility and greater profit growth by maintaining margins.

Business Strategies

The principal strategies of SMB for its domestic and international operations are as follows.

Domestic Operations

The principal strategy of SMB is to increase the volume of its beer sales, both by increasing its market share and by increasing the size of the market, while maintaining its margins. It plans to achieve this through the following:

- **Assert market leadership.** Although SMB already has a very strong position in the Philippine beer market, it intends to increase its market share by intensifying defense programs via targeted sales and marketing efforts in the regions and localities in which it believes its market share is lower than national average. SMB intends to accomplish this by selecting specific products and adapting their value propositions to the needs of consumers. SMB also intends to increase its product visibility through tactical and creative consumer promotions and improve outlet penetration through persuasive selling and trade incentives. Similarly, SMB intends to increase its share of the overall market for alcoholic beverages. This effort will focus on those specific regions and localities in which hard liquor sales are higher, and, similar to the efforts to increase market share in the beer segment, will include brand- and package-specific marketing campaigns, persuasive selling and incentives for dealers and retailers.
- **Further grow the overall market for beer.** SMB also plans to increase its sales volume by increasing the total market for beer sales. The primary strategies of SMB to achieve this include:
 - **Segmented pricing strategy.** SMB intends to keep its products affordable for the middle and lower socio-economic sectors by maintaining a moderate pricing strategy for its products in the Popular and Economy markets, where sales are highly price elastic. For the more upscale, or Upper Popular market, where sales are less price elastic, SMB plans to sustain the higher price positioning of its specialty brands, supported by image-building activities to strengthen their premium positioning and improve their profitability. Amid the global economic slowdown, SMB intends to manage and align the timing and magnitude of price increases for all its products to sustain volume growth as well as cover increases in tax rates on beer and higher material costs. With the forecasted moderate Philippine economic growth in 2012, SMB intends to pursue this segmented pricing strategy to protect its gains and to sustain the general uptrend for the industry as evidenced by the high market share of SMB and increased level of sales in 2011.
 - **Enhancing the value proposition of its products.** SMB intends to enhance its products' value proposition by adapting product qualities to the different needs of consumers. This allows SMB to take advantage of segment-specific growth opportunities, increasing sophistication and changing lifestyles of Philippine consumers and to maintain its market leadership position. SMB plans to maintain the iconic status of

its flagship San Miguel Pale Pilsen brand and strengthen its value through an integrated approach of national brand-building campaigns and retail promotional and marketing efforts. Examples of brand-building activities include advertising campaigns for the brand using famous endorsers such as Manny Pacquiao, Kris Aquino and Vic Sotto under the “Walang Katulad” (“Beer like no other”) and “Ito ang Beer” campaigns.

SMB intends to implement new programs and initiatives catering to the younger segment of the market to protect its core customers and strengthen the appeal and preference for the brand among new drinkers. SMB expects to further grow main brands San Miguel Pale Pilsen, Red Horse and San Mig Light through the introduction of new thematic campaigns, special events and volume-generating programs aligned with the respective positioning of these brands in the market. For the specialty brands, including San Miguel Premium All-Malt, Cerveza Negra, San Miguel Super Dry, and San Mig Strong Ice, SMB plans on increasing its efforts in on-premise channels by matching these brands with appropriate on-premise outlets and through event sponsorships, party series and tie-ups with other companies. Specialty brands will also be promoted in targeted off-premise channels through increased visibility and promotions.

- **Increase size of the Upper Premium and Premium segment and tap emerging consumer segments and channels.** The Upper Premium and Premium markets for beer in the Philippines are relatively small segments, but they play important roles in brand-building and overall market development. The segments offer promising prospects, underpinned by rising consumer incomes, increasing consumer sophistication, rapidly changing drinker habits and preferences, as well as increasing urbanization. SMB intends to further develop the higher-priced segments of the beer industry by offering higher-priced and higher-margin products catering to these segments. For example, in August 2008, SMB launched San Miguel Premium All-Malt and Oktoberfest Brew, a seasonal beer, which are marketed to the Upper Premium and Upper Popular segments, respectively. With this strategy, SMB aims to take advantage of opportunities in segmenting the market as well as preempting the incursion of foreign brands. Relative to other Asian countries, the Philippine beer market offers greater potential with regard to premium pricing of brands given the current relatively narrow price gap between the Premium and Upper Popular brands. In addition to the upscale segment, SMB intends to continuously tap new growth segments such as the business process outsourcing sector, overseas Filipino workers, and tourism sector through initiatives tailor-fit for these segments and utilization of channels which cater to these markets. SMB also recognizes the importance of fast-growing modern trade channels such as large supermarket chains, hypermarkets and modern convenience stores in marketing and carrying its products to consumers, especially in urban areas. Accordingly, SMB is focusing on sales and marketing programs for identified products to these fast growing segments of the market.
- **Intensify trade execution and innovation.** SMB intends to further expand its trade reach and increase the visibility and availability of its products in retail outlets by accelerating point-of-sale promotions and merchandising programs for both on- and off-premise outlets to increase sales and outlet yield. In pursuing this strategy, SMB will focus on improving the efficiency of its trade operations, including trade penetration levels and adherence to suggested retail prices in all distribution channels by strengthening per-outlet management, intensifying route assisting activity and alternative distribution mode management such as pedicabs (bicycle-driven cabs) and tricycles, which help to deliver the products of SMB to remote areas. SMB also intends to raise its frequency of calls to retail outlets. Management of the dealers’ territories will be strengthened through intensified retail-based servicing and territorial reconfiguration.
- **Increase sales through special events and promotions.** SMB intends to pursue volume-generating trade initiatives such as occasion-creation programs as well as innovative consumer promotions and campaigns. Examples of these activities include the dominance of SMB in town fiestas and conduct of trademark events, such as San Miguel Beer Oktoberfest, Red Horse Muziklaban and Summer “Sarap MagBabad” that aim to make the beer drinking experience more relevant and closer to the consumers.

- **Develop new products and packaging innovations.** SMB plans to introduce new products and new package formats. SMB believes this strategy can increase consumer interest and overall market size, as well as address the needs of an increasingly fragmenting market, especially in high growth segments. For example, to increase consumer interest, in May 2007, SMB introduced San Miguel Pale Pilsen in paper label bottles. In 2008, SMB launched new products San Miguel Premium All-Malt in the Upper Premium segment and the Oktoberfest Brew (seasonal brew) in the Upper Popular segment as well as introduced secondary packaging, i.e. Christmas-themed shrinkwrap (6-pack) for San Miguel Premium All-Malt and clear shrinkwrap (6-pack) for San Miguel Pale Pilsen, San Mig Light, San Miguel Super Dry and San Mig Strong Ice. To entice more entry-point drinkers, SMB introduced San Miguel Alcoholic Malt Beverage in lemon and apple flavors in late 2010, its first flavored alcoholic malt beverage. In addition, San Miguel Pale Pilsen in 330ml long neck bottle with paper label packaging was released in selected upscale outlets in 2011 to further boost awareness and consumption of the brand. SMB intends to pursue packaging innovations and capitalize on the market trends toward convenience packaging and premium products as well as increasing sophistication of consumers. SMB is developing packaging improvements for existing brands as well as convenience pack formats consistent with faster-paced lifestyles and addressing the various activities and interest of consumers.
- **Improve resource allocation and value creation in the supply chain.** SMB aims to improve resource allocation and cost management towards programs that would create more value for SMB as well as ensure appropriate mix of advertising and promotions that would generate higher sales for SMB. In support of value creation in the supply chain, SMB intends to broaden its base for suppliers and materials to drive down costs without sacrificing quality. Third party service providers will also be managed more effectively, anchored on stronger partnership and shared objectives. Process and productivity improvements will be vigorously pursued in the different stages and areas of production, distribution and promotions to deliver products of superior quality while protecting profitability.

International Operations

In the international beer business, the overall objective of SMBIL is to achieve strong volume and profit growth trend following the improvement in its performance. This will be achieved through market-specific programs that cater to local tastes and preferences while pursuing an integrated and consistent campaign for San Miguel beer brands in the region. In particular, key strategies include the following:

- **Strengthening the portfolio of local and international brands.** SMBIL intends to further push the appropriate combination of local and international brands in its operating units to capitalize on the varied preferences of consumers in the international markets and pursue healthy, profitable brand mix. For example, in North China, SMBIL aims to protect the market dominance of Blue Star through market-based and visibility programs while promoting San Miguel beer brands in the Premium segment via brand-building activities, participation in festivals and outlet promotions.
- **Accelerating the expansion of San Miguel brand.** SMBIL aims to accelerate growth of San Miguel beer brands mainly San Miguel Pale Pilsen and San Mig Light, consistent with the thrust of SMB to promote San Miguel as the lead brand in the portfolio of the SMC Group in the international markets. This will be done primarily through consumer and trade promotions, events as well as development of new advertising campaigns and creative merchandising materials.
- **Improving sales and distribution management.** Supporting the volume expansion and portfolio thrust is the objective of improving the efficiency of sales and distribution. This involves strengthening the management of dealers/wholesalers, outlet and channel-specific programs such as bar games, sports-viewing parties and promotions aligned with the respective brands' positioning. Outlet coverage will likewise be expanded to cover unserved territories and grab market share from competition.

- **Cost reduction and efficiency improvements.** To increase cost competitiveness of SMBIL, efficiency programs and cost containment measures will be implemented in the different aspects of the business such as logistics, manufacturing, sales, procurement and marketing. Processes are regularly evaluated for optimization, capability-building and development of potential synergies, where applicable, among the different units. For example, SMBIL intends to reduce freight and distribution costs through improvements in sourcing and ordering of stocks as well as implementation of packaging improvements, lower cost formulation and procurement of materials on a regional scale, among others.

Selected operating metrics for the beer business of SMB for 2009, 2010 and 2011 are set forth in the table below:

Operating Metrics (Beverages – Beer)	For the year ended December 31,		
	2009	2010	2011
Beer – Volume (hl)	13.41	14.10	14.21
Beer – Average sales price (₱/hl)	3.80	3.93	4.11
Gross profit margin	48.50%	48.90%	48.80%
EBITDA margin	35.00%	31.80%	32.70%
Net income before tax margin	27.30%	22.50%	24.20%

Domestic Beer Sales

In the Philippines, SMB markets its beer primarily under the San Miguel brand. San Miguel branded beer products include San Miguel Pale Pilsen, which is the flagship beer of SMB, as well as San Miguel Super Dry, San Mig Light, San Mig Strong Ice and San Miguel Premium All-Malt. Other beers are marketed under the brand names Cerveza Negra, Red Horse, Gold Eagle and Oktoberfest Brew, a seasonal beer. SMB also sells Cali, the only domestically produced malt-based non-alcoholic drink, available in three variants: Cali Pineapple, Cali Ice and Cali Light. The quality of the beers of SMB has been recognized by a number of organizations. SMB recently launched alcoholic malt beverage which comes in apple and lemon flavors. Over the years SMB brands are consistent Monde Selection winners. The latest awards in 2011 gives San Miguel a total of one grand gold award and 35 Goldmedals, 20 silver medals, two bronzes, three international high quality trophy and one crystal prestige award.

The beers of SMB compete in the Premium/Upper Premium, Upper Popular, Popular and Economy market segments in the Philippines. The following table sets forth the major beer brands of SMB in the Philippines and the market segments in which they compete.

Market Segment*	Brands
Premium/Upper Premium	San Miguel Premium All-Malt San Miguel Super Dry Cerveza Negra
Upper Popular	San Mig San Mig Light San Miguel Alcoholic Malt Beverage Oktoberfest Brew (seasonal)
Popular	San Miguel Pale Pilsen Red Horse Beer
Economy	Gold Eagle
Non-Alcoholic	Cali

The share of the upscale brand of SMB to total SMB sales has been steadily increasing from 2% in 2000 to 10% in 2010. In contrast, the share of SMB economy brands as a percentage of total sales has been decreasing. These trends primarily reflect shifts in consumer preferences given improvements in income, increased urbanization and changes in lifestyle.

International Beer Sales

In addition to its domestic sales, SMB exports its beer products to over 40 countries, with key markets in Taiwan, Japan, Singapore, Malaysia, Korea, the Middle East and the United States. The exports of SMB are primarily sold under various San Miguel brands as well as under private labels. In 2010, export sales of beer products brewed in the Philippines accounted for less than 1% of the total beer sales of SMB.

SMB also has brewery operations in Hong Kong, China, Vietnam, Thailand, and Indonesia through its subsidiary, SMBIL. These breweries have a combined annual capacity of 7.1 million hectoliters and sell their products locally as well as in various export markets. The export operations of all of these breweries, account for approximately 20% of total beer sales volume of SMBIL in 2011 and are coordinated at the direction of SMC.

Grupo Mahou San Miguel of Madrid, Spain has the rights to the San Miguel brand for beer in Europe, and is not affiliated with either SMB or SMC.

Production and Raw Materials

SMB currently owns and operates five breweries and one bottling plant in the Philippines. These breweries are located in the Philippines' three main island groups of Luzon, Visayas and Mindanao, and are located close to the intended end-markets in order to reduce transportation costs.

The following table indicates SMB breweries' capacity and utilization rate as at December 31, 2011:

Brewery	Capacity
	(in millions of hl)
Polo and Sta. Rosa	4.6
San Fernando	5.9
Mandaue	3.3
Bacolod	1.0
Davao	2.0
Total	16.8

The Polo Brewery is located north of Metro Manila and serves the Metro Manila and Southern Luzon markets. Established in 1947, it is the oldest operating brewery of SMC. The Polo Brewery underwent a modernization program during the 1990s to upgrade its brew house facilities. The San Fernando Brewery is located in Pampanga province north of Metro Manila and serves Central and Northern Luzon. It was built in 1981 and was expanded and upgraded in the late 1980s and early 1990s. The Mandaue Brewery, located on the island of Cebu, serves part of the Visayas region and Mindanao. This brewery was built in 1968 and its facilities were expanded and modernized in the 1990s. The Bacolod Brewery was built in 1990 on the island of Negros and modernized in 2005 and 2006. It serves Negros and the island of Panay. The Davao Brewery was built in 1995 and serves the Mindanao market. While production at each brewery is typically targeted to serve the geographical area around it, the distribution system can shift production from one brewery to other regions if operational issues or demand changes require. SMB transports finished beer from the Polo Brewery for bottling into the Sta. Rosa plant which was established in 2011.

The main raw materials for brewing beer include malted barley, hops, water and yeast. Adjuncts, such as sugar and non-malted grains including rice, corn grits and food starch from cassava, can also be used in conjunction with malted barley, which is generally more expensive. All of these commodities have experienced, and are expected to continue to experience, price fluctuations.

SMB procures key raw materials for its beer operations through a procurement group that uses standardized procurement procedures. Malted barley and hops are generally sourced from the United States, Canada, Australia and Europe, while new sources in China and South America are being developed. Adjuncts are generally sourced within the Philippines. SMB enters into supply contracts

with key raw material suppliers with terms ranging from approximately one month to five years. Each of these contracts typically provide for a pre-determined fixed and formula price for the duration of the contract. In addition, depending on considerations such as price trends and the quality of raw materials, SMB also makes spot purchases on the open market. To ensure the quality of its products, SMB closely monitors the quality of its raw materials.

The following table sets forth the raw material costs of SMB for the periods indicated:

	For the year ended December 31,		
	2009	2010	2011
	in ₱ per kilogram		
Malt price.....	32.36	25.80	22.90
Corn price.....	19.27	19.95	20.92

SMB mostly sells its products in returnable glass bottles of varying sizes and shapes, as well as in aluminum cans and kegs. As of December 31, 2011, approximately 95% of the glass bottles used by SMB were returned bottles. The returnable glass bottle is by far the most important and popular package for beer in the Philippines, accounting for 99% of the sales of SMB as of December 31, 2011. SMB enjoys wide distribution across all trade channels, from supermarkets, grocery and convenience stores to sari-sari (“mom and pop”) stores and on-premise outlets throughout the country. These returnable glass bottles are used for up to 60 cycles typically over a span of approximately 10 years. Retail outlets selling the products of SMB collect deposits on these bottles when customers buy the beer and return the deposit when the bottles are returned. New glass bottles are purchased from time to time to support accelerating sales and to replace broken and scuffed bottles. The existing system for returnable glass bottles shields SMB from rising packaging costs triggered by the uptrend in fuel and aluminum prices. Cans are less popular mainly because they are more expensive, although the volume of cans has been increasing in recent years with greater availability. Kegs for draft beer, which come in 15, 30 and 50 liter sizes, are limited and represent a decreasing share of the market.

All water supply used by SMB in its production is provided by deep wells, except for water used at the Polo Brewery, which is supplied by Maynilad Water Services, Inc., a third party water company serving parts of Metro Manila.

The following table sets forth the major raw materials and packaging supplies used in the business of SMB, the source countries for these items and the typical contract periods of SMB for procurement.

Major Raw Materials and Packaging Supplies

Key Materials	Sources
Malted barley	Australia Europe USA, Canada, China
Hops	USA Germany
Adjuncts	
Corn grits	Philippines
Sugar	Philippines
Food starch (from cassava)	Thailand, Vietnam
Rice	Philippines
Packaging Materials	
Bottles	Philippines
Crowns	Philippines
Aluminum cans	Philippines
Plastic cases	Philippines
Cartons	Philippines
Labels	Philippines, Malaysia

Due to the high cost of shipping within the Philippines relative to product cost as well as the importance of maintaining freshness and other distribution considerations, SMB maintains a system of regional breweries rather than a central consolidated brewing facility. Each of the breweries of SMB is equipped with automated facilities capable of packaging products in a variety of packages to meet market preferences, including bottles, cans and kegs. Most of those packaging materials are produced by the packaging business of SMC.

Research and Development

SMB employs state-of-the-art brewing technology. Its highly experienced brewmasters and quality assurance practitioners provide technical leadership and direction to continuously improve and maintain high standards in product quality, process efficiency, cost effectiveness and manpower competence. Brewing technology and processes are constantly updated and new product development is ensured through continuing research and development. A research and development group is housed in the technical center building of the Polo Brewery. Research and development activities are primarily undertaken in a pilot plant located in Polo Brewery.

SMB also has a central analytical laboratory, or CenLab, located in the technical center building of the Polo Brewery. The laboratory is equipped with modern equipment necessary for strategic raw materials (hops, malted barley, adjuncts) analysis and validation, beer product evaluation and new raw material accreditation. Specialized equipment includes gas chromatography, high performance liquid chromatography, atomic absorption spectroscopy, protein analyzer, and laboratory scale mashing/milling system for malt analysis. Analytical methods and validation procedures are constantly reviewed and updated, and these are standardized across all the beer laboratories of SMB. CenLab runs proficiency tests for brewery laboratories and malted barley suppliers to ascertain continuous reliability and quality of analytical test results. CenLab is also tasked with ensuring compliance of all systems with international standards, specifically ISO 17025-2005. Research and development expenses accounted for approximately 0.09%, 0.10% and 0.09% of the net sales of SMB in 2009, 2010 and 2011, respectively.

Domestic Marketing, Sales and Distribution

SMB markets, sells and distributes its beer products principally in the Philippines. Many of the products of SMB have strong market positions in the Philippines. SMB has the most extensive distribution network in the Philippine beverage market. The beer products of SMB are distributed and sold at almost half a million outlets, including off-premise outlets such as supermarkets, grocery stores, sari-sari stores, and convenience stores, as well as on-premise outlets such as bars, restaurants, hotels and beer gardens.

As of December 31, 2011, SMB had 50 sales offices and 501 dealers throughout the Philippines. Generally, it takes five days or less for a bottle of beer to travel from production in the brewery to a sales outlet anywhere in the country. Beer is transported from the breweries by a variety of methods, mainly through third-party haulers and, in certain circumstances, by a fleet of boats contracted by SMB.

Dealers generally provide their own warehouse facilities and trucks, considerably reducing the own investment requirements of SMB. SMB has gradually reduced the number of its dealers to improve distribution efficiency resulting in increased volume sales. SMB has also increased the support that it provides to its dealers, including software support with respect to streamlining logistics, promotional support and financial management training. SMB enters into written distribution agreements with its dealers that specify the territory in which the dealer is permitted to sell the products of SMB, the brands that the dealer is permitted to sell, the performance standards applicable to the dealer, procedures to be followed by the dealer in connection with the distribution rights and circumstances upon which distribution rights may be terminated. The sales force of SMB designs and awards strategic sales territories to dealers based on research of the specific territory covered. Distribution rights, performance standards and sales procedures are developed by SMB and implemented in tandem with dealers to ensure high quality of services. As dealers are given exclusivity over defined geographic areas that SMB actively monitors and enforces, and based on performance, these franchises are heavily sought after by potential dealers.

Marketing Activities

SMB actively pursues marketing initiatives to promote new and existing products, as well as to maintain and enhance brand awareness of its existing products. These initiatives include media advertisements featuring well-known Philippine celebrities, sponsorship of special events, conducting various consumer and trade promotions and other merchandising activities. SMB also uses television, radio and print advertisements, outdoor billboards and posters that can be placed on the walls of retail

outlets and restaurants, bars and other on-premise outlets. SMB operates a beer delivery business, “632-BEER,” which provides free beer delivery service for parts of Metro Manila. Advertising and promotion expenses of the domestic beer operations were ₱2,883 million in 2011.

SMB holds major events and sponsors numerous music events. San Miguel Beer Oktoberfest has been the brand’s flagship event for over three decades. This seasonal festival of beer and activities takes place from September to December at numerous locations simultaneously across the Philippines. Popular bands and celebrities, including San Miguel beer endorsers, are on hand to entertain the crowds. SMB also holds San Miguel Pale Pilsen’s nationwide SMB Summerfest, which is an annual get-together of games, concerts and parties at the country’s popular beaches. In addition to San Miguel Pale Pilsen, Red Horse is also often a major sponsor of concerts, with the brand affiliated with Muziklaban, the country’s biggest annual rock challenge, a band competition. For San Mig Light, SMB conducts music party initiatives such as “Party All Night” events. SMB offers Beer Tasting bar tours to upscale outlets for San Miguel Premium All-Malt, San Miguel Super Dry and Cerveza Negra.

Competition

ABI is a competitor of SMB in the Philippine market. It operates two breweries and also holds the license for Coors beer in the Philippines. ABI competes, mainly on the basis of price, through its own Beer na Beer and Colt 45 brands. ABI also competes with the market-leading high-alcohol beer product, Red Horse, with its Colt 45 and Manila Beer brands.

Competition from imported beers is minimal.

SMB competes with producers of other alcoholic beverages, primarily low-priced gin and brandy. In the beer industry — and more generally the alcoholic beverages industry — competitive factors generally include price, product quality, brand awareness and loyalty, distribution coverage, and the ability to respond effectively to shifting consumer tastes and preferences. SMB believes that its market leadership, size and scale of operations, and extensive distribution network create high entry barriers and provide SMB with a competitive advantage.

Liquor Business

In 2011, the liquor operations of SMC had sales of ₱15,113 million, accounting for 17% of the beverages sales of SMC and 2.76% of total sales. The liquor operations of SMC are conducted through its 77.63%-owned subsidiary, GSMI. GSMI was founded in 1902 as a family-owned distillery and listed on the PSE in 1995. It trades under the symbol “GSMI”.

Today, GSMI operates two distilleries and five liquor bottling facilities. To augment the bottling capacity of these facilities, GSMI also entered into toll manufacturing agreements with third parties to produce liquor products, located in San Fernando, Pampanga, Calamba, Laguna and Lucena, Quezon.

Among its subsidiaries are (1) Distileria Bago, Inc. (“DBI”), an entity with a distillery located at Bago City, Negros Occidental, that converts sugar cane molasses into alcohol, which entity became a wholly-owned subsidiary of GSMI in 1996; and (2) Agricrops Industries, Inc., which was incorporated in 2000 as a wholly-owned subsidiary of GSMI to primarily engage in the production of cassava starch milk, an alternative raw material for the production of alcohol.

To fast-track entry into regional markets, GSMI entered into a share purchase agreement with the Thai Life Group of Companies with current ownership of 44.90%.

Philippine Liquor Industry

The majority of domestic sales of liquor are made to those segments of the population seeking economy products. While quality and drinkability of liquor are important, popular pricing strategies are essential, especially for new products. Local manufacturers enjoy a competitive advantage in terms of price as demand is highly price sensitive. The performance of the liquor industry is highly dependent on the economy, especially for imported brands.

Domestic brands, namely Ginebra, Tanduay Distillers, and Emperador Distillers continue to dominate the market accounting for 97.80% share of total volume sales in 2011. The products sold consist mainly of gin, brandy and rum.

Competitive Strengths

GSMI believes that its principal strengths include the following:

- **Market leading brands.** GSMI has market leading brands in GSMI San Miguel Gin, GSM Blue Gin and Gran Matador Brandy.
- **Streamlined distribution network.** GSMI has a streamlined distribution network with direct shipments to a diversified base of large dealers assigned to specific geographic areas.
- **Strong Cost Leadership.** GSMI has established and has led the establishment of a diversified raw material base.

Business Strategies

The principal strategies of GSMI include the following:

- **Expand distribution.** GSMI is installing distributors and setting up Direct Selling Operations particularly in Southern Philippines, where market penetration is low and only a few dealers covering the area. Ginebra San Miguel is introducing new product offerings to serve the dynamic consumer market in key areas in Northern Philippines.
- **Secure Raw Material.** GSMI had embarked on initiatives to search for alternative raw materials to complement molasses which is under threat from increasing prices and decreasing availability as it is used as a raw material for the Philippine government's clean fuel program. Cassava has proven to be a reliable substitute for molasses and its supply sustainability is currently being developed. GSMI will also import more crude alcohol as an alternative if proven to be more cost efficient at certain points in time.
- **Grow Non-Alcoholic Business.** GSMI is broadening its distribution of non-alcoholic beverages to the "at-work" and school markets. It has also recently embarked on the distribution of energy drinks, one of the fastest growing segments in the Non-Alcoholic Beverage business market.

Selected operating metrics for the liquor business of GSMI are set forth in the table below for the periods indicated:

Operating Metrics (Beverage – Liquor)	For the year ended December 31,		
	2009	2010	2011
Liquor – Volume (hl)	3,110,518	3,317,927	2,108,947
Liquor - Average sales price (P/hl)	5,726.00	6,129.45	6,399.73
Non-alcoholic beverages - Volume (hl)	975,538	748,100	584,515
Non-alcoholic beverages - Average sales price (P/hl)	859.76	1,074.13	1,064.39
Gross profit margin	23%	23%	21%
EBITDA margin	5%	6%	-9%
Net income before tax margin	9%	9%	-2%

GSMI Sales

GSMI is one of the leaders in the Philippine liquor market, and produces, markets and sells some of the most recognizable brands in the Philippine liquor market, including Ginebra San Miguel, GSM Blue, Gran Matador Brandy, Antonov Vodka and Vino Kulafu.

GSMI offers a range of liquor in the Premium, Popular and Economy market segments, including gin, brandy, Chinese wine, rum, vodka, tequila and whisky. GSMI also produces and sells non-carbonated ready-to-drink tea and fruit juices primarily under the Magnolia brand. The following table sets forth the sales of the principal product categories for the periods indicated:

	2009		2010		2011	
	Sales	%	Sales	%	Sales	%
	(in millions)		(in millions)		(in millions)	
Gin	11,582	59%	14,506	64%	11,346	75%
Brandy.....	5,467	28%	4,653	21	1,186	8
Chinese wine.....	626	3%	827	4	774	5
Others (including Magnolia branded beverages).....	1,824	9%	2,601	11	1,751	12
Exports	49	0%	102	0	56	0
Total	19,548	100%	22,688	100%	15,113	100%

The following table sets forth the principal products and brands:

Segment	Product	
Premium	Ginebra San Miguel Premium Gin Antonov Vodka	Don Enrique Mixkila Antonov Vodka Apple
Upper Popular	St. George Premium Whisky	Solera Gran Reserva
Popular	Ginebra San Miguel Blue	Gran Matador Solera
Economy	Vino Kulafu Magnolia Fruit Drink Mix	Anejo Rum Ginebra San Miguel Red
Non-Alcoholic	Magnolia Health Tea Magnolia Life Drink	Magnolia Pure Water Magnolia Powdered Iced Tea

The quality of the products of GSMI has been recognized by a number of organizations.

Consumer preferences in the Philippine liquor market vary largely by geographical region. As a general matter, consumers in northern Philippines prefer gin and brandy, while consumers in southern Philippines prefer rum. As brandy is becoming more popular in both northern and southern Philippines, GSMI launched Gran Matador Brandy in 2003.

Currently, GSMI is focused on new product development and market diversification. For example, in 2005, GSMI launched Solera Gran Reserva, Ginebra San Miguel Premium Gin, Antonov Vodka, St. George Premium Whisky and Don Enrique Mixkila to target the Premium and Upper Popular segments. More recently, GSMI launched Antonov Apple, Infinit, Don Enrique Brandy, Vino San Miguel and Gran Matador Primo to cater to the shifting consumer preference towards ready-to-drink flavored alcoholic beverages and beverages with lower alcohol content.

Exports and Overseas Operations

The primary export markets of GSMI are Thailand, Taiwan, Korea, Japan, China and the Middle East. GSMI is currently evaluating the possibility of exporting to the United States and India. Competition in the export markets is intense. The competitors of GSMI include a number of international liquor producers, some of which may have greater production, marketing, financial and other resources than GSMI.

In addition to exports of liquor, GSMI sells and distributes liquor in Thailand through a joint venture.

Raw Materials and Production

Alcohol is the main raw material used in the production of liquor. GSMI produces most of its alcohol at its distillery plant in Bago City, Negros Occidental. Alcohol is produced primarily from molasses, which is purchased from a variety of third-party suppliers pursuant to supply contracts as well as on the open market. Recently, as the price for molasses has increased, GSMI has been considering alternative raw materials from which it can distill alcohol, such as cassava starch milk. In particular, GSMI recently constructed a cassava starch milk plant in the Philippines to enable it to use this alternative raw material for the production of alcohol.

GSMI owns one distillery, three liquor bottling plants and one cassava starch milk plant, and has engaged five toll bottlers strategically located throughout the Philippines and one bottling and distillery plant in Thailand. The following table sets forth the capacity, production volume and utilization rate of each of the currently operating distillery and production facilities of GSMI in 2011:

Facility	Capacity	Production	Utilization Rate
	(in millions of hl)	(in millions of hl)	
Distillery			
DBI Distillery Plant	0.93	0.36	39%
Thailand Distillery	0.23	0.14	60%
Liquor Bottling Plants			
Cabuyao	1.55	0.52	34%
Santa Barbara	0.92	0.39	42%
Cebu	0.79	0.20	25%

The liquor products of GSMI are primarily packaged in glass bottles. In 2011, the packaging business of SMC produced the majority of the new glass bottle requirements of GSMI. In addition to using new glass bottles, GSMI maintains a network of bottle suppliers in the Philippines that recycles second-hand bottles back to the plants of GSMI. In 2011, approximately 66% of the bottles used by GSMI were recycled bottles. Even with the additional cost of maintaining a quality control system for the safety of recycled bottles, the cost of recycled bottles is approximately half of the cost of new bottles. Because the cost of recycled bottles is lower than that of new bottles, bottling costs for any particular product are generally expected to decrease over time as a result of the increased use of recycled bottles.

Distribution

GSMI distributes its products by shipping directly to dealers. GSMI has recently streamlined its distribution network by reorganizing its network of dealers by assigned geographic areas. The reorganization was designed to enhance the efficiency of the distribution network by having fewer, but larger, dealers. GSMI has 100 dealers for its liquor products and eight sales offices for its non-alcoholic beverage products as of year-end 2011. GSMI utilizes third party services in the warehousing and delivery of its products.

Recently, it had embarked on a program to install more distributors including Southern Philippines. It also maintains an organization for Direct Selling Operations to gain better control of market operations. The Sales unit has a Key Accounts Group to handle modern trade and on-premise outlets in key cities.

Marketing and Competition

GSMI markets its products through a variety of channels, including television, radio, billboard and print advertisements, as well as special event sponsorships, consumer promotions and trade promotions. The advertising and promotion expenses of GSMI were approximately ₱1,293 million in 2011, accounting for 11% of the cost of sales of GSMI.

Most of the products of GSMI target the Popular and Economy market segments. The major competitors of GSMI in these segments include Emperor Distillers Inc. and Tanduay Distillers Inc.

In the Premium market segment, the major competitors of GSMI include Gilbey's and Absolut. As GSMI endeavours to create a niche in the Premium market segment with the introduction of premium brand names, GSMI will continue to rely on its competitive advantages including price, quality and extensive distribution network.

Regulation and Taxation of Beverages

Philippine national and local laws and regulations require a license to sell alcoholic beverages and prohibit the sale of alcoholic beverages to persons below 18 years of age or within a certain distance from schools and churches. Advertising and marketing of alcoholic beverages is largely unregulated in the Philippines. SMB and GSMI, however, aim to promote responsible drinking habits through their advertising and marketing programs, and have both formulated and adopted an Advertising & Marketing Code of Ethics for Alcoholic Beverages.

In the Philippines, excise tax represents a significant component of liquor prices, and totaled 17% of the cost of sales of GSMI in 2011. Excise tax is payable by the producer, and the tax rate varies depending on the type of alcoholic beverage being produced, with more expensive products being subject to higher rates. As of January 1, 2011, the excise tax rate applicable to SMB products was 8% and GSMI products were ₱14.68 per proof liter. The sale of beer, liquor and non-alcoholic beverages in the Philippines is also subject to a VAT of 12% as of January 1, 2011.

Currently, House Bill No. 5727, which has been transmitted to the Senate of the Philippines, proposes to restructure and increase the excise taxes imposed on manufacturers and importers of alcohol products, such as distilled spirits, wines, and fermented liquors.

FOOD BUSINESS

SMC operates its food business through SMPFC and its subsidiaries and is a leading player in the Philippine food industry, offering a broad range of high-quality food products and services to both household and food service customers. The performance of SMPFC is closely correlated to domestic economic growth, which is discussed above, as well as to trends and developments in each segment within the industry. SMPFC has been listed on the PSE since 1971.

The food business of SMC is organized into the following business clusters and their contribution to the sales of SMPFC in 2011 is shown in the table below:

	<i>Sales (in ₱ millions)</i>	<i>% of Sales</i>
Agro-Industrial (poultry, feeds and fresh meats).....	56,981	63
Value-Added Meats (refrigerated processed meats)	12,103	14
Milling (flour).....	8,354	9
Dairy, Spreads and Oils (including food services, retail and others).....	12,152	14
Total	₱89,590	100

Brands include some of the best known and well-regarded brands in the Philippines, such as Magnolia, Purefoods, Monterey, Star, Dari Crème and B-Meg. Food business' wide range of food products includes the following:

BUSINESS	MAJOR PRODUCTS
Agro-Industrial	
Poultry	Branded products are sold under the Magnolia Fresh Chicken label and include fresh-chilled whole chickens a variety of chicken cut-ups, cooked-easy line and ready to eat
Feeds	Hog, poultry (layer/broiler), gamefowl, aquatic, duck and other customized feeds
Fresh Meats	Pork and beef carcasses, various pork cuts, beef cuts, marinated meats, lamb products, live hogs and cattle
Value-Added Meats	Refrigerated meat products, include hotdogs, bacon, hams, chicken nuggets and a line of local Philippine products and canned products such as corned beef, luncheon meat, sausages, spreads and ready-to-eat viands
Milling	A full range of basic, specialty and customized flour products, premixes
Dairy, Spreads and Oils	Bread spreads, cheese, milk, ice cream, jelly-based snacks and cooking oils
Emerging Businesses	Coffee, food distribution service and retail franchise management

As of December 31, 2011, the food business of SMC owned 52 production facilities and tolled 2,156 production facilities.

Philippine Food and Agriculture Industry

According to the National Statistics Office, there was a general upward movement in food prices in the Philippines in 2011, taking into consideration a number of typhoons and natural calamities, which led to the disruption of the production of raw materials.

The sufficient supply of chicken in the markets generally observed during the period resulted to the slower annual increments in the meat index in the three areas: Philippines, 2.20% in 2011 from 4.20% in 2010, National Capital Region ("NCR"), 2% from 3.10%, and Areas Outside NCR ("AONCR"), 2.40% from 4.50%. All the regions posted lower annual gains except in Region IV-A (CALABARZON). The biggest slowdown of 10.30 percentage points (1.10% from 11.40%) was in Region IX.

Upward annual price adjustments in milk and cheese products were seen in many regions including NCR. Moreover, decreases in the number of chicken layers lowered the production of eggs thereby limiting supplies in the markets. Thus, the annual average growth of the milk, cheese and eggs index in the Philippines picked up to 2.70% from 2.40%; NCR, 2% from 1.50%; and AONCR, 2.90% from 2.50%.

Competitive Strengths

SMPFC believes that its principal strengths include the following:

- **Quality leading brands.** Over the years, SMPFC has actively developed a strong portfolio of well-known brands, which includes some of the most recognizable food brands in the Philippines.) SMPFC believes it has been able to enhance its brand equity by maintaining consistently high product quality, as well as through active and targeted marketing and promotions. SMPFC has also pioneered brand-building efforts not only for traditional branded food products, such as value-added meats and dairy products, but also for feeds, flour, fresh meats and poultry, which are commonly viewed as commodities. SMPFC believes the strong brand names that it has developed provide SMPFC with greater pricing power relative to its competition.

SMPFC enjoys leading market shares in some of the largest and most profitable segments of the food industry, such as poultry, feeds, value-added meats and bread spreads, while maintaining strong second or third place market shares in almost all of its other businesses.

- **Broad and diverse portfolio.** SMPFC offers one of the widest arrays of food products in the Philippines, with products ranging from feeds and flour to meats, milk, coffee and hotdogs. SMPFC believes this diversity allows for a more resilient business model and provides significant growth potential both within and across various product categories. Currently, SMPFC is present in only 50% (weighted by value) of the product categories in the packaged food industry, presenting significant opportunities for SMPFC to expand into other packaged food categories.

Moreover, the wide range of SMPFC food products can be consumed at every meal and by all members of the family. As a result, SMPFC provides its customers with a one-stop food solution and thereby generates greater brand loyalty.

- **Extensive and multi-pronged distribution network.** The success of SMPFC in building one of the most extensive distribution networks across the Philippines allows its products to reach every major city. In turn, this creates a strong barrier to entry to the Philippine food market and a significant competitive advantage for SMPFC.

In addition to an extensive presence in the traditional modern and general trade distribution platforms, SMPFC has direct distribution capabilities to major food service companies. SMPFC also engages in food service itself through its franchising operations, such as Smokey's hotdog carts, Outbox food kiosks and others.

- **Vertically integrated business model.** SMPFC believes its vertically integrated "farm-to-plate" business model provides SMPFC with significant operational flexibility and stable margins. This model allows SMPFC control over the value chain from plantations, feed production, animal growing, to meat processing, and enables SMPFC to deliver fresh, high quality food products to its customers. SMPFC is also able to leverage synergies across its businesses, as well as through its relationship with SMC. For example, the feeds business is capable of effectively utilizing beer by-products, such as spent grain and brewer's yeast, and offal and feathers from poultry, as feed ingredients. Although much of the production and distribution of its products is outsourced to third parties, SMPFC is actively engaged in setting and maintaining quality standards throughout the production and distribution chain.

The business model of SMPFC provides better economies of scale through consolidated raw material sourcing, integrated production, sales and distribution networks and shared brands and support functions across SMPFC and its contracted facilities.

Market presence

SMPFC is currently present in the three most densely populated Southeast Asian markets, the Philippines, Indonesia and Vietnam. In addition, per capita meat consumption has been increasing rapidly in Vietnam and Indonesia over the past several years, and remain well below current levels in the Philippines.

Product innovation and distribution

SMPFC has a strong track record of launching innovative products and services to address changing consumer needs and preferences. For example, SMPFC has launched the following new products, which are reflective of health and wellness, convenience, flavor and packaging trends.

- **Health and Wellness:** Magnolia Gold Lite Butter, Magnolia No Sugar Added Ice Cream and the San Mig Coffee Pro-Health line.
- **Flavor:** An Asian line of marinated meats, fruit flavored chocolate milk drinks and flavored refrigerated margarine.
- **Convenience:** Ulam King products and chicken nuggets.
- **Packaging:** Cooking oil in tubes and in-mould labeled packaging for bulk ice cream.

In addition, SMPFC continuously develops innovative food retailing formats, with the objective of establishing closer contact with its customers and increasing share of SMPFC in its customers' food budgets. For example, SMPFC introduced Monterey Meat Shops in 1993 as a way to differentiate fresh meats products of SMPFC from its competitors' unbranded products. SMPFC also introduced Magnolia Chicken Stations in 2004, which have been a significant success and have now grown to over 400 outlets in just over five years.

SMPFC has also successfully developed the concept of "paid sampling", where customers can, for example, sample hotdog products at strategically located hotdog carts, by launching several retail models to serve as a closer point of contact with consumers and as a trial venue for new product ideas.

Experienced management and technical teams

SMPFC has a management team with a proven track record and an average of more than 20 years of industry and management experience. The management team is well accustomed to the Philippine operating environment and has been able to effectively manage SMPFC through periods of economic crisis and political instability.

The strength and depth of the management and technical teams' experience of SMPFC have been demonstrated by their successful implementation of a range of efficiency programs and product innovations throughout the years.

The management team holds a number of leadership positions in food industry organizations, which not only demonstrates the high regard in which they are held in the industry, but also creates a valuable local network and better government relations for SMPFC.

The "San Miguel" brand reputation and ownership

As a member of the SMC Group, SMPFC believes that it also benefits from the strong market position of SMC and extensive range of product offerings in its other businesses, particularly with respect to consumers' and retailers' positive perception of the "San Miguel" name. SMPFC also believes that SMC is well regarded in the Philippine business community and believes that it benefits from the strong business reputation of SMC.

Business Strategies

SMPFC has a three-pronged strategy to achieve profitable growth.

Accelerate growth of the branded consumer business.

- SMPFC intends to continue building brand equity through advertising and promotional activities. SMPFC intends to launch new products that will complement its existing brands. As part of this strategy, SMPFC has launched a formal company-wide innovation program to drive the introduction of breakthrough products and services.
- SMPFC intends to continue to strengthen and expand its distribution capabilities in both the traditional and modern trade channels. To reduce volatility in its commodities businesses, SMPFC will continue to grow its meat shops and chicken stations and provide value-adding activities.
- SMPFC intends to aggressively grow the food service business by marketing customized products and services through food solution packages, including menu analysis and planning, food safety training and recipe and product development.

Achieve cost leadership by expanding raw material supply base and identifying alternative raw materials.

- SMPFC has a program to encourage farmers to plant cassava and other crops that can be used as feeds ingredients. SMPFC, through assemblers, provides farmers a stable market, technical assistance and access to financing. SMPFC, in turn, benefits from an expanded raw material supply base, lower costs and less price volatility.
- The strong research and development team of SMPFC is responsible for identifying cost improvements, while still maintaining product quality. This is achieved by exploring the use of alternative raw materials, from grains and by-products used in the feeds products of SMPFC to alternative protein sources and flavors in processed meats.
- Adopt technologies designed to attain best in class efficiencies.
- In its poultry and livestock operations, SMPFC has adopted climate-controlled housing to minimize temperature variability, thereby improving animal productivity. By the end of 2009, more than half of the poultry business' growing capacity had already been moved into climate-controlled housing. SMPFC also maintains state-of-the-art facilities for its flour business.
- Maximize synergies through shared services and organizational integration.
- To achieve synergies, SMPFC has organized its businesses into clusters. SMPFC has integrated its poultry and livestock businesses to maximize synergies across functions, as well as to realize certain tax benefits.
- SMPFC will continue to simplify its organizational structure and standardize its business processes in preparation for future growth. SMPFC is establishing a finance shared service center, intended to serve all of the businesses and perform transaction processing activities to improve efficiencies and reduce administrative expenses.

Outsourcing of labor intensive and process-oriented operations

- SMPFC intends to continue to reduce its direct labor costs by outsourcing its more labor intensive and process-oriented operations to take advantage of the more competitive wage levels available to contractors.

- SMPFC intends to outsource these lower value-added activities of its value chain, while maintaining control over its more specialized, higher value-added operations.
- SMPFC believes outsourcing its labor intensive and process-oriented operations will allow its personnel to focus more on the core competencies of SMPFC, such as marketing and product development, which are key to the future growth of the businesses of SMPFC.
- SMPFC intends to use outsourcing arrangements as its primary tool to achieve future capacity expansion or replacement. SMPFC expects that only projects of high strategic importance, or that cannot otherwise be outsourced, will be considered for inclusion in the capital expenditure budget of SMPFC.
- SMPFC has been, and intends to remain, actively involved in certain key aspects of the outsourced activities. SMPFC provides ongoing training and technical support to all of its third-party contractors. In addition, SMPFC representatives are assigned to oversee the results of outsourced operations and work closely with third-party management to improve operational efficiencies, while ensuring the food safety requirements and quality standards of SMPFC.

Explore new growth opportunities

- **New product categories**

SMPFC intends to explore new growth opportunities that would enable it to enter into new product categories in which it is not currently present, allowing SMPFC to offer new products that will complement its current portfolio.

- **Further vertical integration**

SMPFC intends to explore opportunities that will help SMPFC grow its capabilities and competencies and maximize synergies in its current markets.

- **Geographical diversification**

SMPFC will continue to pursue strategic opportunities in priority countries, such as Vietnam, Indonesia and other Asian countries to diversify geographic risk and tap into fast-growing emerging markets in Asia. SMPFC has already begun to implement this strategy with its operations in Indonesia and Vietnam. Over the medium-term, SMPFC intends to tap opportunities presented by the liberalization of trade policies in Asia by importing new products that will complement the current portfolio of SMPFC. In the longer-term, SMPFC plans to establish regional production bases in lower cost producing countries.

- **Co-investments with SMC**

SMPFC intends to explore opportunities to co- invest alongside SMC. These investments may include areas outside the traditional businesses of SMPFC in the food and beverage industries, for example in the power, energy and infrastructure industries.

Selected operating metrics for the business of SMPFC are set forth in the table below for the periods indicated:

Operating Metrics (Food)	For the year ended December 31,		
	2009	2010	2011
Poultry - Volume (mm kdw).....	255.2	288.5	305.8
Poultry - Average sales price (P/kdw ⁽¹⁾)	101.08	97.08	100.5
Feeds - Volume (mm bags).....	21.64	18.94	19.45
Feeds - Average sales price (P/bag).....	940.98	959.6	1013.74
Basic meats - Volume (MT)	55.4	49.1	57.6
Basic meats - Average sales price (P/kg)	131.87	127.55	126.04
Value added meats - Volume (MT)	82,765	85,117	90,708

Operating Metrics (Food)	For the year ended December 31,		
	2009	2010	2011
Value added meats - Average sales price (P/kg)	132.86	135.54	135.39
Flour and others ⁽²⁾ - Volume ('000 bags)	10,981	11,053	11,101
Flour and others ⁽²⁾ - Average sales price (P/bag)	709.38	688.63	804.48
Pancakes – Volume ('000 cases)	45	43	57
Pancakes – Average sales price (P/case)	1,065.13	1,114.50	1,121.12
Dairy, spreads and Oil ⁽³⁾ (P)	7,491.10	8,449.90	12,307.20
Eliminations	(1,437.80)	(934.60)	(1,674.60)
Gross profit margin	18.12%	20.16%	18.05%
EBITDA margin	8.30%	9.99%	9.05%
Net income before tax margin	5.12%	7.21%	6.65%

(1) kdw – kilo dressed weight

(2) Others include pollard, pancakes, and trading products

(3) Includes ice cream, coffee, food service, retail business, Indonesia and Vietnam

Agro-Industrial Cluster

Poultry

The poultry business of SMC includes the breeding, producing and marketing of broilers, mostly for retail. The broad range of products is sold under the Magnolia Fresh Chicken brand (including fresh-chilled, frozen and cut-up products) and through Magnolia Chicken Stations (including easy-to-cook and ready-to-eat products). SMPFC also sells customized products to food service clients and supermarket house brands, and live chickens to dealers.

SMPFC utilizes both self-owned and third-party owned (tolled) facilities for its poultry production. Approximately 99% of poultry growing output and 96% of processing output come from tolled facilities, allowing SMPFC to outsource production at a lower cost and direct more resources toward improving core competencies. As of December 31, 2011, SMPFC contracted with tolled growing farms with an estimated annual capacity of 320 million birds. The vertically controlled poultry operations of SMPFC also include 39 owned and tolled processing plants and an extensive network of cold storage warehouses and distribution facilities.

The poultry business of SMPFC faces local competition from numerous independent broiler producers and a small number of larger integrators. SMPFC believes that one of those larger competitors held less than one half of the market share in 2011 at 41%, while another held approximately 17% of the Philippine broiler market in 2011. SMPFC also sometimes faces competition from low-priced imports from the United States and Canada, as well as new competitors as a result of frequent supply shortages and high prices in recent years.

Feeds

The Philippine feeds industry comprises three segments: (a) the homemix segment which comprises small to medium-scale farms producing their own feeds; (b) the intra segment which includes large, integrated livestock and poultry farms producing their own feeds; and (c) the commercial segment which produces branded feeds for third parties. The Philippines had an estimated ₱163 billion feeds market in 2011, in which the commercial feeds segment accounted for ₱51 billion. Much like the poultry industry, the Philippine feeds industry has been transformed from a fragmented, backyard industry into a more concentrated and efficient industry with a small number of dominant feedmillers.

SMPFC is the largest producer of feeds in the Philippines, with an estimated market share of 41% of the commercial feeds market in 2011 by volume based on internal estimates, producing feeds for (i) the poultry business of SMPFC, (ii) the fresh meats business of SMPFC and (iii) the commercial feeds market, which accounted for 42.0%, 11.0% and 47.0%, respectively of the feeds business volumes of SMPFC in 2011. The commercial products of SMPFC include hog feeds, layer feeds, broiler feeds, gamefowl feeds, aquatic feeds, branded concentrates and customized feeds sold under various brands including B-Meg, Pureblend, Bonanza and Jumbo.

SMPFC is refocusing its efforts on developing small and medium-sized farms, producing specialty and customized feeds, and increasing its participation in the aquatic feeds industry. SMPFC is also focusing on raw material cost efficiencies. Raw materials used in the feeds business of SMPFC are mostly provided through the business procurement group, while some local ingredients are sourced directly from suppliers and traders accredited by SMPFC and on the open market. SMPFC developed cassava as a strategic alternative ingredient to corn in animal feeds. The proportion of cassava in animal feeds can be adjusted upward or downward depending on the relative price of corn and other feeds ingredients, which generated an incremental net savings of approximately ₱207 million in 2011 for SMPFC. Cassava is safe, relatively low-priced and widely available in the Philippines, with approximately 212 thousand metric tons produced in 2011.

To protect against unexpected price increases, SMPFC participates in both physical and financial hedging for certain imported raw materials such as soybean meal and maintains strategic buying programs for corn. SMPFC also uses by-products from SMB (including brewer's spent grain and yeast) and the poultry dressing plants (including offal and feathers) as raw materials for feeds production. SMPFC contracts with two tolled rendering facilities and expect to add rendering plants in the future. Compound feeds are manufactured at six SMPFC-owned facilities; third party-operated and 35 third-party owned and operated feeds plants, strategically located throughout the Philippines. Most of these plants are capable of producing pelleted and crumble format feeds, and three plants have extrusion capabilities to produce aquatic floating feeds.

SMPFC owns several research and development facilities which analyze average daily weight gain, feed conversion efficiency and other performance parameters. Results of these analyses are immediately applied to the commercial feed formulations to minimize costs and maximize animal growth. These research facilities include a bio assay-focused research facility, a metabolizable energy-focused research facility, a research facility for tilapia, three hog research farms, three broiler research farms, a fry production facility and various hatching facilities for tilapia breeding.

The commercial feeds business of SMPFC sells its products through several distribution channels, with 80% of products sold through authorized distributors within a defined territory and 20% sold directly to hog, poultry and aquatic farm operators. The commercial feeds business has more than 19 sales offices across the Philippines, which are supported by an expert sales team focused on developing new markets.

While the commercial feeds business currently holds the largest market share in the Philippines, which has approximately 300 registered small players and a small number of larger operators. SMPFC faces increasing competition from foreign feeds manufacturers and competes with five national companies and numerous regional feed mills. While SMPFC caters to all segments of the feeds market, the majority of its sales come from the higher value segments rather than the lower-priced commodities segments.

Fresh Meats

The Philippine fresh meats industry remains highly fragmented notwithstanding attempts to modernize the industry. Consolidation of the fresh meats industry is expected to increase in the future as larger players continue to invest in new technologies.

The fresh meats business of SMPFC breeds, grows and slaughters hogs and cattle and produces and trades pork and beef products. It sells a wide variety of products in the Philippines under the well-recognized Monterey brand name. In 1993, the fresh meats business introduced Monterey neighborhood meat shops as part of the strategy to differentiate its products from those of its competitors. The fresh meats business produces its hogs using a three-site system, which separates breeding, nursery and growing into isolated facilities to minimize losses from disease outbreaks or recurrences.

The fresh meats product portfolio includes pork and beef in carcass and primals formats for franchisees, poultry distributors, The value-added meats business and the food service customers, pork and beef retail cuts sold in membership shopping club outlets operated by S&R and live hogs and cattle sold to traders. Pork, beef and lamb retail cuts and marinated products are sold in Monterey Meatshops through franchisees.

Based on the sow levels in 2011, the market share of SMPFC in the Philippine pork industry was estimated to be 3%. Revenues in the fresh meats business of SMPFC were ₱7,250 million in 2011 and sales volume increased by 17%.

SMPFC pioneered the use of the vertically controlled pork and beef production system in the Philippines, controlling the entire value chain from selection of genetic stocks to its meat shop operations. Most of the production facilities are third party owned and operated. In 2011, SMPFC owned four hog farms operated by third parties, and contracted with over 470 third party owned and operated farms for breeding, nursery and growing operations, owned three third party operated cattle farms, owned a slaughter plant and contracted ten third party owned and operated slaughter plants.

SMPFC breeds most of its hogs on owned farms and the balance are purchased from hog breeding companies. SMPFC imports 30% of its feeder cattle from Australia and most of its boxed beef from Australia, New Zealand and Brazil. All of the feeds required by the fresh meats business are supplied by the feeds business of SMPFC.

The fresh meats business distributes its products through a variety of channels, including supermarkets, neighborhood meat shops, poultry distributors, live sales and to the value added meats and food service businesses. It adopted a strategy focusing on the modern trade market to accelerate pork sales by introducing a Monty's supermarket meat shop in 1990 and stand-alone Monterey meat shops in neighborhoods in 1993. As of December 31, 2011, approximately 503 meat shops and twelve third party operated selling stations are in operation across the Philippines. To reduce selling costs, almost all of these meat shops were recently converted to franchised operations and certain functions, such as inventory monitoring and staffing, are now undertaken by qualified operators and franchisees. As part of its strategy to increase sales volumes, improve profitability and customer service in these shops, the fresh meats business of SMPFC provides marketing support to franchisees and actively seeks entrepreneurs to become franchisees.

The fresh meats business of SMPFC primarily competes with one large competitor, which has its own vertically controlled operations, from breeding to retailing in supermarkets. It also competes with several commercial-scale and numerous small-scale hog farms that supply live hogs to traders, who in turn supply hog carcasses to wet markets and supermarkets. While the majority of fresh meat purchases in the Philippines continue to be made in the more traditional, outdoor wet markets, SMPFC views its competition as being with larger producers selling in the smaller, but more profitable, modern trade channels.

Value-Added Meats Cluster

The value-added meats business of SMPFC is a key player in three segments of the Philippine processed meats industry: (a) the leader with a 54% share of the ₱10.7 billion hotdogs segment; (b) a 16% share of the ₱11.3 billion corned meats segment; and (c) a 9% share of the ₱7.6 billion luncheon meats segment based on 2011 statistics from AC Nielsen RTA Report. The value-added meats business of SMPFC produces both refrigerated meats and canned meats. Its refrigerated meat products include hotdogs, bacon, hams, nuggets and a line of local Philippine products, which are sold under the Purefoods, Tender Juicy, Purefoods Star, Vida, Beefies, Magnolia, Tender Cuts, and Monterey brands. Canned products, such as corned beef, luncheon meats, sausages, and ready-to-eat viands, are sold under the Purefoods, Star, and Ulam King brands.

The value-added meats business sources most of its raw materials through the business procurement group, which strives to secure prices lower than prevailing market or published rates. The procurement group maintains a pool of SMPFC accredited suppliers for local and imported raw materials, which are regularly audited for quality by a quality assurance team.

The value-added meats business operates its own processing plant in Cavite. The plant manufactures hotdogs, hams, burgers, bacon, dry sausages, meat toppings, cold cuts and nuggets. The company has embarked on a capacity expansion project that is expected to be completed and operational by the 3rd quarter of this year. The Marikina plant of SMPFC was severely damaged by Typhoon Ondoy and is not intended to be reopened since it ceased operations in October 2009. SMPFC has received a substantial portion of the insurance claims for the typhoon damages at the Marikina plant. SMPFC has instead contracted additional toll packers to replace its capacity to pre-storm levels. To augment

its production capacity and meet volume demands, the value-added meats business maintains toll-manufacturing agreements with various suppliers, one of which operates a halal-accredited manufacturing facility allowing SMPFC to sell halal corned beef products to the Middle East and predominantly Muslim countries.

The value-added meats products are distributed by the integrated sales operations and food service business. The sales operations group generally distributes products through modern and general trade markets, as well as exports to Asia, North America and Europe. The food service business distributes products through food service operators, such as hotels, restaurants, fast food chains, food kiosks and carts. These sales groups are assisted by the logistics group, which manages planning, technical logistics services, warehousing and transportation. These distribution functions tap into a variety of distribution channels, including wet markets, supermarkets, groceries, convenience stores and sari-sari stores, as well as institutional food service clients and Filipino communities abroad.

The combined shares of the hotdog brands have positioned SMPFC as a market leader in this segment, with a market share of 54% as of 2011 by sales according to Nielsen. As of 2011, the corned meats and luncheon meats segments, had market shares of 16% and 9%, respectively by sales, according to Nielsen. In recent years, the value-added meats business of SMPFC has faced increased competition from both established local players, which are employing aggressive pricing and promotion schemes, and from new entrants to the market. To maintain its leadership position, SMPFC has responded by continuing innovation, increasing advertising and promotions, and introducing new product lines.

Milling Cluster

While rice has traditionally been the primary source of carbohydrates in the Philippines, bread and noodles have become increasingly popular alternatives in recent years, which have helped drive growth in the Philippine flour industry. In addition, large bakery chains are expanding rapidly in the Philippines at the expense of smaller, more traditional neighborhood bakeries. These larger chains often place greater emphasis on the quality of the flour they use, providing an opportunity for flour producers to sell customized, higher margin flour products.

SMPFC believes its flour business is the largest producer, seller and distributor of flour in the Philippines by volume with a 17% market share (according to data from the Philippine Association of Flour Millers), according to Philippine Association of Flour Millers¹, offering a variety of flour products, including bread flour, noodle flour, biscuit and cracker flour, all-purpose flour, cake flour, whole wheat flour, customized flour, and flour premixes. SMPFC started the trend of using customized flours for products such as noodles and pandesal, a soft bread commonly eaten in the Philippines during breakfast. The flour products are sold under 18 brand names, and SMPFC enjoys strong brand loyalty among its institutional clients and other intermediaries, such as bakeries. Revenues in the flour business of SMPFC were ₱8,995 million in 2011.

SMPFC owns and operates the largest flour milling facilities in the Philippines, as well as the Philippines' first flour technology center. The center develops customized flour blends and new flour-based products. SMPFC is expanding its pre-mix facilities cater to growing customer needs. It owns and operates two deep water ports next to its two flour milling facilities, which are located in Mabini and Tabangao in Luzon. The ports have a combined wheat unloading capacity of over 7,500 metric tons per day, generating substantial savings in loading, transporting and unloading costs.

The principal raw material used by the flour business is wheat, the majority of which is sourced from the United States and Canada. SMPFC monitors worldwide wheat prices daily to determine its long-term and short-term buying strategies to control costs in its flour business.

The marketing strategy focuses on making available the widest array of differentiated flour products in the Philippine market. The flour business' sales team of approximately 30 people contact customers to determine their specific flour product needs. For customized products, the research and development team and the sales team work with the customers to develop individual formulations, and bakery technicians conduct field baking tests and demonstrations. SMPFC manages a nationwide distribution network servicing close to 100 distributors, who distribute flour and other bakery ingredients to major flour users as well as to small, backyard users across the Philippines.

The flour business competes on price, quality and distribution, primarily with a small number of large competitors. Currently, most of the competitors produce lower priced, lower quality flours. In the future, SMPFC may face increased competition in the higher quality, higher margin segment and from international and regional flour producers. The flour business differentiates itself by focusing on higher quality, higher priced flours, making it more difficult for its competitors to enter those markets and compete.

Dairy, Spreads and Oils Cluster

The DSO business manufactures and markets a variety of bread spreads, milk, ice cream, jelly-based snacks and cooking oils generating revenues of ₱6,709 million in 2011, with bread spreads make up the largest portion of this business accounting for 72%. The bread spreads includes butter, refrigerated and non-refrigerated margarines and cheeses sold primarily under its Magnolia Gold, Dari Creme, Star and Cheezee brands. The dairy products of SMPFC include flavored and unflavored milks under the Magnolia and Chocolait brands, ice cream under the Magnolia brand and jelly snacks and fruit jams under the JellyAce, Sugarland and Magnolia brands. The cooking oil products of SMPFC are sold under the Magnolia brand.

All of the raw materials required by the DSO business are sourced from third parties with approximately 60% of dairy materials such as cheese curds, rennet, cassein, and milk powders imported mostly from New Zealand, and vegetable oils sourced locally.

SMPFC produces bread spreads products at its own facilities, including pasteurization, blending, chilling and packing for bread spreads and cooking, filling, pre-packing and end-packing for cheeses. All manufacturing activities for the milk, ice cream, jelly-based snacks and cooking oil lines are outsourced to third parties (two tollers for milk; two tollers for jelly-based snacks; and three tollers for cooking oil), who are required to meet the quality standards of SMPFC.

SMPFC manages a variety of support activities for its DSO business, including logistics, research and development, marketing, quality assurance, planning, information management and finance.

The largest distribution channel for the DSO business is supermarkets, and others include groceries, sari-sari stores, market stalls, bakeries, wholesale outlets and convenience stores. San Miguel Integrated Sales serves as the distribution arm of the DSO business for both modern and general trade channels. Food chain and other institutional distribution channels for the DSO business include bakeshops, food manufacturing companies, restaurants, hotels, pizza chains, burger joints and hospitals. The majority of the DSO business' distribution channels are in the greater Manila and Luzon areas, which have seen substantial growth in consumption. The DSO business recently began further developing regional distribution channels through exports.

In terms of domestic market share relative to volume, the DSO products represent 44% of the butter segment, 89% of the refrigerated margarine segment, 95% of the non-refrigerated margarine segment, 20% of the cheese segment, 9% of the ice cream segment, based on 2011 statistics from Nielsen. The DSO business faces intense competition in many of its product segments, particularly milk and cheese including from multinational companies such as Kraft, Nestle, Unilever and New Zealand Milk, as well as domestic companies such as San Pablo. In recent years, many of the competitors of SMPFC have increased advertising and promotional spending to protect their market shares.

Emerging Businesses Cluster

Coffee

The coffee business of SMPFC in the Philippines is a joint venture with a Singaporean partner, Super Coffee Corporation Pte, Ltd., and is 70% owned by SMPFC. The joint venture commenced operations in 2005 and sells coffee products under the San Mig Coffee brand. In 2011, the coffee business of SMPFC had revenues of ₱731million and an estimated market share of 4% by volume in the Philippine coffee mix market. All of the coffee business' raw materials procurement, manufacturing

and pre-packing are handled by the Singaporean partner of SMPFC, with certain subsidiaries of SMC managing re-packing and distribution in the Philippines.

Food Services

The food services business of SMPFC was established in 2002 and is the largest food services provider in the Philippines. It distributes and markets the generic and customized food service products, including value-added meats, fresh meats, poultry, dairy, oil, flour and coffee. The food service business receives a percentage of the selling price of the products as a development fee. The business' key strategies include selling customized solutions, direct marketing to its customers and focused relationship management. The food service business had revenues in 2011 of ₱2,337 million.

Indonesia Regional Business

The business of SMPFC in Indonesia is a joint venture with Penderyn since 1995 that produces a variety of halal-certified and non-halal processed meats for the Indonesian market. The joint venture is 75.0% owned by SMPFC. The Indonesian business of SMPFC had revenues in 2011 of ₱841 million, and its share of the Indonesian chilled processed meats market was approximately 4% by volume in 2011, according to Euromonitor.

Vietnam Regional Business

The majority of Vietnam's pork production comes from small traditional farms. Pork accounts for 73% of all meat consumed in Vietnam, with consumption increasing significantly over the last 15 years as incomes have risen rapidly. The Vietnam food business is a joint venture between SMPFC, which holds 51%, and Hormel, which holds 49%. SMPFC acquired its 51% interest in the Vietnam business from SMC in July 2010, prior to which SMPFC provided management services to the Vietnam food business. The Vietnam food business primarily engages in live hog farming and producing feeds and fresh and processed meats and generated revenues of ₱3,011 million in 2011.

PACKAGING BUSINESS

The packaging business of SMC began operations in 1938 with the establishment of a glass plant that supplied glass bottles for the beer and non-alcoholic beverage products of SMC. The packaging business is conducted through the Packaging Group. In addition, SMC manufactures paper cartons through a wholly owned subsidiary held separately by SMC.

The Packaging Group has one of the largest packaging operations in the Philippines with diversified businesses producing glass, metal, plastic, paper, flexible, PET and other packaging products. The Packaging Group is a major source of packaging products for the other business segments of SMC. The Packaging Group also supplies packaging products to customers in the Asia-Pacific region, the United States, Africa, Australia and the Middle East, as well as to major multinational corporations in the Philippines, including Coca Cola Bottling Company, Nestle Philippines and Pepsi Cola Products Philippines. In 2011, the packaging business had sales of ₱24,113 million, of which approximately 70% were external sales.

Philippine Packaging Industry

According to the data from Euromonitor, the total Philippine Packaging sector for beverage applications grew at an average of 5.40% year-on-year from 2006 to 2011. For food applications the growth was 3.80%.

The usage growth rate for glass containers, (which is the largest business of the Packaging Group) for beverage applications has been 3.30% while that for food applications registered at 3.10%. Although the growth of glass containers may be tempered by the increasing popularity of lightweight, unbreakable and more affordable packaging types such as PET (which the Packaging Group also produces), the glass packaging industry will likely benefit from creation of a free trade area amongst ASEAN nations. Among the likely positive impact of the free trade area will be the ability for local glass packagers, such as the Packaging Group, to expand their business in the ASEAN economies.

PET bottles for beverages has shown some of the fastest growth rates in the 2006-2011 period as this packaging format recorded an average annual growth of 10.50%. The Packaging Group has large available capacities and ready know-how to exploit future prospects in this packaging format.

Flexible packaging is considered to be the most affordable pack type and is therefore used by many consumer products to capture mass markets. It is used extensively in confectionery, dried processed food and sweet and savoury snacks and has captured brand manufacturers of canned/preserved food and baby food. Flexible packaging for food grew at 3.60% over the 2006-2011 period while that for beverages grew by 1.10%.

Folding cartons used for food grew by an average growth of 3.10% over the same 5-year period. Metal packaging for beverages has not been showing net growth.

It is evident that the growth of the total packaging sector for food and beverages has been growing *pari passu* with the long-term trend of Philippine economic growth. As both foreign investor and Philippine consumer confidence continue to rise, we can expect better growth rates for packaging. The historical rates given here for the various packaging formats could be easily outpaced.

Competitive Strengths

The Packaging Group believes that its strengths include the following:

- **Market leader.** The Packaging Group is a market leader in all its product formats in the domestic packaging industry, producing glass, plastics, metal, metal caps, aluminum cans, composites and woven products.
- **State-of-the-art manufacturing facilities.** The Packaging Group maintains state-of-the-art manufacturing facilities including the only food grade PET recycling facility in Asia and best practices in manufacturing and quality procedures.
- **Synergies from partnerships with key global packaging companies.** The Packaging Group gains synergies from its partnerships with global packaging players such as NYG, Fuso, Kaito and United Resource Recovery Corporation.

Business Strategies

The strategies of the Packaging Group include the following:

- **Total Packaging Solutions.** The Packaging Group intends to increase adoption of the total packaging solutions approach by proactively offering solutions that range from traditional packaging products to associated graphics design, conceptualization, consultancy, toll filling and logistical requirements.
- **Network and Client Optimization.** The Packaging Group intends to optimize and leverage on its significant regional network of facilities and alliances as a gateway to enter into new markets. It is also evaluating opportunities with its international clientele on potentially providing packaging services to them in markets where these customers have a presence and are new to the Packaging Group. There is also a focus on entering into longer term contracts with key customers to enhance earnings visibility.
- **Product Diversification.** The Packaging Group plans to enter new markets and market segments with new products such as personal care (plastic tubes), pharmaceuticals (child resistant caps, plastic pharma bottles, blister packs), semi-conductors and electronics (anti-static bags), paint (pails), food tubs, thermo cup, lug caps, deep draw caps and various converted can ends.
- **Marketing Environmentally Friendly Products.** The Packaging Group expects the future consumer trend towards environmentally friendly products and environmentally

sound manufacturing systems. Hence, the Packaging Group plans to increase investments into eco-friendly facilities, processes and products such as the PET recycling plant, use of scrap laminates as fillers in pallets, toluene-free flexible packaging and accreditation with various international standards and agencies. In recent years, the Packaging Group has been improving and upgrading its manufacturing facilities to a standard higher than established government regulations. Significant investments have been spent, for example, the Electrostatic Precipitator of the Packaging Group, a pollution-abating device that cost more than ₱100 million.

Selected operating metrics for the businesses of the Packaging Group are set forth in the table below for the periods indicated:

Operating Metrics (Packaging Group)	For the year ended December 31,		
	2009	2010	2011
Glass – Revenue (in '000)			
Domestic	₱ 6,786,835	₱ 6,708,833	₱ 7,579,240
International	1,051,950	1,225,115	1,116,087
Total	7,838,784	7,933,947	8,695,327
Glass Volume (Mton)			
Domestic	217,775	239,252	238,398
International	49,466	60,774	50,002
Total	267,241	300,025	288,401
Glass – Average sales price (₱/Mton)			
Domestic	31.13	27.62	31.52
International	18.43	18.73	20.52
Total	29.33	26.44	30.15
Metal – Revenue			
Domestic	3,815,338	3,882,924	3,676,562
International	401,932	490,377	458,698
Total	4,217,271	4,373,301	4,135,260
Metal – Volume (M pcs)			
Domestic	7,136,696	7,277,314	6,153,110
International	1,572,692	1,889,858	1,876,431
Total	8,709,388	9,167,172	8,029,541
Metal – Average sales price (₱ /Pc)			
Domestic	0.535	0.534	0.598
International	0.256	0.259	0.244
Total	0.484	0.477	0.515
Revenue – Other Businesses			
Plastics	1,399,623	1,605,082	1,710,752
PET	1,747,498	1,960,262	1,264,404
Composite	538,001	647,073	723,131
Paper	1,596,115	1,440,320	1,641,750
Trading	312,026	371,563	371,773
Malaysia	2,825,718	3,075,614	3,317,563
Cospak		3,712,616	4,025,720
Elimination (within the group sales)	(245,623)	(855,161)	(899,777)
Total	8,173,358	11,957,370	12,165,316
Gross Contribution	8,535,800	9,881,351	-
EBITDA margin	3,230,036	3,989,715	-
Net income before tax margin	1,746,763	1,834,911	-

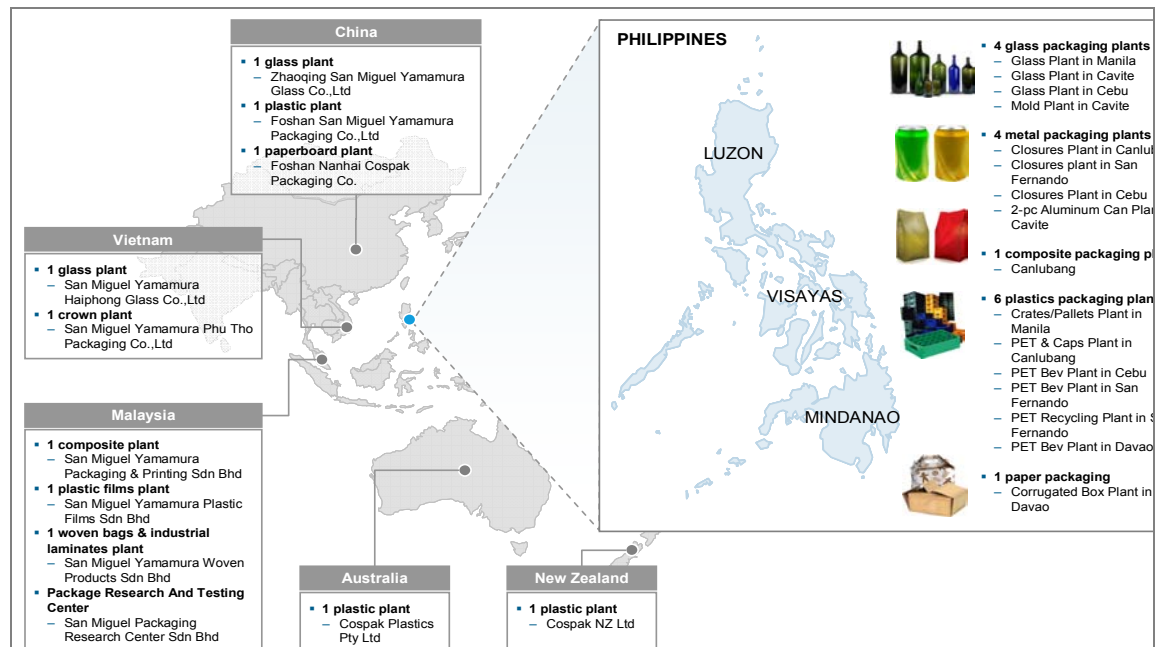
⁽¹⁾ Other businesses include plastics, PET, composites, and paper

A description of the businesses of the Packaging Group is as follows:

- **Glass:** This business is the largest supplier in the glass packaging industry segment and serves many of the country's leading beverage, food and healthcare companies.
- **Metal:** The metal business is the second largest business in the Packaging Group. It manufactures metal caps, crowns, resealable caps and two piece aluminum beverage cans for a wide spectrum of industries that include beer, soft drinks and food.
- **Composites/Flexible Packaging:** The composites/flexible packaging business manufactures flexible packaging such as anti-static/ESD bags, plastic films, industrial laminates, trademarked Envirotuff radiant barrier and woven bags. Its customers include companies in the food, beverages, personal care, chemical and healthcare industries.
- **PET:** The PET business produces PET preforms and bottles, plastic caps and handles, and offers filling services, serving the beer, liquor, non-alcoholic beverages, food, pharmaceutical, personal care and industrial applications industries.
- **Paper:** The paper packaging business produces corrugated cartons and partition boxes. In addition, SMC also manufactures corrugated cartons and other paper-based packaging products through its wholly owned subsidiary, Mindanao Corrugated Fibreboard Inc. The paper packaging business serves a broad range of beverage, food and agricultural industries.
- **Plastics:** The plastics business produces bread and food trays, industrial containers, crates, pallets, poultry flooring, pails and tubs to companies in the beer and beverages industries as well as chicken and agricultural industries.

Production

The Packaging Group owns and operates four glass packaging plants, four metal packaging plants, one composite packaging plant, six plastics packaging plants and one paper packaging plant. The plants are strategically located throughout the Philippines. It also owns and operates eleven overseas packaging facilities: three in China (producing glass, plastic and paperboard packaging products), two in Vietnam (glass and metal), three in Malaysia (composite, plastic films and woven), one in Australia (plastic), one in New Zealand (plastic) and a research center in Malaysia. The plant facilities of the Packaging Group are shown below:



PROPERTY DEVELOPMENT

Established in 1990 initially as the corporate real estate arm of SMC, SMPI is, today, an established developer of residential and commercial real estate in the Philippines. SMPI is 98.45% owned by SMC and is primarily engaged in the development, sale and lease of real property. SMPI is also engaged in leasing and managing the real estate assets of SMC. The development track record of SMPI includes economic to middle-income housing (Buenavista Homes in Cebu and The Legacy in Parangue City), high end residential (San Miguel Village) and landmark commercial buildings (SMC corporate headquarters and the Ortigas Center). SMPI had net tangible assets of ₱9,265 million as of December 31, 2011.

FUEL AND OIL

SMC operates its fuel and oil business through its 68.26% ownership of the common stock of Petron. Petron is listed on the PSE and is the largest integrated oil refining and marketing company in the Philippines, with an overall market share of approximately 37.70% of the Philippine domestic oil market. The core business of Petron involves the refining of crude oil and the marketing and distribution of refined petroleum products, mainly for the Philippine market. Petron also exports various petroleum and petrochemical feedstock, including high sulfur fuel oil, naphtha, mixed xylene, benzene, toluene and propylene, to customers in Asia-Pacific countries such as China, India, Indonesia, Japan, South Korea and Vietnam. Petron also engages in the businesses of insurance, marketing and leasing, and intends to make further investments in power generation assets relating to the refinery, refinery upgrades and retail network expansion to support its core business.

Philippine Petroleum Industry

The Philippine oil industry had been deregulated since 1998 and is currently dominated by Petron, and two other oil companies – Shell and Caltex, with more than 90 other players. The petroleum industry is heavily affected by volatile crude prices, strict environmental requirements and a more value-conscious breed of consumers. While pricing remains to be a primary driver of sales in all sectors, a shift towards total customer solutions has also been noted.

Based on the exchange data of DOE, the country's total petroleum demand almost stood flat in the past 10 years. Increasing fuel prices put pressure on demand, largely noted in fuel oil, with users shifting to alternative energy sources such as coal.

Deregulation saw the entry of more than 90 other industry players, rendering the petroleum business more competitive. In the reseller sector, competition has shifted from the major oil players to the growing new player sector. Count of new player outlets has been increasing from 695 in 2001 to about 1,700 in 2011. New players collectively built 281 outlets in 2011, compared with major oil players' combined 251. Aggressive expansion of new players is fueled by attractive dealer package, healthy gasoline margins, and flexible product sourcing. In the industrial sector, investments such as depot construction continue to pour in from all players aimed at increasing market share and tapping new markets.

Historical data shows that Petron has effectively gained and protected its market leadership in the industry. Its strength lies in its organization, technology, assets, resources and infrastructure. It has continuously developed and adopted initiatives aimed at improving operational efficiency, managing costs and risks, maximizing utilization of its assets and opportunities such as tapping new markets, and engaging in new businesses.

Petron, as the largest domestic refiner, and continues to be well positioned to take advantage of the growing domestic demand and trade imbalance in refined products in Philippines, given its focus on the Philippine market, its planned network expansion and its focus on higher value white products.

Competitive Strengths

The Company believes that its principal competitive strengths include the following:

- **Leader in the Philippine Oil Industry.** Petron is the leader in the Philippine oil industry, with an overall market share of approximately 37.70% of the domestic oil market, ahead of the other two major Philippine oil companies, which account for 25.70% and 9.90%, respectively, according to data gathered by the Department of Energy. Other market players account for 25% of the market. Petron is the leader in terms of sales volume in the retail, industrial and LPG market segments, with a 39.50% market share, as of end 2011 based on the exchange data of DOE.

Petron believes its strong market position and the resulting size and scale of its operations provide significant economies of scale in production, research and development, distribution, and managerial and marketing functions.

- **Largest Integrated Oil Refinery in the Philippines.** Petron owns and operates the largest integrated oil refinery in the Philippines with a crude distillation capacity of 180,000 barrels per day. There is only one other operational refinery in the country, which is owned by Shell, with a capacity of 110,000 barrels per day.

Petron believes that operating the largest refinery in the Philippines allows it to take advantage of economies of scale in its production and crude oil procurement. The downstream conversion units of the Refinery, such as the Petron fluidized catalytic cracker ("PetroFCC") and desulfurization units, enable it to produce a broad range of refined petroleum products.

In addition, while the Refinery is configured to process predominantly light and sweet crudes, it is capable of processing other types of crude oil. This flexibility allows Petron to optimize product yields and margins in response to market conditions. With respect to utilities, approximately 65% of the power requirements of the Refinery are supplied by its existing generators and its steam generators supply steam for the power generators and other Refinery process units. The Refinery operations are ISO 14001-certified and materially compliant with the standards mandated by the Philippine Clean Air Act. The integrated production, storage, transportation and power-generating facilities of the Refinery provide it with competitive advantages.

- **Effective Cost Management and Strong Operational Efficiencies.** Petron focuses on managing costs and improving operational efficiencies, which it believes will allow it to maintain its leading position in the domestic oil industry. The Refinery has been implementing various programs and initiatives to achieve key performance indices on reliability, efficiency and safety. These programs include the Reliability Availability Maintenance ("RAM") program and the PIP, which were developed and implemented in coordination with KBC, an international consultant.

The RAM program resulted in improved operational availability and lower maintenance cost through higher plant reliability and a longer maintenance cycle of four to five years as compared to two years previously. The PIP likewise significantly improved the production of White Products, particularly diesel and LPG. In addition, Petron has made substantial investments to upgrade its Refinery, including the completion of its PetroFCC unit, propylene recovery unit, mixed xylene plant and benzene-toluene extraction unit. This has allowed Petron to produce higher margin products, such as propylene, mixed xylene, benzene and toluene, and decrease production of lower value fuel oil.

- **Most Extensive and Efficient Nationwide Distribution and Marketing System.** Petron believes its distribution infrastructure is the most extensive in the Philippine oil industry. The nationwide distribution system of Petron consists of its own strategically located depots, terminals and sales offices and effective management of third party service providers. The archipelagic nature of Philippine geography and the relative difficulty of transporting products to the country's substantial rural population make the distribution system of Petron particularly valuable, as the distribution system allows Petron to bring its petroleum products from the Refinery to all points of the Philippine archipelago in an efficient manner. Petron believes that

its extensive distribution infrastructure creates a barrier against entry for new market participants and allows it to maintain a leading position in the Philippine oil industry.

Petron also believes it has the most extensive marketing and retail network in the Philippines, with a network of more than 1,900 service stations and more than 30 depots and terminals. This network provides Petron with a secure distribution outlet while also allowing Petron to tap demand effectively in both fuel and non-fuel products in growth areas outside the major urban centers.

Petron believes that its size and scale of operations provide economies of scale in distribution and marketing functions and have allowed it to compete effectively with local competitors by taking advantage of its extensive distribution and marketing network in the Philippines.

Experienced Management Team and Employees. Petron has an extensive pool of experienced managers, and many senior managers have been with Petron for over 20 years. The management team of Petron has been strengthened further with the addition of seasoned executives from SMC with an average of approximately 20 years of experience between them. The average employee has been with Petron for approximately 14 years. The management team has extensive experience in the oil industry and has successfully managed Petron through periods of crisis and instability in the Philippines as well as through the various changes Petron has undergone, including changes in ownership, privatization and industry deregulation. In addition, Petron has a team of employees skilled in managing the various aspects of its business, including a highly experienced Refinery management team, a focused sales and marketing team, which includes a group that has several years of experience in service station engineering and construction, and a research and development team that has been with Petron through several years of product development and production process improvement.

- **Resilient Financial Performance and Profitability.** Petron has consistently achieved profitability that has been resilient through economic cycles. The net income of Petron in 2009, 2010 and 2011 was ₱4,259 million, ₱7,924 million and ₱8,485 million, respectively.

Business Strategies

Focus on the domestic market

Petron believes its leading market position and extensive distribution network provide an effective platform for maximizing its domestic revenue potential, and such platform is not available to its competitors. Petron believes the domestic market is still underserved and intends to maintain its position as the leader in the Philippine oil industry by (i) increasing its retail outlets for fuels and LPG to capture industry growth and improve market penetration; (ii) introducing new products with differentiated and superior qualities; (iii) developing and expanding its logistical facilities, including the addition of new aviation facilities in tourist destinations; (iv) building more LPG re-filling and auto-LPG facilities; (v) continuing to expand its non-fuel businesses by establishing additional Treats convenience stores and leasing additional service station spaces to food chains, coffee shops and other consumer services to provide “value conscious” customers with a one-stop full service experience; and (vi) intensifying its dealer and sales personnel training to support any increases in sales volume. In line with these plans, Petron intends to establish additional service stations and micro-filling stations in Philippine urban and rural areas in the next five years. In addition, Petron seeks to maintain and further develop its leading position in the domestic market by reinforcing business relationships with existing customers. For example, Petron launched its e-Fuel card in July 2008 to provide discounts and free towing and roadside assistance to its customers.

Increase and diversify production of higher margin products and leverage on existing partnership

Over the years, Petron has invested in upgrades to the Refinery that have enhanced the value of production. These include upgrades to the mixed xylene plant, which recovers mixed xylene from heavy gasoline streams, and the addition of: (i) the PetroFCC unit, which increased cracking capacity

to 19 MBSD from 14 MBSD, (ii) the propylene recovery unit, which recovers propylene from the PetroFCC's LPG stream, and (iii) the benzene-toluene extraction unit, which recovers benzene and toluene from light gasoline streams. These petrochemical units have enhanced the product value of the Refinery by approximately US\$30/bbl to US\$40/bbl over alternative products such as LPG and gasoline.

Petron intends to continue to evaluate technology options for the upgrade of the Refinery, aiming to further minimize production of lower margin fuel oil and increase production of higher margin products, such as petrochemicals, gasoline and diesel. Petron also expects to evaluate opportunities for venturing into the production of downstream petrochemicals, such as the processing of propylene, ethylene, xylene, benzene or toluene into derivatives or finished products.

Petron will also continue to expand into the blending and export of fuel additives, leveraging on its technology partnership with Innospec, and will continue to tap the customer base of Innospec in Asia to broaden the market for the lubricant products of Petron.

Optimize power, steam and production costs efficiencies

Petron intends to pursue cost-efficient opportunities to enhance efficiency and reduce production costs through supply chain improvements and enhancements to its existing facilities. In particular, Petron expects to increase the efficiency of its existing supply chain through a range of initiatives: including: (i) optimizing its crude mix to produce more profitable products from the existing refining configuration and expanding its crude supply sources in addition to its major crude oil suppliers, Saudi Aramco and Petronas; (ii) reducing inventory levels by sourcing feedstock from suppliers located near the Refinery; (iii) enhancing receiving and storage facilities to attain greater sourcing flexibility and support new growth areas; (iv) managing crude freight costs and availability of terminal-compliant vessels with contracts of affreightment that guarantee cost competitiveness with the spot market; and (v) reducing distribution costs through rationalization of the depot network, joint operations with other companies, optimized utilization of its marine and tank truck fleet, and transportation sharing synergies with third parties. Petron also plans to maximize operational synergies with the SMC network, products and services.

In addition, Petron, through its associate, Energen, is building a new cogeneration power plant for the Refinery to replace some of the existing power and steam generators of the Refinery. Energen is a joint venture between Petron and Two San Isidro SIAI Assets Inc. The new cogeneration power plant will utilize more efficient technology and generate power at lower costs. Upon its expected completion in 2012, the new cogeneration power plant will have a 70 MW power generation capacity and 400 MTH steam generation capacity, which will completely fulfill the current and expected future electricity and steam requirements of the Refinery. The new cogeneration power plant will initially utilize coal as fuel and will switch to petcoke once the Refinery commences its planned petcoke production, which is expected in 2014. Petron believes that these initiatives will allow it to reduce costs and increase power and steam supply reliability, sourcing flexibility and cost efficiency of the Refinery.

Selective synergistic acquisitions

In addition to organic growth, Petron will continue to consider selective opportunities to expand domestically through strategic acquisitions consistent with its focuses on the domestic market, increased production of higher margin products and creation of operational synergies. Petron will consider any acquisition opportunity carefully, and any potential acquisition would undergo extensive review and evaluation procedures to ensure that such transaction would be beneficial to the business of Petron as a whole. For example, in March 2010, Petron acquired a 32.70% stake in Petrochemical Asia (Hong Kong) Ltd ("PAHL"). PAHL owns PPI, which owns a polypropylene plant located approximately five kilometers from the Refinery. The polypropylene plant's primary feedstock, propylene, will be supplied by the Refinery. Through its investment in PAHL, Petron expects to have a share of the incremental value derived from converting propylene into polypropylene resin.

Selected operating metrics for the business of Petron are set forth in the table below for the periods indicated:

Operating Metrics (Fuel and Oil)	For the year ended December 31,		
	2009	2010	2011
Sales volume ('000 barrels) - by product			
LPG	4,357	4,319	5,014
Gasolines	8,611	9,205	8,846
Kerosene / Jet	5,828	5,413	5,809
Diesels	13,519	15,239	14,257
Fuel Oils	9,529	10,394	9,143
Lubes and Greases	296	299	314
Petrochem	1,890	3,263	3,151
Others	184	157	162
Total Sales Volume	44,215	48,289	46,697
[Gross refining margins (in ₱ /bbl).....]	338.07	410.31	495.32
[Gross refining margins (in US\$/bbl)	6.78	8.81	10.87
Capacity utilization (%)	50%	63%	63%
Capital Expenditure (excl. capitalized interest).....	1,788	3,659	19,070
Gross profit margin	14,948	19,814	23,130
EBITDA	13,187	15,969	18,491
Net income before tax	5,751	10,299	11,121

In 2011, the sales of Petron were ₱273,956 million. The volume of Petron products sold in 2011 is set forth below:

	Volume (thousands of barrels)	% of total Volume
Diesel	15,202.796	31.53%
Fuel Oil	10,393.850	21.56%
Gasoline	9,170.686	19.02%
Kerosene/ Jet	5,418.007	11.24%
LPG	4,314.134	8.95%
Petrochemicals	3,262.75	6.77%
Others	157.019	0.33%
Total	48,218.799	100.0%

The products of Petron were sold in the following distribution markets in 2011:

	Volume (thousands of barrels)	% of total Volume
Industrial	21,152.189	43.9%
Reseller (retail service stations)	16,898.112	35.0%
Exports	4,312.558	8.94%
LPG	5,613.095	11.64%
Lubes & Greases	242.844	0.50%
Total	48,218.799	100.0%

Production and Facilities

Petron owns and operates a petroleum refinery complex located in Limay, Bataan, which has a crude distillation capacity of 180,000 bpd. The refinery has three crude distillation units, a vacuum pipestill unit, a petrofluidized catalytic cracking unit, a propylene recovery unit, a continuous catalyst regeneration platformer unit, a powerformer unit, two naphtha hydrotreaters, two LPG treaters, an isomerization unit, a mixed xylene recovery unit, a benzene-toluene extraction unit, a kerosene mercox treater, two gas oil hydrotreater units, a sulfur recovery unit, a caustic regeneration unit, waste water treatment facilities, eight steam generators, five turbo generators, flare and safety relieving facilities, bulk asphalt receiving facilities, several crude storage tanks, as well as several refined petroleum products storage tanks. The refinery also has its own piers and two offshore berthing facilities, one of which is used for receiving crude and can accommodate very large crude carriers.

The refinery is capable of producing a broad range of petroleum products such as LPG, gasoline, jet fuel, diesel and fuel oil. In 2000, the refinery expanded into petrochemical production with the commercial operation of its mixed-xylene plant. The refinery started producing propylene in 2008 with the commissioning of its PFCCU and propylene recovery unit, which is designed to produce 140,000 tons per year of polymer-grade propylene. The benzene-toluene extraction unit completed in May 2009 is designed to produce benzene and toluene at a capacity of 25,000 and 157,000 tons per year, respectively.

Petron also completed a fuel additive blending plant in the Subic Freeport Zone in July 2008 with a capacity of 12,000 MT a year, which serves the fuel additive requirements of a leading global additives manufacturer in the Asia-Pacific region and operates as that manufacturer's exclusive blender for customers. Currently, Petron is upgrading its refinery referred to as RMP-2 and is constructing a cogeneration plant.

In March 2010, Petron acquired a 40% stake in PAHL, a company with ownership of a polypropylene plant located in Mariveles, Bataan, with an option to increase its stake up to 51%.

On March 2, 2011, Petron completed acquisition of 35% of the shares of Manila North Harbor Philippines Inc.

Refining Process Quality Improvements

Petron has been implementing various programs and initiatives to achieve key performance indices on reliability, efficiency and safety in its refinery. These programs include the RAM program and the Profitability Improvement Program ("PIP"), which were developed and implemented in coordination with KBC Market Services ("KBC"), an international consultant. The RAM program resulted in improved operational availability and lower maintenance cost through higher plant reliability and a longer turnaround cycle of four to five years from the previous two years. The PIP likewise significantly improved white products recovery, particularly diesel and LPG.

The Continuous Improvement Program of Petron was one of the finalists for the 2008 Peoples' Program of the Year award sponsored by the People Management Association of the Philippines. In 2009, The refinery of Petron achieved its Integrated Management System ("IMS") certification issued by TÜV-SÜD-PSB, an internationally recognized certification and inspection body. The IMS is an integration of three management systems: (1) Quality ISO 9001:2000, (2) Environment ISO 14001:2004, and (3) Health and Safety OHSAS 18001:2007. The benefits of an IMS for the refinery of Petron include: standardized and more systematized quality, environmental, health and safety work procedures, instructions and practices; improved quality, productivity, environment, health and safety performance through continual improvement and compliance with legal requirements; customer satisfaction; and hazard and injury free working environment, and environmentally friendly operations.

Operating Sites

Petron leases 122 parcels of lands for service stations and depots from New Ventures Realty Corporation ("NVRC"). NVRC is 40% owned by Petron and 60% owned by the Petron Corporation Retirement Plan. NVRC purchases and sells properties suitable for use as service stations, bulk plants or sales offices. Expenses relating to the NVRC leases totaled ₱222 million in 2010. Petron also leases lands for its service stations from other parties. Payments under these leases totaled ₱467 million in 2010. As of 2011, there were 759 Petron related service station leases covering Luzon (564), Visayas (105) and Mindanao (90).

On September 30, 2009, NVRC entered into a 25-year lease with the Philippine National Oil Company ("PNOC") without rent-free period, covering a property which it shall use for refinery, commencing January 1, 2010 and ending on December 31, 2039. The annual rental shall be ₱93 payable on the 15th day of January each year without the necessity of demand. This non-cancelable lease is subject to renewal options and annual escalation clauses of 3% per annum up to 2011. The leased premises shall be reappraised starting 2012 and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the appraisal. Prior to this agreement, Petron has an outstanding lease

agreement on the same property from PNOC. Also, as of December 31, 2011 and 2010, Petron leases other parcels of land from PNOC for its bulk plants and service stations.

Petron has also initiated negotiations with PNOC for the early renewal for another 30 years of leases for 22 terminals depots and 68 service stations that will expire in August 2018.

Raw Materials and Utilities

The main raw material used in the production process of Petron is crude oil. Petron acquires crude oil from foreign sources, through a combination of short-term purchase contracts and spot market purchases. In 2010, Petron purchased approximately 72% of its total crude oil supply requirements from Saudi Aramco. Under the term contract that Petron entered into with Saudi Aramco, Petron may purchase up to 140,000 barrels per calendar day of various Saudi Aramco crudes. Pricing is determined through a formula that is linked to international industry benchmarks. Payment for Saudi Aramco crude shipments is on open account basis secured by an irrevocable standby letter of credit consistent with the standard practice of Saudi Aramco for its customers in Asia. The contract is automatically renewed annually unless either Petron or Saudi Aramco decides to terminate the contract upon at least 60-days notice prior to its expiration date. As of the date of this Prospectus, neither Petron nor Saudi Aramco has given notice of non-renewal.

Other crude oils like Sakhalin Vityaz, ESPO, Sokol, Qatar Marine, Lower Zakum, Oman and Labuan were purchased on spot basis from different companies.

Although the Refinery is configured to process predominantly light and sweet crudes, most of which are Middle East crudes, it is capable of processing other types of crude oil. In line with its crude optimization strategy, Petron is exploring utilization of various types of crude oil, other than those supplied by Saudi Aramco and Petronas, to provide additional value to Petron.

For low sulfur fuel oil ("LSFO"), Petron imports the bulk of its requirements from Singapore under a term supply contract and occasional spot LSFO purchases are sourced from different companies. LSFO is used for blending regular fuel oil grade for the domestic market and for Refinery fuel to meet emission control standards. Petron also markets LSFO to other local industrial accounts. Petron also has a term contract for the supply of group I base oils (SN500, SN150 and BS150). This contract is renewable annually and pricing is based on a formula computed based on an international standard price benchmark for base oils. The group I base oils are the main feedstock of Petron for the production of automotive, industrial and marine lubricants. Petron is the sole buyer of all the ethanol produced by San Carlos Bioenergy, Inc. pursuant to a supply contract based on a formula price. The balance of the ethanol requirements of Petron is sourced from imports. Ethanol is blended with gasoline to comply with the Biofuels Act of 2006 initially requiring at least 5% bioethanol of the total annual volume of gasoline fuel sold by every oil company. By 2012, all gasoline grades are mandated by DOE to contain 10% bioethanol.

Petron also imports LPG, aviation gasoline, asphalt and some gasoline blending components. These imports are necessary as Petron does not produce asphalt and aviation gasoline, while its production of LPG is insufficient to meet domestic demand. Occasional imports of diesel, finished gasoline and jet fuel are also necessary during the Refinery's maintenance. Pricing is usually based on Mean of Platts Singapore.

The principal utilities required for the production process of Petron are water, electricity and steam. Deep wells (ground water) provide the water requirements of the Refinery. Petron purchases approximately 40% of the electricity requirements of the Refinery from the national grid. The balance is generated within the Refinery from its existing generators. Petron is also building a new cogeneration power plant for its Refinery. Upon completion, the new cogeneration power plant will have a power generation capacity of 70 MW and steam generation capacity of 400 metric tons per hour (MTH), which will completely fulfill the Refinery's total electricity and steam requirements of approximately 22 MW and 174 MTH, respectively. The new cogeneration power plant will be connected to the national grid, and Petron expects that any excess capacity generated by the new power plant will be sold to the grid.

Sales, Marketing and Distribution

In the retail market, Petron has over 1,900 retail service stations to distribute products to motorists and public transport operators all over the Philippines, representing approximately 34% of the industry's total gasoline station count of more than 5,000. Approximately 55% of these stations are located in Luzon where demand is highest. Petron has three types of retail service station operating structures, namely: company-owned-company-operated service stations ("COCO"), company-owned-dealer-operated service stations ("CODO") and dealer-owned-dealer-operated service stations ("DODO"). For COCOs, Petron buys or leases the land and also owns and operates, through Petron Marketing Corporation, the service station structures and equipment. Similarly, for CODOs, Petron buys or leases the land and owns the service station structures and equipment, but third party dealers operate the CODOs. For DODOs, third party dealers operate the service station, buy or lease the land, build service station structures according to Company specifications, and lease the service station equipment from Petron. Of the more than 1,900 retail service stations of Petron, less than 1% are COCOs, approximately 33% are CODOs, and approximately 67% are DODOs and micro-filling stations.

In the industrial market, Petron services approximately 47% of the Philippine industrial civil sector, which includes major manufacturing, aviation, power and marine accounts. Overall, Petron has more than 1,200 direct industrial account customers.

Petron is one of the biggest market participants in the LPG market. Petron has set up more than 750 branch stores through its Gasul dealers as of December 31, 2011. It has also gained headway in the field of alternative fuels through its auto-LPG program, Petron Xtend, of which auto-LPG facilities are already installed in 21 service stations nationwide.

In lubes and oils, Petron has a network of 17 car care centers, 26 Petron sales centers, 15 lubes and specialties centers, and 3 motorcycle centers nationwide to augment lubricants and greases sales as of December 31, 2011.

Petron is also expanding into blending and export of fuel additives, leveraging on its technology partnership with a global fuel additives supplier. Petron also provides technical services to its partner's customers, and is able to tap its customer base in Asia to broaden the market for the lubricant brands of Petron.

Petron also exports various petroleum products and petrochemical feedstock such as high sulfur fuel oil, naphtha, mixed xylene, benzene, toluene and propylene to customers in Asia-Pacific countries, particularly China, Singapore, Taiwan, Japan, Vietnam and South Korea. These products are sold through accredited traders under term or spot contracts. Petron awards these contracts based on a tender process by which the accredited traders submit proposals, and the contract is awarded based on the determination of Petron of the best proposal based on quantity, quality, timing, price and credit worthiness.

Petron has airport installations at the Ninoy Aquino International Airport in Manila, and airports in Laoag, Mactan, General Santos, Cagayan de Oro, Puerto Princesa, Iloilo, Zamboanga and Davao. These installations provide storage of aviation fuels as well as refueling services for various aircraft.

Capital Expenditures

Petron has upgraded its Refinery and expanded its service station network over the past several years, and intends to continue to increase investments in these areas in order to optimize operational efficiency, reduce costs and increase market share. Specifically, Petron has implemented RMP-2 which will enable the Refinery to further enhance its operational efficiencies and capability to convert low margin fuel oil into a broader range of higher value white products (such as gasoline) and petrochemical products, and building a new cogeneration power plant for its Refinery. Petron continues to expand its service station network. Petron intends to finance these plans with a combination of equity and debt to be determined at the time of financing.

The capital expenditures of Petron for 2011 were approximately ₱19,070 million, allocated as follows: approximately 49.90% for the implementation of RMP-2, approximately 24% for the cogeneration

power plant project and approximately 8.60% for service station network expansion. Petron expects to continue to make substantial capital expenditures after 2011 to complete the major projects described above and for other purposes. These capital expenditures are expected to be funded by a combination of internally generated cash flow and external financing sources. The capital expenditures of Petron may change as projects are reviewed or contracts entered into and are subject to various factors, including market conditions, the general state of the Philippine economy, the operating performance and cash flow of Petron and its ability to obtain financing on terms satisfactory to management.

In addition, to support growth in domestic sales, Petron intends to establish approximately 3,000 and 6,000, additional service stations and micro-filling stations in Philippine urban and rural areas by 2014 and 2016, respectively.

Competition

Petron operates in a deregulated business environment, selling its products to individual, commercial and industrial customers. The enactment of the Downstream Oil Industry Deregulation Act in 1998 effectively removed the rate-setting function of the Philippine government through the then Energy Regulatory Board, leaving price-setting to market forces. It also opened the oil industry to free competition.

The Philippine oil industry is dominated by three major oil companies: Petron, Shell and Chevron (formerly Caltex Philippines), which, based on industry data for 2010 from the data exchange of DOE, together constitute 78% of the domestic market based on sales volume. Petron is the leader in the Philippine oil industry, with an overall market share of approximately 38% of the domestic oil market, ahead of the other two major Philippine oil companies, which have market shares of approximately 27% and approximately 10%, respectively, in each case in terms of sales volume based on industry data for 2011 from the data exchange of DOE. Deregulation has seen the entry of more than 90 other industry market participants, rendering the petroleum business more competitive. Petron and Shell operate the only refineries in the country. The rest of the industry market participants are importers of finished petroleum products or purchase from other market participants in the local market. In the Philippines, Petron competes with other industry market participants on the basis of price, product quality, customer service, operational efficiency and distribution network, with price being the most important competitive factor. Providing total customer solutions has increased in importance as consumers became more conscious of value. Petron participates in the reseller (service station), LPG, industrial and lube sectors, through its network of service stations, terminals and bulk plants, dealers and distributors nationwide.

In the reseller sector, competition is most dynamic among the major firms, as seen through the construction of service stations by Shell, Chevron, as well as Total Philippines, in major thoroughfares. The small market participants also continue to grow, with station count increasing from 695 in 2001 to over 1,900 stations as of March 31, 2012. New market participants in the reseller sector, and Liquefied Petroleum Gas (LPG) particularly in the LPG sector, continue to resort to aggressive pricing and discounting in order to expand market share. The number of LPG importers increased from three, prior to deregulation, to about seven, with new entrants having more flexible and bigger import receiving capacities. Collectively, the new LPG market participants are leading the LPG sector with 39.50% of market share as of December 31, 2011. In the industrial sector, the major market participants continue to invest heavily in order to increase market share and tap new markets. In the lubricants sector, intense competition among over 50 brands, including big names like Castrol, Mobil, Shell and Caltex, continues. Brands compete for limited shelf space, which has led to the penetration of previously unutilized markets such as auto-dealerships in malls. In the convenience store business, Petron competes with other gas marts such as Shell Select and 7-Eleven in Chevron service stations, as well as with traditional stand-alone convenience stores such as 7-Eleven and Mini-Stop.

Health, Safety and Environmental Matters

Petron is subject to a number of employee health and safety regulations in the Philippines. For example, Petron is subject to the occupational safety and health standards promulgated by the Philippine Department of Labor and Employment. Petron has a Corporate Technical and Engineering

Services Group (“CTESG”) responsible for formulating, implementing and enforcing Petron employee health and safety policies, as well as ensuring compliance with applicable laws and regulations.

Petron is also subject to various maritime regulations. The CTESG Marine Safety group monitors all marine vessels in accordance to domestic and international maritime standards.

Petron is also subject to various Philippine laws and regulations concerning the discharge of materials into the environment. For example, Petron is subject to extensive regulation by the Philippine Department of Environment and Natural Resources (“DENR”). Among others, these DENR regulations require Petron to designate and appoint a DENR-accredited pollution control officer for every installation, engage DENR accredited transporters and treaters of hazardous waste, and secure Environmental Compliance Certificates (“ECC”), discharge permits, water permits and certificates of conformance of facilities to Philippine or accepted international standards on health, safety and environment. The CTESG provides technical assistance and consultancy services on areas of waste water treatment, air pollution, hazardous waste management, solid waste management and securing of permits during project planning, design and implementation. It is also responsible for formulating and implementing an environmental management system based on ISO14001 standards. The CTESG, with assistance from external environmental consultants, regularly conducts employee environmental training as well as audits of the Refinery and facilities. In addition, the CTESG conducts an annual compliance audit to ensure compliance with applicable environmental laws and regulations, as well as with the internal policies of Petron, and advises the senior management of critical environmental issues.

ENERGY BUSINESS

SMC operates its energy business through its wholly-owned subsidiary, SMC Global Power (together with its subsidiaries SMEC, SPPC and SPDC). SMC Global Power is a leader in the Philippine power generation industry in terms of installed capacity. Incorporated in 2008, SMC Global Power, through its subsidiaries, has successfully bid for the privatization of electrical power generation plants in the Philippines, which are administered pursuant to IPPA agreements with PSALM, an entity owned by the Philippine government.

SMC Global Power administers a portfolio of three operating power plants under IPPA agreements with a combined capacity of 2,545 MW.

As of December 31, 2011, SMC Global Power had total assets of ₱273,834 million and revenues in 2011 of ₱70,951 million.

Philippine Power Generation Industry

The current framework of the Philippine power sector is governed by the EPIRA, which was enacted in 2001. The Philippine power industry, following the passage of the EPIRA, is undergoing major reforms. The EPIRA aims to improve the power sector in the Philippines by ensuring and accelerating total electrification of the country and providing a fairer and competitive landscape for power sector participants, resulting in a more efficient and transparent industry. Among other things, the EPIRA requires:

- The creation of the ERC, which is an independent quasi-judicial regulatory body under the EPIRA;
- Separation of the industry into generation, transmission, distribution and supply sectors;
- Break-up and privatization of generation assets of the NPC, and the privatization of transmission assets by PSALM;
- Eventual removal of the monopoly distribution utilities currently hold on retailing electricity within their franchise areas to allow retail competition; and
- Retail competition and open access to distribution networks.

On June 6, 2011, the ERC announced that the final stage of electricity reform, the “open access regime,” will commence on December 26, 2011 in Luzon and Visayas. Under the open access regime, all electricity end-users with an average monthly peak demand of 1 MW for the 12 months

preceding December 26, 2011, as certified by the ERC, will have the right to choose their own electricity suppliers.

The Philippine power industry has evolved into a competitive market with clear separation among generation, transmission, distribution and supply. Under the EPIRA, cross ownership is not allowed in the transmission sector with the generation and distribution sector.

The following tables and graphs summarize the power supply and demand outlook from 2009 to 2030 in Philippines based on the DOE Power Development Plan, 2009-2030:

Grid	Dependable Capacity (MW) ⁽¹⁾	Peak Demand (MW) 2008	Average Annual Growth Rate	Committed Capacity (MW)	Critical Period	Required Additional Capacity (MW) 2009-2030	Indicative New Capacity (MW) 2009-2030
Luzon	10,030	6,822	4.5	600	2011	11,900	3,449
Visayas	1,505	1,176	4.6	654	2009	2,150	182
Mindanao	1,682	1,228	4.6	100	2010	2,500	581
Philippines	13,217	9,226	4.6	1,354		16,550	4,211

Notes:

(1) Maximum capacity a power plant can sustain over a specified period as modified for seasonal limitation and other plant-specific factors such as required maintenance.

SMC believes this increase in demand will lead to electricity shortages, which will increase prices in the WESM and thereby enabling SMC Global Power to sell electricity at higher prices, as well as providing opportunities to build new generation capacity to meet the projected shortage.

IPPA Framework

PSALM, together with NPC, has ECAs or other PPAs in place with various IPPs in the Philippines. Under the EPIRA, PSALM is required to achieve, through open and competitive bidding, the transfer of the management and control of at least 70% of the total energy output of the IPP plants under contract with NPC to IPPAs pursuant to IPPA agreements, such as those held by SMC Global Power.

Under IPPA agreements, the IPPAs have the right to sell the electricity generated by such IPP in the wholesale electricity spot market and also by entering into PSCs with specific customers and will, in general, manage procurement of the fuel supply to the associated IPP. IPPAs pay PSALM a fixed monthly payment and a variable energy or generation fee the amount of which depends on the dispatch and performance of the IPP. IPPA agreements provide relief for IPPAs such as SMC Global Power in the event the associated IPPs are unable to dispatch for a certain period of time not due to the fault of the IPPA. PSALM/NPC in turn pays the IPPs capacity and energy payments based on their respective ECAs or PPAs. In some cases, IPPA agreements provide the IPPA with the right to acquire ownership of the power plants or generation facilities from the IPPs at the end of the terms of the ECAs or PPAs. Under the IPPA agreements of SMC Global Power, it has the right to acquire the Sual Power Plant in October 2024, the Ilijan Power Plant in June 2022 and the San Roque Power Plant in May 2028, or on some earlier date due to certain events such as changes in applicable law or non-performance by the IPP.

The IPPA framework is intended to provide successful bidders a way to enter and trade in the WESM for a minimal capital outlay without the expense of building a new power plant and for IPPAs to enjoy the benefits normally attributed to owners of power generation plants, including controlling the fuel and its dispatch, trading, and contracting of the power plant, without maintenance costs or capital upgrades, which remain with the IPPs. Also, many of the risks of owning a power plant are explicitly managed through the contract. If there is an extended outage at the power generation plants, for example, there is up to a 50% discount on the monthly fees, and PSALM bears the force majeure risks to the power generation plants. The IPPA framework also permits an IPPA to assume the role of NPC as an offtaker of power generated by IPPs without affecting NPCs underlying agreements with the IPP.

IPPAAs are permitted to trade in the WESM, and are also free to enter into bilateral contracts and seek other markets for the balance of their contracted capacities and energy, as well as enter into other

forms of financial hedging instruments if desired to manage their position in and exposure to the market.

Competitive Strengths

Leading power company in the Philippines with a strong platform for future growth

SMC Global Power is one of the largest power companies in the Philippines based on the contracted capacity of its existing power portfolio. SMC Global Power is the IPPA for the Sual, Ilijan and San Roque power plants, which have a combined contracted capacity attributable to SMC Global Power of 2,545 MW. Based on the market's total installed capacity, SMC Global Power, on a contracted capacity basis for the Sual, Ilijan and San Roque power plants, has a 17% market share of the power supply of the national grid of the Philippines, and a 23% market share of the Luzon grid, in each case as of September 30, 2011, based on industry data from the DOE.

The IPPA business model provides SMC Global Power with the benefit of having the right to sell electricity generated by the IPPs without having to incur large upfront capital expenditures for the power plant construction, or to bear any related development risk. As an IPPA, SMC Global Power determines the amount of power to be produced by the IPP for supply to the customers of the IPPA and sells the power generated by the IPPs either pursuant to offtake agreements directly with customers or through the WESM. This business model provides SMC Global Power the ability to manage both market and price risk by entering directly into bilateral contracts with established customers while capturing potential upside through the sale of excess capacity through the WESM when spot market prices are attractive.

The experience of SMC Global Power in acting as an IPPA, and its history of ownership and operation of the Limay power plant, have enabled SMC Global Power to gain expertise in the Philippine power generation industry. With this experience, SMC Global Power believes it is in a strong position to participate in the expected future growth of the Philippine power market, through both the development of greenfield power projects and the acquisition of existing power generation capacity of selected NPC-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework.

SMC Global Power is also in a strong position to pursue vertical integration by developing its own coal supply source (upstream vertical integration) and expansion of its sales to a broader range of customers (downstream vertical integration), including retail customers. SMC Global Power has already acquired coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao. Capitalizing on changes in the Philippine regulatory structure, SMC Global Power holds a retail electricity supplier license from the ERC. Once open access and retail competition is implemented, the electricity supplier license will allow SMC Global Power to enter into offtake agreements with customers with power requirements of at least 1 MW.

Flexible and diversified power portfolio

SMC Global Power manages the capacity of a balanced portfolio of some of the newest and largest power plants in the Philippines, which benefit from diversified fuel sources. The IPPA power plants have an average age of 10 years. Based on Philippine power industry data from the DOE, in terms of installed capacity in the Philippines, the Sual power plant is the largest coal-fired power plant, the Ilijan power plant is the largest natural gas-fired power plant and the San Roque power plant is one of the largest and newest hydro-electric power plants.

The existing power portfolio of SMC Global Power consists of natural gas-fired (Ilijan power plant), which represents 47% of the contracted capacity of SMC Global Power, coal-fired (Sual power plant), which represents 39% of the contracted capacity of SMC Global Power, and hydro-powered (San Roque power plant), which represents 14% of the contracted capacity of SMC Global Power. Power generated by the Sual and Ilijan power plants is primarily sold to customers pursuant to offtake agreements, while power generated by the San Roque power plant is sold through the WESM.

SMC Global Power believes that the size and diversity of the feedstock of its power portfolio reduces its exposure to specific risks associated with any one type of power plant, to fluctuations in electricity

demand, and to variations in fuel costs and regulatory concerns that are linked to any one type of power plant. The fuel diversity of the portfolio is expected to mitigate the impact of sudden fuel price increases and supply shortages. SMC Global Power believes that its management of the capacity of this large diverse portfolio of power plants allows it to respond efficiently to market requirements at each point of the electricity demand cycle. This diversity helps it to improve the profitability of its portfolio by flexibly dispatching electricity in response to market demand and fuel cost competitiveness. SMC Global Power is permitted to enter into bilateral contracts and to trade in the WESM for the balance of its contracted capacities and energy. By managing the IPPA power plants as a single portfolio and actively managing the energy output of the plants, SMC Global Power seeks to offer more competitive electricity rates compared to other power companies with smaller and less diverse portfolios.

Established relationships with world class partners

The IPPA power plants are owned, operated and maintained by world-class partners, including Marubeni Corporation, Tokyo Electric Power Corporation, Korea Electric Power Corporation and Mitsubishi Corporation. Since entering the power business, SMC Global Power has established relationships with recognized international fuel suppliers, including PT Bumi Resources tbk, Noble Resources Pte. Ltd. and Banpu Public Company Limited Thailand, as well as with its customers, including Meralco, its largest customer. SMC Global Power believes that these established relationships provide a strong foundation for its existing business and an excellent base of potential partners for future expansion.

Well-positioned to capitalize on the anticipated growth of the Philippine electricity market

Over the period from 2010 to 2030, growth in demand for electricity in the Philippines is expected to exceed the growth rate of the Philippines' GDP, according to the DOE Power Development Plan published in August 2011, with peak demand for electricity in Luzon, Visayas and Mindanao expected to reach an average annual growth rate of 4.60%, 4.40% and 4.20%, respectively. The DOE projects that power consumption in Luzon, Visayas and Mindanao will require aggregate additional capacities of 2,250 MW, 450 MW and 550 MW, respectively, by 2018, while only approximately 730 MW, 610 MW and 258 MW are currently expected to be provided by committed power projects in Luzon, Visayas and Mindanao, respectively. Construction of new power plants on average takes a minimum of three years. Given the gap between projected electricity demand and committed power projects, SMC Global Power expects that there will be a power supply shortage in the medium term until new capacities are built.

SMC Global Power believes it is well-positioned to benefit from continued growth in the Philippine electricity market and power supply shortage. SMC Global Power has a defined roadmap to increase capacity by developing greenfield power projects and bidding for selected NPC-owned power generation plants that are scheduled for privatization. SMC Global Power is already in the advanced planning stages for two clean coal greenfield power projects. In addition, as a leading power company in the Philippines with a large customer base, SMC Global Power believes that it is in a strong position to leverage its relationships with its existing customers to service their expected increased electricity demands.

Strong parent company support

The principal shareholder of SMC Global Power, SMC, is a highly diversified conglomerate with over 120 years of experience in operating in the Philippines. SMC today has become one of the largest companies listed on the PSE in terms of market capitalization. In addition to its power business, SMC has investments in vital industries that support the country's economic development, including the food and beverage, packaging, fuel and oil, infrastructure, telecommunications, banking and property businesses.

Under the stewardship of SMC, SMC Global Power has become a market leader in the Philippine power industry in a relatively short period of time. SMC provides SMC Global Power with key ancillary and support services in areas that promote operational efficiency, such as human resources, corporate affairs, legal, finance and treasury functions. SMC Global Power believes it will continue to benefit from the extensive business networks of SMC, its in-depth understanding of the Philippine

economy and expertise of its senior managers to identify and capitalize on growth opportunities. Given the substantial electricity requirements of the other businesses of SMC, SMC Global Power believes that it can benefit from potential revenue and operational synergies with the SMC Group and that the SMC Group potentially provides a large captive energy demand base for SMC Global Power.

Experienced management, trading and marketing teams with in-depth local knowledge and high corporate governance standards

The senior management of SMC Global Power has extensive experience in the Philippine power industry, and SMC Global Power believes that they have a deep understanding of the Philippine electricity markets with respect to the operational, financial, regulatory, and business development aspects of the operation and management of power plants. The senior management team has strong professional relationships with key industry participants, such as the DOE, PSALM, NPC, TransCo/ National Grid Corporation of the Philippines (“NGCP”), PEMC and ERC, as well as other government offices and agencies. The employees of SMC Global Power include experienced energy traders who pioneered WESM trading and marketing executives who have established strong relationships with the extensive customer base of NPC. The members of the Executive Committee of SMC Global Power have on average more than 25 years of experience in executive management, including strengths in key areas of engineering and finance. The executive and senior management have displayed a strong track record of growth and delivery since SMC Global Power commenced operations in November 2009.

Business Strategies

Optimize the generation capacity of the IPPA power plants, leverage operational synergies and expand its customer base

SMC Global Power intends to actively manage its revenues and optimize the operations of its IPPA power plants in order to achieve a balanced mix of power sales through (1) contractual arrangements with electricity customers including distribution utilities, industrial and commercial customers, (2) sales through the WESM and (3) participation in the retail electricity supply market. This approach is intended to improve certainty and predictability of revenues from contracted sales and capture revenue upside from the WESM. The objective of SMC Global Power is to supply customers based on the least cost while dispatching according to the requirements of the IPPA agreements, and to sell available excess energy of the IPPA power plants through the WESM at favorable prices. As such, SMC Global Power seeks to maximize profitability through effective fuel cost risk management and dispatch decisions relating to its IPPA power plants. Specifically, in case of high prices in the WESM, SMC Global Power can sell the excess output of the IPPA power plants to the WESM after delivering the contractual amounts required under its offtake agreements. Alternatively, in case of low prices in the WESM, SMC Global Power can minimize the generation output of its power plants and deliver the contractual amounts required under its offtake agreements either with output from the San Roque power plant or with energy purchased from the WESM. In the event of tripping or shutdown from either the Sual or Ilijan power plant, SMC Global Power can maximize the dispatch of its remaining units by lowering the bid prices so that the bilateral contract quantity requirements will be served without buying at high prices from the WESM.

SMC Global Power manages the generation capacity of each IPPA power plant centrally through its executive management team, which regularly reviews performance reports prepared by its onsite team and members of senior management. SMC Global Power leverages on the strengths of its world class IPP partners in operating its existing power portfolio by monitoring their adherence to international best practices.

SMC Global Power intends to continue working efficiently and profitably by building on synergies across its operations based on economies of scale as it increasingly works with a growing network of suppliers, IPPs, customers, other business partners and industry regulators, and continue to gain substantial leverage and bargaining power.

As one of the largest power companies in the Philippines with a diversified power portfolio, SMC Global Power believes that it can offer its customers a more stable supply of electricity, as well as the

capacity to supply their additional electricity requirements. SMC Global Power has recently started to transition its one-year offtake agreements to two-year contracts and also has five-year contracts currently being negotiated with its respective offtakers. The implementation of open access and planned interconnectivity of the Luzon-Visayas grid with the Mindanao grid are expected to further allow SMC Global Power to secure and enhance its position as a leader in the power business by allowing it to diversify its customer base and expand its geographical reach to customers in the Visayas and Mindanao.

Grow its power portfolio through development and acquisition of power generation capacity

SMC Global Power intends to utilize its strong platform, extensive relationships and experienced management team to address the growing demand for power in the Philippines. SMC Global Power plans to continue its strategic development of greenfield power projects in parallel with its plan to acquire existing power generation capacity by bidding for selected NPC-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework.

SMC Global Power seeks to capitalize on regulatory and infrastructure developments by scheduling the construction of greenfield power projects to coincide with the planned improvements in the interconnectivity of the Luzon and Visayas grids, as well as the eventual interconnectivity and implementation of WESM in Mindanao. In addition, SMC Global Power seeks to maintain the cost competitiveness of these new projects by strategically locating them in high-demand areas and in proximity to the grid.

SMC Global Power is considering the expansion of its power portfolio of new capacity nationwide through greenfield power projects over the next ten years, depending on market demand. SMC Global Power plans to carry out the expansion of its power portfolio in phases across Luzon, Visayas and Mindanao. SMC Global Power plans to use clean coal technology for its planned and contemplated greenfield power projects.

Pursue vertical integration

SMC Global Power intends to continue to expand into businesses along the power sector value chain that complement its current power generation business. As part of this strategic growth and expansion, SMC Global Power has acquired coal exploration, development and production rights over approximately 17,000 hectares of land in Mindanao. If SMC Global Power is able to develop these assets and commence mining operations successfully, SMC Global Power expects these assets will provide a source of coal fuel supply for its planned and contemplated Greenfield power projects. SMC Global Power intends to develop these coal mines in Mindanao in parallel with its planned greenfield power projects and is targeting coal production around the same time as when the greenfield power projects become operational. In addition, SMC Global Power has a 6.13% equity stake in Meralco, the largest distribution utility in the Philippines, and one of the most significant customers of SMC Global Power, and through this investment (together with the 21.5% equity interests of SMC and the 4.8% equity interests of SMPFC in Meralco), SMC Global Power has developed an understanding of the electricity distribution market in the Philippines, particularly in the Luzon region. Moreover, with the expected implementation of open access, SMC Global Power believes it is in a strong position to capitalize on the retail electricity selling opportunity due to its current strong industry position in both Luzon and the Philippines as a whole. SMC Global Power has obtained a retail electricity supplier license to expand its customer base and diversify its revenues. Once open access and retail competition is fully implemented, the electricity supplier license will allow SMC Global Power to enter into offtake agreements with customers with power requirements of at least 1 MW, which may include other SMC subsidiaries. SMC Global Power believes that such vertical integration will provide it with a competitive advantage in the Philippine power market.

SMC Global Power receives income from the sale of electricity by its administered and owned power generation facilities to a variety of customers, including Meralco, electric cooperatives, industrial customers and the WESM. In 2011, the three power plants for which SMC Global Power has IPPA agreements generated 9,967 giga-watt hours ("GWh") of electricity. As of December 31, 2011, the attributable installed capacity of SMC Global Power was powered 39.30% by coal, 47.10% by gas and 13.60% by hydro power.

The table below summarizes certain operating metrics in respect of the three power generation facilities owned or administered by SMC Global Power as of end 2011:

Project	Placed in service	Date SMC Global Power assumed operations	Operator	Installed capacity (MW)	Fuel	Energy Generation (GWh) ⁽¹⁾		Capacity Utilization (%)		Availability Factor (%)	
						2010	2011	2010	2011	2010	2011
Sual.....	10/25/1999	11/6/2009	TeaM Energy	2 x 500 ⁽²⁾	Coal	5,178	5,405	59.27	61.81	83.67	84.68
Ilijan.....	6/5/ 2002	6/26/ 2010	KEPCO	2 x 600	Gas	4,201	7,961	79.72	75.73	95.35	94.25
San Roque..	5/1/ 2003	1/26/2010	Marubeni-Kansai Electric	345	Hydro-electric	588	1,041	21.22	34.38	97.50	97.16

Notes:

(1) SMC Global Power assumed administration of the Ilijan Power Plant on June 26, 2010 and the San Roque Power Plant on January 26, 2010 and assumed operation of the Limay Power Plant on January 18, 2010.

(2) Installed capacity is 2 x 647 MW but contracted capacity of the Sual Power Plant is 2 x 500 MW.

The table below sets forth the gross profit margin, EBITDA margin and net income before tax margin of SMC Global Power for the periods indicated:

	2009	2010	2011
Gross profit margin	6.26%	25.61%	27.87%
EBITDA margin	119.65%	56.77%	33.59%
Net income before tax margin	40.06%	30.62%	9.07%

In addition, SMC Global Power, through its subsidiaries DAMI, BERI and SEPC, owns various coal properties that are in the exploration phase.

SMC Global Power, through its subsidiaries, derives a substantial portion of its revenue from PSCs with established offtakers. The DOE forecasted in its Power Development Plan, 2009-2030 that peak demand will grow at an average annual rate of 4.30%, 4.90% and 5.20% per year between 2009 and 2018 in Luzon, Visayas and Mindanao, respectively, with aggregate peak demand expected to reach 10,393.0 MW, 1,887.0 MW and 2,031.0 MW by 2018 in Luzon, Visayas and Mindanao, respectively. SMC Global Power expects these factors, and the scarcity of new capacity expected to come online over the next two to three years, to support dispatch for it as well as other existing generators.

The following table sets forth offtake arrangement pursuant to PSCs for the Sual Power Plant and the Ilijan Power Plant. PSCs are contracts pursuant to which IPPAs sell electricity to offtakers. The San Roque Power Plant is a peaking plant and has no offtakers.

Power Plant	Customer	% of Total Volume Sold in 2011	Expiration of PPA
Sual	Meralco ⁽¹⁾	14.58	December 25, 2012
	Central Pangasinan Electric Cooperative	5.01	June 25, 2012
	Angeles Electric Corporation	8.03	December 25, 2012
	Clark Electric Distribution Corporation	5.38	March 25, 2013
	Hanjin – Subic Enerzone	3.81	March 25, 2013
	Pampanga II Electric Cooperative Inc.	6.36	April 25, 2013
	Subic Enerzone Corporatoin	3.92	March 25, 2013
	Tarlac Electric, Inc.	4.57	December 25, 2012
	Ilocos Norte Electric Cooperative	3.46	December 25, 2016
	Ilocos Sur Electric Cooperative	3.44	August 25, 2012
	Mountain Province Electric Cooperative	0.24	June 25, 2012
	Pangasinan III Electric Cooperative	5.17	December 25, 2012
	Nueva Vizcaya Electric Cooperative	1.56	June 25, 2012
	Consort Land Inc.	0.31	December 25, 2016
	Peninsula Electric Cooperative	5.14	December 25, 2012
	The Authority of the Freeport Area of Bataan	1.58	December 25, 2012
	Pampanga III Electric Cooperative, Inc.	3.12	December 25, 2012
	Tarlac II Electric Cooperative (TARELCO II)	2.52	December 25, 2012
	IBB(VOA)- TARELCO II	0.28	December 25, 2012
	Kalinga Apayao Electric Cooperative	0.25	July 25, 2012
	Isabela I Electric Cooperative	4.23	January 25, 2012
	Tarlac I Electric Cooperative	2.20	December 25, 2012
	Nueva Ecija II Electric Cooperative	2.27	August 25, 2013
	Sorsogon 2 Electric Corporation	1.17	November 25, 2012
	First Laguna Electric Cooperative Inc.	1.31	December 25, 2012
	Northern Cement Corporation	2.28	December 25, 2016
	Formosa Ceramic Tiles Mfg. Corp	0.17	March 25, 2013
	Philippine Polypropylene Inc.	0.44	December 25, 2016
	Petron Corporation	2.21	December 25, 2012
	RJS Commodities	0.04	December 25, 2012
	Oliver Enterprises	0.15	December 25, 2012
	North Luzon Triton Mall, Inc.	0.02	December 25, 2014
	Lepanto Consolidated Mining Corporation	0.82	January 25, 2016
	NPC Alliance Corporation	1.24	April 25, 2012
	Grand Planters International, Inc.	0.01	December 25, 2016
	Orica Philippines, Inc.	0.04	August 25, 2012
	PNPP – Housing (NAPOT) NAPOCOR	0.01	December 25, 2012
	PNPP – Plant (NAPOT) NAPOCOR	0.02	December 25, 2012
	BASA Air Base	0.07	December 25, 2016
	Central Azucarera de Tarlac	0.16	December 25, 2014
	Currimaos Aluminum Corporation	0.06	June 25, 2012
	Stronghold Steel Corporation	1.48	May 25, 2012
Ilijan	Meralco (SPPC)	94.22%	December 25, 2012
	Meralco (Cavite Economic Zone)	2.57%	December 25, 2012
	Meralco — Sunpower Laguna	0.43%	December 25, 2012
	Meralco — Sunpower Batangas	2.71%	December 25, 2012
	Alindeco	0.05%	December 25, 2012

(1) Under a Transition Supply Contract with NPC

Extent of Power Generation Facilities

Sual

The Sual Power Plant is a 2 x 647 MW coal-fired thermal power plant located in Sual, Pangasinan on the Lingayen Gulf that commenced commercial operations in October 1999, and is the largest coal-fired thermal power plant in the Philippines in terms of installed capacity. The Sual Power Plant was built by CEPA Pangasinan Electric Limited pursuant to an ECA with NPC under a 25-year Build-Operate-Transfer (“BOT”) scheme that expires on October 24, 2024. In 2007, Team Sual Corporation (“TeaM Energy”), which is a joint venture between Marubeni Corporation and Tokyo Electric Power Corporation, acquired the Sual Power Plant.

SMC Global Power, through its subsidiary SMEC, assumed administration of the Sual Power Plant on November 6, 2009 in accordance with an IPPA agreement (the “Sual IPPA agreement”) entered into

with PSALM. PSALM remains responsible under an ECA to remunerate the IPP of the Sual Power Plant for the electricity it produces.

Sual IPPA

PSALM, NPC and SMC Global Power entered into the Sual IPPA agreement pursuant to which SMC Global Power has the right to manage, control, trade, sell or otherwise deal in the electrical generation capacity of the Sual Power Plant, while SMC Global Power must supply and deliver, at its own cost, fuel required by the power plant and necessary for it to generate the electricity required to be produced under the ECA between NPC and Team Energy (the "Sual ECA"). In addition, SMC Global Power must pay fixed monthly payments comprising both a U.S. Dollar and Peso component. These fixed monthly payments are reduced proportionately in any month that the Sual Power Plant is unable to produce power for an entire day (a "Non-Delivering Day") (for reasons not attributable to SMC Global Power) and reduced further in proportion to the number of Non-Delivering Days in that month. In addition, SMC Global Power must pay monthly energy fees that are periodically adjusted for inflation and that consist of (i) a fixed base energy rate for power actually delivered by the Sual Power Plant comprising both a U.S. Dollar and Peso component plus (ii) a variable energy rate for power actually delivered by the Sual Power Plant, in U.S. Dollars only, that takes into account the cost and efficiency of fuel supplied to the Sual Power Plant as well as the efficiency (unit heat rate) of the Sual Power Plant, which is measured on an annual basis.

The Sual IPPA agreement also requires SMC Global Power to maintain a performance bond in favor of PSALM equivalent to US\$58.2 million, and perform the obligations of NPC in its PSCs, including the obligation to procure electricity at its own cost to meet deficiencies, in cases where the Sual Power Plant is unable to supply the contracted power.

Under the Sual IPPA agreement, SMEC has the right to acquire the Sual Power Plant in October 2024, which is the end of the cooperation period between NPC and Team Energy under the Sual ECA, or on some earlier date due to certain events such as changes in law or non-performance by Team Energy under the Sual ECA.

Power Offtakers

The PSCs of the Sual Power Plant require its offtakers to take or pay for, within a contract year, a mutually agreed minimum energy quantity ("MEQ"). Such offtakers may exceed the MEQ, but any consumption in excess of the MEQ may be subject to additional charge.

The pricing for PSCs assigned by PSALM to SMC Global Power is based on the prevailing rate structure of NPC as approved by the ERC. Currently, the NPC rate structure consists of two basic charges and two cost adjustment mechanism charges. The basic charges, which are based at a premium over the costs structures of NPC as of its 2007 audited financial statements, consist of the generation charge designed into time-of-use rates and the franchise and benefits to host communities charge. These are fixed charges and remain constant regardless of the movements in the prices of the different fuels used by NPC in generating electricity, as well as movements in foreign exchange rates and inflationary effects.

The cost adjustments, on the other hand, pertain to (a) the Deferred Accounting Adjustment ("DAA") charges under the Generation Rate Adjustment Mechanism and the Incremental Currency Exchange Rate Adjustment or (b) the Automatic Cost Adjustment Mechanism ("ACA") charge under the Automatic Cost Recovery Mechanism. The Generation Rate Adjustment Mechanism and Incremental Currency Exchange Rate Adjustment DAAs allow for the recovery of incremental costs (or the refund of savings), if any, pertaining to previous months' actual operations and any new level of DAA may only be implemented upon prior application to and approval by the ERC. On the other hand, the ACA is a month-to-month adjustment implemented automatically by PSALM/NPC subject to review, evaluation, confirmation and approval by the ERC.

For power offtake agreements entered into by SMEC directly with new offtakers on a bilateral basis (or with those offtakers under previously assigned offtake agreements which have expired), pricing is based on a reasonable return over the cost structure of SMEC and benchmarked to the basic rates of NPC. The components for pricing comprise a Basic Energy Rate ("BER"), also on a time-of-use basis,

and a monthly Basic Energy Rate Adjustment (“BERA”) charge similar to the ACA charge of NPC. The components for the BERA include adjustments for fuel, foreign exchange and inflation costs. Any changes to the level of the BER and/or the BERA are not affected by movements in the charges of NPC.

Fuel Supply

SMC Global Power has entered into a coal supply agreement with Bumi Resources, through Top Coal Trading Corporation, for the supply and delivery of coal to SMC Global Power, which SMC Global Power in turn supplies to the Sual Power Plant. The agreement is effective until December 2014, subject to renewal for a further five years as may be mutually agreed between the parties.

Under the coal supply agreement, Bumi Resources is required to supply a total of 33 shipments, each comprising 65,000 metric tons during 2010. However, for the years 2011 to 2014, the amount of coal to be supplied by Bumi Resources will depend on the election of SMC Global Power in accordance with the provisions of the coal supply agreement.

Pricing under the coal supply agreement is subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by Bumi Resources. For the years 2011 to 2014, Bumi Resources and SMC Global Power are required to negotiate on an annual basis and mutually agree upon the price for the coal supplied by Bumi Resources for the following year, failing which, the price to be used will be equivalent to the Global Coal Newcastle Monthly Index of the month prior to the date of the shipment multiplied by 1.04 until such time as the coal price for the relevant contract year is settled between the parties.

Operations and Maintenance

Under the Sual ECA, Team Energy is required, at its own cost, to be responsible for the management, operation, maintenance, including the supply of consumables and spare parts, and the repair of the Sual Power Plant until the date of transfer (to NPC or to SMC Global Power, as the case may be), and shall use its best endeavors to ensure that during such period the Sual Power Plant is in good operating condition and capable of converting fuel supplied by SMC Global Power under the Sual IPPA Agreement, into electricity in a safe and reliable manner.

Ilijan

The Ilijan Power Plant commenced commercial operations on June 5, 2002, and is located on a 60-acre site at Arenas Point, Barangay Ilijan, Batangas City. The Ilijan Power Plant was constructed and is owned by KEPCO Ilijan Corporation (“KILCO”) pursuant to a 20-year ECA with NPC under a BOT scheme that expires on June 4, 2022. NPC supplies natural gas to the Ilijan Power Plant from the Malampaya field in Palawan. The Ilijan Power Plant consists of two blocks with a rated capacity of 600 MW each. The power plant can also run on diesel oil stored on site.

On April 16, 2010, SMC successfully bid for the appointment to be the IPPA for the Ilijan Power Plant and received a notice of award on May 5, 2010. On June 10, 2010, SMC and SPPC, a wholly-owned subsidiary of SMC Global Power, entered into an assignment agreement with assumption of obligations whereby SMC assigned all of its rights and obligations with respect to the Ilijan Power Plant to SPPC, which assumed administration of the Ilijan Power Plant on June 26, 2010 in accordance with an IPPA agreement with PSALM (“Ilijan IPPA agreement”).

Ilijan IPPA

PSALM, NPC and SMC Global Power (through SPPC) entered into the Ilijan IPPA agreement pursuant to which SMC Global Power has the right to manage, control, trade, sell or otherwise deal in the electrical generation capacity of the Ilijan Power Plant. SMC Global Power must pay fixed monthly payments comprising both a U.S. Dollar and Peso component. In addition, SMC Global Power must pay monthly generation payments comprising a “must pay” amount for electricity sold up to a given volume (the “Must Pay Volume”) and a variable amount for electricity sold in excess of the Must Pay Volume. The “must pay” amount in a given month is the sum of: 80% of the statutory rate SMC Global Power charges Meralco for supplying electrical power under the offtake agreement between SMC

Global Power and Meralco for the given month multiplied by a factor equal to the volume sold (the “T1 Volume”), where the T1 Volume cannot exceed the Must Pay Volume; and 80% of the price for the electrical power sold to WESM during the month, multiplied by a factor equal to the Must Pay Volume less the T1 Volume, where such factor may not be less than zero.

The variable amount of the monthly generation payment is payable for electricity sold in excess of the Must Pay Volume for that month and is calculated as a base rate plus an index based on the cost of natural gas, the U.S. Dollar/Peso exchange rate and the efficiency of the Ilijan Power Plant.

The Ilijan IPPA agreement also requires SMC Global Power to maintain a performance bond in favor of PSALM equivalent to US\$60 million, and perform the obligations of NPC in its PSCs, including the obligation to procure electricity at its own cost to meet deficiencies, in cases where the Ilijan Power Plant is unable to supply the contracted power.

Under the Ilijan IPPA agreement, SMC Global Power has the right to acquire the Ilijan Power Plant in June 2022, which is the end of the cooperation period between NPC and KILCO under the ECA with KILCO, or on some earlier date due to certain events such as changes in law or non-performance by KILCO under the ECA.

Power Offtakers

The Ilijan Power Plant PSCs generally require its offtakers to take or pay for, within a contract year, a mutually agreed MEQ, and such offtakers would be allowed to exceed up to 20% of its MEQ. Any power taken in excess 20% of the MEQ is subject to a premium on the base tariff rate imposed by SMC Global Power.

For PSCs assigned by NPC to SMC Global Power in respect of the Ilijan Power Plant, the pricing structure is similar to that provided under the PSCs assigned by NPC to SMC Global Power in respect of the Sual Power Plant. Likewise, pricing for PSCs entered into by SMC Global Power with new offtakers on a bilateral basis for the Ilijan Power Plant (or with those offtakers under previously assigned PSCs which have expired), is based on the BER and the BERA structure.

Fuel Supply

NPC is responsible for securing the natural gas and diesel fuel supply to the Ilijan Power Plant. Under a fuel supply and management agreement with Shell Exploration B.V. and Occidental Philippines, Inc., NPC supplies natural gas to the Ilijan Power Plant through a 480 km undersea pipeline from the Camago-Malampaya field in Palawan to the Shell Refinery in Tabangao. From there, the natural gas is transported through a 16-in-diameter onshore pipeline running 15 km to the power plant.

Operations and Maintenance

KILCO currently owns and is responsible for the operations and maintenance of the Ilijan Power Plant for 20 years effective from June 5, 2002. KILCO is majority owned by the Korea Electric Power Corporation (“KEPCO”), with its partners, Mitsubishi Corporation and TeaM Energy. KILCO is a stock corporation incorporated in the Philippines, in accordance with the Corporation Code and the Foreign Investment Act of 1991 (the “Foreign Investments Act”).

Under the ECA for the Ilijan Power Plant, KILCO shall operate the Ilijan Power Plant in accordance with the operating criteria and guidelines provided therein, including output of 1,200 MW guaranteed net contracted capacity, base load operation, spinning reserve capability, a minimum stable load of not more than 30% of the unit rated generating capacity, and a ramp rate of not less than 5% of the rate unit generator capacity per minute.

San Roque

The 345 MW San Roque multi-purpose hydroelectric power plant in San Manuel, Pangasinan commenced operations on May 1, 2003 and is a peaking plant that was constructed by a consortium composed of Marubeni Corporation, Sithe Philippines Holdings, Ltd., and Italian-Thai Development Public Company Limited pursuant to a PPA with NPC under a BOT scheme.

The San Roque Power Plant utilizes the Agno River for power generation and irrigation and contributes to flood control and water quality improvement for the surrounding region, and comprises three power generation units of 115 MW each. The San Roque Power Plant provides an annual energy generation of 1,065 GWh from the 345 MW hydroelectric power plant, the irrigation of approximately 34,450 hectares of agricultural land, storage of water that would otherwise flood the Pangasinan plains, and improvement of water quality of the Agno River which, otherwise, would pollute the downstream rivers.

On December 15, 2009, SPDC, a wholly-owned subsidiary of SMC Global Power, successfully bid for the appointment to be the IPPA for the San Roque Power Plant and received a notice of award on December 28, 2009. SPDC assumed administration of the San Roque Power Plant on January 26, 2010 in accordance with an IPPA agreement with PSALM (the "San Roque IPPA agreement"). PSALM remains responsible under a PPA to remunerate the IPP of the San Roque Power Plant for the electricity it produces.

San Roque IPPA

PSALM, NPC and SMC Global Power (through SPDC) entered into the San Roque IPPA agreement pursuant to which SMC Global Power has the right to manage, control, trade, sell or otherwise deal in the electrical generation capacity of the San Roque Power Plant, while NPC, which owns and operates the dam and related facilities thereof, may be requested to obtain and maintain water rights necessary for the testing and operation of the power plant. SMC Global Power is required to assist PSALM so that the San Roque Power Plant can draw water from the Agno River required by the power plant and necessary for it to generate the electricity required to be produced under the PPA (the "San Roque PPA") of NPC with San Roque Power Corporation ("SRPC"). In addition, SMC Global Power must pay fixed monthly payments comprising both a U.S. Dollar and Peso component. These fixed monthly payments are reduced when there is a Non-Delivering Day for reasons not attributable to SMC Global Power. In addition, SMC Global Power has a Must Pay Volume of ₱1.30 per kWh.

The San Roque IPPA agreement also requires SMC Global Power to maintain a performance bond in favor of PSALM equivalent to US\$20.3 million and perform the obligations of NPC in its PSCs, including the obligation to procure electricity at its own cost to meet deficiencies, in cases where the San Roque Power Plant is unable to supply the contracted power.

Under the San Roque IPPA agreement, SMC Global Power has the right to acquire the San Roque Power Plant in May 2028, which is the end of the cooperation period between NPC and SRPC under the San Roque PPA, or on some earlier date due to certain events such as changes in law or non-performance by SRPC under the San Roque PPA.

Power Offtakers

Since the San Roque Power Plant is a peaking plant, all of its output is traded on the WESM and SPDC has no PSC with any party. Under the terms of the San Roque PPA, power and energy are delivered to SMC Global Power at the delivery point (the high voltage side of the step-up transformers) located at the perimeter fence of the San Roque Power Plant site. SMC Global Power is responsible for contracting with the NGCP to wheel power from the delivery point.

Water Rights

The generated output energy of the San Roque Power Plant is limited by the Irrigation Diversion Requirements set by the National Irrigation Administration. Water allocation is usually dictated by rule curve that is derived from historical data of river flows and water demands. A rule curve shows the minimum water level requirement in the reservoir at a specific time to meet the particular needs for which the reservoir is designed. The rule curve must generally be followed except during periods of extreme drought and when public interest requires. In general, the rule curve dictates the following:

- **Water Level Above The Upper Rule Curve** — All demands for water supply and irrigation are met and electricity can be generated at the full capacity of the turbine units. Excess inflow is discharged through the spillway. Water released through the spillway is controlled and regulated by the NPC Dam Office personnel.
- **Between Upper And Lower Rule Curves** — All demands for water supply and irrigation are satisfied. Generation of electricity is limited to the released water for water supply and irrigation. Further water releases for power generation are allowed provided that the auxiliary units are utilized first before main units.
- **Water Level Below Lower Rule Curve** — The remaining water in the reservoir is reserved for water supply and irrigation. Generation of electricity is limited to these water releases. No further water release for power generation is allowed.

In 2010, the water level in the San Roque Power Plant dam has consistently been below the rule curve. However, the National Irrigation Administration permitted the San Roque Power Plant to continue operations during this time due to downstream irrigation requirements caused by drought during the same period.

Generally, the output energy of San Roque Power Plant is high during planting seasons which covers the months of December through April (dry planting season) and July through September (wet planting season). The water releases from the dam, and thus, energy generation, during the dry planting season is much higher due to the absence of rain. The water rights of NPC are used by the San Roque Power Plant and NPC, until the date of transfer of the San Roque Power Plant to NPC (or SMC Global Power, as the case may be), must obtain such renewals or extensions as may be required to maintain the water rights in full force and effect at all times. NPC derives its water rights from a permit granted by the National Water Resources Board.

Operations and Maintenance

SRPC is responsible for the operations and maintenance of the San Roque Power Plant for 25 years effective May 1, 2003. SRPC is owned by Marubeni and Kansai-Electric and is a stock corporation incorporated in the Philippines, in accordance with the Corporation Code and the Foreign Investments Act.

Under the San Roque PPA, SRPC is responsible for the management, operation, maintenance and repair of the San Roque Power Plant at its own cost until transfer to NPC or SMC Global Power, as the case may be. As operator, SRPC is entitled to conduct the normal inspection, regular maintenance, repair and overhaul for a period of 15 days for each unit comprising the San Roque Power Plant. In addition, SRPC has the right to enter into contracts for the supply of materials and services, including contracts with NPC; appoint and remove consultants and professional advisers; purchase replacement equipment; appoint, organize and direct staff; manage and supervise the power plant; establish and maintain regular inspection, maintenance and overhaul procedures; and otherwise run the power plant within the operating parameters set out in the PPA. The operating fee is the product of the contracted capacity for the contract year in kW, which is nominated annually, multiplied by ₱250 per kW per month. This fee is in addition to the capital recovery fee and covers the fixed operating and maintenance costs of the power structures and equipment.

Meralco

SMC directly and indirectly holds approximately 365,100,454 shares of Meralco, representing an approximately 32.39% interest in the issued and outstanding common shares of Meralco. Meralco is the Philippines' largest distributor of electrical power and is the only distributor of electric power for Metro Manila. Meralco holds the power distribution franchise for approximately 22 cities and 89 municipalities in the Philippines. The common shares of Meralco are listed on the PSE.

The value of the Meralco investment based on the closing market price for Meralco common stock as of March 31, 2012 is approximately ₱95,656 million.

Related Coal Investments

SMC Global Power has invested in certain coal mining assets in the Philippines. Such assets are in a preliminary stage of exploration and no results as to their actual viabilities are available as of the date of this Prospectus. The mines of SMC Global Power are not expected to provide fuel for any of its power plants since the Sual Power Plant runs on high-performance coal, and high-performance coal is not found naturally in the Philippines.

Competition

SMC Global Power is the largest independent power producer administrator in the country, with a 17% share of the power supply of the national grid, and a 23% market share of the Luzon grid. Its main competitors are the Lopez Group and the Aboitiz Group. The Lopez Group holds significant interests in First Gen Corporation and Energy Development Corporation, while the Aboitiz Group holds interests in Aboitiz Power Corporation and Hedcor, Inc, among others.

With the Philippine government committed to privatizing the majority of PSALM-owned power generation facilities and the establishment of WESM, the generation facilities of SMC Global Power will face competition from other power generation plants that supply the grid during the privatization phase. Multi-nationals that currently operate in the Philippines and could potentially compete against SMC Global Power in the privatization process include KEPCO, Marubeni, TEPCO, AES and Sumitomo, among others. Several of these competitors have greater financial resources, and have more extensive operational experience and other capabilities than SMC Global Power, giving them the ability to respond to operational, technological, financial and other challenges more quickly than SMC Global Power. SMC Global Power will face competition in both the development of new power generation facilities and the acquisition of existing power plants, as well as competition for financing for these activities. The performance of the Philippine economy and the potential for a shortfall in the Philippines' energy supply have attracted many potential competitors, including multinational development groups and equipment suppliers, to explore opportunities in the development of electric power generation projects within the Philippines. Accordingly, competition for and from new power projects may increase in line with the long-term economic growth in the Philippines.

Safety, Health and Environmental Regulation and Initiatives

Power generation operations are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations include the Philippine Clean Air Act of 1999 ("R.A. 8749" or the "Clean Air Act"), The Philippine Clean Water Act of 2004 ("R.A. 9275" or the "Clean Water Act"), Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990 ("R.A. 6969"), and Occupational Safety and Health Standard of 1989 of the Department of Labor and Employment, as amended. Such legislation addresses, among other things, air emissions, wastewater discharges as well as the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials and waste. It also regulates workplace conditions within power plants and employee exposure to hazardous substances. The Occupational Safety and Health Standard, meanwhile, was formulated to safeguard the workers' social and economic well-being as well as their physical safety and health.

The management of SMC Global Power believes that the IPPs for each of the IPPA power plants comply in all material respects with all applicable safety, health and environmental laws and regulations.

Insurance

Pursuant to the IPPA arrangements of SMC Global Power, the IPPs associated with the IPPA power plants are responsible for maintaining insurance for all of the facilities, equipment and infrastructure for the power plants of SMC Global Power, with the exception of the dam and spillway of the San Roque Power Plant, for which NPC retains responsibility for insuring.

INFRASTRUCTURE BUSINESS

SMC has made investments in the Philippines' infrastructure sector through San Miguel Holdings Corp. consisting of investments in concessions for toll roads, an airport and a light rail system, certain details of which are set forth in the table below:

	<u>% SMC Ownership Interest</u>	<u>Expected Project Cost</u>		<u>Concession Length</u>
		<u>(in millions)</u>		
Concession				
TPLEX Tollway	45% ⁽¹⁾	₱21,600	US\$502.33 ⁽⁵⁾	35 years
Boracay Airport.....	93% ⁽²⁾	₱ 5,600	US\$130.23 ⁽⁵⁾	25 years
MRT-7 Light Rail Project.....	51% ⁽³⁾	₱ 68,100	US\$1,583.72 ⁽⁵⁾	25 years
SLEX, Skyway	46.5	None ⁽⁴⁾	-	25 years

Notes:

- (1) Ownership through Private Infra Dev Corp., through Rapid Thoroughfares, Inc.
- (2) Ownership through Trans Air Development Holdings Corp., through SMHC equity interest; to be diluted to 88% by April 2013
- (3) Ownership through ULC BVI through SMHC equity interest
- (4) All major capex have been completed prior to equity acquisition
- (5) Conversion rate used ₱43.00

Philippine Infrastructure Industry

Under the current administration, the Philippine government has accelerated the implementation of a number of key infrastructure projects. It has created the Public-Private Partnership ("PPP") Center as it recognizes the essential role of the private sector as the main engine for national growth and development. In accordance with this, pertinent incentives will be provided to stimulate private resources for the purpose of financing the construction, operation and maintenance of infrastructure and development projects normally undertaken by the Philippine government.

Private sector investors will be selected through open competition under fair and transparent terms. All interested investors will be given a level playing field with reasonable returns and appropriate sharing of risks without compromising the protection of public interests. Through this program, end-users will be provided with adequate, safe, efficient, reliable, and reasonably-priced infrastructure services.

Currently, the list of infrastructure projects under the PPP include: Light Rail Transit Line 1 Cavite Extension, NAIA Expressway Phase II, NLEX-SLEX Connector Road, Laguindingan Airport, Mactan-Cebu International Airport Passenger Terminal Building and New Bohol (Panglao) Airport.

The government has increased infrastructure spending to boost domestic growth and has allocated ₱22.1 billion for PPP projects under the proposed national budget for 2012.

Competitive Strengths

- **Synergies with the established businesses of SMC.** The strengths of SMC in its established businesses could be leveraged to ensure successful execution of infrastructure projects.
- **Brand strength and size.** SMC is among the largest and most widely recognized companies in the Philippines with a continuing commitment in the involvement for the development of the country.
- **Ability to finance acquisitions. Infrastructure projects require long-term financing.** SMC has an advantage in financing its PPP projects due to its long operating history as a publicly listed company and the trust built up with investors, its size and balance sheet strength and its recognition in the international capital markets.

Business Strategies

- **Focusing on the improvement of infrastructure projects in the Philippines.** SMC believes there are significant opportunities in building and participating in infrastructure projects in a growing economy that has historically under-invested in infrastructure. SMC believes its long-term operating licenses will provide it with strong and stable income streams.
- **Potential to extract synergies across businesses.** Areas and projects being developed by the infrastructure business of SMC present opportunities for its other businesses. For example, the TPLEX, the Boracay Airport and the MRT-7 rail and the road projects are expected to complement and present opportunities for fuel and oil, power, and telecommunications businesses of SMC, as well as improve the distribution network for food and beverages business of SMC.

Operations

TPLEX Tollway

The Philippine government, through the National Economic Development Authority, which administers the National Economic Plan, has proposed and is implementing a 20-year plan to significantly expand the expressway/tollway system from and around Metro Manila. A significant part of that plan is the construction of an 88.58 km two-lane toll expressway from Tarlac, through Pangasinan to La Union, north of Manila ("TPLEX"). The TPLEX expressway is expected to be integrated with other major expressways (including the North Luzon Expressway and Subic-Clark-Tarlac Expressway) to expand the road/expressway network in and around Metro Manila by 325 kilometers. Construction commenced on the expressway in October 2010. The initial Tarlac to Carmen section (48.7 kilometers) is projected to be completed by 2012, with revenue collection projected to commence, while the remainder of the expressway is projected to be completed by August 2014.

In August 2009, SMC made its first infrastructure investment by acquiring a 35% stake in Private Infra Dev Corporation ("PIDC"). PIDC holds the 30-year build-transfer-operate concession for TPLEX. PIDC is a joint venture among D.M. Consunji, Inc. (33.29%), D.M. Wenceslao & Associates, Inc (11.67%) and eight other contractor shareholders. D.M. Consunji, Inc. has constructed large projects in the Philippines for over 50 years, including hotels, malls, convention centers and the MRT-3 Metro Rail Transit system. SMC has an option to increase its interest in PIDC to up to 51%.

The project cost for the development of TPLEX is estimated at ₱21,600 million, which will be funded by a combination of debt (45.80%), equity (40.80%) and Philippine government subsidy (13.40%) which is available at the start of construction of Section 3 of TPLEX. The current equity funding commitment of SMC is ₱2,686 million, with ₱806 million having already been provided. SMC has the option to increase its interest in PIDC to up to 51%.

On September 12, 2011, Rapid Thoroughfares Inc. (Rapid) advanced ₱1,111 million as deposit for future stock subscription to 1,111,228 common shares of PIDC. One of the conditions for the issuance of the subscribed shares of Rapid is the approval of the SEC of the increase in the authorized capital stock of PIDC. As of March 31, 2012, the approval by the SEC has not yet been obtained.

Boracay Airport

In April 2010, SMC acquired a 93% stake in Caticlan International Airport Development Corp. (subsequently renamed Trans Aire Development Holdings Corporation). Trans Aire Development Holdings Corporation holds a 25-year build-rehabilitate-operate-transfer concession granted by the Republic of the Philippines, through the Department of Transportation and Communications, to develop and operate Boracay Airport. The remaining 7% interest is held by Akean Resorts Corporation, a non-affiliated entity.

Boracay airport is the principal gateway to Boracay Island, a popular resort for passengers traveling from Manila. Due to a short runway, the airport currently is able to accommodate only turbo propeller airplanes. The airport has experienced rapid growth in passenger volumes in the last decade, growing on average 23.3% a year from 1991. In 2011, approximately 700,000 tourists passed through Boracay Airport.

The planned expansion of the airport is expected to be completed in a number of stages and involves:

- upgrading and extending the runway, which is currently 950 meters long and 30 meters wide, to 2,600 meters long and 60 meters wide to accommodate larger international and domestic aircraft;
- upgrading of the Boracay Airport and its facilities to comply with International Civil Aviation Organization standards and the Manual of Standards for Aerodromes of the Civil Aviation Authority of the Philippines ("CAAP");
- conducting extensive landscape remediation to lower hills at one end of the runway;
- replacing the current 550 square meter terminal with a new world class passenger and cargo terminal;
- improving road networks around Boracay Airport and its facilities; and
- upgrading air navigational systems.

The approval of the Director General of CAAP of the Master Development Plan for the Boracay Airport has already been obtained and the Detailed Design Engineering for the Project is already being prepared.

The concession agreement is valid for 25 years, ending in 2035. On 15 January 2012, the passenger terminal fee was increased to ₱20 to ₱200.

MRT-7 Light Rail and Road Project

In October 2010, SMC acquired a 51% stake in Universal LRT, which holds the BOT concession for MRT-7, a planned expansion Manila's metro rail system, home to over 10 million inhabitants. MRT-7 is one of several rail extension projects to the existing metro rail system which services Metro Manila. It is expected to take three and a half years from the second quarter of 2011 and includes a 22 km six-lane asphalt highway that will connect the North Luzon Expressway to the intermodal transport terminal in San Jose del Monte and a 22 km mostly elevated MRT with 14 stations that will start from San Jose del Monte and end at the integrated LRT-1 / MRT-3 / MRT-7 station at EDSA. Universal LRT will operate and manage the system on behalf of the Philippine government for 25 years while gradually transferring ownership of the system to the Philippine government in proportion to payments of semi-annual capacity fees. Under the Build-Gradual-Transfer-Operate-Maintain-and-Manage scheme, the Philippine government will pay US\$2.69 billion over 20 years through amortized

payments based on a parametric formula. The project is estimated to cost US\$1.54 billion, which is to be funded 25% by equity and 75% by debt.

OTHER OPERATIONS AND INVESTMENTS

Copper and Gold Mining

SMC through Coastal View Exploration Corporation ("Coastal View") acquired in October 2010 a 10.10% stake in Indophil Resources NL ("Indophil NL") which holds a 37.50% beneficial ownership in Sagittarius Mines Inc., which in turn holds a 40% controlling equity stake in a joint venture to explore, develop and operate the Tampakan mine in the Philippines. The mine is estimated to have 2.5 billion metric tonnes of 0.60% copper and 0.2 grams per ton gold. If proven, the mine would be one of the world's largest underdeveloped copper-gold deposits, potentially the Philippines' largest mine and the world's fifth largest copper mine by 2016. Currently, Coastal View has a 3.99% stake in Indophil NL pursuant to the latter's subsequent rights offerings.

Telecommunications

SMC has made investments in the Philippines' telecommunications sector through acquisitions of stakes in Liberty, BellTel and ETPI.

- **Liberty Telecom**

SMC owns 41.50% of Liberty in partnership with Qatar Telecom 32.73% and White Dawn Solutions Holdings, Inc. 18.28%, with the remaining shares owned by the public. Liberty is a telecommunications carrier offering services including nationwide telephone service, data communications, inter-exchange carrier services and international voice and data connectivity services.

- **BellTel**

SMC acquired 100% of BellTel, a full-service telecommunications company which is licensed to provide a range of services throughout the Philippines. The telecommunication license of BellTel authorizes it to provide data services throughout the Philippine archipelago and telephony to all central business districts and special economic zones. BellTel was one of the first companies to deploy point-to-multipoint fixed wireless access technologies delivering multiple product offerings. BellTel has also entered into strategic alliances with operators of underutilized telecommunications infrastructures, such as hybrid fiber-coaxial and fiber optic networks, giving it several cost-effective last mile options for rapid service deployment. In addition, BellTel holds licenses in the 1.7, 3.5 and 24 Ghz spectra, which enable it to provide a wide array of wireless broadband products and services.

- **ETPI**

SMC owns a 37.70% equity interest in ETPI and, through its wholly-owned subsidiary, SMESI, indirectly owns approximately 40% stake in ETPI through its 100% ownership of AGNP. ETPI is a provider of voice, data and internet services to the business process outsourcing market.

Airline

Most recently, SMC, through SMEII, acquired a 49% equity interest each in Trustmark and Zuma, the holding companies of PAL and Air Phil, respectively. The investment provides an opportunity for SMC to diversify into an industry which has synergies with the existing businesses of SMC. Such investment will likewise augment and supplement the ongoing enhancement of the operations of PAL and Air Phil, and the implementation of the fleet modernization programs with the end in view of enhancing the efficiency, competitiveness and profitability of PAL and Air Phil.

Description of Property

The general asset description and locations of the various plants and farms owned and leased by the SMC Group are included as Appendix “C” of this Prospectus.

The properties included in Appendix “C” of this Prospectus that are owned by the SMC Group are free of liens and encumbrances.

The properties in Appendix “C” of this Prospectus are in good condition, ordinary wear and tear excepted.

Within the ensuing twelve months, the SMC Group may acquire additional properties to support its business operations, the number of which cannot be determined as of the date of this Prospectus.

Legal Proceedings

The SMC Group is not a party to, and its properties are not the subject of, any material pending legal proceeding that could be expected to have a material adverse effect on the results of operations of SMC.

Ownership and Capitalization

Share Capital

As of May 31, 2012, the Company had a total of 3,279,555,758 common shares issued, of which 2,369,405,805 are outstanding shares and 910,149,953 are treasury shares, and 970,506,353 Series "1" Preferred Shares. Following the Offer and the approval of the increase in authorized capital stock by the SEC, the Company will have (i) [•] common shares, (ii) 970,506,353 Series "1" Preferred Shares and (iii) [•] Series "2" Preferred Shares issued and outstanding.

Ownership Structure

Top 20 Shareholders

Listed below are the top 20 shareholders of SMC as of May 31, 2012.					
Rank	Name	Common Shares	Preferred Shares	Total Shares	% of O/S
1	Top Frontier Investment Holdings Inc.	1,221,878,025	0	1,221,878,025	36.586498%
2	PCD Nominee Corporation (Filipino)	320,345,162	0	320,345,162	9.592044%
3	ASC Investors, Inc.	0	167,483,095	167,483,095	5.014920%
4	PCD Nominee Corporation	26,542,794	115,811,485	142,354,279	4.262491%
5	ARC Investors, Inc.	0	105,689,360	105,689,360	3.164640%
6	Primavera Farms, Inc.	94,738,250	0	94,738,250	2.836732%
7	San Miguel Corporation Retirement Plan	1	85,751,165	85,751,166	2.567633%
8	PCD Nominee Corporation (Non-Filipino)	90,948,814	12,210	90,961,024	2.567633%
9	Toda Holdings, Inc.	0	74,880,174	74,880,174	2.242125%
10	Pastoral Farms, Inc.	63,158,769	0	63,158,769	1.891153%
11	Black Stallion Ranch, Inc.	63,158,769	0	63,158,769	1.891153%
12	Misty Mountains Agricultural Corp.	63,158,769	0	63,158,769	1.891153%
13	Te Deum Resources, Inc.	0	58,487,823	58,487,823	1.751292%
14	Rock Steel Resources, Inc.	0	58,237,403	58,237,403	1.743793%
15	San Miguel Officers Corps, Inc.	0	53,863,035	53,863,035	1.612812%
16	Roxas Shares, Inc.	0	52,815,194	52,815,194	1.581437%
17	Silver Leaf Plantations, inc.	47,369,061	0	47,369,061	1.418364%
18	Meadow-Lark Plantations, Inc.	47,369,039	0	47,369,039	1.418364%
19	AP Holdings, Inc.	0	34,669,405	34,669,405	1.038100%

Listed below are the top 20 shareholders of SMC as of May 31, 2012.

Rank	Name	Common Shares	Preferred Shares	Total Shares	% of O/S
20	Valhalla Properties, Inc.	0	31,411,848	31,411,848	0.940560%
	TOTAL	2,038,667,453	839,105,907	2,877,779,650	86.168896%

Market Price of and Dividends on the Common Equity of SMC and Related Shareholder Matters

Market Information

The common equity of SMC is principally on the PSE. The high and low sales prices for each period are indicated in the table below.

The common and Series “1” preferred equity of SMC are traded on the PSE. The high and low closing prices for each quarter of the last two (2) fiscal years and for the first quarter of 2012 are as follows.

	2012				2011				2010					
	Common		Series “1”		Common		Series “1”		Class A*		Class B		Series “1”	
	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
1 st	122.50	110.20	80.00	76.60	189.00	150.00	100.00	65.00	74.50	66.50	74.50	67.00	N/A	N/A
2 nd	-	-	-	-	175.00	105.70	76.50	74.50	75.00	69.50	76.00	70.00	N/A	N/A
3 rd	-	-	-	-	132.60	110.90	80.00	75.00	76.00	66.55	76.00	66.00	N/A	N/A
4 th	-	-	-	-	129.20	110.50	79.95	75.00	169.70	73.50	N/A	N/A	120.00	86.05

* The common A and B shares of SMC were declassified on August 26, 2010.

The closing prices as of May 31, 2012, the latest practicable trading date, are as follows:

Common ₱117.00
Series “1” Preferred ₱75.00

The approximate number of shareholders as of May 31, 2012 is 40,217.

Dividends and Dividend Policy

Cash dividends declared by the Board of Directors of SMC to common shareholders amounted to ₱1.05 per share in 2011.

Cash dividends declared by the Board of Directors of SMC to preferred shareholders amounted to ₱6.00 per share both in 2011 and 2010.

Dividends may be declared at the discretion of the Board of Directors and will depend upon the future results of operations and general financial condition, capital requirements, its ability to receive dividends and other distributions and payments from its subsidiaries, foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations both at the parent and subsidiary level and other factors the Board of Directors may deem relevant.

Sale of Unregistered or Exempt Including Securities Constituting an Exempt Transaction

There were no securities sold by SMC within the past three (3) years which were not registered under the Securities Regulation Code (“SRC”), except for the following:

Name of Security Sold	Underwriters	Date of Sale	Amount of Securities	Basis for Exemption
Series “1” Preferred Shares	N/A	October 5, 2009	₱4,365,866,765 at par value ₱65,488,001,475, at issue price of ₱75.00	Section 10.1(j) of the SRC
Series “1” Preferred Shares	BDO Capital & Investments Corporation and Standard Chartered Bank	December 22, 2009	₱486,665,000 at par value; ₱7,299,975,000 at issue price of ₱75.00	Section 10 (k) and (l) of the SRC

Other securities: Floating rate corporate notes issued in February 2009 and common shares under the Long-Term Incentive Plan for Stock Options ("LTIP") and employee stock purchase plan pursuant to Section 10.2 of the SRC.

SMC has filed a notice with the SEC and has not obtained a written confirmation for the foregoing exempt transactions.

Effect on Common Equity Holders

The Offer Shares will not have any dilutive effect on the rights of the holders of the common shares of SMC, as these are non-voting, non-convertible and non-participating.

Directors and Executive Officers

Board of Directors

The table below sets forth each member of the Board of Directors of SMC as of the date of this Prospectus.

<u>Name</u>	<u>Age</u>	<u>Citizenship</u>	<u>Position</u>
Eduardo M. Cojuangco, Jr.	77	Filipino	Chairman and Chief Executive Officer
Ramon S. Ang	58	Filipino	Vice Chairman, President and Chief Operating Officer
Estelito P. Mendoza	82	Filipino	Director
Leo S. Alvez	69	Filipino	Director
Joselito F. Campos, Jr.	61	Filipino	Director
Ferdinand K. Constantino	60	Filipino	Director
Menardo R. Jimenez	79	Filipino	Director
Roberto V. Ongpin	75	Filipino	Director
Alexander J. Poblador	58	Filipino	Director
Eric O. Recto	48	Filipino	Director
Thomas A. Tan	58	Filipino	Director
Iñigo Zobel	55	Filipino	Director
Winston F. Garcia	54	Filipino	Independent Director
Reynato S. Puno	72	Filipino	Independent Director
Margarito B. Teves	68	Filipino	Independent Director

Eduardo M. Cojuangco, Jr., Filipino, 77, is the Chairman and Chief Executive Officer of the Company, a position he has held since July 7, 1998. He is also the Chairman of the Executive Committee of the Company. He also holds the following positions: Chairman and Chief Executive Officer of Ginebra San Miguel, Inc. and Chairman of San Miguel Pure Foods Company, Inc. He is also the Chairman of ECJ & Sons Agricultural Enterprises, Inc. and the Eduardo Cojuangco, Jr. Foundation, Inc., and a Director of Caifaman Farms, Inc. and Petron Corporation. He is a former Director of Manila Electric Company (February 2009-May 2009).

Ramon S. Ang, Filipino, 58, is the Vice Chairman since January 28, 1999, President and Chief Operating Officer since March 6, 2002 of the Company. He is also a Member of the Executive Committee and Nomination and Hearing Committee of the Company. He also holds, among others, the following positions: Chairman of San Miguel Brewery Inc. and San Miguel Brewery Hong Kong Limited (Hong Kong), Petron Corporation, Sea Refinery Corporation, SMC Global Power Holdings Corp., San Miguel Foods, Inc., San Miguel Yamamura Packaging Corporation, San Miguel Properties, Inc., and Anchor Insurance Brokerage Corporation; Vice Chairman of Ginebra San Miguel, Inc. and San Miguel Pure Foods Company, Inc.; Director of Top Frontier Investment Holdings Inc.; Chairman of Liberty Telecoms Holdings Inc., Philippine Diamond Hotel & Resort, Inc., Philippine Oriental Realty Development, Inc., Atea Tierra Corporation and Cyber Bay Corporation; Vice Chairman and Director of Manila Electric Company; and an Independent Director of Philweb Corporation. Mr. Ang has held directorships in various domestic and international subsidiaries of SMC in the last five years. He was recently elected as President and Chief Operating Officer of PAL Holdings, Inc. and Philippine Airlines, Inc., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, and Director of Air Philippines Corporation.

Estelito P. Mendoza, Filipino, 82, has been a Director of the Company since April 21, 1998. He is a Member of the Executive Committee, Audit Committee, and the Chairman of the Nomination and Hearing Committee of the Company. He is also a Director of Petron Corporation, Manila Electric Company, Philippine National Bank and Philippine Airlines, Inc., and Chairman of Prestige Travel, Inc. Atty. Mendoza, a former Solicitor General, Minister of Justice, Member of the Batasang Pambansa and Governor of the Province of Pampanga, heads the E.P. Mendoza Law Office. He is also a former Chairman of Dutch Boy Philippines, Inc. and Alcorn Petroleum and Minerals Corporation, and Director of East-West Bank.

Leo S. Alvez, Filipino, 69, has been a Director of the Company since February 27, 2002 and a Member of the Audit Committee of the Company. He is also a Director of Ginebra San Miguel, Inc. and San Miguel Pure Foods Company, Inc. Ret. Major General Alvez is a former Security Consultant to the Prosecution Panel of the Senate Impeachment Trial of President Joseph Estrada (2000-2001), Vice Commander of the Philippine Army (1998), and Division Commander of the 7th Infantry Division (1996-1998).

Joselito D. Campos, Jr., Filipino, 61, has been a Director since May 31, 2010. He is a member of the Executive Compensation Committee. He is the President and Chief Executive Officer of Del Monte Philippines, Inc. He is also the Chairman and Chief Executive Officer of the NutriAsia Group of Companies, a major food conglomerate in the Philippines, Chairman of Fort Bonifacio Development Corp. and Vice-Chairman of Ayala-Greenfield Development Corp., two major Philippine property developers. He was the former Chairman and Chief Executive Officer of United Laboratories, Inc. and its regional subsidiaries and affiliates. He is also the Honorary Consul in the Philippines for the Republic of Seychelles. He is Chairman of the Metropolitan Museum of Manila and a Trustee of the Asia Society in the Philippines, the Philippines-China Business Council, the Philippine Center for Entrepreneurship and a member of the WWF (World Wildlife Fund) Philippines.

Ferdinand K. Constantino, Filipino, 60, has been a Director of the Company since May 31, 2010. He is a member of the Executive Committee, Audit Committee, Executive Compensation Committee and Nomination and Hearing Committee. He is Senior Vice President, Chief Finance Officer and Treasurer of the Company. He also holds, among others, the following positions: President of Anchor Insurance Brokerage Corporation; and a Director of San Miguel Brewery Inc., San Miguel Yamamura Packaging Corporation, SMC Global Power Holdings Corp., Top Frontier Investment Holdings Inc., Petron Corporation, Ginebra San Miguel Inc. and San Miguel Foods Inc. Mr. Constantino previously served San Miguel Corporation as Chief Finance Officer of the San Miguel Beer Division (1999-2005) and as Chief Finance Officer and Treasurer of San Miguel Brewery Inc. (2007-2009); Director of San Miguel Pure Foods Company, Inc. (2008-2009), Director of San Miguel Properties, Inc. (2001-2009); and Chief Finance Officer of Manila Electric Company (2009). He has held directorships in various domestic and international subsidiaries of SMC during the last five years. He was recently elected as Director of PAL Holdings, Inc., and Philippine Airlines, Inc.

Menardo R. Jimenez, Filipino, 79, has been a Director of the Company since February 27, 2002 and the Chairman of the Executive Compensation Committee of the Company and a Member of the Executive Committee. He is also a Director of San Miguel Pure Foods Company, Inc., and Magnolia, Inc. His other positions include: Chairman of the United Coconut Planters Bank; President and Chief Executive Officer of Albay-Agro Industrial Corporation; Director of Majent Agro Industrial Corporation, M. A. Jimenez Enterprises, Inc., Television International Corporation, ; Chairman of Fibers Trading, Inc., CBTL Holdings, Inc., and Meedson Properties Corporation; and a Director of Cunickel Mining and Industrial Corporation, Mabuhay Philippines Satellite Corporation, CCC Insurance Corporation and Pan-Phil Aqua Culture Corporation.

Roberto V. Ongpin, Filipino, 75, has been a Director of the Company since September 1, 2009. He is a member of the the Nomination and Hearing Committee and Executive Committee of the Company. He also holds the following positions: Director of Petron Corporation, Top Frontier Investment Holdings Inc. and Ginebra San Miguel, Inc.; Chairman of PhilWeb Corporation, ISM Communications Corporation, Alphaland Corporation, Philippine Bank of Communications, Atok-Big Wedge Co., Inc., and Acentic GmbH; Non-Executive Director, Forum Energy PLC (UK) and Shangri-la Asia Limited (Hong Kong), and Deputy Chairman, South China Morning Post (Hong Kong). He was recently elected as Director of PAL Holdings, Inc. and Philippine Airlines, Inc.

Alexander J. Poblador, Filipino, 58, has been a Director of the Company since September 1, 2009. He is the Founding Partner and Chairman of the Executive Committee of Poblador Bautista & Reyes Law Office. Atty. Poblador is a practicing lawyer, specializing in the fields of commercial litigation, international arbitration, real estate finance and project development, bankruptcy and corporate reorganization.

Eric O. Recto, Filipino, 48, has been a Director since May 31, 2010. He is a member of the Executive Compensation Committee of the Company. He is the President and Director of Petron Corporation and Top Frontier Investment Holdings Inc; the Chairman of Philippine Bank of Communications; a

Director of Manila Electric Company; Vice Chairman of Philweb Corporation, Atok-Big Wedge Corporation, Alphaland Corporation; and President of ISM Communications Corporation,. He was previously Undersecretary of the Department of Finance, in charge of both the International Finance Group and the Privatization Office from 2002 to 2005.

Thomas A. Tan, Filipino, 58, was elected as a Director of the Company on June 14, 2012. He is the President and General Manager of SMC Shipping and Lighterage Corporation and President of Saturn Cement Corporation. He obtained a degree on Bachelor of Science, major in Physics in 1974 from the Ateneo de Manila University and a Master in Business Management from the Asian Institute of Management in 1976. He is likewise a Director of other affiliates of the Company.

Iñigo Zobel, Filipino, 55, has been a Director of the Company since May 5, 1999. He also holds the following positions: Chairman of Top Frontier Investment Holdings Inc., Vice Chairman of SMC Global Power Holdings Corp., President and Chief Executive Officer of E. Zobel, Inc., President of Ayala España S.A., Calatagan Golf Club, Inc. and Hacienda Bigaa, Inc.; and a Director of Calatagan Resort, Inc., Calatagan Bay Realty, Inc., and MERMAC, Inc. He was previously the President of Diamond Star Agro Products, Inc. (1985-2007) and formerly an Independent Director of San Miguel Brewery Inc., San Miguel Pure Foods Company, Inc. San Miguel Properties, Inc., and Ginebra San Miguel, Inc. He was recently elected as Director of PAL Holdings, Inc. and Philippine Airlines, Inc. and President and Chief Operating Officer of Air Philippines Corporation.

Winston F. Garcia, Filipino, 54, has been a Director of the Company since February 1, 2001, currently an Independent Director of the Company, and a Member of the Audit Committee and Executive Compensation Committee of the Company. Atty. Garcia was President and General Manager of the Government Service Insurance System and was Vice Chairman of its Board of Trustees. He also held the following positions: Chairman of the National Reinsurance Corporation of the Philippines, GSIS Mutual Fund, Inc., Asean Forum, Incorporated and Philippine Social Security Association; Director of Philippine National Construction Corporation, and Philippine Health Insurance Corporation; Board Member of Asean Social Security Association; and a Member of the International Insurance Society, Inc., International Social Security Association, and Federation of Afro Insurers and Reinsurers. Atty. Garcia has been a practicing lawyer since 1983.

Reynato S. Puno, Filipino, 72, was elected to the Board as an independent director of the Company on January 20, 2011. Former Chief Justice Reynato S. Puno served as the Chief Justice of the Supreme Court from December 6, 2006 until his retirement on May 17, 2010. He joined the Court as an Associate Justice on June 1993 and was previously Associate Justice of the Court of Appeals (1986 to 1993), Appellate Justice of the Intermediate Appellate Court (1983), Assistant Solicitor General (1974-1982) and City Judge of Quezon City (1972-1974). He has also served as Deputy Minister of Justice from 1984-1986. He completed his Bachelor of Laws from the University of the Philippines in 1962, and has a Master of Laws degree from the University of California in Berkeley (1968) and a Master in Comparative Law degree from the Southern Methodist University, Dallas, Texas (1967).

Margarito B. Teves, Filipino, 68, was elected as an Independent Director of the Company on June 14, 2012. He was Secretary of the Department of Finance of the Philippine government from 2005 to 2010, and was previously President and Chief Executive Officer of the Land Bank of the Philippines from 2000 to 2005. He holds a Master of Arts in Development Economics from the Center for Development Economics, Williams College, Massachusetts and is a graduate of the City of London College, with a degree of Higher National Diploma in Business Studies which is equivalent to a Bachelor of Science in Business Economics.

Senior Management

The table below sets forth the executive officers of SMC as of the date of this Prospectus.

Name ⁽¹⁾	Year of Birth	Position
Virgilio S. Jacinto	1956	Senior Vice President – General Counsel and Corporate Secretary
Aurora T. Calderon	1954	Senior Vice President – Senior Executive Assistant to the Office of the President and Chief Operating Officer
Joseph N. Pineda	1963	Senior Vice President – Deputy Chief Finance Officer
Francisco S. Alejo III	1948	President, San Miguel Pure Foods Company, Inc.
Ferdinand A. Tumpalan	1960	President, San Miguel Yamamura Packaging Corp.
Roberto N. Huang	1946	President, San Miguel Brewery Inc.
Bernard D. Marquez	1968	President, Ginebra San Miguel Inc.
Carlos Antonio M. Berba	1964	Managing Director, San Miguel Brewery International Limited
Alan T. Ortiz	1953	President, SMC Global Power
Eric O. Recto	1964	President, Petron Corporation

Virgilio S. Jacinto is the Corporate Secretary, Senior Vice- President and General Counsel and Compliance Officer of SMC (since October, 2010). He is a Director of San Miguel Brewery Inc. and Petron Corporation. He was formerly the Vice President and First Deputy General Counsel from 2006 to 2010 and appointed as SMC General Counsel in 2010. He was Director and Corporate Secretary of United Coconut Planters Bank, Partner at Villareal Law Offices and Associate at SyCip, Salazar, Feliciano & Hernandez Law Office. Mr. Jacinto is an Associate Professor at the University of the Philippines, College of Law. He obtained his law degree from the University of the Philippines where he is the class salutatorian and placed sixth in the 1981 bar examinations. He holds a Master of Laws degree from Harvard University. He holds various directorships in various local and offshore subsidiaries of SMC.

Aurora T. Calderon is the Senior Vice President-Senior Executive Assistant to the President and Chief Operating Officer of SMC since January 20, 2011. Previous to her appointment, she was a consultant of the Company reporting to the Chief Operating Officer since 1998. She is also a member of the board of directors of Petron Corporation, Petron Marketing Corporation, Petron Freeport Corporation, SMC Global Power Holdings Corp., Sea Refinery Corporation, Thai San Miguel Liquor Co., Ltd., NVRC, Las Lucas Construction and Development Corp., and Kankiyo Corporation. She is the President and the Director of Total Managers, Inc. and was a Director of Meralco (2008-2009). A certified public accountant, Ms. Calderon graduated from the University of the East with a degree in BS Business Administration, major in Accountancy, *magna cum laude*. In addition, Ms. Calderon holds directorships in various SMC domestic and international subsidiaries. She was recently elected as Director of PAL Holdings, Inc., Philippine Airlines, Inc., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, and Air Philippines Corporation.

Joseph N. Pineda is the Senior Vice President and Deputy Chief Finance Officer of SMC. He was formerly Vice President prior to his promotion on July 27, 2010 and has been the Deputy Chief Finance Officer since December 2005. He was previously Special Projects Head of SMC since January 2005. Mr. Pineda has a degree of Bachelor of Arts in Economics from San Beda College and obtained units towards a Master in Business Administration degree from De La Salle University. In addition, Mr. Pineda holds directorships in various SMC domestic and international subsidiaries.

Francisco S. Alejo III is the President (since 2005) and a Director (since 2001) of San Miguel Pure Foods Company Inc. He also holds the following positions: Vice Chairman of San Miguel Foods, Inc.; President of The Purefoods-Hormel Company, Inc., Magnolia and San Miguel Super Coffeemix Co., Inc.; and Chairman and President of Sugarland Corporation and Star Dari, Inc.

Ferdinand A. Tumpalan has been President of San Miguel Yamamura Packaging Corporation since 2005. He is also President of San Miguel Yamamura Asia Corporation, San Miguel Paper Packaging Corporation, Mindanao Corrugated Fibreboard Inc. and SMC Yamamura Fuso Molds Corporation. He is a former President of the Packaging Products Division of SMC in 2005.

Roberto N. Huang is the President of San Miguel Brewery. He also served as General Manager of SMB (2007-2009); Director of Ginebra (2004-2008), San Miguel Pure Foods Company Inc. (2004-2008); President of San Miguel Beverages, Inc. (2007-2008); and President of Coca-Cola Bottlers Philippines, Inc., Cosmos Bottling Corporation and Philippine Beverage Partners, Inc. (2003-2007).

Bernard D. Marquez is the President of Ginebra San Miguel Inc. since May 12, 2011 and is a member of the Executive Committee and Nomination and Hearing Committee of GSML. He is currently a director of Thai San Miguel Liquor Co., Ltd ("TSML"). He previously held the following positions: General Manager of TSML (January 2010-April 2011); Business Manager of the non-alcoholic beverage business of GSML (July – December 2009); Assistant Vice President and Business Manager of San Miguel Beverages, Inc. (March 2007 – June 2009) and Assistant Vice President and Business Planning and Development Manager of Coca-Cola Bottlers Philippines, Inc. (August 2004-February 2007).

Carlos Antonio M. Berba has been Managing Director of SMBIL since 2008. He is also currently Director of San Miguel Brewery Hong Kong Limited (Hong Kong) and a Commissioner of PT Delta Djarkarta Tbk (Indonesia) ("PT Delta"). He previously served SMC as President of the San Miguel Beer Division (2006); and Vice President, CFO for International Beer Operations and Director for Business Planning and Information Management, San Miguel Beer Division (2002-2006).

Alan T. Ortiz, is the President and Chief Operating Officer of SMC Global Power Holdings Corp. since August 31, 2010 and a member of its Audit Committee and Nomination and Hearing Committee following his election on September 2, 2011. Previously, he was the President and Chief Executive Officer of National Transmission Corporation, a Member of the Board of Advisers of the Philippine National Oil Company – Energy Development Corporation, and a Director of the Manila Electric Company. He served the Philippine Government as a Consultant and Head of the Technical Working Group of the EPIRA to the Senate Committee on Energy, Vice Chairman and Chief Operating Officer of the Development Bank of the Philippines, Undersecretary and Executive Director of the Coordinating Council of the Philippine Assistance Program and Executive Director of the Build-Operate-Transfer ("BOT") Center both under the Office of the President, Assistant Director-General for Planning and Research of the National Security Council, and Policy Research and Planning Consultant of the Department of Foreign Affairs. He held executive positions in Economist Intelligence Unit ("EIU"), Philippines, Edison Mission Energy Philippines, Dharmala Philippines, Inc., Bank Dharmala, Dharmala Capital and Investment Trust Company, Dharmala Finance and Leasing Company, and the Professional Group. He is currently the Managing Partner of CEOs Inc., a Director and Treasurer of Global Resource for Outsourced Workers, Inc., and an Assistant Professor in the Department of Economics/Political Science of the Ateneo de Manila University.

Board Committees

Executive Committee

The Executive Committee is currently composed of six directors, which includes the Chairman of the Board and Chief Executive Officer, and the Vice-Chairman of the Board, President and Chief Operating Officer. Mr. Eduardo M. Cojuangco, Jr. sits as Chairman of the Committee.

The Committee acts within the power and authority granted upon it by the Board and is called upon when the Board is not in session to exercise the powers of the latter in the management of the company, with the exception of the power to appoint any entity as general managers or management or technical consultants, to guarantee obligations of other corporations in which the company has lawful interest, to appoint trustees who, for the benefit of the company, may receive and retain such properties of the company or entities in which it has interests and to perform such acts as may be necessary to transfer ownership of such properties to trustees of the company, and such other powers as may be specifically limited by the Board or by law.

Audit Committee

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

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

Nomination and Hearing Committee

The Nomination and Hearing Committee is currently composed of six voting directors— one of whom is independent, Mr. Reynato S. Puno—and one non-voting member in the person of the Corporate Human Resources Head of the Company. Atty. Estelito P. Mendoza is the Chairman of the Committee.

Among others, the Nomination and Hearing Committee screens and shortlists candidates for Board directorship in accordance with the qualifications and disqualifications for directors set out in the Manual on Corporate Governance of the Company (the “Manual”), the Amended Articles of Incorporation and Amended By-laws of the Company and applicable laws, rules and regulations.

Executive Compensation Committee

The Executive Compensation Committee of the Company is composed of six directors, two of whom are independent in the persons of Mr. Winston F. Garcia and Mr. Reynato S. Puno. Mr. Menardo R. Jimenez is Chairman of the Committee.

The Executive Compensation Committee advises the Board of Directors in the establishment of formal and transparent policies and practices on directors and executive remuneration and provides oversight over remuneration of senior management and other key personnel—ensuring consistency with the culture, strategy and control environment of the Company.

It designates the amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the Company successfully.

Significant Employees

The Company has no individual employee who is not an executive officer but who is expected to make a significant contribution to the business.

Corporate Governance

Manual on Corporate Governance

The Manual was approved by the Board of Directors on August 16, 2002 and amended on March 30, 2010. The monitoring of the implementation of the evaluation system of SMC to measure and determine the level of compliance of the Board of Directors and top level management with the Manual is vested by the Board of Directors in the Compliance Officer.

Compliance and Monitoring System

The Compliance Officer of the Company is Virgilio S. Jacinto.

The Compliance Officer is appointed by the Board of Directors. He or she is responsible for monitoring compliance by the Company with the provisions and requirements of the Manual and the rules and regulations of the relevant regulatory agencies, and ensures adherence to corporate principles and best practices. The Compliance Officer holds the position of a Vice President or its equivalent and has direct reporting responsibilities to the Chairman of the Board of Directors.

Shareholder and Investor Relations

The Company responds to information request from the investing community and keep shareholders informed through timely disclosures to the PSE and SEC, annual shareholders meeting, inventors briefing and conferences, the website of the Company and responses to email and telephone queries. The disclosures of the Company and other filings with the PSE and SEC are available for viewing and download from the website of the Company.

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

Family Relationships

Mr. Eric O. Recto is the nephew of Mr. Roberto V. Ongpin. Both are incumbent directors of the Company. Other than this, there are no other family relationships up to the fourth civil degree, either by consanguinity or affinity, among the directors, executive officers or persons nominated or chosen by the Company to become its directors or executive officers.

Involvement in Certain Legal Proceedings

None of the directors, nominees for election as director, executive officers or control persons of the Company have been involved in any legal proceeding, including without limitation being the subject of any (a) bankruptcy petition, (b) conviction by final judgment in a criminal proceeding, domestic or foreign, or a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses, (c) order, judgment or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities, which is not subsequently reversed, suspended or vacated, or (d) judgment of violation of a securities or commodities law or regulation by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self regulatory organization, which has not been reversed, suspended or vacated, for the past five (5) years up to the latest date that is material to the evaluation of his ability or integrity to hold the relevant position in the Company.

Compensation of Directors and Executive Officers

The aggregate compensation paid or incurred during the last two (2) fiscal years and estimated to be paid in the ensuing fiscal year to the Chief Executive Officer, Mr. Eduardo M. Cojuangco, Jr., and senior executive officers of the Company are as follows:

Name	Year	Salary	Bonus	Others	Total
Total Compensation of the Chief Executive Officer and Senior Executive Officers ¹	2012	₱160.9	₱127.2	₱26.8	₱314.9
	(estimated)	Million	Million	Million	Million
	2011	₱145.5	₱184.6	₱34.1	₱364.2
		Million	Million	Million	Million
	2010	₱145.8	₱161.6	₱23.2	₱330.6
		Million	Million	Million	Million
All other officers and directors as a group unnamed	2012	₱113.7	₱46.8	₱28.2	₱188.7
	(estimated)	Million	Million	Million	Million
	2011	₱113.0	₱66.1	₱31.4	₱210.5
		Million	Million	Million	Million

¹ The Chief Executive Officer and senior executive officers of the Company for 2012 are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Virgilio S. Jacinto, Joseph N. Pineda, Ma. Belen C. Buensuceso, and David S. Santos; for 2011 are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Virgilio S. Jacinto, Joseph N. Pineda, Ma. Belen C. Buensuceso, and David S. Santos; for 2010 are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Francis H. Jardeleza, Eduardo Sergio G. Edeza, Virgilio S. Jacinto, Joseph N. Pineda, Manuel M. Agustin and Bella O. Navarra.

Name	Year	Salary	Bonus	Others	Total
	2010	₱91.7 Million	₱40.8 Million	₱31.8 Million	₱164.3 Million
Total	2012 (estimated)	₱274.6 Million	₱174.0 Million	₱55.0 Million	₱503.6 Million
	2011	₱258.5 Million	₱250.7 Million	₱65.5 Million	₱574.7 Million
	2010	₱237.5 Million	₱202.4 Million	₱55 Million	₱494.9 Million

Section 10 of the Amended By-laws of the Company provides that the Board of Directors shall receive as compensation no more than 2% of the profits obtained during the year after deducting therefrom general expenses, remuneration to officers and employees, depreciation on buildings, machineries, transportation units, furniture and other properties. Such compensation shall be apportioned among the directors in such manner as the Board of Directors deems proper. The Company provides each director with reasonable per diem of ₱50,000 and ₱20,000 for each meeting of the Board of Directors and Committee meeting attended, respectively.

The LTIP of the Company grants stock options to eligible senior and key management officers of the Company as determined by the Committee administering the said Plan. Its purpose is to further and promote the interests of the Company and its shareholders by enabling the Company to attract, retain and motivate senior and key management officers, and to align the interests of such officers and the Company's shareholders.

As of May 31, 2012, the outstanding options under the LTIP held by the above-named Chief Executive Officer and Senior Executive Officers are 10,354,830 common shares, while those held by all officers and middle managers as a group total 9,783,230 common shares.

There were no employment contracts between the Company and a named executive officer.

There were neither compensatory plans nor arrangements with respect to a named executive officer.

Other Arrangements

There are no other arrangements for which the directors are compensated by the Company for services other than those provided as a director.

Employment Contract

In lieu of an employment contract, the directors are elected at the annual meeting of stockholders for a one year term. Any director elected in the interim will serve for the remaining term until the next annual meeting.

Warrants or Options

There are no warrants or options on the Offer Shares held by Directors or Officers.

Security Ownership of Management and Certain Record and Beneficial Owners

Owners of more than 5% of the voting² securities of the Company as of May 31, 2012 were as follows:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Series "1" Preferred Shares	Coconut Industry Investment Fund ("CIIF") Companies ³ c/o 16/F, UCPB Building, Makati City	CIIF Companies c/o 16/F, UCPB Building, Makati City	Filipino	753,848,312	22.57%
Common	ECJ Companies ⁴ c/o 5/F, Universal Reinsurance Building, Perea Street corner Paseo de Roxas, Legaspi Village, Makati City	ECJ Companies	Filipino	493,375,183	14.77%
Common	Top Frontier Investment Holdings Inc. ⁵ 5th Floor, ENZO Bldg., No. 339 Sen. Gil Puyat, Makati City	Top Frontier Investment Holdings Inc.	Filipino	1,221,878,025	36.58%
Common	PCD Nominee Corporation (Filipino) Makati City	Various individuals/Entities	Filipino	320,345,162	9.59%

² Common stockholders have the right to vote on all matters requiring stockholders' approval. The holders of the Series "1" Preferred Shares shall not be entitled to vote except in matters provided for in the Corporation Code: amendment of articles of incorporation; adoption and amendment of by-laws; sale, lease exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; incurring, creating or increasing bonded indebtedness; increase or decrease of capital stock; merger or consolidation with another corporation or other corporations; investment of corporate funds in another corporation or business; and dissolution.

³ ASC Investors, Inc., ARC Investors, Inc., Anglo Ventures Corporation, AP Holdings, Inc., Fernandez Holdings, Inc., First Meridian Development, Inc., Randy Allied Ventures, Inc., Rock Steel Resources, Inc., Roxas Shares, Inc., San Miguel Officers Corps., Inc., Soriano Shares, Inc., Te Deum Resources, Inc., Toda Holdings, Inc. and Valhalla Properties Limited, Inc. None of these companies owns more than 5% of the Company's total issued and outstanding Series "1" Preferred Shares as of May 31, 2012 except ASC Investors, Inc.; ARC Investors, Inc., Toda Holdings, Inc., Te Deum Resources, Inc., Rock Steel Resources, Inc., San Miguel Officers Corps., Inc. and Roxas Shares, Inc. (see Top 20 Series "1" Preferred Shareholders in this report.) The administrator of the CIIF Companies is the United Coconut Planters Bank and the Chairman of the Board or its President or the designate of the Chairman is authorized to vote in person or by proxy the shares registered in the name of the CIIF Companies.

⁴ Primavera Farms, Inc., Misty Mountains Agricultural Corporation, Black Stallion Ranch, Inc., Pastoral Farms, Inc., Meadow-Lark Plantations, Inc., Silver-Leaf Plantations, Inc., Agricultural Consultancy Services, Inc., Archipelago Realty Corporation, Archipelago Finance and Leasing Corporation, Baletic Ranch, Inc., Christensen Plantation Corporation, Discovery Realty Corporation, Dream Pastures, Inc., Echo Ranch, Inc., Far East Ranch, Inc., First United Transport, Inc., Habagat Realty Development Corporation, Kalawakan Resorts, Inc., Kaularan Agricultural Corporation, Labayug Air Terminals, Inc., Land Air International Marketing Corporation, LHL Cattle Corporation, Lucena Oil Factory, Inc., Metroplex Commodities, Inc., Northeast Contract Traders, Inc., Northern Carriers Services Management Corporation, Oceanside Maritime Enterprises, Inc., Oro Verde Services, Inc., PCY Oil Manufacturing Corporation, Philippine Technologies, Inc., Punong Bayan Housing Development Corporation, Pura Electric Co., Inc., Radio Audience Developers Integrated Org., Inc., Radyo Pilipino Corporation, Rancho Grande, Inc., Reddee Developers, Inc., San Esteban Development Corporation, Southern Service Traders, Inc., Southern Star Cattle Corporation, Spade One Resorts Corporation, Unexplored Land Developers, Inc., Verdant Plantations, Inc., Vesta Agricultural Corporation and Wings Resort Corporation. None of these corporations own more than 5% of the voting securities of the Company. The shares owned by these companies are voted, either in person or by proxy, by the authorized designate of their respective boards.

⁵ The shares owned by Top Frontier Investment Holdings Inc. are voted, in person or by proxy, by its authorized designate. As of May 31, 2012, Top Frontier Investments Holdings, Inc. has voting rights to a total of 1,221,878,025 shares of the Company which represent about 51.57% of the outstanding common capital stock of the Company.

The following are the number of shares comprising the capital stock of the Company (all of which are voting shares) owned of record by the directors, Chief Executive Officer, key officers of the Company, and nominees for election as director as of May 31, 2012:

Name of Owner	Amount and Nature of Ownership		Citizenship	Total No. of Shares
	Common	Series "1" Preferred		
Eduardo M. Cojuangco, Jr.	776,038 (D)		Filipino	776,038 (0.02%)
Ramon S. Ang	376,653 (D)		Filipino	376,653 (0.01%)
Ferdinand K. Constantino	139,409 (D)	210,609 (D)	Filipino	350,018 (0.02%)
Estelito P. Mendoza	31,972 (D)		Filipino	31,972 (0.00%)
Hector L. Hofleña	29,854 (D)		Filipino	29,854 (0.00%)
Iñigo Zobel	16,171 (D)		Filipino	16,171 (0.00%)
Leo S. Alvez	5,000 (D)		Filipino	14,326 (0.00%)
	9,326 (I)			
Joselito D. Campos, Jr.	9,149 (D)		Filipino	9,149 (0.00%)
Winston F. Garcia	5,000 (D)		Filipino	5,000 (0.00%)
Menardo R. Jimenez	5,000 (D)		Filipino	5,000 (0.00%)
Carmelo L. Santiago	5,000 (D)		Filipino	5,000 (0.00%)
Alexander J. Poblador	5,000 (D)		Filipino	5,000 (0.00%)
Roberto V. Ongpin	5,000 (D)		Filipino	5,000 (0.00%)
Eric O. Recto	5,000 (D)		Filipino	5,000 (0.00%)
Reynato S. Puno	5,000 (D)		Filipino	5,000 (0.00%)
Virgilio S. Jacinto	25,622 (D)		Filipino	25,622 (0.00%)
Joseph N. Pineda	42,600 (D)		Filipino	42,600 (0.00%)
Aurora T. Calderon	2,600 (D)		Filipino	2,600 (0.00%)

Voting Trust Holders of 5% or more

None of the directors and officers owns 5% or more of the outstanding capital stock of the Company. No person holds 5% or more of the outstanding shares of the Company under voting trust agreement.

Changes in Control

There is no provision in the Amended Articles of Incorporation and Amended By-laws of the Company which would delay, deter or prevent a change in control of the Company. There are no existing arrangements to which the Company is a party or which are otherwise known to the Company that may result in a change in control of the Company.

Certain Relationships and Related Transactions

Related Party Transactions

SMC, 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.

See Note 34 (Related Party Disclosures) of the Audited Consolidated Financial Statements of SMC for the year ended December 31, 2011, included as Appendix “B” of this Prospectus.

Selected Financial Information and Other Data

Prospective investors should read the selected financial information presented below in conjunction with the consolidated financial statements of SMC and the notes to those consolidated financial statements included as Appendices “A” and “B” of this Prospectus. Prospective investors should also read “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

The summary financial and operating information of SMC presented below as of and for the years ended December 31, 2011, 2010 and 2009 were derived from the consolidated financial statements of SMC, audited by Manabat Sanagustin & Co. and prepared in compliance with PFRS. The financial and operating information of SMC presented below as of and for the three months ended March 31, 2012 and 2011 were derived from the unaudited consolidated financial statements of SMC prepared in compliance with PAS 34, “Interim Financial Reporting” and reviewed by Manabat Sanagustin & Co. in accordance with PSRE 2410, “Review of Interim Financial Information performed by the Independent Auditors of the Entity.” The information below should be read in conjunction with the consolidated financial statements of SMC and the related notes thereto, which are included as Appendices “A” and “B” in this Prospectus. The historical financial condition, results of operations and cash flows of SMC are no guarantee of its future operating and financial performance.

	As of and for the years ended December 31,			As of and for the three months ended March 31,	
	2011	2010	2009	2012	2011
	(Audited)			(Unaudited)	
	(in millions except per share figures or where otherwise indicated)				
Consolidated Statements of Income Data					
Sales	₱535,775	₱ 246,156	₱ 174,213	₱ 142,039	₱ 126,592
Cost of sales	432,321	173,929	124,295	115,345	99,300
Gross profit	103,454	72,227	49,918	26,694	27,292
Selling and administrative expenses	(47,500)	(37,619)	(30,249)	(11,853)	(10,157)
Interest expense and other financing charges	(27,443)	(16,578)	(7,926)	(7,169)	(6,757)
Interest income	4,618	3,023	5,989	1,102	1,451
Equity in net earnings of associates	2,824	6,817	2,816	1,350	630
Gain on sale of investments and property and equipment	1,046	529	50,630	538	50
Other income (charges) – Net	(12)	7,095	(6,843)	3,879	(59)
Income before income tax	36,987	35,494	64,335	14,541	12,450
Income tax expense	8,843	11,438	3,706	2,806	2,414
Net income	₱ 28,504	₱ 24,056	₱ 60,629	₱ 11,735	₱ 10,036
Attributable to:					
Equity holders of the Parent Company	₱ 17,518	₱ 20,091	₱ 57,799	₱ 8,477	₱ 7,138
Non-controlling interests	10,986	3,965	2,830	3,258	2,898
	₱ 28,504	₱ 24,056	₱ 60,629	₱ 11,735	₱ 10,036
Earnings per common share attributable to equity holders of the Parent Company basic	₱ 4.97	₱ 6.18	₱ 19.21	₱ 2.96	₱ 2.44
Earnings per common share attributable to equity holders of the Parent Company diluted	₱ 4.94	₱ 6.14	₱ 19.10	₱ 2.94	₱ 2.42
Consolidated Statements of Financial Position Data					
Assets					
Total current assets	₱ 308,179	₱ 279,538	₱ 298,113	₱ 368,230	₱ 308,179
Total noncurrent assets	582,357	550,262	140,378	608,624	582,357
Total assets	₱ 890,536	₱ 829,800	₱ 438,491	₱ 976,854	₱ 890,536

Liabilities and Equity**Current Liabilities**

Total current liabilities.....	₱ 190,830	₱ 178,224	₱ 94,029	₱ 234,802	₱ 190,830
Total noncurrent liabilities.....	400,606	384,751	103,524	416,399	400,606

Equity

Equity attributable to equity holders of the Parent Company.....	229,414	216,031	213,817	235,670	229,414
Non-controlling interests.....	69,686	50,794	27,121	89,983	69,686
Total equity	299,100	266,825	240,938	325,653	299,100
Total liabilities and equity	₱ 890,536	₱ 829,800	₱ 438,491	₱ 976,854	₱ 890,536

Cash Flow Data**Net cash provided by (used in):**

Operating activities.....	₱ 32,207	₱ 45,314	₱ 13,368	₱ 2,892	₱ 3,893
Investing activities	(70,488)	(126,931)	49,155	(17,890)	(18,228)
Financing activities	42,335	(2,226)	32,550	29,768	15,725
Effect of exchange rates changes in cash and cash equivalents.....	(181)	(380)	(2,601)	(235)	(175)
Net increase/(decrease) in cash and cash equivalents	3,873	(84,223)	92,472	14,535	1,215
Cash and cash equivalents at beginning of year	125,188	209,411	116,939	128,975	125,188
Cash and cash equivalents held for sale	(86)	-	-	-	-
Cash and cash equivalents at end of period	₱ 128,975	₱ 125,188	₱ 209,411	₱ 143,510	₱ 126,403

Management's Discussion and Analysis of Results of Operations and Financial Condition

This discussion summarizes the significant factors affecting the consolidated financial performance, financial position and cash flows of the SMC Group for the three-year period ended December 31, 2011. The following discussion is lifted from the 2011 annual report (SEC Form 17-A) and the quarterly report as of March 31, 2012 (SEC Form 17-Q) filed with the SEC and should be read in conjunction with the attached audited consolidated statements of financial position of the SMC Group as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2011. All necessary adjustments to present fairly the consolidated financial position of the SMC Group as of December 31, 2011 and the financial performance and cash flows for the year ended December 31, 2011 and for all the other periods presented, have been made.

I. BASIS OF PREPARATION

Statement of Compliance

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

Basis of Measurement

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

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

Functional and Presentation Currency

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

Significant Accounting Policies

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

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

The FRSC approved the adoption of a number of new or revised standards, amendments to standards, and interpretations (based on IFRIC Interpretations) as part of PFRS.

Adopted Effective 2011

The SMC Group has adopted the following PFRS starting January 1, 2011 and accordingly, changed its accounting policies in the following areas:

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

amendment is applicable for annual periods beginning on or after February 1, 2010. The adoption of this amendment to standards did not have a material effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39, *Financial Instruments*, paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010. The adoption of this Philippine Interpretation did not have a material effect on the consolidated financial statements.
- Revised PAS 24, *Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011. The adoption of this revision to standard did not have a material effect on the consolidated financial statements.
- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC 14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)*. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.
- *Improvements to PFRS 2010* contain 11 amendments to 6 standards and 1 interpretation. The following are the said amendments to PFRS and interpretation:
 - PFRS 3, *Business Combinations*. The amendments: (a) clarify that contingent consideration arising in a business combination previously accounted for in accordance with PFRS 3 (2004) that remains outstanding at the adoption date of PFRS 3 (2008) continues to be accounted for in accordance with PFRS 3 (2004); (b) limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and (c) expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost, when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. The amendments are effective for annual periods beginning on or after July 1, 2010. The adoption of these amendments did not have a material effect on the consolidated financial statements.
 - PAS 27, *Consolidated and Separate Financial Statements*. The amendments clarify that the consequential amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures*, resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010. The adoption of these amendments did not have a material effect on the consolidated financial statements.
 - PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to enable users to evaluate better an entity's exposure to risks arising from the financial instruments. In addition, the International Accounting Standards

Board amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- PAS 1, *Presentation of Financial Statements*. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.
- PAS 34, *Interim Financial Reporting*. The amendments add examples to the list of events or transactions that require disclosure under PAS 34 and remove references to materiality in PAS 34 that describes other minimum disclosures. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*. The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

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

II. FINANCIAL PERFORMANCE

Comparisons of key financial performance for the last three years are summarized in the following tables.

YEARS ENDED DECEMBER 31

	2011	2010	2009
		(In Millions)	
Sales	₱535,775	₱246,156	₱174,213
Gross Profit	103,454	72,227	49,918
Selling and Administrative Expenses	(47,500)	(37,619)	(30,249)
Financing Charges - Net	(22,825)	(13,555)	(1,937)
Equity in Net Earnings of Associates	2,824	6,817	2,816
Gain on Sale of Investments and Property and Equipment	1,046	529	50,630
Other Income (Charges) - Net	(12)	7,095	(6,843)
Net Income	28,504	24,056	60,629
Net Income Attributable to Equity Holders of the Parent Company	17,518	20,091	57,799

2011 vs. 2010

Consolidated sales revenue in 2011 reached ₱535,775 million, more than double the reported revenue in 2010. Steady growth derived from core businesses was complemented by a 63% contribution from the new businesses, specifically power and fuel and oil. Correspondingly, operating income grew 62% to ₱55,954 million. SMB, the packaging and the food businesses also helped with operating income growth of 10%, 8% and 4%, respectively.

The decrease in equity in net earnings of associates resulted from the consolidation of SMEC and SPDC on September 21, 2010 and of Petron on December 15, 2010, previously associates of the Parent Company.

With higher interest expenses and other financing charges and foreign exchange losses versus the gains recognized in 2010, the resulting consolidated net income before non-controlling interests for 2011 is ₱28,504 million, 18% higher than 2010. However, with much higher share of non-controlling interests in net income of the subsidiaries, particularly that of SMB, Petron and SMPFC, net income attributable to equity holders of the Parent Company ended at ₱17,518 million. Excluding one-off items, particularly the gain on acquisition of SMC Global Power Holdings Corp. (SMC Global Power) in 2010 and the gain on sale of Panasia Energy Holdings, Inc. (PanAsia) in 2011, the recurring net income attributable to equity holders of the Parent Company in 2011 amounted to ₱17,243 million, almost at par with 2010.

2010 vs. 2009

The consolidated sales revenue of the Company amounted to ₱246,156 million, 41% above 2009. The core businesses accounted for the 9% of the increase while the new businesses accounted for the remaining 32% increase. The power business which was consolidated starting third quarter brought in revenues amounting to ₱45,701 million or around 19% of the SMC Group's consolidated revenue. Most of the core businesses also delivered improved volumes in the last quarter of 2010.

Correspondingly, the consolidation of the power business brought in an additional ₱9,568 million in operating income. This resulted to a consolidated operating income of ₱34,608 million, 76% higher than 2009. Without the new businesses, the core businesses also did well registering 25% increase in operating income versus 2009.

The increase in equity in net earnings of associates resulted from the recognition of equity in net income of Meralco and of the following subsidiaries prior to consolidation: SMEC, SPDC and Petron.

Net financing charges increased in 2010 as a result of higher interest expense, attributable to higher average balances of drafts and loans payable and long-term debt in 2010 and the interest expense on SMC Global Power's finance lease liabilities.

Other income of ₱7,095 million in 2010, principally includes foreign exchange gains, gain on acquisition of a subsidiary and loss on impairment on the noncurrent assets of the China and Hong Kong operations of the SMC Group.

With other income from new investments, offset by higher net financing charges and higher income taxes, the resulting net income of the SMC Group attributable to equity holders of the Parent Company amounted to ₱20,091 million. Excluding one-off items, recurring net income attributable to equity holders of the Parent Company for 2010 is ₱17,078 million, more than double of last year's comparable net income.

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

2011 vs. 2010

BEVERAGE

SMB

For the Philippines' oldest and largest brewer, 2011 was another year of significant achievement in many important areas. SMB's growth strategies based on multi-value distribution and

consumption-generating programs continued to deliver strong growth so that continuing profitable growth was enhanced for the majority of products in SMB's portfolio.

Total revenues grew 6% reaching ₱71,910 million with consolidated volumes of 223.8 million cases, 1% higher than 2010. Distribution remained SMB's key competitive advantage with volume generating initiatives further improving product availability among served outlets both domestically and overseas.

Operating income ended at ₱20,471 million, higher by 10%.

Beer Domestic

The domestic operations of SMB ended the year with a 5% revenue growth compared to the previous year, helped by a price increase implemented in May 2011 and higher volumes reaching 185 million cases, 1% higher than 2010.

The San Miguel brand continued to dominate the domestic market. Established volume - generating programs (Muziklaban, the National Beer Drinking contest, the Oktoberfest), numerous on-premise activations, sponsorship of major events and festivals, and consumer loyalty promotions all continued to work for the business raising its profile and strengthening brand loyalty. As a result, operating income grew 8% to ₱20,292 million.

Beer International

Revenues of beer international operations rose 16%, on the back of significant improvements in sales especially from North China, Hong Kong, Indonesia and exports. Higher volumes from these critical markets, largely offset lower volumes from South China, Vietnam and Thailand, allowing Beer International to register 5% growth in total international volume.

With these improvements and strong profitability in the brewery's Indonesian and exports operations, Beer International registered a very significant increase versus last year.

In South China, market conditions continued to be challenging, as competitors touted aggressive trade offers. While the South China operations continued to post negative operating results in 2011, there was considerable improvement over the previous year.

In response to intense market competition, Beer International embarked on a major business restructuring program that resulted in the integration of the sales and distribution teams of its local Dragon brand into the Guangzhou operations. The now purely brewing operation in Guangdong will also be developed as an exports production base and will focus on improving plant utilization, productivity and efficiency. South China operations also launched the new San Mig Light with an enhanced formula, new packaging design and new positioning in the market.

In North China, revenue and volume grew by 14% and 6%, respectively. Local brand Blue Star contributed 6% volume growth while SMPP likewise posted a 13% growth. The North China operations posted a significant recovery from last year's losses.

2011 was a very good year for Hong Kong operations as volume and revenue increased by 16% and 24%, respectively, a strong showing considering that the local beer industry grew only 2%. Against such a backdrop, the brewery further strengthened its position as the No. 1 beer company in Hong Kong in terms of volume with the flagship brand San Miguel at the forefront. San Mig Light chalked up impressive growth of 356% from its launch in 2010, while SMPP continued to build on its brand equity in sports. San Miguel Hong Kong Brewery also secured the exclusive distributorship of Budweiser and Harbin in Hong Kong, further strengthening its portfolio of brands and market dominance.

Operating performance likewise turned around from a loss in 2010, improving by 288%.

In Vietnam, revenues grew by 10% on account of better selling price due to an improvement in sales of San Miguel brands. Some of this headway however, was negated by the contraction of the Bia Hoi market.

PT Delta posted an 11% increase in volume, which translated to 23% revenue growth. Strong volume sales resulted from expansion programs implemented in primary cities across Indonesia. Operating income posted a 16% growth, despite the increase in excise tax, higher inflation affecting direct materials and payroll.

Thailand experienced widespread flooding across the country in the fourth quarter of the year, particularly in Bangkok and in its neighboring suburbs. This weighed heavily down on volumes, offsetting the gains registered in the first half of the year, bringing full year domestic volumes to a 7% decline versus last year.

Nevertheless, lower container, manufacturing supplies and freight, trucking and handling costs prevented a further drop in operating income.

Export revenues grew by a robust 26%, mainly due to strong volume sales which grew 23%. San Miguel brands performed well in Sudan, Singapore, Malaysia, Taiwan and Korea, and debuted in newly opened markets in Saudi Arabia, Zambia, Estonia and Timor Leste.

Liquor and Spirits

Amid the relentless pressure of competition and shifts in consumer preference, the hard liquor and soft beverages business of the Company under GSMI buckled under this highly competitive operating environment, turning in much lower volumes versus 2010. While GSMI's flagship Ginebra San Miguel gin held its ground and continued to be a strong contributor to the business, Gran Matador and GSM Blue trailed behind rival brands which managed to be first to market with lighter proof liquor products favored by younger consumers. GSMI responded to this challenge by way of launching Gran Matador Light and Antonov Mixed Drinks, managing to gain some lost ground in the last quarter of 2011, and successfully stemming the volume and revenue decline for the remainder of the year. Margins for GSMI were at par with last year as a price increase and lower bottle costs offset the adverse effects of higher excise taxes.

FOOD

SMPFC posted a record sales performance for 2011, with consolidated revenues reaching ₱ 89,591 million, 11% above last year's already strong showing. The double-digit growth was backed by strong volume sales and better average selling prices, surpassing 2010 levels across almost all business units.

The upward trend in raw material prices persisted in 2011, causing margin erosion throughout the business. Continuing efforts to rationalize low-margin products, stock-keeping units (SKU) and cost reduction programs, however, alleviated the margin squeeze, resulting to an operating income of ₱6,142 million, 4% better than 2010.

The sustained growth and profitability from the Food Group is hinged on its strategic programs on innovation, capacity expansion and efficiencies established in recent years.

Agro-Industrial

Integrated Agro-Industrial Zone. The Agro-Industrial cluster, which contributes 65% of SMPFC sales, posted a 5% revenue growth for 2011. The strong sales performance was driven by robust

volume growth mainly from the poultry and basic meats sectors. However, high raw material prices continued to affect the business, resulting in a 29% operating income decline.

The commercial feeds revenue grew 8% compared to 2010, amidst volatile raw material prices and aggressive pricing stance of competition. The persistent increases in raw material prices and the inability of the market to absorb full cost deterred growth in operating profits.

The poultry business generated revenue growth of 10% on account of higher volumes and better selling prices, despite an industry oversupply of chicken which tempered price increases. Higher broiler costs and the increase in fixed costs due to the opening of additional Chicken Station outlets resulted to lower operating income.

SMFI fresh meats business' strong volume growth of 17% compensated for a decline in selling prices. Profits, however, were impacted by the higher cost of marketable hogs brought about by the increase in feed costs. As a result, in spite of a continuing drive to improve production efficiencies and effectively manage fixed costs, operating income was lower than the previous year.

Value-Added Businesses

Processed Meats. The value-added business of SMPFC did well in 2011, with a volume and revenue growth of 7% and 5%, respectively. Leading brands and products included TJ hotdog, PF Star hotdog, nuggets bacons, whole hams and corned meats. The business posted an impressive 43% increase in operating income helped by efforts to rationalize SKUs.

Milling

Milling. The flour milling operation was affected by competition coming from lower-priced imported flour products. However, with better selling prices, revenue grew 17%. Operating income also managed to grow 16% despite rising wheat and freight costs.

Dairy and Others

Dairy, Oils & Fats. The Dairy, fats and oils business generated revenues that registered a stellar 23% increase from last year's level. Strong volumes and better selling prices across most product categories contributed to this strong showing. In spite of higher input costs, the segment registered 56% growth in operating income. Magnolia Ice Cream likewise posted considerable revenue and volume growths of 31% and 26%, respectively.

SMSCCI posted 32% revenue growth, with volumes growing 35%, the result of intensified distribution efforts. Operating income more than doubled compared to last year.

PACKAGING

The Packaging Group ended another solid year in 2011. Consolidated revenues reached ₱24,113 million, 3% higher than 2010, the result of continuing efforts to broaden reach both in the domestic and export markets. Bringing the packaging products overseas offers a new dimension to the business in 2011, exports from the domestic operations of the Packaging Group grew 36%. Revenue from the international operations of the Packaging Group accounted for 43% of the total, as lower demand from key customers, resulted in a 2% revenue growth from domestic operations. In spite of higher fuel and raw material costs and competitive pricing in overseas markets, operating income growth was sustained at 8%.

Glass. The glass segment, the largest segment of the Packaging Group with a 34% revenue contribution, posted ₱8,272 million in sales revenue, 9% above 2010 levels. Operating income for

the segment surged 19%, reaching ₱1,443 million, the result of purposive cost-cutting measures such as working capital reduction, overhead expenses controls and efficiency improvements.

Metal. Metal business revenues amounted to ₱4,026 million. In 2011, customers from China, Hong Kong, Sri Lanka, the Middle East and Romania joined the business' list of clients.

Plastics. Driven largely by better selling prices, revenue of the plastics businesses reached ₱1,523 million, 12% above 2010 levels. Gross margins also improved by 25% from a year-ago, even as fixed costs ballooned due to higher depreciation. The result: operating income roughly at par with the prior year.

Paper. The paper segment, under Mindanao Corrugated Fibreboard, Inc. or Mincorr, registered revenue growth of 14% on account of higher sales volumes. Operating income likewise rose an impressive 64% due to successful utilization improvements and a decline in fixed costs.

PET. The PET business was severely hit by a drop in demand from key customers, registering much lower revenues compared to 2010. Cost management and containment initiatives allowed the business to minimize losses for 2011.

Flexibles. Flexibles volumes grew 24% to register revenue growth of 12%. 2011 marked a turnaround for the flexible packaging business.

Malaysia. SMYPC's Malaysian operations continued to contribute strongly to the overall business. Sales revenues increased 8%, with the woven segment contributing 6% volume growth and operating income grew 15% on account of lower fixed costs.

Cospak. The Australian trading arm of the Packaging Group, Cospak, continued to do well in 2011. Sales were strong, reaching ₱4,023 million and gross contribution likewise grew despite higher costs. Cospak continued to make a strategic contribution to the Packaging Group, enabling the Packaging Group to further grow its exports, allowing for better access to the growing Australian market.

PROPERTY

SMPI, the real estate arm of San Miguel Corporation, generated revenues of ₱844 million in 2011, higher by 43% versus 2010.

Residential subdivision projects in General Trias, Cavite and in Sta. Rosa, Laguna are in sellout status of its inventory and now positioning to generate fresh inventory. Townhouse developments in Pasig and Mandaluyong are on the drawing board and residential condominium is scheduled to rise along Pasay Road in Makati City. On the other hand, the on-going construction of the 29-storey serviced apartments at Legaspi St., Makati City is expected to be completed by 2014.

POWER GENERATION AND DISTRIBUTION

In a few short years, SMC has built a power company with a full spectrum of power plants and Independent Power Producer Administration (IPPA) contracts that are operated and maintained together with world class, independent power producers. Today, power subsidiary SMC Global Power, is one of the largest power companies in the country.

In January 2011, a US\$300 million bond was issued in preparation for financing for future expansions. In September 2011, SMC Global Power also raised US\$200 million from a syndicated loan. In August 2011, Limay power plant was sold to make room for capacity increases from new acquisitions through government biddings and construction of new plants. With Sual, Ilijan and San Roque in the power portfolio, total capacity stood at 2,545 Megawatt Hours (MWH), 23% and 17% of the Luzon and national grid capacities, respectively.

Before the year ended, expiring contracts with customers were renewed. The Sual power plant was able to sign new customers, while Ilijan completed negotiations with Meralco, which remains the business' biggest customer.

2011 also saw the full-year effect of the power business's consolidation in the SMC group. And the year-end financial results bore out its positive contribution.

Total power generated reached 14,483 thousand MWH which brought revenues of ₱71,445 million and operating income of ₱16,720 million despite lower WESM prices during the year.

Sual Power Plant posted an 11% increase in revenues compared to 2010, mainly due to higher bilateral off-take volume and price. Margins improved to 29% from 21% in 2010 resulting from lower power purchase costs. Consequently, operating income grew by an impressive 51%.

Ilijan Power Plant under SPPC generated 7,964 thousand MWH in 2011, 90% above the 2010 figure covering operations starting June. Bilateral off-takes increased by 110% resulting in an 81% revenue growth. Operating income growth at 35% was tempered by higher power purchased due to a 63-day planned outage which brought about higher power purchases.

Net generation volume of the San Roque Power Plant grew 77% to 1,041 thousand MWH due to abundant water supply in 2011. Operations were affected by the El Niño weather condition of 2010. Net capacity factor likewise improved to 34% from 21%. Accordingly, revenues increased by 17%. Operating income improved by 3% despite full year depreciation against 11 months in 2010.

FUEL AND OIL

Petron registered a good 2011 performance despite a challenging third quarter that saw weak demand brought about by higher fuel prices and aggressive competition particularly in the retail and industrial sectors.

Petron ended the year with consolidated revenues of ₱273,956 million, a significant 20% growth from last year. Lower domestic demand due to higher fuel prices and aggressive competition affected retail and industrial volumes, even as sales in petrochemical sales managed to remain buoyant. Margins grew, the result of a better product mix that included sales from high-margin petrochemical feed stocks such as propylene, benzene, toluene and mixed xylene.

In 2011, a refinery upgrade or the RMP2 plan was launched that will enable Petron to fully convert its residual products to higher-value gasoline, LPG, diesel and propylene. This ongoing project will allow Petron to further integrate high-margin products in the business mix. Petron has also embarked on the expansion of its distribution network. By year-end 2011, Petron has over 1,900 retail service stations, 16 car care centers and more than 700 LPG branch stores. Petron's ambitious modernization and expansion programs will result in better yields, more efficient production and optimized distribution.

Construction of a power plant in Limay, Bataan, which began in 2010, is still ongoing. The co-generation power plant adjacent to Petron's oil refinery will ensure reliable and economical steam and power supply for the business and provide Petron considerable cost savings. The first phase of this project is expected to be completed by the second half of 2012.

INFRASTRUCTURE

The infrastructure projects are well on track.

For the Boracay Airport, the rehabilitation of the existing terminal has been completed. The terminal fee has recently been increased to ₱200 which will help maintain the greatly improved

facilities and services provided to visitors of this popular holiday spot. Meanwhile, Trans Aire Development Holdings Corp. (TADHC) is finalizing the technical plans related to the extension of the runway. Construction is expected to start by the third quarter.

For TPLEX, construction is on-going with the first phase nearing completion. We expect revenues to be coming in by the fourth quarter of 2012 as we start the operations of the 16-kilometer Tarlac-Gerona stretch.

On the other hand, the MRT 7 technical evaluation and other aspects related to the project are being jointly reviewed and discussed with the Department of Transportation and Communications and other pertinent government agencies. We expect the project's implementation to start within the year.

2010 vs. 2009

BEVERAGE

SMB

SMB's accelerated growth in 2010 owing to the strong economic recovery, election-related spending, an improving cost environment and stepped-up consumption-generating programs. Consolidated SMB sales revenue rose 6% to reach ₱67,575 million, while operating income increased to ₱18,551 million. This is on a consolidated beer volumes of about 221 million cases, 2% above 2009 level.

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

Beer Domestic

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

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

Beer International

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

In South China, sales of both Guangzhou San Miguel Brewery and San Miguel Guangdong Brewery remained sluggish due to aggressive trade offers of competitors and lower volumes from

base markets Dongguan and Foshan markets, which continued to suffer from the lingering effects of the global recession.

In North China, Blue Star remains the leading beer brand in Baoding City. The North China operations of SMB posted a strong recovery in the last eight months of 2010, reversing the declining trend during the early part of the year. Volumes were slightly ahead versus 2009 by year-end driven by improvements in wholesaler channel management.

SMB retained its position as the leading player in the Hong Kong beer industry even as domestic volumes fell short in 2009. Premium brands continued to grow by double-digit in 2010 while exports nearly doubled versus 2009 volumes, bringing total production volumes 11% ahead of 2009.

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

In Vietnam, San Miguel brands continued their growth momentum in 2010, growing by 20% compared to 2009, the result of greater outlet coverage, particularly in cities popular with tourists, and strong sales of SMB's draft beer variant.

Despite the political unrest in Thailand during the first half of 2010, the Thai unit of SMB was able to grow domestic volumes by 7% over 2009. Despite a decline in the total industry's Premium segment, sales were particularly good for San Mig Light and San Miguel Draught Beer. Volume growth for these brands was brought about by a focus on outlet penetration and an improvement in sales yields.

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

Liquor and Spirits

GSMI ended 2010 with positive results, greatly surpassing the 2009's performance. Domestic liquor sales volumes reached 39.4 million cases, 7% higher than 2009 levels and a new all-time high record.

Flagship Ginebra San Miguel Gin and G.S.M. Blue were the main contributors to GSMI's volume growth. Marketing programs like "Blueniversity" and exposure in both traditional media and social media sites helped sustain the brand's popularity among younger drinkers. Ginebra San Miguel performed creditably, posting 11% growth. GSMI continues to provide the brand steady marketing support via the popular "Gin- U-Win 2" consumer promo. Vino Kulafu held its own in southern Philippines, with volumes rising markedly above the prior year. Owing to the decline in the overall brandy segment, sales of Gran Matador slid despite retaining its lead in the brandy market. To provide consumers choice, GSMI launched a lower-proof variant, Gran Matador Primo in late 2010.

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

Overall, GSMI's consolidated revenues for 2010 reached ₱22,688 million, 16% higher than 2009. Consolidated operating income stood at ₱1,519 million, a robust 40% over 2009 levels -the result of significant growth in the core liquor segments and exports. Losses from both Thai liquor and the non-alcoholic beverage sectors were also considerably lower than 2009.

FOOD

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

SMPFC ended 2010 with consolidated revenues of ₱80,418 million, 4% higher than 2009, largely on the back of sustained volume growth across the majority of its businesses. Cost pressures remained an issue as do lower selling prices for some food products, but in the aggregate, the Food Group has managed to offset these pressures by pricing actions, new product launches and strong promotional activities. Efforts to raise operating efficiencies over the years, complemented by lower costs of critical raw materials in poultry, basic meats, flour and dairy, translated into higher profitability -enabling SMPFC to post an operating income that was 30% above 2009 at ₱ 5,906 million.

Agro-Industrial Cluster

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

The numerous market challenges bearing down on business profitability on SMFI's feeds business; i.e., increasing farm inputs, surging raw material prices, threats of animal disease, and weather disturbances, stood Feeds' operating income lower than 2009 performance. The continued use of raw material substitutes like cassava is being intensified to help manage direct material costs.

Improved efficiencies contributed to SMFI's basic meats business' operating profits, reversing 2009's loss. This strong showing offset lower volumes and revenues.

Value-Added Businesses

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

Milling

Milling. The Food Group's flour business under SMMI continued its strong year-on-year performance, with better operating margins versus 2009 helped by lower wheat and operating costs. Flour volumes grew by 7% amid competition from other local flour manufacturers and flour imports. Revenues dropped 3% due to lower selling prices, an offshoot of better global wheat prices.

Dairy and Others

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

SMSCCI's revenues topped 2009 by 17%, resulting in a significant improvement in operating profits.

PACKAGING

The Packaging Group had a strong year in 2010, with the PET and paper businesses in particular showing robust profit growth. Including the consolidation of Australian trading company, Cospak, the Packaging Group generated revenue of ₱23,438 million, 19% higher than 2009. Likewise, operating income for the group reached ₱1,999 million, 26% above 2009, on account of lower raw material costs.

Glass. Sales revenues of the glass business reached ₱7,615 million in 2010, mainly attributable to volume sales to the Coca-Cola Bottlers Group ("CCBG") and GSMI. Other customers contributing to revenue were SMB, pharmaceutical company United Laboratories and Cospak. 2010 marked the successful commercial delivery by the Packaging Group of the first flint and antique green wine bottles to customers in Australia.

Metal. For metal operations of the Packaging Group, sales revenues amounted to ₱4,276 million, mainly from sales of crowns to SMB and CCBG, metal caps to GSMI and roll-on-pilfer-proof caps to CCBG and Bickford's. For the second year running, the metal container plant of the Packaging Group bagged the Best Two-Piece Can Award in the Asia CanTech 2010.

Plastics. For the plastics business, higher sales of regrinds, pallets and crates pushed sales revenue to reach ₱1,361 million, at par versus 2009 level. In 2010, the plastics business launched its four-liter paint buckets for leading paint maker, Boysen, and developed the flexi-pallet, eight-piece pallet molds and the patented Suretube of the Packaging Group for customers in the pharmaceutical and personal care industries.

Paper. The paper business posted sales revenue of ₱1,440 million for 2010. Nestle Philippines was a major customer as were customers from the fresh produce segment.

PET. Driven by higher volume sales to CCBG and Del Monte, the Packaging Group's PET operations' sales revenue of ₱1,960 million was 12% above 2009. Preform sales to CCBG were also strong. The PET business introduced 38 mm caps and preforms for Pepsi as well as the amorphous neck finish preforms and 1-liter hot fill bottle for Del Monte.

Flexibles. Rightpak's sales served Nestle Philippines, SMFI, Alaska and Del Monte resulting in sales revenue of ₱647 million, 12% higher than 2009's level.

Malaysia. The sales revenue of the Malaysia operations of the Packaging Group of ₱3,075 million was 9% better than 2009.

Cospak. Through synergy between SMYPC and Cospak, new multi-year contracts were secured with major Australian customers such as General Mills, Gage Roads, Amcor Glass and Bickford's. At the end of 2010, Cospak's sales revenue totaled ₱3,698 million.

PROPERTY

Election-related spending and overseas Filipino workers remittances resulted in more reservation sales take-up for SMPI existing projects. However, due to depleting inventory and implementation of stringent measures to ensure the creditworthiness of buyers, SMPI residential sales dipped by 29%. The policy of requiring buyers' equity prior to loan releases also affected SMPI's booked sales.

SMPI implemented an aggressive marketing campaign that led to the re-launch of SMPI and its existing projects. Operating expenses grew 28% as SMPI invested in advertising and promotions

to raise the profile of existing projects and its newest development, Asian Leaf, an eight-hectare horizontal development located at General Trias, Cavite.

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

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

POWER GENERATION AND DISTRIBUTION

SMC Global Power is San Miguel's holding firm for all power-related units such as SMEC, SPDC and SPPC and PanAsia, which in turn own the 620-megawatt Limay combined-cycle power plant and manage the IPP Administration contracts of three power plants—the 1,200-megawatt Ilijan natural gas-fired power plant IPP Administration; 1,200-megawatt Sual coal-fired power plant IPP Administration, and the 345-megawatt San Roque hydroelectric power plant IPP Administration. The power companies were consolidated into San Miguel during the third quarter of 2010 following SMC's subscription of 75% of the shares and voting interests of Global 5000 Investment Inc. and its acquisition of the remaining 25% stake from existing shareholders.

In February 2011, San Miguel's power business successfully completed its US\$300 million, five-year benchmark US dollar bond at a 7% yield. SMC Global Power plans to use the proceeds to finance investments in other power-related assets, finance payment or, subject to negotiation with the Power Sector Assets and Liabilities Management Corporation (PSALM), prepay the obligations, and/or for general corporate purposes. SMC's four power plants—Sual, Limay, San Roque and Ilijan—generated an estimated 11.1 million megawatt hours in 2010. The revenue and operating income contribution of the power generation and distribution business to the SMC Group upon consolidation up to December 31, 2010 amounted to ₱45,701 million and ₱9,568 million, respectively.

III. FINANCIAL POSITION

2011 vs. 2010

The SMC Group's consolidated total assets as of December 2011 amounted to ₱890,536 million, ₱60,736 million higher than 2010. This is basically due to the increase in investments and advances, property, plant and equipment and certain current assets.

Below were the major developments in 2011:

BUSINESS COMBINATIONS AND INVESTMENTS IN SUBSIDIARIES

FOOD

- **Golden Food and Dairy Creamery Corporation**

In September 2011, Magnolia, a wholly-owned subsidiary of SMPFC, acquired the subscription rights of certain individuals in GFDCC, a Philippine company engaged in the toll manufacturing of ice cream products.

- **Golden Bay Grain Terminal Corporation**

In September 2011, the Parent Company, through SMMI, a wholly-owned subsidiary of SMPFC, incorporated GBGTC with an authorized capital stock of ₱2,000 million. GBGTC is a Philippine company with the primary purpose of providing and rendering general services connected with and incidental to the operation and management of port terminals engaged in handling and/or trading of grains, among others. In November 2011, following the approval by SEC of the incorporation of GBGTC, SMMI subscribed to 5,000,000 GBGTC shares for a total subscription

value of ₱500 million and paid an initial consideration amounting to ₱125 million. As of March 28, 2012, GBGTC has not yet started commercial operations.

POWER AND MINING

- **Panasia Energy Holdings, Inc. (PanAsia)**

On June 17, 2011, the Board of Directors (BOD) of SMC Global Power approved the sale of its 100% ownership interest in PanAsia to Millenium Holdings, Inc. (MHI). On June 24, 2011, SMC Global Power signed a Share Purchase Agreement with MHI subject to certain closing conditions, which includes among others, the Board of Investments (BOI) approval of the transaction. The approval by the BOI was obtained on August 18, 2011.

In 2011, the SMC Group recognized a gain of ₱278 million for the said sale.

- **San Miguel Electric Corp. ("SMELCO")**

On February 8, 2011, the Parent Company incorporated SMELCO, a wholly-owned subsidiary, with an authorized capital stock of ₱1,000 million divided into 10,000,000 shares and paid-up capital of ₱250 million. On August 22, 2011, SMELCO was granted a Retail Electricity Supplier (RES) license by the Energy Regulatory Commission pursuant to Section 29 of Republic Act No. 9136 or the Electric Power Industry Reform Act of 2001. A RES license is needed to participate in retail sales and enter into off take agreements with contestable customers or those with power requirements of at least 1MW upon the implementation of Open Access and Retail Competition, which is scheduled in 2012.

On August 31, 2011, the Parent Company sold its 100% shareholdings in SMELCO to SMC Global Power for ₱250 million.

TELECOMMUNICATIONS

- **San Miguel Equity Securities, Inc.**

On March 28, 2011, the Parent Company incorporated SMESI, a wholly-owned subsidiary, with an initial authorized capital stock of ₱100 million divided into 100,000,000 shares and paid-up capital of ₱25 million.

- **Eastern Telecommunications Philippines, Inc.**

On October 20, 2011, the Parent Company through its wholly-owned subsidiary, SMESI, executed a Share Purchase Agreement with ISM Communications Corporation (ISM Corp.), for the purchase of 37.7% of the outstanding and issued shares of stock of ETPI for ₱1,508 million. The acquisition of ETPI was authorized by the BOD of the Parent Company during meetings held on December 16, 2010 and September 22, 2011.

With the acquisition of the 37.7% by SMESI and of the 40% ownership by A.G.N. Philippines, Inc. (AGNP), the Parent Company obtained control and consolidated ETPI effective October 20, 2011.

PROPERTIES

- **SMPI-Government Service Insurance System Joint Venture Corporation (SMPI-GSIS JVC)**

On July 5, 2011, GSIS exercised its option by executing a Deed of Absolute Sale over all of its shares of stock representing 48% equity in the SMPI-GSIS JVC in favor of SMPI, for a consideration of ₱399 million, making SMPI-GSIS JVC a wholly-owned subsidiary of SMPI.

OTHERS

- **Keppel Cebu Shipyard Land, Inc. (KCSLI)**

On May 26, 2011, SMC Shipping and Lighterage Corporation (SMCSLC) executed an Asset and Share Purchase Agreement relating to the purchase of 100% of the issued shares of KCSLI for ₱ 826 million through which SMCSLC obtained an indirect ownership over a parcel of land and of certain fixed assets and foreshore leases and land rights.

- **Mactan Shipyard Corporation (MSC)**

On August 18, 2011, SMCSLC incorporated MSC. MSC's primary purpose is to engage in the business of construction, building, fabrication, repair, conversion or extension of ships, boats and other kinds of vessels and marine equipment, machineries and structures including offshore rigs. MSC leases the land owned by KCSLI.

- **San Miguel Equity Investments Inc.**

On March 23, 2011, the Parent Company incorporated SMEII, a wholly-owned subsidiary, with an initial authorized capital stock of ₱100 million divided into 100,000,000 shares and paid-up capital of ₱25 million.

INVESTMENTS IN ASSOCIATES

- **Atlantic Aurum Investments BV**

On October 11, 2011, the Parent Company through its wholly-owned subsidiary SMHC, entered into a Sale and Purchase Agreement of Shares with PT Matra Sarana Arsitama, a corporation organized and existing under the laws of the Republic of Indonesia, for the purchase of 16,022,041 Class B common shares, representing 46.53% of the outstanding capital stock of AAI for US\$132 million or ₱5,871 million. AAI has indirect equity interests in the companies holding the concessions to construct, operate and maintain the South Luzon Expressway Project.

On December 29, 2011, SMHC entered into an Option Agreement with Padma Fund L.P. (Padma), a corporation organized and existing under the laws of Cayman Island, for the option to purchase up to 53.47% of the outstanding capital stock of AAI, comprising of 47,369 Class A common shares and 18,364,461 Class B common shares. SMHC paid US\$40 million or ₱1,754 million as option deposit for the option to purchase the shares. SMHC has the option to purchase the shares for a period of 25 calendar days from the execution of the Option Agreement or until January 23, 2012, or such date as may be agreed upon by the Parties in writing. The option deposit shall be returned upon the issuance of a written notice by SMHC confirming that the option shall not be exercised.

On January 26, 2012, Padma returned to SMHC the option deposit of US\$40 million.

- **Meralco**

On August 12, 2011, the BOD of the Parent Company approved the sale of a portion of its investment in Meralco to SMPFC, comprising of 59,090,909 common shares or approximately 5.2% of the outstanding capital stock of Meralco as of December 31, 2010 at ₱220.00 per share. The purchase price of the shares was based on the average trading price of Meralco shares for the period from January 1 to July 31, 2011, with a discount of 12%.

In January and August 2011, the Parent Company paid in full the remaining balance of its liability related to the acquisition of Meralco shares of stock from GSIS amounting to an aggregate of ₱21,909 million.

In January 2011, SMC Global Power paid the Development Bank of the Philippines and the Social Security System ₱2,575 million, related to the acquisition of Meralco shares of stock and paid in full the remaining balance of its payable on January 31, 2012.

- **Limay Energen Corporation ("LEC")**

On August 3, 2010, Petron together with Two San Isidro SIAI Assets, Inc. (Two San Isidro), formed LEC with an authorized capital stock of ₱3,400 million. Out of its authorized capitalization, ₱850 million has been subscribed, of which ₱213 million has been paid-up by Petron. Petron owns 40% of LEC, while Two San Isidro owns the remaining 60%. In 2011, Petron infused ₱1,147 million to LEC to fully pay its 40% equity share.

LEC was formed to build, operate and maintain a cogeneration power plant that will engage in the generation of power and steam for the primary purpose of supplying the steam and power requirements of Petron Bataan Refinery.

- **Manila North Harbour Port Inc.**
On January 3, 2011, Petron entered into a Share Sale and Purchase Agreement with Harbour Centre Port Terminal, Inc. for the purchase of 35% of the outstanding and issued capital stock of MNHPI. As of December 31, 2011, the cost of investment in MNHPI amounted to ₱691 million.
- **Bank of Commerce**
In 2011, SMPI agreed to acquire an additional 7.2% of the outstanding capital stock of BOC, by way of Deed of Sale of Shares with Assignment of Subscription Rights from Valiant Ventures and Development Holdings, Inc. consisting of: (i) 2,800,000 outstanding and issued common shares of stock; and (ii) the subscription rights to 5,237,265 common shares of stock. The acquisition by SMPI resulted to an increase in its equity interest to 39.93% as of December 31, 2011. As of December 31, 2011, SMPI completed the payment for the additional investment.
- **Private Infra Dev Corporation**
On September 12, 2011, Rapid Thoroughfares Inc. (Rapid) advanced ₱1,111 million as deposit for future stock subscription to 1,111,228 common shares of PIDC. One of the conditions for the issuance of the subscribed shares of Rapid is the approval of the SEC of the increase in the authorized capital stock of PIDC. As of December 31, 2011, the approval by the SEC has not yet been obtained.
- **Telecom Company**
In 2011, Vega Telecom, Inc. (Vega) provided non-interest bearing cash advances to a telecom company, a future investee, amounting to ₱5,958 million as of December 31, 2011.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

- **Indophil Resources NL (“Indophil”)**
As of December 31, 2011, Coastal View Exploration Corporation (Coastal View) stake in Indophil has been diluted to 3.99% as a result of the additional shares issuances made by Indophil.

ASSETS HELD FOR SALE

- **San Miguel (Thailand) Co. Ltd. (“SMTCL”)**
On December 7, 2011, the Parent Company through San Miguel Foods and Beverage International Limited (SMFBIL), signed a Share Sale and Purchase Agreement to sell all its outstanding shares in SMTCL to Pepsi Thai Trading Co., for a purchase price of US\$35 million. The sale was completed on February 15, 2012.
- **PT San Miguel Yamamura Utama Indoplas (“SMYUI”)**
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 SMYUI. On December 2, 2011, the BOD unanimously accepted NYG’s offer and approved the share sale transaction as contemplated in the MOU. The disposal was completed in January 2012.
- **San Miguel (Vietnam) Co. Ltd. (“SMVCL”)**
Included in the “Assets held for sale” account presented in the consolidated statement of financial position as of December 31, 2011, are building and land use rights of SMVCL in Amata Industrial Zone in Vietnam amounting to ₱168 million, which were sold to Pepsico International - Vietnam Company on February 23, 2012.

BORROWINGS AND EQUITY TRANSACTIONS

- **Sale of Common Shares of the Parent Company and Issuance of Exchangeable Bonds**
On May 5, 2011, the Parent Company completed the secondary offering of its common shares. The offer consists of 110,320,000 shares of stock of the Parent Company consisting of 27,580,000 common shares from treasury stock of the Parent Company and 82,740,000 common

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

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

On December 5, 2011, 765,451 common shares were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at an exchange price of ₱113.24 per share. Subsequently on December 8, 2011, 612,361 common shares of stock of the Parent Company were transacted and crossed at the Philippine Stock Exchange (PSE) via a special block sale in relation to the issuance of common shares pursuant to the US\$600 exchangeable bonds of the Parent Company. As of December 31, 2011, P87 worth of exchangeable bonds were already exchanged to equity into common shares.

- **Issuance of Bonds by SMC Global Power**

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

- **Draw Down by SMC Global Power of the US\$200 Million Medium Term Loan**

On September 30, 2011, SMC Global Power has drawn a US\$200 million, syndicated 3-year term loan facility. Pursuant to the Facility Agreement signed on March 31, 2011, the amount of the loan drawn will bear interest at the rate of the London interbank offered rate plus a margin, payable in arrears on the last day of the interest period. The facility agreement has a final maturity date of September 2014.

- **Issuance and Listing of Preferred Shares by San Miguel Pure Foods Company, Inc.**

On January 20, 2011, the SEC favorably considered SMPFC's Registration Statement covering the registration of 15,000,000 preferred shares with a par value of ₱10.00 per share.

On January 26, 2011, the PSE approved, subject to certain conditions, the application of the SMPFC to list up to 15,000,000 preferred shares with a par value of ₱10.00 per share to cover the SMPFC's follow-on preferred shares offering at an offer price of ₱1,000.00 per share and with a dividend rate determined by management on the dividend rate setting date.

On February 10, 2011, the SEC issued the order for the registration of SMPFC's 15,000,000 preferred shares with a par value of ₱10.00 per share and released the Certificate of Permit to Offer Securities for Sale.

On February 11, 2011, the SMPFC's Board of Directors approved the terms of the preferred shares offer (Terms of the Offer) and the amendment of the Articles of Incorporation of SMPFC to reflect the additional optional redemption features of the preferred shares to align with the Terms of the Offer. The stockholders of SMPFC approved the said amendment during its annual meeting on May 13, 2011.

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

On June 2, 2011, the SEC issued the Certificate of Filing of Amended Articles of Incorporation approving the additional redemption features of the preferred shares of SMPFC.

- **Board of Directors Approval on the Issuance of Bonds by SMB**

On October 11, 2011 the Board of Directors of SMB approved the issuance of fixed rate peso-denominated bonds in the aggregate principal amount of up to ₱20,000 million (the "Bonds"). The proceeds thereof will be used to refinance the Series A Bonds issued by SMB in 2009, which are maturing in 2012. The BOD has also delegated to management the authority to determine, negotiate and finalize the terms and conditions of the issuance, including the interest rate and listing thereof.

Subsequently, on February 7, 2012 further to the approval by BOD of the issuance by SMB of the Bonds in October 2011, the BOD also approved the use of proceeds of the Bonds for the prepayment of the USD Facility, which will mature in 2015. On March 13, 2012, the BOD of SMB also approved among others the interest rate of the Bonds.

Pursuant to the above approvals, SMB offered for subscription the Bonds on March 19 to 23, 2012. The Bonds were issued on April 2, 2012 at the issue price of 100.00% of face value in three series: Series D Bonds, Series E Bonds, and Series F Bonds. The Series D Bonds shall have a term beginning on the Issue Date and ending five years and one day from the Issue Date or on April 3, 2017, with a fixed interest rate equivalent to 6.05% per annum. The Series E Bonds shall have a term beginning on the Issue Date and ending seven years from the Issue Date or on April 2, 2019, with fixed interest rate equivalent to 5.93% per annum. The Series F Bonds shall have a term beginning on the Issue Date and ending ten years from the Issue Date or on April 2, 2022, with a fixed interest rate equivalent to 6.60% per annum. Interest in Series D Bonds, Series E Bonds and Series F Bonds shall be payable semi-annually in arrears on April 2 and October 2 of each year, or the subsequent business day without adjustment if such interest payment date is not a business day, while the Bonds are outstanding, provided that the first interest payment date for the Series D Bonds shall be on October 3, 2012 (or the subsequent business day if such date is not a business day).

OTHERS

- **Payment of the Balance of the Purchase Price of Vietnam Food Business**

In May 2011, SMPFC increased its investment in San Miguel Pure Foods International, Limited ("SMPFIL") by an amount equivalent to the 90% balance of the purchase price of San Miguel Pure Foods (Vn) Co. Ltd. ("SMPFVN") acquired by SMPFIL from SMFBIL. Subsequently, SMPFIL paid US\$16.8 million, the remaining balance of the purchase price of the Vietnam food business.

As approved by the State Securities Commission of Vietnam on September 30, 2011, SMPFVN was renamed to San Miguel Hormel (Vn) Co., Ltd.

- **Declaration of Cash Dividend by Top Frontier Investment Holdings, Inc.**

On February 10, May 23 and December 29, 2011, the Parent Company received cash dividends on its preferred shares in Top Frontier amounting to ₱139.50 per share or a total of ₱1,087 million.

- **Exercise of Option to Purchase from Q-Tech Alliance Holdings, Inc. a 12.9% Equity Interest in SMC by Top Frontier**

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

- **Sale of SMC Shares by Top Frontier**

On December 1, 2011 Top Frontier sold 9,000,000 SMC common shares transacted through the PSE.

As of December 31, 2011, Top Frontier had total shareholdings of 1,447,865,673 common shares of the Parent Company or equivalent to 61.12% ownership interest. Out of the 1,447,865,673

common shares of the Parent Company held by Top Frontier as of December 31, 2011, 225,987,648 shares are lodged in the Philippine Depository and Trust Company.

2010 vs. 2009

The SMC Group's consolidated total assets as of December 2010 amounted to ₱829,800 million, ₱391,309 million higher than 2009. This is basically due to the consolidation of the power assets and the year-end consolidation of Petron, combined with the increase in investments and advances.

Below were the major developments in 2010:

BUSINESS COMBINATIONS

POWER AND MINING

- **Strategic Power Devt. Corp.**

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

On March 15, 2010, the Parent Company and SMC Global Power executed the Subscription Agreement setting forth their aforementioned subscription of the remaining unissued capital stock of SPDC. Prior to the subscription, the Parent Company beneficially owned the 2,500 subscribed common stock of SPDC, representing 100% ownership interest. On March 19, 2010, the Parent Company paid in full its remaining unpaid subscription to the 2,495 common shares of stock in SPDC amounting to ₱0.1875 million.

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

- **South Premiere Power Corp.**

On May 19, 2010, the Parent Company paid in full its remaining unpaid subscription to the 2,495 common shares of stock in SPPC amounting to ₱0.1875 million.

- **SMC Global Power Holdings Corp.**

On August 9, 2010, the Parent Company obtained control of SMC Global Power, an entity whose subsidiaries are primarily engaged in the production of electricity and mining, by acquiring 75% of the shares.

In September 3 and 8, 2010, the Parent Company acquired the remaining 25% ownership in SMC Global Power, making it a wholly-owned subsidiary.

On May 17, 2010, the BOD of the Parent Company approved the sale of its entire 40% ownership interest in SMEC and SPDC and 100% ownership in PanAsia and SPPC. On September 21, 2010, the Parent Company and SMC Global Power executed Deed of Absolute Sale of Shares whereby the former's entire interest in SMEC, PanAsia, SPPC and SPDC were sold for a total price of ₱7.15 million. Following such sale, SMEC, PanAsia, SPPC and SPDC became wholly-owned subsidiaries of SMC Global Power.

- **Mining (thru San Miguel Energy Corporation)**

- **Sultan Energy Phils. Corp. (SEPC)**

- On May 13, 2010, SMEC acquired 100% ownership interest in SEPC, which has a coal mining property and right over an aggregate area of 7,000 hectares, more or less composed of 7 coal blocks located in Lake Sebu, South Cotabato and Sen. Ninoy Aquino, Sultan

Kudarat covered by Coal Operating Contract (COC) No. 134 with the Department of Energy (DOE) dated February 23, 2005. SEPC has an in-situ coal resources (measured plus indicative coal resources) of about 55 million metric tons based on exploratory drilling conducted by SEPC and confirmatory drilling conducted by an independent geologists from March 13 to April 19, 2010.

- **Daguma Agro Minerals, Inc. (DAMI)**

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

- **Bonanza Energy Resources, Inc. (BERI)**

On January 29, 2010, SMEC acquired BERI, a mining company with coal property covered by COC No. 138 with the DOE dated May 26, 2005. COC No. 138 is located in Maitum, Sarangani Province and Barangay Ned, Lake Sebu, South Cotabato consisting of 8 coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 5 million metric tons based on initial exploratory drilling conducted by SMEC geologists in Maitum, Saranggani during the period from May to July 2010. The exploratory drilling to be conducted on 4 coal blocks of BERI located in Barangay Ned, Lake Sebu Municipality is projected to contain 30 million metric tons based on a geological setting and initial exploratory drilling conducted in Maitum.

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

As of December 31, 2010, SEPC, DAMI and BERI are in the exploratory stages of their mining activities.

FUEL AND OIL

- **Sea Refinery Corporation and Petron**

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

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

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

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

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

INFRASTRUCTURE

- **Trans Aire Development Holdings Corp. - Caticlan Airport**

On April 8, 2010, the Parent Company, through its wholly-owned subsidiary, San Miguel Holdings Corp. (SMHC), executed a share sale purchase agreement relating to the purchase by SMHC of the rights, title and interests to a total of 2,025,000 common shares in Caticlan International Airport Development Corp. (CIADC) (the "CIADC Shares"). On April 29, 2010, Deeds of Assignment of Shares were executed covering the CIADC Shares. CIADC holds the exclusive rights, obligations and privileges to finance, design, construct, operate and maintain the Caticlan Airport by virtue of the Concession Agreement, dated June 22, 2009, with the ROP, through the DOTC and the Civil Aviation Authority.

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

- **Universal LRT Corporation (BVI) Limited - MRT 7 Project (ULC BVI)**

On October 28, 2010, the Parent Company, through SMHC, signed a Share Sale and Purchase Agreement (the "Agreement") with Universal LRT Corporation Limited, pursuant to the authority of the BOD of the Parent Company on March 15, 2010. Under the terms of the Agreement, SMHC acquired 51% equity interest in ULC BVI, the corporation which holds the exclusive right, obligation and privilege to finance, design, construct, supply, complete and commission the MRT-7 Project by virtue of the Concession Agreement dated June 18, 2008 with the ROP, through the DOTC.

Closing of the Agreement was held on November 8, 2010. As of March 28, 2012, there are certain post completion mandatory conditions under the Agreement which are subject to the satisfaction by Universal LRT Corporation Limited.

TELECOMMUNICATIONS

- **Two Cassandra – CCI Conglomerates, Inc. (TCCI), Perchpoint Holdings Corp. (PHC), Power Smart Capital Limited (PSCL)**

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

BellTel is a grantee of a franchise to install, operate and maintain local exchange networks and Wireless Local Loop in several areas including special economic zones, inter-exchange networks, nationwide VSAT network, international gateway facilities, and cellular mobile telecommunications network.

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

- **AGNP**

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

AGNP is the registered and beneficial owner of approximately 40% of ETPI. ETPI's products and services included wireless access, services for high-end internet cafes, a new data center, business application and special packages for small and medium enterprises and corporations,

besides the traditional bandwidth and connectivity solutions. The acquisition of ETPI through AGNP, would complement the internet broadband service of Liberty Telecoms Holdings, Inc. (LTHI), in which the SMC Group holds 41.48% interest.

PROPERTIES

- **SMPI-Government Service Insurance System Joint Venture Corporation (“SMPI-GSIS JVC”)**
On October 31, 2007, the Parent Company through SMPI entered into a Joint Venture Agreement (JVA) with Government Service Insurance System (GSIS) to establish the SMPI-GSIS JVC. The SMPI-GSIS JVC will hold ownership and title to the real property owned by GSIS, develop the property into a first class high-rise service apartment and manage and operate the same. The SMPI-GSIS JVC will have an authorized capital stock of ₱600 million divided into 600,000,000 shares with a par value of ₱1.00 per share. The parties agreed to an equal equity participation wherein the real estate property owned by GSIS is valued at ₱300 million while SMPI has committed to contribute ₱300 million to the SMPI-GSIS JVC. On October 23, 2008, SMPI-GSIS JVC was incorporated.

In 2010, the Articles of Incorporation of SMPI-GSIS JVC was amended accordingly to reflect the increase in its authorized capital stock from ₱600 million divided into 600,000,000 shares to ₱625 million divided into 625,000,000 shares, both with par value of ₱1.00. SMPI then completed the acquisition of the 52% equity ownership in SMPI-GSIS JVC by assigning its 100% equity ownership in Maison 17 Properties (MPI), one of its wholly-owned subsidiaries, plus additional cash consideration of ₱181 million, which is in accordance with the JVA. After this transaction MPI became a wholly-owned subsidiary of SMPI-GSIS JVC.

INVESTMENTS IN ASSOCIATES

On January 6, 2010, the Parent Company acquired a 49% stake via equity infusion in Top Frontier consisting of its subscription to 2,401,960 common shares of Top Frontier from its unissued capital stock. On January 7, 2010, the Parent Company paid ₱48,324 million as deposit for future subscription in connection with the option granted to the Parent Company to apply the same to the subscription of 2,598,040 non-voting, redeemable, participating preferred shares of Top Frontier upon the increase in its authorized capital stock, amendment of its Articles of Incorporation and Top Frontier's compliance with its obligations related to the aforementioned investment.

The application for the increase in the authorized capital stock of Top Frontier was approved by the SEC on August 6, 2010.

The stock certificates covering the investment by the Parent Company in the 2,598,040 preferred shares of Top Frontier were issued in the name of the Parent Company on October 22, 2010.

The preferred shares are entitled to preferential dividends at a fixed rate per annum of 3% of the issue price which shall be payable quarterly in arrears and in cash. The dividends on the preferred shares shall be cumulative from and after the issue date of the preferred shares.

The preferred shares are non-voting and participating. These are redeemable in whole or in part, at the sole option of Top Frontier, equal to its issue price plus any accrued and unpaid preferential dividends, upon notice to the holders.

- **Meralco**
On August 9, 2010, the beneficial interest of the Parent Company in Meralco increased by 6.19% upon acquisition of SMC Global Power, which owns 69,059,538 common shares of Meralco for a total consideration of ₱7,063 million, inclusive of transaction costs of ₱46 million.
- **Liberty Telecoms Holdings, Inc.**
In 2009, the Parent Company, through its wholly-owned subsidiary, Vega, acquired 579,111,669 common shares of LTHI from LTHI's existing stockholders for ₱2,041 million.

On July 21, 2009, Vega entered into a subscription agreement with LTHI for the subscription of 587,951,737 voting, nonredeemable and participating preferred shares of LTHI for ₱1,764 million. As of December 31, 2010, Vega has fully paid the said subscription.

On October 5, 2010, Vega also acquired from the public a total of 64,589,000 common shares of LTHI amounting to ₱221 million, representing approximately 2.18% of the outstanding capital stock of LTHI.

- **BOC**

In 2010, SMPI management decided not to pursue the sale of its ownership interest in BOC and reclassified it back to “Investments and advances” and made further acquisitions of BOC shares.

In 2010, SMPI acquired additional 20,383,210 shares amounting to ₱3,562 million from various stockholders of BOC. These acquisitions increased SMPI’s equity ownership interest in BOC to 32.77% as of December 31, 2010.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

- **10.1% stake in Indophil**

On October 8, 2010, the Parent Company entered into a Share Placement Agreement with Indophil to subscribe to 48,016,960 common shares (Placement Shares) equivalent to approximately 10.1% of the currently issued common shares of Indophil, on a fully diluted basis.

Indophil is an Australian company listed in the Australian stock exchange, which owns a 37.5% beneficial interest in Sagittarius Mines, Inc. (SMI). SMI has the rights to the Tampakan gold and copper mine in South Cotabato.

On October 15, 2010, the Placement Shares were issued in the name of Coastal View, a subsidiary of SMHC. The total consideration for the purchase of the Placement Shares was A\$41.3 million (approximately US\$40 million) or A\$0.86 per Placement Share.

ACQUISITION OF ASSETS

- **Independent Power Producer Administration Agreement**

- **Sual IPPA Agreement**

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

- **San Roque IPP Administration Agreement**

Following the December 15, 2009 bidding conducted by PSALM for the Appointment of the IPP Administrator for the Contracted Capacity of the 345 MW San Roque Multi-Purpose Hydroelectric Power Plant located at Barangay San Roque, San Miguel, Pangasinan (San Roque Power Plant), PSALM issued on December 28, 2009 the Notice of Award to SPDC as the winning bidder thereof. As of January 26, 2010, SPDC assumed the administration of the Contracted Capacity of the San Roque Power Plant in accordance with the provisions of the IPP Administration Agreement for the Contracted Capacity of the San Roque Power Plant with Execution Date of December 29, 2009.

- **Ilijan IPP Administration Agreement**

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

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

- **Independent Power Producer**

- **Limay Power Plant**

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

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

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

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

BORROWINGS AND EQUITY TRANSACTIONS

- In 2010, the Parent Company entered into a US\$1,000 million unsecured loan facility agreement. Proceeds of the loan were used to prepay the US\$600 million loan and to finance the diversification projects of the SMC Group.
- In 2010, the Parent Company has drawn down ₱7,850 million for general financing and corporate requirements.
- On January 28, 2010, SMB entered into a US\$ 300 million unsecured loan facility agreement. Proceeds of the loan were used to finance SMB's acquisition of the international beer and malt-based beverages business from SMC, through SMB's purchase of San Miguel Holdings Ltd.'s (SMHL) shares in SMBIL, comprising 100% of the outstanding capital stock of SMBIL.
- On May 25, 2010, GSML entered into unsecured long-term, interest bearing loans from a local bank amounting to ₱1,500 million for the purpose of funding its permanent working capital requirements.

- In December 2010, SMFI offered for sale and subscription to the public Philippine peso-denominated fixed rate and floating rate notes with principal amount of ₱800 million and ₱3,700 million, respectively. Both types of notes have a term of 5 years and 1 day beginning on December 10, 2010 and ending on December 11, 2015. Proceeds from the issuance of the notes will be used to fund any expansion or any investment in new businesses by SMFI and for other general corporate purposes.
- In 2010, Petron issued peso-denominated notes amounting to ₱20,000 million. The principal and interest will be translated into and paid in US dollars based on the average representative market rate at the applicable rate calculation date at the time of each payment.
- In 2010, Petron has entered into a US\$355 million term facility agreement. The loan was used for general corporate purposes and refinancing of peso-denominated debts.
- On July 27, 2010, the Parent Company's BOD approved the offer to issue approximately 1,000,000,000 common shares (from unissued capital stock and treasury shares) at a price of not less than ₱75.00 per share.
- Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company were considered as common shares without distinction, as approved by the SEC. Both shall be available for foreign investors, subject to the foreign ownership limit.
- On December 8, 2010, the Parent Company listed 873,173,353 Series "1" preferred shares worth ₱65,488 million, representing 27.6% of its outstanding stock.

OTHERS

- **San Miguel Brewery Inc. and Subsidiaries**
- **Sale of San Miguel Brewing International Ltd. to San Miguel Brewery Inc.**

On January 29, 2010 SMB completed the purchase of the international beer and malt-based beverages business of the Parent Company through the purchase of the shares of SMHL in SMBIL, comprising 100% of the issued and outstanding capital stock of SMBIL (SMBIL Shares), for value of US\$302 million (₱13,941 million), after adjustments in accordance with the terms of the SPA. As a result, SMBIL became a wholly-owned subsidiary of SMB.

- **Sale of Brewery Properties Inc. (BPI) to San Miguel Brewery Inc.**

On November 10, 2010, SMB and the Parent Company executed a Deed of Absolute Sale of Shares ("Deed") for the purchase by SMB of all the shares of the Parent Company in BPI (the "BPI Shares"), at the aggregate purchase price of ₱6,829 million. Upon execution of the Deed, SMB paid ₱6,629 million to the Parent Company, corresponding to the appraised value of the 128 land titles transferred in the name of BPI. The balance shall be paid by SMB to the Parent Company upon transfer of the remaining eight (8) land titles in the name of BPI. The BPI Shares comprise 40% of the issued and outstanding capital stock of BPI. The acquisition was financed using part of the proceeds of the bond offering of SMB.

BPI owned the land on which all of SMB's production facilities and certain sales offices are located.

- **Impairment Losses on Noncurrent Assets of San Miguel Brewery Hong Kong and San Miguel Guangdong Brewery**

In 2010, the SMC Group recognized an impairment loss of ₱4,333 million against certain assets of operations in Hong Kong and mainland China, comprising mainly the production plant, office building, warehouse, trademarks and other tangible assets.

- **San Miguel Pure Foods Company, Inc. and Subsidiaries**

- **Merger of Monterey Foods Corporation (Monterey) to San Miguel Foods, Inc.**

In August 2010, the SEC approved the merger of Monterey into SMFI, with SMFI as the surviving corporation, following the approvals of the merger by the respective Board of Directors and stockholders of Monterey and SMFI in June 2010 and July 2010, respectively. The merger became effective September 1, 2010.

- **Sale of San Miguel Pure Foods Investment (BVI) Limited (SMPFI) shares to SMPFC**

In July 2010, the Parent Company, through its wholly-owned subsidiary, SMFBIL, sold to San SMPFIL, (a wholly-owned subsidiary of SMPFC) its 51% interest in SMPFI for US\$18.6 million. SMPFI owns 100% of SMPFVN. Pursuant to the Sale and Purchase Agreement between SMFBIL and SMPFIL, 10% of the purchase price was paid in July 2010 and the balance of US\$ 16.8 million (₱734.3 million as of December 31, 2010) shall be payable (i) upon change in controlling interest of SMPFIL to any third person other than an affiliate or (ii) two years from July 30, 2010, subject to floating interest rate based on one-year LIBOR plus an agreed margin after one year, whichever comes first.

- **Sale of Food-related Brands to SMPFC**

On July 21, 2010, the Parent Company and SMPFC entered into an Intellectual Property Rights Transfer Agreement for the transfer to SMPFC of the food-related brands and intellectual property rights at a purchase price of ₱3,200 million. Following the provision of the Agreement between the Parent Company and SMPFC, 10% of the purchase price was paid on July 30, 2010 and the balance payable (i) upon change in controlling interest of SMPFC to any third person other than an affiliate or (ii) two years from July 30, 2010, subject to floating interest rate based on 1 year PDSTF plus an agreed margin after one year, whichever comes first. On March 8, 2011, the remaining balance was fully paid by SMPFC.

MATERIAL CHANGES PER LINE OF ACCOUNT

2011 vs. 2010

Trade and other receivables increased by 11% to ₱84,472 million in 2011 primarily due to the increase in trade receivables of: a) Petron on account of higher sales to industrial customers, b) SMB and SMPFC due to higher sales and of GSMI due to extension of longer credit terms to dealers, c) SMC Global Power's higher receivable balance from WESM; additional advances to SMC Retirement Plan; and option deposit on the acquisition of the remaining 53.47% stake in AAI, net of the decrease in receivable from other related parties; lower government receivables of Petron and the deconsolidation of PanAsia's balance.

Inventories increased by 14% to ₱65,720 million in 2011 mainly due to: a) increase in volume and price of crude oil inventory of Petron; b) higher coal inventory for the period of SMEC; c) increase in molasses inventory of GSMI, and d) build-up of malt in anticipation of higher production and sales requirements for the summer months of SMB, net of the decrease in fuel inventory of SMC Global Power due to deconsolidation of PanAsia, decrease in GSMI's finished goods inventory as a result of the inventory depletion program and the decrease in SMB's containers due to higher sales volume during the year.

Current portion of biological assets increased by 26% due to higher feed costs and increase in volume of growing poultry livestock and hogs.

Prepaid expenses and other current assets increased by 34% to ₱22,620 million in 2011 mainly due to the excess input tax over VAT payable of the SMC Group particularly Petron and SMC Global Power.

The increase in assets held for sale was mainly due to the total assets of SMTCL and SMYUI, which were sold on February 15 and January 31, 2012, respectively, and the carrying value of

SMVCL's building and land use rights in the Amata Industrial Zone in Vietnam, which were sold on February 23, 2012, net of the sale of the 32nd floor and 10 parking lots of Petron Mega Plaza and the reclassification to investment properties account of its remaining carrying amount.

Investments increased by 9% from ₱152,814 million in 2010 mainly due to a) advances made for future investment in a telecommunications company and in PIDC shares by Rapid Thoroughfares, Inc., b) investment in 46.53% stake in AAI by SMHC and in 35% stake in Manila North Harbour Port, Inc. by Petron and c) additional investment in BOC shares of stock by SMPI and in Limay Energen Corp. by Petron and equity in net income of Meralco, net of the consolidation of ETPI, previously an associate in 2010, equity in net loss of Top Frontier, LTHI and PAHL and dividends from Meralco and Top Frontier.

Available-for-sale financial assets decreased by 43% from ₱3,597 million in 2010 mainly due to the fair value adjustment of the investment in shares of stock of Indophil, net of the disposal of Petron's AFS and fair value adjustments on other available for sale financial assets of the SMC Group.

Investment properties increased by 34% due to reclassification to investment properties of Petron Mega Plaza's remaining carrying amount from assets held for sale and the construction costs of SMPI's Makati Diamond Hotel Project, net of the disposal of SMBIL's investment property in Thailand and the depreciation for the year.

Biological assets – net of current portion increased by 23% mainly due to the increase in volume of breeding stock coupled with higher feed costs.

Deferred tax assets (DTA) increased by 15% to ₱8,233 million in 2011 due to the effect of recognition of deferred tax assets on net operating loss carry over (NOLCO) and minimum corporate income tax (MCIT) of GSMI, and the recognition of deferred tax asset on SMC Global Power's excess of depreciation and interest over monthly PSALM payments.

Other noncurrent assets increased by 14% to ₱38,517 million in 2011 mainly due to the advances made by Petron to Petrochemical Asia Holdings Limited and additional advances to Petron Corporation Employee Retirement Plan ("PCERP"), advances made by the Parent Company to AAI, SMC Global Power's receivable from MHI on the sale of PanAsia and purchase of additional containers to support the increasing sales for domestic operations of SMB.

Drafts and loans payable increased by 11% mainly due to net availments made during the year to support the financial requirements of the SMC Group's operations.

Accounts payable and accrued expenses decreased by 12% mainly due to the payment made by SMPI to SMCRP related to the acquisition of BOC shares and payment made by SMC related to the acquisition of Meralco shares of stock, net of the reclassification to current liabilities of the amount due from SMC Global Power in 2012 and increase in payables of Petron due to increase in crude and finished product prices in 2011.

Income and other taxes payable decreased by 10% mainly due to tax incentives of SMC Global Power as a result of the income tax holiday granted by the BOI in August 2010, net of the increases due to higher taxable income during the year.

Dividends payable increased by 161% mainly due to the dividends payable of the Parent Company to its preferred shareholders which were paid on January 20, 2012.

The balance of liabilities directly associated with assets held for sale pertains to the total liabilities of SMTCL and SMYUI.

Long-term debt increased by 25% from ₱168,927 million in 2010 mainly due to issuance of bonds by the Parent Company and SMC Global Power and the availment of corporate notes, net of payments made.

Deferred tax liabilities decreased by 18% from ₱13,752 million in 2010 mainly due to the effect of recognition of lower deferred income tax liability on the undistributed net earnings of foreign subsidiaries during the period and the effect of recognition of deferred tax on the foreign currency loss of SMC Global Power as compared to the forex gains recognized last year.

Finance lease liabilities decreased by ₱146 million mainly due to payments, net of the recognition of effective interest for the year.

Other noncurrent liabilities decreased by 74% in 2011 mainly due to the prepayment made by SMC in August 2011; the reclassification to current liabilities of the amount due from SMC Global Power, which was subsequently paid on January 31, 2012, related to the acquisition of Meralco shares of stock; and the reclassification to current liabilities of the payable related to the acquisition of AGNP shares of stock in 2010, net of the payable on the acquisition of ETPI shares in 2011 and the increase in cylinder deposits, cash bond, asset retirement obligation and pension liability of Petron.

Appropriated retained earnings increased significantly in 2012 mainly due to additional appropriations made by SMC Global Power, Petron, SMPI, GSMI and SMCSLC.

Amounts recognized directly in equity relating to assets held for sale pertains to the balance of SMTCL and SMYUI's cumulative translation adjustments.

Non-controlling interests (NCI) increased by 37% in 2011 mainly due to the recognition of non-controlling interests on the preferred shares issued by SMPFC, the NCI upon the consolidation of ETPI and the share of non-controlling interests in the net income.

Equity

The increase in equity in 2011 is due to:

(In millions)	2011
Income during the period	₱28,504
Addition to non-controlling interests	15, 578
Issuance of capital stock	4,259
Amounts recognized directly in equity	
relating to assets held for sale	(53)
Effect of translation adjustments	(235)
Cash dividends	(15,778)
	<u>₱32,275</u>

2010 vs. 2009

Cash and cash equivalents decreased by 40% from ₱209,411 million in 2009 to ₱125,188 million in 2010 mainly due to: (1) acquisition of subsidiaries (Petron & SRC, SMC Global Power, Belltel, ULC BVI, AGNP, TADHC, IGI and SMPI - GSIS JVC); (2) investment in shares of stock of Top Frontier, BOC, LTHI, PIDC and Indophil; (3) payment of dividends; (4) net payments of short-term loans; and (5) various acquisition of property plant equipment by GSMI, SMCSLC, SMYPIL and SMB, net of the net proceeds from loan availment of the Parent Company, SMB, SMFI and the consolidation of Petron and SMC Global Power's cash balance.

Trade and other receivables increased by 55% to ₱75,904 million in 2010 mainly due to the consolidation of Petron and SMC Global Power's balance and additional advances to SMCGRP and other related parties, net of the collection of insurance claim of SMPFC and interest received from money market placements.

Inventories increased by 126% to ₱57,442 million in 2010 due to the consolidation of Petron and SMC Global Power's balances and increase in the inventory of raw alcohol and production volume of liquor products of GSML, net of the decrease in inventory of the Packaging Group due to higher sales.

Current biological assets increased by 29% to ₱3,267 million in 2010 due to the increase in the volume of growing poultry livestock and hogs as a result of expected increase in sales volume and the reclassification to current portion of SMPFVN's biological assets.

Prepaid expenses and other current assets increased by 90% to ₱16,914 million in 2010 mainly due to the consolidation of Petron and SMC Global Power's balance and of IGI's - raw land inventory and input tax of SMPFC from the acquisition of brands.

Assets held for sale as of December 31, 2010, consist of Petron's office units located at Petron Mega Plaza. On December 1, 2010, Petron's Board of Directors approved the sale of these properties to provide cash flows for various projects. The investment property's carrying amount amounted to ₱823 million as of December 31, 2010. The balance as of December 31, 2009 of ₱2,746 million represents the carrying value of SMPI's investment in BOC (16,396,689 common shares). In 2010, SMPI's management decided not to pursue the sale of its ownership interest in BOC and reclassified it back to "Investments and advances" account in the consolidated statements of financial position.

Investments increased from ₱39,005 million to ₱152,814 million in 2010 mainly due to the: (a) investment in shares of stock of Top Frontier and ETPI; (b) additional investments in BOC and LTHI; (c) consolidation of SMC Global Power's investment in shares of stock of Meralco and of Petron's investment in Petrochemical Asia (HK) Limited and Limay Energen Corp.; (d) reclassification of investment in BOC previously reported in assets held for sale; and (e) equity in net earnings of Meralco, SMEC, SPDC and BOC, net of equity in net loss of Top Frontier, LTHI and dividend income from Meralco.

The increase in available-for-sale financial assets was mainly due to consolidation of Petron's balance and the investment in shares of stock of Indophil.

Property, plant and equipment increased from ₱65,919 million to ₱308,073 million in 2010 mainly due to the consolidation of Petron and SMC Global Power's balance, which mainly accounts for the Sual, Ilijan, Limay and San Roque power plants under IPPA agreements with PSALM and expansion of GSML's distillery capacity, net of the impairment of SMBIL's plant and depreciation in 2010.

Investment properties increased by 14% due to the consolidation of Petron's balance and translation adjustments of SMBIL's investment properties.

Noncurrent biological assets decreased by 20% to ₱1,479 million in 2010 mainly due to the reclassification to current portion of SMPFVN's biological assets.

Goodwill increased to ₱30,251 million in 2010 mainly due to the goodwill recognized from the acquisition of Petron, ULC BVI and TADHC, net of the impairment of SMBHK's goodwill and translation adjustments.

Other intangible assets increased by 202% from ₱3,630 million in 2009 mainly due to the licenses recognized by Vega from the acquisition of BellTel and the mining rights recognized by SMEC from the acquisition of Sultan, DAMI and BERI.

Deferred tax assets decreased by 20% from ₱8,883 million in 2009 to ₱7,134 million in 2010 mainly due to the effect of recognition of unrealized foreign exchange gains and the decrease in

MCIT and NOLCO of the Parent Company and utilization of Monterey's NOLCO, net of the consolidation of SMC Global Power and Sea Refining's balance.

Other noncurrent assets increased by 171% from ₱12,468 million in 2009 to ₱33,801 million in 2010 mainly due to the (a) consolidation of Petron's balance, attributable to the noncurrent receivables from Petron Corporation Employee Retirement Plan; (b) project development cost of Universal LRT BVI; and (c) the noncurrent portion of receivable on the sale of SMPI's Reliance Property, net of the sale of long-term receivables from Coca-Cola South Asia Holdings.

Drafts and loans payable increased by 31% from ₱56,789 million in 2009 mainly due to consolidation of Petron's balance, net of the net payments and translation adjustments.

Accounts payable and accrued expenses increased by 122% from ₱31,391 million in 2009 mainly due to the (a) consolidation of Petron and SMC Global Power's balance, attributable to the current portion of liability related to the acquisition of Meralco shares of stock and trade and other payables of the power group; (b) reclassification to current liabilities of the unpaid balance due next year of the Parent Company, related to the acquisition of Meralco shares of stock; (c) SMHC's payable on the acquisition of TADHC; and (d) the reclassification to current liabilities of the subscriptions payable related the investment in PIDC.

The increase in income and other taxes payable of ₱5,815 million from ₱4,186 million in 2009 to ₱10,001 million in 2010, primarily represents the income tax payable of SMC Global Power.

Dividends payable increased by 44% mainly due to the dividends payable of PF – Hormel to its non-controlling stockholder in 2010.

Deferred tax liabilities increased by 14% from ₱12,037 million in 2009 to ₱13,752 million in 2010 mainly due to the consolidation of Petron and SMC Global Power's balance, net of the decrease of deferred tax liability on the undistributed net earnings of foreign subsidiaries.

The increase in finance lease liabilities represents the amount payable to PSALM, attributable to the IPP administration of the Sual, Ilijan and San Roque power plants.

Other noncurrent liabilities decreased by 12% in 2010 mainly due to the (a) reclassification to current portion of the unpaid balance due next year related to the acquisition of Meralco shares of stock of the Parent Company; (b) reclassification to current liabilities of amount due next year on the acquisition of PIDC; net of the consolidation of Petron and SMC Global Power, related to the acquisition of Meralco shares of stock and the subscriptions payable of Vega and SMHC on the acquisition of AGNP and TADHC, respectively.

The increase in revaluation increment of ₱1,373 million in 2010 is mainly due to the recognition of revaluation increment in connection with the acquisition of non-controlling interest in SMC Global Power.

Cumulative translation adjustments decreased by 8% from ₱5,845 million in 2009 mainly due to the translation of foreign subsidiaries' net assets. The exchange rates used for net assets in December 31, 2010 is ₱43.84 to US\$1 (₱46.2 in December 31, 2009).

Non-controlling interests increased by ₱23,673 million in 2010 mainly due to the additional amount recognized as a result of the acquisition of 68.26% ownership interest in Petron, 51% ownership interest in Universal LRT BVI and 52% ownership interest in SMPI - GSIS JVC and share in the 2010 net income of non-controlling stockholders of SMB and SMYPC, net of dividends declared to non-controlling stockholders and translation adjustments.

Equity

The increase in equity in 2010 is due to:

(In millions)	2010
Income during the period	₱24,056
Addition to non-controlling interests	24,854
Issuance of capital stock	2,514
Effect of translation adjustments	(673)
Cash dividends	(26,260)
Acquisition of a subsidiary and others	1,396
	₱25,887

SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	December 31		
	2011	2010	2009
	(In Millions)		
Net cash flows provided by operating activities	₱32,207	₱45,314	₱13,368
Net cash flows provided by (used in) investing activities	(70,488)	(126,931)	49,155
Net cash flows provided by (used in) financing activities	42,335	(2,226)	32,550

Net cash from operations basically consists of income for the period and changes in noncash current assets, certain current liabilities and others.

Net cash provided by (used in) investing activities included the following:

	December 31		
	2011	2010	2009
	(In Millions)		
Interest received	₱4,523	₱3,798	₱5,249
Dividends received from associates	2,637	-	-
Proceeds from sale of investments and property and equipment	1,347	1,175	55,127
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(775)	(18,978)	(1,494)
Decrease (increase) in other noncurrent assets and others	(5,262)	1,424	(950)

Payment by (advances to) related parties	(5,709)	(6,070)	3,243
Additions to investments and advances	(16,338)	(99,762)	(5,771)
Payment of other liabilities	(24,485)	-	-
Additions to property, plant and equipment	(26,426)	(8,518)	(6,249)

Major components of cash flow provided by (used in) financing activities are as follows:

	December 31		
	2011	2010	2009
	<i>(In Millions)</i>		
Proceeds from short-term borrowings	P492,117	P685,768	P691,093
Proceeds from long-term borrowings	55,399	72,937	67,786
Increase in non-controlling interests	14,829	126	315
Proceeds from issuance of capital stock and reissuance of treasury stock	3,919	2,314	7,087
Payments of finance lease liabilities	(11,781)	(4,798)	(12)
Payments of long-term borrowings	(14,025)	(29,196)	(44,657)
Cash dividends paid	(14,451)	(26,001)	(5,493)
Payments of short-term borrowings	(483,672)	(703,376)	(683,569)

The effect of exchange rate changes on cash and cash equivalents amounted to (P181 million), (P380 million) and (P2,601 million) in December 31, 2011, 2010 and 2009 respectively.

Cash and cash equivalents associated to assets held for sale amounted to P86 million as of December 31, 2011.

IV. ADDITIONAL INFORMATION ON UNAPPROPRIATED RETAINED EARNINGS

The following items are not available for declaration as dividends:

	December 31	
	2011	2010
	<i>(In Millions)</i>	
Accumulated equity in net earnings of subsidiaries and associates (included in the unappropriated retained earnings balance)	₱44,000	₱55,565
Treasury stock	(67,441)	(69,541)

V. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the SMC 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.

	December 31	
	2011	2010
Liquidity:		
Current Ratio	1.61	1.57
Solvency:		
Debt to Equity Ratio	1.98	2.11
Asset to Equity Ratio	2.98	3.11
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	7.87%	9.35%
Interest Rate Coverage Ratio	2.81	3.17
Operating Efficiency:		
Volume Growth	97%	34%
Revenue Growth	118%	41%

The manner by which the SMC Group calculates the key performance 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	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests, Taxes, Depreciation and Amortization}}{\text{Interest Expense and Other Financing Charges}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

VI. OTHER MATTERS

▪ Events After the Reporting Date

▪ Investment in ExxonMobil

On August 12, 2011, the BOD of the Parent Company approved the investment in the oil refining and marketing business in Malaysia through the acquisition of 65% of Esso Malaysia Berhad (“EMB”) and 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 approved Petron’s investment in the ExxonMobil downstream business 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 Board of Directors of EMB a notice of mandatory take-over offer 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.

▪ Sale of Petron Shares by PCERP

On January 24, 2012, PCERP sold 695,300,000 common shares of Petron at a price of ₱11.00 per share through the facilities of the PSE.

▪ Acquisition of East Pacific Star Bottlers Philippines, Inc. (“EPSBPI”)

On January 27, 2012, GSMI acquired 100% of the outstanding capital stock of EPSBPI for ₱200 million.

- Amendment of Articles of Incorporation and By-Laws of the Parent Company

At the March 14, 2011 and June 7, 2011, meeting of the Parent Company's BOD and stockholders, respectively, the amendments to the Parent Company's Articles of Incorporation and By-Laws were approved as follows:

- a. that the Parent Company's corporate term be extended for another fifty (50) years from August 21, 2013; and
- b. that the date of the annual regular meeting of the stockholders be changed from second Tuesday of May to second Tuesday of June.

The SEC approved on March 16, 2012, the amendment of the Articles of Incorporation and By-Laws of the Parent Company.

- Contingencies

The SMC Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

- Deficiency Excise Tax

On April 12, 2004 and May 26, 2004, the Parent Company was assessed by the BIR for deficiency excise tax on "San Mig Light", one of its beer products. The Parent Company contested the assessments before the Court of Tax Appeals ("CTA") (1st Division) under CTA case numbers 7052 and 7053.

In relation to the aforesaid contested assessments, the Parent Company, on January 31, 2006, filed with the CTA (1st Division), under CTA case number 7405, a claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it.

The above assessment cases (CTA case numbers 7052 and 7053) and claim for refund (CTA case number 7405), which involve common questions of fact and law, were subsequently consolidated and jointly tried.

On November 27, 2007, the Parent Company filed with the CTA (3rd Division), under CTA case number 7708, a second claim for refund, also in relation to the contested assessments, as it was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate.

On January 11, 2008, the BIR addressed a letter to the Parent Company, appealing to the Parent Company to settle its alleged tax liabilities subject of CTA case numbers 7052 and 7053 "in order to obviate the necessity of issuing a Warrant of Dstraint and Garnishment and/or Levy". The Parent Company's external legal counsel responded to the aforesaid letter and met with appropriate officials of the BIR and explained to the latter the unfairness of the issuance of a Warrant of Dstraint and Garnishment and/or Levy against the Parent Company, especially in view of the Parent Company's pending claims for refund. As of March 28, 2012, the BIR has taken no further action on the matter.

On July 24, 2009, the Parent Company filed its third claim for refund with the CTA (3rd Division), under CTA case number 7953, also in relation to the contested assessments. This case is still undergoing trial.

On January 7, 2011, the CTA (3rd Division) under CTA case number 7708 rendered its decision in this case, granting the Parent Company's petition for review on its claim for refund and ordering respondent Commissioner of Internal Revenue to refund or issue a tax credit certificate in favor of the Parent Company in the amount of ₱926 million, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from December 1, 2005 up to July 31, 2007. This decision was elevated by the BIR Commissioner to the CTA En Banc and is pending review.

On October 18, 2011, the CTA (1st Division) rendered its joint decision in CTA case numbers 7052, 7053 and 7405, cancelling and setting aside the deficiency excise tax assessments against the Parent Company, granting the latter's claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of ₱781 million, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from February 1, 2004 to November 30, 2005. A motion for reconsideration filed by the BIR Commissioner on the aforesaid decision has been denied, and the Commissioner is presently taking steps to elevate the decision to CTA En Banc for review.

In the meantime, effective October 1, 2007, the Parent Company spun off its domestic beer business into a new company, SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR.

On September 28, 2009, SMB filed a claim for refund with the CTA (3rd Division) under CTA case number 7973; on December 28, 2010, its second claim for refund with the CTA (1st Division) under case number 8209; and on December 23, 2011, its third claim for refund with the CTA (3rd Division) under case number 8400. All of these cases are undergoing trial.

▪ Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron. The assessment relates to Petron's use of ₱659 million worth of Tax Credit Certificates ("TCCs") to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron is contesting the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of Board of Investments-registered companies, Petron is a qualified transferee of the TCCs. Following an unfavorable ruling from the CTA En Banc, Petron filed an appeal to the Supreme Court. A Resolution was issued by the Supreme Court (1st Division) on September 13, 2010 denying with finality the Commissioner of Internal Revenue's motion for reconsideration of the Decision dated July 28, 2010.

In November 1999, the BIR issued a ₱284 million assessment against Petron for deficiency excise taxes for the years 1995 to 1997. The assessment results from the cancellation by the Philippine Department of Finance ("DOF") of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. In August 2006, the CTA denied Petron's petition, ordering it to pay the BIR ₱580 million representing the ₱284 million unpaid deficiency excise from 1995 to 1997, and 20% interest per annum computed from December 4, 1999. In July 2010, the Philippine Supreme Court ("SC") nullified the assessment against Petron and declared Petron as a valid transferee of the TCCs. The BIR filed a motion for reconsideration which remains pending as of March 28, 2012.

In May 2002, the BIR issued a ₱254 million assessment against Petron for deficiency excise taxes for the years 1995 to 1998. The assessment results from the cancellation by the DOF of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. In May 2007, the CTA second division denied Petron's petition, ordering Petron to pay the BIR ₱601 million

representing Petron's ₱254 million unpaid deficiency excise taxes for the taxable years 1995 to 1998, and 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. Petron appealed the decision to the CTA *en banc*, which ruled in favor of Petron, reversing the unfavorable decision of the CTA second division. The BIR is contesting the CTA *en banc* decision before the SC where the case is still pending.

There are duplications in the TCCs subject of the three assessments described above. Excluding these duplications, the aggregate deficiency excise taxes, excluding interest and penalties, resulting from the cancellation of the subject TCCs amount to ₱911 million.

- Pandacan Terminal Operations

In November 2001, the City of Manila enacted City Ordinance No. 8027 ("Ordinance 8027") reclassifying the areas occupied by the oil terminals of Petron, Shell and Chevron from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, Petron, together with Shell and Chevron, entered into a MOU with the City of Manila and DOE, agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance 8027. In December 2002, in reaction to the MOU, Social Justice Society ("SJS") filed a petition with the SC against the Mayor of Manila asking that the latter be ordered to enforce Ordinance 8027. In April 2003, Petron filed a petition with the Regional Trial Court ("RTC") to annul Ordinance 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance 8027.

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance ("Ordinance 8119"), which applied to the entire City of Manila. Ordinance 8119 allowed Petron (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance 8119, which was thought to effectively repeal Ordinance 8027, in April 2007, the RTC dismissed the petition filed by Petron questioning Ordinance 8027.

However, on March 7, 2007, in the case filed by SJS, the SC rendered a decision (the "March 7 Decision") directing the Mayor of Manila to immediately enforce Ordinance 8027. On March 12, 2007, Petron, together with Shell and Chevron, filed motions with the SC seeking intervention and reconsideration of the March 7 Decision, on the ground that the SC failed to consider supervening events, notably (i) the passage of Ordinance 8119 which supersedes Ordinance 8027, as well as (ii) the RTC orders preventing the implementation of Ordinance 8027. Petron, Shell, and Chevron also noted the possible ill-effects on the entire country arising from the sudden closure of the oil terminals in Pandacan.

On February 13, 2008, the SC resolved to allow Petron, Shell and Chevron to intervene, but denied their motion for reconsideration. In its February 13 resolution (the "February 13 Resolution"), the Supreme Court also declared Ordinance 8027 valid, dissolved all existing injunctions against the implementation of the Ordinance 8027, and directed Petron, Shell and Chevron to submit their relocation plans to the RTC. Petron, Shell and Chevron have sought reconsideration of the February 13 Resolution. In compliance with the February 13 Resolution, Petron, Shell and Chevron have submitted their relocation plans to the RTC.

In May 2009, Manila City Mayor Alfredo Lim approved Ordinance No. 8187, which repealed Ordinance 8027 and Ordinance 8119, and permitted the continued operations of the oil terminals in Pandacan.

In June 2009, petitions were filed with the SC, seeking the nullification of Ordinance 8187 and enjoining its implementation. These petitions are still pending.

- Oil Spill Incident in Guimaras

On August 11, 2006, M/T Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, capsized 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (“DOJ”) and the Special Board of Marine Inquiry (“SBMI”), both agencies found the owners of M/T Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, who are charterers.

- Bataan Real Property Tax Cases

Petron has three pending real property tax cases with the Province of Bataan, arising from three real property tax assessments. The first is for an assessment made by the Municipal Assessor of Limay, Bataan in 2006 for the amount of ₱86.4 million covering Petron’s isomerization and gas oil hydrotreater facilities which enjoy, among others, a five-year real property tax exemption under the Oil Deregulation Law per the Board of Investments Certificates of Registration. The second is for an assessment made also in 2006 by the Municipal Assessor of Limay for ₱17 million relating to the leased foreshore area on which the pier of Petron’s Refinery is located. In 2007, the Bataan Provincial Treasurer issued a Final Notice of Delinquent Real Property Tax requiring Petron to settle the amount of ₱2,168 million allegedly in delinquent real property taxes as of September 30, 2007, based on a third assessment made by the Provincial Assessor covering a period of 13 years from 1994 to 2007. The third assessment cited Petron’s non-declaration or under-declaration of machineries and equipment in the Refinery for real property tax purposes and its failure to pay the corresponding taxes for the said period.

Petron timely contested the assessments by filing appeals with the Local Board of Assessment Appeals (“LBAA”), and posted the necessary surety bonds to stop collection of the assessed amount.

However, with regard to the third assessment, notwithstanding the appeal to the LBAA and the posting of the surety bond, the Provincial Treasurer, acting on the basis of the Final Notice of Delinquent Real Property Tax relating to the third assessment, proceeded with the publication of the public auction of the assets of Petron, which was set for October 17, 2007. Due to the Provincial Treasurer’s refusal to cancel the auction sale, Petron filed a complaint for injunction on October 8, 2007 before the RTC to stop the auction sale. A writ of injunction stopping the public auction until the final resolution of the case was issued by the RTC on November 5, 2007.

A motion to dismiss filed by the Provincial Treasurer on the ground of forum-shopping was denied by the RTC. However, a similar motion based on the same ground of forum shopping was filed by the Provincial Treasurer before the LBAA and the motion was granted by the LBAA in December 2007. On appeal by Petron, the Central Board of Assessment Appeals (“CBAA”), in August 2008, remanded the case to the LBAA for factual determination, effectively granting Petron’s appeal and reversing the LBAA’s dismissal of the case.

The RTC issued a Decision dated June 25, 2010 upholding Petron’s position and declared null and void the demand on Petron for the payment of realty taxes in the amount of ₱1,731 million made by the Provincial Assessor of Bataan and the levy of the properties of Petron. The Court issued a Writ of Prohibition permanently prohibiting, preventing and restraining the Provincial Treasurer of Bataan from

conducting a public auction of the properties of Petron or selling the same by auction, negotiated sale, or any act of disposition pending the finality of the disposition by the LBAA or CBAA, as the case maybe, on the pending appeal made by Petron from the revised assessment of the Provincial Assessor of Bataan.

- **Top Frontier**

On November 27, 2009, Top Frontier acquired 857,115,914 common shares of the issued and outstanding common shares of the Parent Company for a total of ₱64,284 million. To acquire an additional 327,000,000 Class "B" common shares of the Parent Company under the SPA with Q-Tech, Top Frontier conducted a tender offer before such acquisition pursuant to the 35% threshold under the mandatory provisions of the Securities Regulation Code.

On April 8, 2010, such tender offer closed and a total of 47,700,679 Class "A" and 31,759,499 Class "B" common shares were tendered for ₱75.00 per share, for a total consideration of ₱5,959 million. Such tendered shares were crossed through the PSE on April 13, 2010 together with the 327,000,000 common shares acquired from Q-Tech under the SPA.

Following the tender offer, Top Frontier acquired in the open market a total of 1,942,906 common shares for ₱75.00 per share.

The SPA with Q-Tech also provides a grant of call option to Top Frontier for the purchase of 301,666,675 Class "B" common shares of the Parent Company at ₱70.00 per share. The call option may be exercised by Top Frontier until March 31, 2011 or such later date as may be mutually agreed upon by the parties in writing. On March 8, 2011, Top Frontier has notified Q-Tech of its intention to exercise the call option within the period specified in the SPA. On March 16, 2011, Top Frontier exercised its option to purchase from Q-Tech a 12.9% equity interest in the Parent Company which increased Top Frontier's equity interest in the Parent Company's issued and outstanding common shares of stock to 67.2%.

Top Frontier entered into an Option Agreement with 44 Corporations in 2009 wherein Top Frontier has exclusive right to acquire 476,722,639 Class "A" and 16,652,544 Class "B" common shares of the Parent Company at ₱75.00 per share for which Top Frontier paid an amount of US\$200 million as advances. The call option may be exercised by Top Frontier until November 12, 2012. Any further extension of the term of the option period shall require the written consent and approval of both parties.

The Parent Company completed the secondary offering of its common shares which includes 110,320,000 shares of stock held by Top Frontier. The Offer Shares were priced at ₱110.00 per share on April 20, 2011.

On December 1, 2011 Top Frontier sold 9,000,000 SMC common shares transacted through the PSE.

As of December 31, 2011 and 2010, Top Frontier had total shareholdings of 1,447,865,673 and 1,265,518,998 common shares of the Parent Company, respectively. Out of the 1,447,865,673 common shares of the Parent Company held by Top Frontier as of December 31, 2011, 225,987,648 shares are lodged in the Philippine Depository and Trust Company.

- **Commitments**

Amount authorized but not yet disbursed for capital projects as of December 31, 2011 is approximately ₱25,250 million, which SMC expects to be funded through a combination of internally generated funds and external fundraising activities, including debt and equity financing.

- 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.

- *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries and associates to Philippine peso were closing rates of ₱43.84 in 2011 and 2010 for consolidated statements of financial position accounts; and average rates of ₱43.31, ₱45.12 and ₱47.64 in 2011, 2010 and 2009, respectively, for income and expense accounts.

- Events After the Date of Auditor's Report but Before the Date the Consolidated Financial Statements are Issued

- a. *Investment in ExxonMobil*

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.

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

On March 28, 2012, the Board of Directors of the Parent Company approved its investment, through 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 will result in the Parent Company indirectly owning a minority stake in PAL and Air Phil.

- 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.
- 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.
- There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the SMC Group's liquidity.
- 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.
- There were no known events that will trigger direct or contingent financial obligation that is material to the SMC Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 26 (c) of the 2011 Audited Consolidated Financial Statements and "Contingencies" of Section VI above, that remain outstanding as of December 31, 2011. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

- There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the SMC Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the SMC Group as of and for the period December 31, 2011.
- The effects of seasonality or cyclicity on the interim operations of the SMC Group's businesses are not material.

External Audit Fees and Services

The Parent Company paid the external auditor Audit Fees amounting to ₱12 million both in 2011 and 2010. Said fees include compensation for audit services and other related services such as audit review and research work. There were no fees paid to the external auditor for tax accounting, compliance, advice, planning, and any other form of tax services. There were no other fees paid to the auditors other than the above-described services.

The stockholders approve the appointment of the external auditors of the Company. The Audit Committee reviews the audit scope and coverage, strategy and results for the approval of the Board of Directors and ensures that audit services rendered shall not impair or derogate the independence of the external auditors or violate SEC regulations. Likewise, the Audit Committee evaluates and determines any non-audit work performed by external auditors, including the fees therefor, and ensures that such work will not conflict with External Auditors' duties as such or threaten its independence.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no disagreements with the external auditors of the Company on accounting and financial disclosure.

Interest of Named Experts and Counsel

Legal Matters

All legal opinion / matters in connection with the issuance of the Offer Shares which are subject of the Offer will be passed upon by Picazo Buyco Tan Fider & Santos for the Company and SyCip Salazar Hernandez & Gatmaitan for the Joint Bookrunners.

Picazo Buyco Tan Fider & Santos had issued an opinion dated [•] stating that the Company has the permits and licenses which are necessary for the Company to be able to conduct, and without which the Company could not validly and legally conduct, its principal business in the manner described in this Prospectus, and that the same permits and licenses are valid and subsisting.

Independent Auditors

Manabat Sanagustin & Co. audited the financial statements of the SMC Group for the years ended 31 December 2011, 2010 and 2009, included in this Prospectus.

There is no arrangement that experts and independent counsels will receive a direct or indirect interest in the Issuer or was a promoter, underwriter, voting trustee, director, officer, or employee of the Issuer.

Taxation

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Offer Shares. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Offer Shares and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Offer Shares under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Offer Shares in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus. The tax treatment of a holder of Offer Shares may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a holder of Offer Shares.

PROSPECTIVE PURCHASERS OF THE OFFER SHARES ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF THE PREFERRED SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines," otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a non-Philippine corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines.

Taxes on Dividends on the Offer Shares

Individual Philippine citizens and individual aliens who are residents of the Philippines are subject to a final tax on dividends derived from the Offer Shares at the rate of 10%, which tax shall be withheld by the Company.

The dividends derived by domestic corporations (i.e. corporations created or organized in the Philippines or under its laws) and resident foreign corporations (i.e. foreign corporations engaged in trade or business within the Philippines) from the Offer Shares shall not be subject to tax.

Non-resident alien individuals engaged in a trade or business in the Philippines are subject to a final withholding tax on dividends derived from the Offer Shares at the rate of 20% subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident alien individual. A non-resident alien individual who comes to the Philippines and stays for an aggregate period of more than 180 days during any calendar year is considered engaged in a trade or business in the Philippines. Non-resident alien individuals not engaged in trade or business in the Philippines are subject to a final withholding tax on dividends derived from the Offer Shares at the rate of 25% subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident alien individual.

The term "non-resident holder" means a holder of the Offer Shares:

- (a) who is an individual who is neither a citizen nor a resident of the Philippines or an entity which is a foreign corporation not engaged in trade or business in the Philippines; and
- (b) should a tax treaty be applicable, whose ownership of the Offer Shares is not effectively connected with a fixed base or a permanent establishment in the Philippines.

Dividends received from a domestic corporation by a non-resident foreign corporation are generally subject to final withholding tax at the rate of 30%, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident foreign corporation. The 30% rate for dividends paid to non-resident foreign corporations may be reduced to a special 15% rate if:

- (a) the country in which the non-resident foreign corporation is domiciled imposes no taxes on foreign sourced dividends; or
- (b) the country in which the non-resident foreign corporation is domiciled allows a credit against the tax due from the non-resident corporation taxes deemed to have been paid in the Philippines equivalent to 15%.

The BIR has prescribed, through an administrative issuance, procedures for the availment of tax treaty relief. The application for tax treaty relief has to be filed with the BIR by the non-resident holder of the Offer Shares prior to the deadline for the filing by the investee domestic corporation of the withholding tax return on such dividends and its payment of the withholding tax, to allow the investee domestic corporation the option to withhold taxes at the reduced rate, but subject always to the ruling of the BIR on the application. The investee domestic corporation may withhold taxes at a reduced rate on dividends paid to a non-resident holder of the Offer Shares if such non-resident holder submits to the domestic corporation proof of the filing of the tax treaty relief application prior to the deadline for the filing of the withholding tax return.

The requirements for a tax treaty relief application in respect of dividends are set out in the applicable tax treaty and BIR Form No. 0901-D. These include proof of residence in the country that is a party to the tax treaty. Proof of residence consists of a consularized certification from the tax authority of the country of residence of the non-resident holder of Offer Shares which states that the non-resident holder is a resident of such country under the applicable tax treaty. If the non-resident holder of Offer Shares is a juridical entity, authenticated certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence.

If tax at the regular rate is withheld by the corporation instead of the reduced rates applicable under a treaty, the non-resident holder of the Offer Shares may file a claim for refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue obtaining such a refund. Moreover, in view of the requirement of the BIR that an application for tax treaty relief be filed prior to the deadline for the filing by the investee domestic corporation of the final withholding tax return on dividend income, the non-resident holder of Offer Shares may not be able to successfully pursue a claim for refund if such an application is not filed before the deadline for the filing of the withholding tax return.

Taxes on the Sale or Other Disposition of the Offer Shares

Since the Offer Shares will not be created until the SEC approves the increase of authorized capital stock of the Company, and will not be listed on the PSE until such SEC approval and the approval of PSE for the listing application of the Company are obtained, the sale of the Offer Shares or any rights thereto cannot be made through the stock exchange.

At the time that the Offer Shares are subscribed until the date of approval of the increase in authorized capital stock of the Company, the sale of subscription rights to the Offer Shares may be treated a sale of shares and subject to documentary stamp tax, capital gains tax (on any gain derived from the sale thereof) or donor's tax (in case of donation or sale of the subscription rights to the Offer Shares for a price below the subscription rights' fair market value). The rates of these taxes are discussed below.

Similarly, after the approval of the increase of authorized capital stock but before the listing of the Offer Shares, the sale of the Offer Shares will be subject to documentary stamp tax, capital gains tax

(on any gain derived from the sale thereof) or donor's tax (in case of donation or sale of the Offer Shares for a price below its fair market value).

Sales, exchanges or other dispositions of the Offer Shares which are effected through the PSE by persons other than a dealer in securities are subject to a stock transaction tax at the rate of 0.5% based on the gross selling price or gross value in money of the Offer Shares. This tax is required to be collected by and paid to the Philippine government by the selling stockbroker on behalf of his client.

Under the terms of some tax treaties, an exemption may be specifically available for stock transaction tax; under other treaties, an exemption may be available for taxes substantially similar to and in place of taxes covered by the treaty when it took effect. The stock transaction tax is classified as a percentage tax and not as an income tax under the Tax Code. Notwithstanding its classification as a percentage tax, an exemption from the stock transaction tax may be available under the terms of some tax treaties. However, the current position of the BIR on this matter is that the stock transaction tax is not identical or substantially similar to the income tax/capital gains tax on a sale of shares in a domestic corporation, and, hence, not covered by the treaty exemption, for capital gains tax. Thus, the treaty must specifically provide for an exemption from stock transaction tax, for such an exemption to apply. If such an exemption were available, an application for tax treaty relief would also have to be filed.

Subject to applicable exemptions under various tax treaties, a capital gains tax of 5% on the net capital gains realized during the taxable year, not in excess of ₱100,000, and 10% on the net capital gains realized during the taxable year, in excess of ₱100,000, is imposed on sales, exchanges or other dispositions of shares of stock not traded through a local stock exchange. The BIR requires that an application for tax treaty relief for capital gains tax on the sale of shares be filed before the deadline for the filing of the documentary stamp tax return — otherwise the tax treaty exemption cannot be availed of.

The BIR appears to intend to expand the application of the 5%/10% capital gains tax by extending it even to trades through the stock exchange of shares of listed companies which will not maintain their public ownership requirement.

The BIR, in a letter dated December 28, 2010 addressed to the Philippine SEC, stated that it intended to "strictly impose the 5%/10% capital gains tax" for trades in listed companies "who will not maintain their public ownership requirement", said public ownership requirement being the 10% to 33% public ownership levels (based on the listed company's market capitalization) required for an initial public offering. This BIR letter was referred to the PSE by the Philippine SEC on January 3, 2011.

The PSE subsequently issued a memorandum dated January 20, 2011 in response to the Philippine SEC on the statements of the BIR. The PSE noted that the Tax Code imposes a stock transaction tax of 1/2 of 1% of the gross selling price or gross value in money of shares of stock listed and traded on the PSE, without qualification and that the powers of the Secretary of Finance to promulgate rules and regulations implementing the Tax Code should be confined to the details for implementing the law as it has been enacted and such powers cannot be extended to amend or expand the statutory requirement of the Tax Code. Discussions are still ongoing between the PSE and the BIR and there is as yet no formal BIR issuance on the matter.

Tax Treaties

The following table lists some of the countries with which the Philippines has tax treaties and the tax rates currently applicable to non-resident holders who are residents of those countries. Investors seeking to invoke the tax treaty must file an application with the BIR:

In percentage (%)	Dividends	Stock transaction tax on sale or disposition effected through the PSE	Capital Gains Tax due on disposition of Shares outside the PSE
Canada	25 ⁽¹⁾	0.5 ⁽⁸⁾	Exempt ⁽⁹⁾
France	25 ⁽²⁾	0.5 ⁽⁸⁾	Exempt ⁽⁹⁾
Germany	15 ⁽³⁾	0.5 ⁽⁸⁾	5/10 ⁽¹⁰⁾
Japan	25 ⁽⁴⁾	0.5 ⁽⁸⁾	Exempt ⁽⁹⁾
Singapore	25 ⁽⁵⁾	0.5 ⁽⁸⁾	Exempt ⁽⁹⁾
United Kingdom	25 ⁽⁶⁾	0.5 ⁽⁸⁾	Exempt ⁽¹¹⁾
United States	25 ⁽⁷⁾	0.5 ⁽⁸⁾	Exempt ⁽⁹⁾

Notes:

(1) 15% if recipient company controls at least 10% of the voting power of the company paying the dividends.

(2) 15% if the recipient company holds directly at least 15% of the voting shares of the company paying the dividends.

(3) 10% if the recipient company owns directly at least 25% of the capital of the company paying the dividends.

(4) 10% if the recipient company holds directly at least 25% of either the voting shares of the company paying the dividends or of the total shares issued by that company during the period of 6 months immediately preceding the date of payment of the dividends.

(5) 15% if during the part of the paying company's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year at least 15% of the outstanding shares of the voting stock of the paying company was owned by the recipient company.

(6) 15% if the recipient company is a company which controls directly or indirectly at least 10% of the voting power of the company paying the dividends.

(7) 20% if during the part of the paying corporation's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year, at least 10% of the outstanding shares of the voting stock of the paying corporation were owned by the recipient corporation. Notwithstanding the rates provided under the RP-US Treaty, residents of the US may avail of the 15% withholding tax rate under the tax-sparing clause of the Philippine Tax Code provided certain conditions are met.

(8) Exempt if the stock transaction tax is expressly covered by the applicable tax treaty or is deemed by the relevant authorities as an identical or substantially similar tax to the Philippine income tax. In BIR Ruling No. ITAD 22-07 dated February 9, 2007, the BIR held that the stock transaction tax cannot be considered as an identical or substantially similar tax on income, and, consequently ruled that a Singapore resident is not exempt from the stock transaction tax on the sale of its shares in a Philippine corporation through the PSE.

(9) Capital gains are taxable only in the country where the seller is a resident, provided the shares are not those of a corporation, the assets of which consist principally of real property situated in the Philippines, in which case the sale is subject to Philippine taxes.

(10) Under the RP-Germany Tax Treaty, capital gains from the alienation of shares of a Philippine corporation may be taxed in the Philippines irrespective of the nature of the assets of the Philippine corporation. Tax rates are 5% on the net capital gains realized during the taxable year not in excess of ₱100,000 and 10% on the net capital gains realized during the taxable year in excess of ₱100,000.

(11) Under the RP-UK Tax Treaty, capital gains on the sale of the stock of Philippine corporations are subject to tax only in the country where the seller is a resident, irrespective of the nature of the assets of the Philippine corporation.

Documentary Stamp Taxes on Offer Shares

The Philippines imposes a documentary stamp tax upon transfers of the Offer Shares at a rate of ₱0.75 on each ₱200, or fractional part thereof, of the par value of the Offer Shares. The documentary stamp tax is imposed on the person making, signing, issuing, accepting or transferring the document and is thus payable either by the vendor or the purchaser of the Offer Shares.

However, the sale, barter or exchange of Offer Shares should they be listed and traded through the PSE are exempt from documentary stamp tax.

Estate and Gift Taxes

The transfer of the Offer Shares upon the death of a registered holder to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at progressive rates ranging from 5% to 20% if the net estate is over ₱200,000.

Individual registered holders, whether or not citizens or residents of the Philippines, who transfer shares by way of gift or donation will be liable for Philippine donor's tax on such transfers at progressive rates ranging from 2% to 15% if the total net gifts made during the calendar year exceed ₱100,000. The rate of tax with respect to net gifts made to a stranger (one who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity within the fourth degree of relationship) is a flat rate of 30%. Corporate registered holders are also liable for Philippine donor's tax on such transfers, but the rate of tax with respect to net gifts made by corporate registered holders is always at a flat rate of 30%.

Estate and gift taxes will not be collected in respect of intangible personal property, such as shares of stock, (a) if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (b) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

Corporate Income Tax

In general, a tax of 30% is imposed upon the taxable net income of a domestic corporation from all sources (within and outside the Philippines) pursuant to Philippine Republic Act 9337.

Regulatory Framework

Various laws and government agencies in the Philippines regulate the manufacturing, processing, sale and distribution aspects of the businesses of SMC.

SMC

The Consumer Act

The Consumer Act of the Philippines, the provisions of which are principally enforced by the DTI, seeks to: (i) protect consumers against hazards to health and safety, (ii) protect consumers against deceptive, unfair and unconscionable sales acts and practices; (iii) provide information and education to facilitate sound choice and the proper exercise of rights by the consumer; (iv) provide adequate rights and means of redress; and (v) involve consumer representatives in the formulation of social and economic policies.

This law imposes rules to regulate such matters as (i) consumer product quality and safety; (ii) the production, sale, distribution and advertisement of food, drugs, cosmetics and devices as well as substances hazardous to the consumer's health and safety; (iii) fair, honest consumer transactions and consumer protection against deceptive, unfair and unconscionable sales acts or practices; (iv) practices relative to the use of weights and measures; (v) consumer product and service warranties; (vi) compulsory labeling and fair packaging; (vii) liabilities for defective products and services; (viii) consumer protection against misleading advertisements and fraudulent sales promotion practices; and (ix) consumer credit transactions.

The Consumer Act establishes quality and safety standards with respect to the composition, contents, packaging, labeling and advertisement of products and prohibits the manufacture for sale, offer for sale, distribution, or importation of products which are not in conformity with applicable consumer product quality or safety standards promulgated thereunder.

Advertising Regulations

The Ad Standards Council Circulars in the Advertising Industry as formulated by the Ad Standards Council, a non-stock, non-profit organization, established by the Kapisanan ng mga Brodkaster ng Pilipinas, Philippine Association of National Advertisers and Association of Accredited Advertising Agencies handles the screening of all broadcast, out-of-home and print advertising and settlement of disputes regarding advertising content.

Foreign Investment Laws and Restrictions

Retail Trade Liberalization Act

Republic Act No. 8762, otherwise known as the Retail Trade Liberalization Act of 2000 ("R.A. 8762"), was enacted into law on March 7, 2000. R.A. 8762 liberalized the Philippine retail industry to encourage Filipino and foreign investors to forge an efficient and competitive retail trade sector in the interest of empowering the Filipino consumer through lower prices, high quality goods, better services, and wider choices. Prior to the passage of R.A. 8762, retail trade was limited to Filipino citizens or corporations that are 100% Filipino-owned.

"Retail Trade" is defined by R.A. 8762 to cover any act, occupation, or calling of habitually selling direct to the general public any merchandise, commodities, or goods for consumption. The law provides that foreign-owned partnerships, associations and corporations formed and organized under the laws of the Philippines may, upon registration with the SEC and the DTI or in case of foreign-owned single proprietorships, with the DTI, engage or invest in the retail trade business, in accordance with the following categories:

- Category A — Enterprises with paid-up capital of the equivalent in Philippine Pesos of less than US\$2.5 million shall be reserved exclusively for Filipino citizens and corporations wholly-owned by Filipino citizens;
- Category B — Enterprises with a minimum paid-up capital of the equivalent in Philippine Pesos of US\$2.5 million but less than US\$ 7.5 million may be wholly owned by foreigners except for the first two years after the effectivity of R.A. 8762 wherein foreign participation shall be limited to not more than 60% of total equity;
- Category C — Enterprises with a paid-up capital of the equivalent in Philippine Pesos of US\$7.5 million or more may be wholly owned by foreigners, provided, that in no case shall the investments for establishing a store in Categories B and C be less than the equivalent in Philippine Pesos of US\$830,000; and
- Category D — Enterprises specializing in high-end or luxury products with a paid up capital of the equivalent in Philippine Pesos of US\$250,000 per store may be wholly-owned by foreigners.

No foreign retailer is allowed to engage in retail trade in the Philippines unless all the following qualifications are met:

- A minimum of US\$200 million net worth in its parent corporation for Categories B and C, and US\$50 million net worth in its parent corporation for Category D;
- Five retail branches or franchises in operation anywhere around the world unless such retailers has at least one store capitalized at a minimum of US\$25 million;
- Five-year track record in retailing; and
- Only nationals from, or judicial entities formed or incorporated in, countries which allow the entry of Filipino retailers, shall be allowed to engage in retail trade in the Philippines.

The implementing rules of R.A. 8762 define a foreign retailer as an individual who is not a Filipino citizen, or a corporation, partnership, association, or entity that is not wholly-owned by Filipinos, engaged in retail trade. The DTI is authorized to pre-qualify all foreign retailers, subject to the provisions of R.A. 8762, before they are allowed to conduct business in the Philippines.

Foreign Investment Act of 1991

The FIA liberalized the entry of foreign investment into the Philippines. Under the FIA, in domestic market enterprises, foreigners can own as much as 100% equity except in areas specified in the Foreign Investment Negative List. This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws. The oil refining and distribution business is not found in the latest 8th Negative List of the FIA.

In connection with the ownership of private land, however, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

For the purpose of complying with nationality laws, the term “Philippine National” is defined under the FIA as any of the following:

- a citizen of the Philippines;
- a domestic partnership or association wholly-owned by citizens of the Philippines;
- a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;
- a corporation organized abroad and registered as doing business in the Philippines under the Corporation Code, of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos; or

- a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals.

For as long as the percentage of Filipino ownership of the capital stock of the corporation is at least 60% of the total shares outstanding and voting, the corporation shall be considered as a 100% Filipino-owned corporation. A corporation with more than 40% foreign equity may be allowed to lease land for a period of 25 years, renewable for another 25 years.

Local Government Code

The Local Government Code establishes the system and powers of provincial, city, municipal, and *barangay* governments in the country. The Local Government Code general welfare clause states that every local government unit (“LGU”) shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

LGUs exercise police power through their respective legislative bodies. Specifically, the LGU, though its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

Securities and Exchange Commission

Under the SRC, the SEC has jurisdiction and supervision over all corporations, partnerships or associations that are grantees of primary franchises, license to do business or other secondary licenses. As the government agency regulating the Philippine securities market, the SEC issues regulations on the registration and regulation of securities exchanges, the securities market, securities trading, the licensing of securities brokers and dealers and reportorial requirements for publicly listed companies and the proper application of SRC provisions, as well as the Corporation Code, and certain other statutes.

Department of Trade and Industry

The DTI is the primary government agency with the dual mission of facilitating the creation of a business environment wherein participants could compete, flourish, and succeed and, at the same time, ensuring consumer welfare. It is the enforcement of laws to protect and educate consumers that becomes the driving factor in the relationship of DTI and manufacturers, such as SMC.

Department of Labor and Employment

Department of Labor and Employment stands as the national government agency mandated to formulate policies, implement programs and services, and serve as the policy-coordinating arm of the Executive Branch in the field of labor and employment. The Department has exclusive authority in the administration and enforcement of labor and employment laws and such other laws as specifically assigned to it or to the Secretary of Labor and Employment.

Social Security System and PhilHealth

An employer, or any person who uses the services of another person in business, trade, industry or any undertaking is required under the Social Securities Act of 1997 (Republic Act No. 8282) ensure coverage of employees following procedures set out by the law and the Social Security System (“SSS”). The employer must deduct from its employees their monthly contributions based on a given

schedule, pay its share of contribution and remit these to the SSS within a period set by law and/ or SSS regulations.

PhilHealth is a government corporation attached to the DOH that ensures sustainable, affordable and progressive social health insurance pursuant to the provisions of RA 7875 or the National Health Insurance Act of 1995. Employers are required to ensure enrollment of its employees in a National Health Program being administered by the PhilHealth.

THE BEVERAGE BUSINESS

Various government agencies in the Philippines regulate the different aspects of the beer manufacturing, sales and distribution business of the Company. Philippine national and local government legislation require a license to sell alcoholic beverages and prohibit the sale of alcoholic beverages to persons below 18 years of age or within a certain distance from schools and churches.

The Bureau of Food and Drugs (under the Department of Health (“DOH”)) administers and enforces the law, and issues rules and circulars, on safety and good quality supply of food, drug and cosmetic to consumers; and regulation of the production, sale, and traffic of the same to protect the health of the people. Pursuant to this, food manufacturers are required to obtain a license to operate as such. The law further requires food manufacturers to obtain a certificate of product registration for each product.

The Department of Health also prescribed the Guidelines on Current Good Manufacturing Practice in Manufacturing, Packing, Repacking, or Holding Food for food manufacturers.

The Consumer Act, the provisions of which are principally enforced by the DTI, seeks to protect consumers against hazards to health and safety and against deceptive, unfair and unconscionable sales acts and practices; and provide information and education to facilitate sound choice and the proper exercise of rights by the consumer.

This law imposes rules to regulate such matters as (i) consumer product and safety; (ii) the production, sale, distribution and advertisement of food, drugs, cosmetics and devices as well as substances hazardous to the consumer’s health and safety; (iii) fair, honest consumer transactions and consumer protection against deceptive, unfair and unconscionable sales acts or practices; (iv) practices relative to the use of weights and measures; (v) consumer product and service warranties; (vi) compulsory labeling, and fair packaging; (vii) liabilities for defective products and services; (viii) consumer protection against misleading advertisements and fraudulent sales promotion practices; and (ix) consumer credit transactions.

The Ad Standards Council Circulars in the Advertising Industry as formulated by the Ad Standards Council, a non-stock, non-profit organization established by the Kapisanan ng mga Brodkaster ng Pilipinas, Philippine Association of National Advertisers and Association of Accredited Advertising Agencies, handles the screening of all broadcast, out-of-home and print advertising and settlement of disputes regarding advertising content.

THE FOOD BUSINESS

Health Regulations

The Food and Drugs Administration (“FDA”) (under the DOH) administers and enforces the law, and issues rules and circulars, on safety and good quality supply of food, drug and cosmetic to consumers; and regulation of the production, sale, and traffic of the same to protect the health of the people.

Pursuant to this, food manufacturers are required to obtain a license to operate as such. The law further requires food manufacturers to obtain a certificate of product registration for each product.

The DOH (which includes the FDA, formerly known as the Bureau of Food and Drugs) is the government agency tasked to implement the Consumer Act with respect to food products. The DOH also prescribes the Guidelines on Current Good Manufacturing Practice in Manufacturing, Packing, Repacking, or Holding Food for food manufacturers. Under the Consumer Act, the DOH also has the authority to order the recall, ban, or seizure from public sale or distribution of food products found to be injurious, unsafe or dangerous to the general public.

The FDDC Act

The Foods, Drugs and Devices, and Cosmetics Act, as amended by the FDA Act of 2009 (the “FDDC Act”), establishes standards and quality measures in relation to the manufacturing and branding of food products to ensure the safe supply thereof to and within the Philippines. The FDA is the governmental agency under the DOH tasked to implement and enforce the FDDC Act.

The FDDC Act prohibits, among others, (i) the manufacture, importation, exportation, sale, offering for sale, distribution, transfer, non-consumer use, promotion, advertising, or sponsorship of any health product that is adulterated, unregistered or misbranded; and (ii) the manufacture, importation, exportation, transfer or distribution of any food, cosmetic or household/urban hazardous substance by any natural or juridical person without the license to operate from the FDA required under the FDDC Act.

Any person found in violation of any of the provisions of the FDDC Act shall be subject to administrative penalties or imprisonment or both. Furthermore, the health products found in violation of the provisions of the FDDC Act and other relevant laws, rules and regulations may be seized and held in custody pending proceedings, without hearing or court order, when the director-general of the FDA has reasonable cause to believe from facts found by him/her or an authorized officer or employee of the FDA that such health products may cause injury or prejudice to the consuming public.

The Livestock and Poultry Feeds Act

The Livestock and Poultry Feeds Act and its implementing rules and regulations (the “Livestock and Poultry Feeds Act”), regulates and controls the manufacture, importation, labeling, advertising and sale of livestock and poultry feeds. The Bureau of Animal Industry (the “BAI”) is the governmental office under the Department of Agriculture (“DA”) tasked to implement and enforce the Livestock and Poultry Feeds Act.

Under the Livestock and Poultry Feeds Act, any entity desiring to engage in the manufacture, importation, exportation, sale, trading or distribution of feeds or other feed products must first register with the BAI. There must be a separate registration for each type and location of feed establishment. Furthermore, the Livestock and Poultry Feeds Act provides that no feeds or feed products may be manufactured, imported, exported, traded, advertised, distributed, sold, or offered for sale, or held in possession for sale in the Philippines unless the same has been registered with the BAI. There must also be a separate registration for each type, kind, and form of feed or feed product. Feeds and feed products produced through toll manufacturing shall be registered with the company that owns the same. All commercial feeds must comply with the nutrient standards prescribed by the DA. Registration of feed and feed products and feed establishments is required to be renewed on a yearly basis.

The Livestock and Poultry Feeds Act also provides branding, labeling and advertising requirements for feeds and feed products and the establishment of in-house quality control laboratories by manufacturers and traders of feed and feed products. Any person found in violation of the provisions of the Livestock and Poultry Feeds Act shall be subject to administrative penalties or imprisonment or both.

The Meat Inspection Code

The Meat Inspection Code of the Philippines (the “Meat Inspection Code”) establishes quality and safety standards for the slaughter of food animals and the processing, inspection, labeling, packaging,

branding and importation of meat (including, but not limited to, pork, beef and chicken meat) and meat products. The National Meat Inspection Service (“NMIS”), a specialized regulatory service attached to the DA, serves as the national controlling authority on all matters pertaining to meat and meat product inspection and meat hygiene to ensure meat safety and quality from farm to table. It has the power to accredit meat establishments and exporters, importers, brokers, traders and handlers of meat and meat products. On the other hand, the different local government units, in accordance with existing laws, policies, rules and regulations and quality and safety standards of the DA, have the authority to regulate the construction, management and operation of slaughterhouses, meat inspection, and meat transport and post-abattoir control within their respective jurisdictions, and to collect fees and charges in connection therewith.

The Meat Inspection Code covers all meat establishments (including, but not limited to, slaughterhouses, poultry dressing plants, meat processing plants and meat shops) where food animals are slaughtered, prepared, processed, handled, packed, stored, or sold. It requires the inspection of food animals before it shall be allowed for slaughter in licensed private slaughterhouses in which meat or meat products thereof are to be sold. A post-mortem examination is also required for carcasses and parts thereof of all food animals prepared as articles of commerce which are capable of use as human food. Only meat or meat products from meat establishments that have passed inspection and have been so marked may be sold or offered for sale to the public.

The Meat Inspection Code provides for labeling, branding and packaging requirements for meat and meat products to enable consumers to obtain accurate information and ensure product traceability. The Meat Inspection Code also requires all meat establishments to (i) comply with the Animal Welfare Act of 1998 for the adequate protection of food animals awaiting slaughter and all pollution control and environmental laws and regulations relating to the disposal of carcasses and parts thereof; and (ii) adopt Good Manufacturing Practices and Sanitation Standard Operating Procedures programs for the production, storage and distribution of its meat products. Any person found in violation of the provisions of the Meat Inspection Code shall be subject to administrative penalties or imprisonment or both. Furthermore, any carcasses, parts of carcasses or products of carcasses found to have been prepared, handled, packed, stored, transported or offered for sale as human food not in accordance with the provisions thereof shall be confiscated and disposed of at the expense of the person found to be in violation thereof.

The Price Act

Republic Act No. 7851 or the Price Act (the “Price Act”) covers basic necessities such as fresh pork, beef and poultry meat, milk, coffee and cooking oil, and prime commodities such as flour, dried, processed and canned pork, beef and poultry meat, other dairy products and swine and poultry feeds. It is primarily enforced and implemented by the DA and DTI.

Under the Price Act, the prices of basic commodities may be automatically frozen or placed under price control in areas declared as disaster areas, under emergency or martial law or in a state of rebellion or war. Unless sooner lifted by the President of the Philippines, prices shall remain frozen for a maximum of sixty days. The President of the Philippines may likewise impose a price ceiling on basic necessities and prime commodities in cases of calamities, emergencies, illegal price manipulation or when the prevailing prices have risen to unreasonable levels. The implementing government agencies of the Price Act are given the authority thereunder to issue suggested retail prices, whenever necessary, for certain basic necessities and/or prime commodities for the information and guidance of concerned trade, industry and consumer sectors. The Price Act prohibits and penalizes illegal price manipulation through cartels, hoarding or profiteering. Any person found in violation of the provisions of the Price Act shall be subject to administrative penalties or imprisonment or both.

The Philippine Food Fortification Act

The Philippine Food Fortification Act of 2000 (the “PFF Act”) provides for the mandatory fortification of wheat flour, cooking oil and other staple foods and the voluntary fortification of processed food

products. The fortification of food products is required to be undertaken by the manufacturers, importers and processors thereof. The FDA is the government agency responsible for the implementation the PFF Act with the assistance of the different local government units which are tasked under the said law to monitor foods mandated to be fortified which are available in public markets, retail stores and food service establishments and to check if the labels of fortified products contain nutrition facts stating the nutrient added and its quantity. Any person in violation of the PFF Act shall be subject to administrative penalties. Furthermore, the FDA may refuse or cancel the registration or order the recall of food products in violation of said law.

THE FUEL AND OIL BUSINESS

Downstream Oil Industry Deregulation Act

Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998 (the "Oil Deregulation Act"), provides the regulatory framework for the country's downstream oil industry.

Under the Oil Deregulation Act, any person may import or purchase any quantity of crude oil and petroleum products from foreign and domestic sources, lease or own and operate refineries and other downstream oil facilities, and market such crude oil and petroleum products either in a generic name or in its own trade name, or use the same for its own requirement. The same law declared as policy of the state the liberalization and deregulation of the downstream oil industry in order to ensure a truly competitive market under a regime of fair prices, adequate and continuous supply of environmentally clean and high quality petroleum products.

To ensure the attainment of these objectives, the DOE, in consultation with relevant government agencies, promulgated the Implementing Rules and Regulations of the Oil Deregulation Act in March 11, 1998 through Department Circular No. 98-03-004.

The DOE is the lead Philippine government agency overseeing the oil sector. With the enactment of the Oil Deregulation Act, the regulatory functions of the DOE were significantly reduced. Deregulating the downstream oil industry effectively removed the rate-setting function of the then Energy Regulatory Board, leaving price-setting to market forces. The current function of the DOE is solely to monitor prices and violations under the law, which includes prohibited acts such as cartelization and predatory pricing.

Other functions of the DOE under the Oil Deregulation Act include the following:

- monitoring and publishing the daily international crude oil prices, following the movements of domestic oil prices, monitoring the quality of petroleum and stopping the operation of businesses involved in the sale of petroleum products which do not comply with national standards of quality;
- monitoring the refining and manufacturing processes of local petroleum products to ensure clean and safe technologies are applied;
- maintaining a periodic schedule of present and future total industry inventory of petroleum products to determine the level of supply;
- immediately acting upon any report from any person of an unreasonable rise in prices of petroleum products; and
- in times of national emergency, when the public interest so requires, during the emergency and under reasonable terms, temporarily taking over or directing the operations of any person or entity engaged in the industry.

Other Regulatory Requirements

Petroleum products are subject to Philippine National Standards specifications. The DTI, through the Bureau of Products Standards, ensures that all products comply with the specifications of the Philippine National Standards. The Oil Deregulation Act also requires the registration with the DOE of any fuel additive prior to its use in a product.

Philippine government regulations also require the following: fire safety inspection certificates; certificates of conformance of facilities to national or accepted international standards on health, safety and environment; product liability insurance certificates or product certificate of quality; and the ECC issued by the DENR for service stations and for environmentally-critical projects. Reports to the DOE are required for the following activities/projects relating to petroleum products: (a) refining, processing, including recycling and blending; (b) storing/transshipment; (c) distribution/ operation of petroleum carriers; (d) gasoline stations; (e) LPG refilling plant; (f) bunkering from freeports and special economic zones; and (g) importations of petroleum products and additives. In addition, importations of restricted goods require clearances from the proper Philippine government authorities.

Other Relevant Tax-related Regulations

Taxes and duties applicable to the oil industry have had periodic and unpredictable changes over the last several years. The import duty on crude oil was increased on January 1, 2005 from 3% to 5%, but was later reduced to 3% effective as of November 1, 2005.

Under Executive Order No. 527 dated May 12, 2006, upon certification by the DOE that the trigger price levels provided therein have been reached, the 3% import duty on crude oil shall be adjusted to 2%, 1% or 0%. Subsequently, Executive Order No. 850, which took effect on January 1, 2010, modified the rates of duty on certain imported articles in order to implement the Philippines' commitment to eliminate tariffs on certain products under the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area. Under the ASEAN Trade in Goods Agreement, crude oil and refined petroleum products imported from ASEAN Member States are levied zero rates. To address the tariff distortion between ASEAN and non-ASEAN Member States brought about by the implementation of the zero duty under Executive Order No. 850 and to provide a level playing field for local refiners to compete with importers, the President of the Philippines issued Executive Order No. 890, which also imposed zero duty effective as of July 4, 2010 for imported crude oil and refined petroleum products, except certain types of aviation gas, from Non-ASEAN Member States.

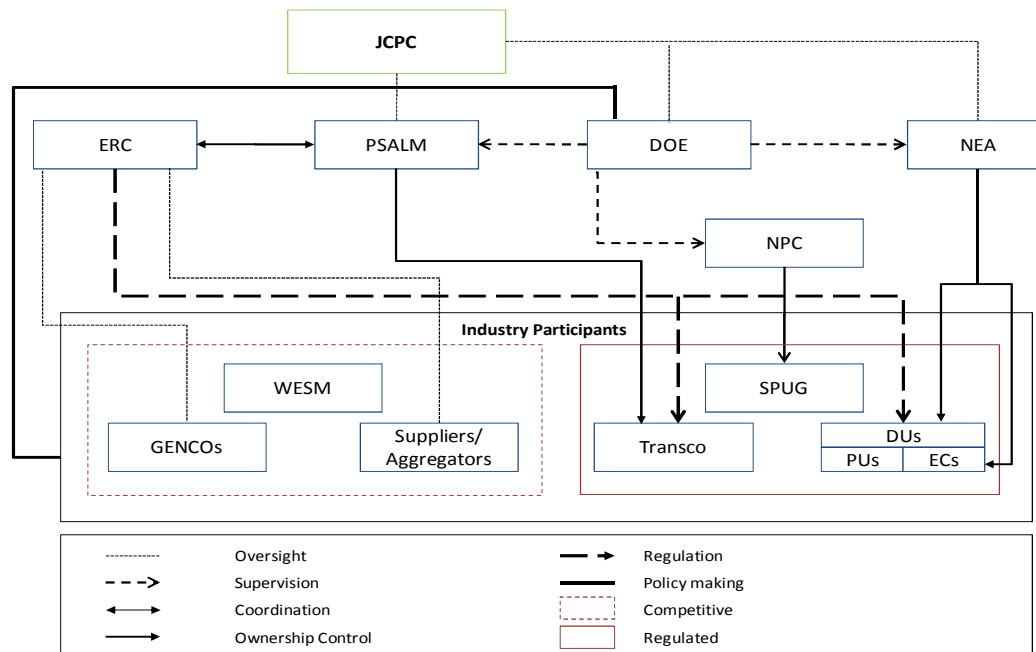
Republic Act No. 9337, also known as the "Expanded VAT Law", imposed a VAT of 10% on certain goods and services, including petroleum products and its raw materials, particularly the sale and importation thereof. The rate was increased to 12% effective February 1, 2006. The Expanded VAT Law also limited the input VAT tax credit to only 70% of the output VAT. Subsequently, however, Republic Act No. 9361, which was approved on November 21, 2006, removed the 70% ceiling on the credit of input VAT to output VAT. As of November 1, 2005, the implementation date of the Expanded VAT Law, excise taxes on diesel, bunker fuel and kerosene were lifted and excise taxes for regular gasoline were lowered to ₱4.35 per liter of volume capacity.

THE ENERGY BUSINESS

Organization and Operation of the Power Industry

The EPIRA established a framework for the organization and operation of the electric power industry in connection with its restructuring, with the industry divided into four sectors: generation, transmission, distribution and supply. The following diagram shows the current structure of the electric power industry under the EPIRA.

Power Industry Structure under the EPIRA



Note:

DUs: Distribution Utilities

ECs: Electric Cooperatives

GENCOs: Any entity authorized by the ERC to operate electricity generation facilities

JCPC: Joint Congressional Power Commission

PUs: Production Utilities

Since the enactment of the EPIRA in 2001, the Philippine power industry has undergone and continues to undergo significant restructuring. Through the EPIRA, the Philippine government began to institute major reforms with the goal of fully privatizing all aspects of the power industry. The principal objectives of the EPIRA are:

- to ensure and accelerate the total electrification of the country;
- to ensure the quality, reliability, security and affordability of the supply of electric power;
- to ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance the competitiveness of Philippine products in the global market;
- to enhance the inflow of private capital and to broaden the ownership base of the power generation, transmission and distribution sectors;
- to ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry;
- to protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;
- to ensure socially and environmentally compatible energy sources and infrastructure;
- to promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy;
- to provide for an orderly and transparent privatization of the assets and liabilities of NPC;
- to establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market; and

- to encourage the efficient use of energy and other modalities of demand side management.

With a view to implementing these objectives, the DOE, in consultation with the relevant government agencies, electric power industry participants, non-government organizations and electricity consumers, promulgated the Implementing Rules and Regulations of the EPIRA (the “EPIRA IRR”) on February 27, 2002.

The EPIRA IRR governs the relations between, and respective responsibilities of, the different electric power industry participants as well as the particular governmental authorities involved in implementing the structural reforms in the industry, namely the DOE, NPC, National Electrification Administration (“NEA”), ERC and PSALM.

Reorganization of the Electric Power Industry

Of the many changes initiated by the EPIRA, of primary importance is the reorganization of the electric power industry by segregating the industry into four sectors: (1) the generation sector; (2) the transmission sector; (3) the distribution sector; and (4) the supply sector. The goal is for the generation and supply sectors to be fully competitive and open, while the transmission and distribution sectors will remain regulated. Prior to the EPIRA, the industry was regulated as a whole, with no clear distinctions between and among the various sectors and/or services.

The Generation Sector

The EPIRA provides that power generation is not a public utility operation. Thus, generation companies are not required to secure franchises, and there are no restrictions on the ability of non-Filipinos to own and operate generation facilities. However, generation companies must obtain a certificate of compliance from the ERC, as well as health, safety and environmental clearances from appropriate government agencies under existing laws.

Generation companies are also subject to the rules and regulations of the ERC on abuse of market power and anticompetitive behavior. The ERC may impose fines and penalties for violation of the EPIRA and the EPIRA IRR policy on market power abuse, cross-ownership and anti-competitive behavior.

The goal of the EPIRA is for the generation sector to be open and competitive, while the private sector is expected to take the lead in introducing additional generation capacity. Generation companies will compete either for contracts with various suppliers and private distribution utilities, or through spot sale transactions in the Wholesale Electricity Spot Market (“WESM”). Competition will be based largely on pricing, subject to availability of transmission lines to wheel electricity to the grid and/or buyers. Recovery by distribution utilities of their purchased power cost is subject to review by the ERC to determine reasonableness of the cost and to ensure that the distribution utilities do not earn any revenue therefrom. Upon commencement of retail competition and open access, generation rates, except those intended for the Captive Market, will cease to be regulated.

The generation sector converts fuel and other forms of energy into electricity. This sector, by utility, It consists of the following: (i) NPC-owned and -operated generation facilities; (ii) NPC-owned plants, which consist of plants operated by IPPs, as well as IPP-owned and -operated plants, all of which supply electricity to NPC; and (iii) IPP-owned and -operated plants that supply electricity to customers other than NPC. Successes in the privatization process of NPC continue to build up momentum for the power industry reforms.

Under the EPIRA, generation companies are allowed to sell electricity to distribution utilities or to retail electricity suppliers through either bilateral contracts or the WESM as described below. Once the regime of Retail Competition and Open Access is implemented, generation companies may likewise sell electricity to eligible end-users. The ERC issued a resolution on January 24, 2007 prescribing the timeline for full retail competition and open access in Luzon. Pursuant to Section 31 of the EPIRA, such implementation is subject to the fulfillment of five conditions. The last of these conditions have been substantially fulfilled, namely: (1) the establishment of WESM; (2) unbundling of transmission

and distribution wheeling charges; (3) initial implementation of the cross-subsidy removal scheme; and (4) privatization of at least 70% of the total capacity of the generating assets of NPC in Luzon and Visayas, with the successful asset turnover of the rebidding for the 600 MW Calaca coal-fired power plant in August 2009. To date, the one condition that remains unsatisfied is the transfer to IPPAs the management and control of at least 70% of the total energy output of power plants under contract with NPC and the IPPs, was achieved in 2011 to the IPPAs. No generation company is allowed to own more than 30% of the installed generating capacity of the Luzon, Visayas or Mindanao grids and/or 25% of the national installed generating capacity. Also, no generation company associated with a distribution utility may supply more than 50% of the distribution utility's total demand under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the effectiveness of the EPIRA.

Historically, the generation sector has been dominated by NPC. To introduce and foster competition in the sector, and, more importantly, to lessen the debt of NPC, the EPIRA mandates the total privatization of the generation assets and IPP agreements of NPC, which exclude the assets devoted to missionary electrification through the NPC Small Power Utilities Group ("SPUG"). NPC is directed to transfer ownership of all the assets for privatization to a separate entity, PSALM, which is specially tasked to manage the privatization. Beginning early 2004, PSALM has been conducting public bidding for the generation facilities owned by NPC.

As of June 30, 2011, PSALM has privatized 25 operating/generating power facilities with an aggregate rated capacity of 3,468.23 MW accounting for 91.80% of the total 3,778.23 MW total rated capacity of NPC generating assets in the Luzon and Visayas grids. Major generation assets include the 748 MW Tiwi-Makban geothermal power plant, the 655 MW Limay combined-cycle power plant, the 600 MW Calaca coal-fired thermal power plant, the 600 MW Masinloc coal-fired thermal power plant, the 360 MW Magat hydro-electric power plant and the 305 MW Palinpinon-Tongonan geothermal power plant. In addition, as of June 30, 2011, IPPA agreements covering generation assets with an aggregate rated capacity of 4,213.75 MW, or approximately 85.90% of the total energy output of power plants under contract with NPC and IPPAs have been awarded. These include IPPA agreements for the 1,000 MW Sual coal-fired power plant, the 700 MW Pagbilao coal-fired power plant, the San Roque Power Plant, the 70 MW Bakun hydro-electric power plant, the 40 MW Benguet hydro-electric power plant and the 1,200 MW Ilijan combined-cycle gas-fired power plant.

In terms of market share limitations, no generation company is allowed to own more than 30% of the installed generating capacity of the Luzon, Visayas, or Mindanao and/or 25% of the total nationwide installed generating capacity. To date, there is no power generation company, including NPC, breaching the mandated ceiling. Also, no generation company associated with a distribution utility may supply more than 50% of the distribution utility's total demand under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the enactment of EPIRA.

Requirement of Public Offering for Generation Companies

Under Section 43(t) of the EPIRA, the ERC was mandated to issue rules and guidelines under which, among others, generation companies which are not publicly listed shall offer and sell to the public a portion of not less than 15% of their common shares of stock.

ERC Resolution No. 9, Series of 2011, the latest ruling of the ERC with regard to public offerings of generation companies and distribution utilities, adopted the rules to implement Section 43(t) of the EPIRA. Under the resolution, generation companies, among others, which are not publicly listed are required to sell to the public a portion of not less than 15% of their common shares of stock. If the authorized capital stock of a generation company is fully subscribed, such company must increase its authorized capital stock by 15% or sell or cause the sale of 15% of its existing subscribed capital stock in order to comply with the public offering requirement under the EPIRA.

Any offer of common shares of stock for sale to the public through any of the following modes may be deemed as a public offering for purposes of compliance with the public offering requirement under the EPIRA: (1) listing on the PSE; and (2) listing of the shares of stock in any accredited stock exchange or direct offer of the required portion of a company's capital stock to the public. For generation companies registered with the BOI under the Omnibus Investments Code, the public offering

requirement may be complied with by a direct offer of the required portion of the registered enterprise's shares of stock to the public or through its employees through an employee stock option plan (or any plan analogous thereto), provided such offer is deemed feasible and desirable by the BOI.

Section 47(j) of the EPIRA prohibits NPC from incurring any new obligations to purchase power through bilateral contracts with generation companies or other suppliers. Also, NPC is only allowed to generate and sell electricity from generating assets and IPP agreements that have not been disposed of by PSALM.

The Transmission Sector

Pursuant to the EPIRA, NPC has transferred its transmission and sub-transmission assets to TransCo, which was created pursuant to the EPIRA to assume, among other functions, the operation of the electrical transmission systems throughout the Philippines. The principal function of TransCo is to ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the Philippine Grid Code ("Grid Code"). TransCo is also mandated to provide Open Access to all industry participants. The EPIRA granted TransCo a monopoly over the high-voltage network and subjected it to performance-based regulations.

The transmission of electricity through the transmission grid is subject to transmission wheeling charges. Inasmuch as the transmission of electric power is a regulated common carrier business, the transmission wheeling charges of TransCo are subject to regulation and approval by the ERC.

The EPIRA also requires the privatization of TransCo through an outright sale of, or the grant of a concession over, the transmission assets while the subtransmission assets of TransCo are to be offered for sale to qualified distribution utilities. In December 2007, NGCP, comprising a consortium of Monte Oro Grid Resources, Calaca High Power Corporation and State Grid Corporation of China, won the concession contract to operate, maintain and expand the TransCo assets with a bid of US\$3.95 billion. NGCP was officially granted the authority to operate the country's sole transmission system on January 15, 2009.

The Grid Code establishes the basic rules, requirements, procedures and standards that govern the operation, maintenance and development of the Philippine grid, or the high-voltage backbone transmission system and its related facilities. The Grid Code identifies and provides for the responsibilities and obligations of three key independent functional groups, namely: (a) the grid owner, or TransCo; (b) the system operator, or NGCP as the current concessionaire of TransCo; and (c) the market operator, or Philippine Electricity Market Corporation ("PEMC"). These functional groups, as well as all users of the grid, including generation companies and distribution utilities, must comply with the provisions of the Grid Code as promulgated and enforced by the ERC.

In order to ensure the safe, reliable and efficient operation of the Philippine grid, the Grid Code provides for, among others, the following regulations:

- the establishment of a grid management committee, which is tasked with the monitoring of the day-to-day operation of the grid;
- performance standards for the transmission of electricity through the grid, as well as the operation and maintenance thereof, which standards shall apply to TransCo, NGCP, distribution utilities and suppliers of electricity;
- technical and financial standards and criteria applicable to users of the grid, including generation companies and distribution utilities connected or seeking to connect thereto; and
- other matters relating to the planning, management, operation and maintenance of the grid.

The Distribution Sector

The distribution of electric power to end-users may be undertaken by private distribution utilities, cooperatives, local government units presently undertaking this function, and other duly authorized entities, subject to regulation by the ERC. The distribution business is a regulated public utility

business requiring a franchise from Congress, although franchises relating to electric cooperatives remained under the jurisdiction of the NEA until the end of 2006. All distribution utilities are also required to obtain a Certificate of Public Convenience and Necessity from the ERC to operate as public utilities.

All distribution utilities are also required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Philippine Distribution Code (“Distribution Code”) (which provides the rules and regulations for the operation and maintenance of distribution systems), the (Distribution Services and Open Access Rules (“DSOAR”) and the performance standards set out in the EPIRA IRR.

The distribution sector is and will continue to be regulated by the ERC, with distribution and wheeling charges, as well as connection fees from its consumers, subject to ERC approval. Likewise, the retail rate imposed by distribution utilities for the supply of electricity to its captive consumers is subject to ERC approval. In addition, as a result of the Philippine government’s policy of promoting free competition and Open Access, distribution utilities are required to provide universal and non-discriminatory access to their systems within their respective franchise areas following commencement of retail Open Access.

The Distribution Code establishes the basic rules and procedures that govern the operation, maintenance, development, connection and use of the electric distribution systems in the Philippines.

The Distribution Code defines the technical aspects of the working relationship between the distributors and all the users of the distribution system, including distribution utilities, embedded generators and large customers. All such electric power industry participants in distribution system operations are required to comply with the provisions of the Distribution Code as promulgated and enforced by the ERC.

To ensure the safe, reliable and efficient operation of distribution systems in the Philippines, the Distribution Code provides for, among others, the following regulations:

- technical, design and operational criteria and procedures to be complied with by any user who is connected or seeking connected to a distribution system;
- performance and safety standards for the operation of distribution systems applicable to distributors and suppliers; and
- other matters relating to the planning, development, management, operation and maintenance of distribution systems.

The Supply Sector

The supply of electricity refers to the sale of electricity directly to end-users. The supply function is currently being undertaken solely by franchised distribution utilities. However, upon commencement of retail Open Access, the supply function will become competitive. The business is not considered a public utility operation and suppliers are not required to obtain franchises. However, the supply of electricity to the Contestable Market (i.e., a market of electricity end-users who have a choice on their supplier of electricity) is considered a business with a public interest dimension. As such, the EPIRA requires all suppliers of electricity to the Contestable Market to obtain a license from the ERC and they are subject to the rules and regulations of the ERC on the abuse of market power and other anti-competitive or discriminatory behavior.

Once retail competition and open access are implemented as mandated by the EPIRA, it is expected that the Contestable Markets may choose where to source their electric power requirements and can negotiate with suppliers for their electricity. The EPIRA also contemplates that certain end-users will directly source power directly through the WESM or by entering into contracts with generation companies. This will encourage competition at the retail level. It has been planned that Retail Competition will gradually increase over time, provided that supply companies are sufficiently creditworthy to be suitable offtakers for generation companies.

Role of the ERC

The ERC is the independent, quasi-judicial regulatory body created under the EPIRA that replaced the Energy Regulatory Board. The ERC plays a significant role in the restructured industry environment, consisting of, among others, promoting competition, encouraging market development, ensuring consumer choice and penalizing abuse of market power by industry participants.

Among the primary powers and functions of the ERC are:

- to determine, fix and approve, after conducting public hearings, transmission and distribution and wheeling charges and retail rates and to fix and regulate the rates and charges to be imposed by distribution utilities and their captive end-users, including self-generating entities;
- to grant, revoke, review or modify the certificates of compliance required of generation companies and the licenses required of suppliers of electricity in the Contestable Market;
- to enforce the Grid Code and Distribution Code, which shall include performance standards, the minimum financial capability standards, and other terms and conditions for access to and use of transmission and distribution facilities;
- to enforce the rules and regulations governing the operations of the WESM and the activities of the WESM operator to ensure a greater supply and rational pricing of electricity;
- to ensure that the electric power industry participants and NPC functionally and structurally unbundled their respective business activities and rates and to determine the levels of cross-subsidies in the existing and retail rates until the same is removed in accordance with the different sectors;
- to set a lifeline rate for marginalized end-users;
- to promulgate rules and regulations prescribing the qualifications of suppliers which shall include, among others, their technical and financial capability and creditworthiness;
- to determine the electricity end-users comprising the Contestable and Captive Markets;
- to fix user fees to be charged by TransCo/NGCP for ancillary services to all electric power industry participants or self-generating entities connected to the grid;
- to review all power purchase contracts executed between NPC and IPPs, including the distribution utilities;
- to monitor and adopt measures to discourage or penalize abuse of market power, cartelization and any anticompetitive or discriminatory behavior by any electric power industry participant;
- to review and approve the terms and conditions of service of TransCo/NGCP and any distribution utility or any changes therein;
- to perform such other regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry; and
- to have original and exclusive jurisdiction over all cases that involve the contesting of rates, fees, fines and penalties imposed in the exercise of its powers, functions and responsibilities and over all cases involving disputes between and among participants or players in the energy sector relating to the foregoing powers, functions and responsibilities.

Role of the DOE

In accordance with its mandate to supervise the restructuring of the electric power industry, the DOE exercises, among others, the following functions:

- preparation and annual updating of the Philippine Energy Plan and the Philippine Power Development Program, and thereafter integrate the latter into the former;
- ensuring the reliability, quality and security of the supply of electric power;
- exercise of supervision and control over all government activities pertaining to energy projects;

- encouragement of private investment in the power industry sector and promotion of the development of indigenous and renewable energy sources for power generation;
- facilitation of reforms in the structure and operation of distribution utilities for greater efficiency and lower costs;
- promotion of incentives to encourage industry participants, including new generating companies and end-users, to provide adequate and reliable electric supply;
- education of the public (in coordination with NPC, ERC, NEA and the Philippine Information Agency) on the restructuring of the industry and the privatization of NPC assets; and
- establishment of the WESM in cooperation with electric power industry participants, and formulating rules governing its operations.

Role of the Joint Congressional Power Commission

The Joint Congressional Power Commission created pursuant to the EPIRA consists of 14 members selected from the members of the Philippine Senate and House of Representatives. Its responsibilities and functions include, among others, the following:

- monitoring and ensuring the proper implementation of the EPIRA;
- endorsement of the initial privatization plan of PSALM for approval by the President of the Philippines;
- ensuring transparency in the public bidding procedures adopted for the privatization of the generation and transmission assets of NPC;
- evaluation of the adherence of industry participants to the objectives and timelines under the EPIRA; and
- recommendation of necessary remedial legislation or executive measures to correct the inherent weaknesses in the EPIRA.

Competitive Market Devices

Wholesale Electricity Spot Market

The EPIRA mandates the establishment of the WESM, which is a pre-condition for the implementation of retail competition and open access, within one year from its effectivity. The WESM provides a venue whereby generators may sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two.

In June 28, 2002, the DOE, in cooperation with electric power industry participants, promulgated detailed rules for the WESM. These rules set the guidelines and standards for participation in the market, reflecting accepted economic principles and providing a level playing field for all electric power industry participants, and procedures for establishing the merit order dispatch for each time (hourly) trading period. These rules also provide for a mechanism for setting electricity prices that are not covered by bilateral contracts between electricity buyers and sellers.

In November 18, 2003, upon the initiative of the DOE, the Philippine Electricity Market Corporation (“PEMC”) was incorporated as a non-stock, non-profit corporation with membership comprising an equitable representation of electricity industry participants and chaired by the DOE. The PEMC acts as the autonomous market group operator and the governing arm of the WESM. The PEMC was tasked to undertake the preparatory work for the establishment of the WESM, pursuant to Section 30 of the EPIRA and in accordance with the WESM Rules. Its primary purpose is to establish, maintain, operate and govern an efficient, competitive, transparent and reliable market for the wholesale purchase of electricity and ancillary services in the Philippines in accordance with relevant laws, rules and regulations.

The WESM became operational in the Luzon grid on June 26, 2006. Prior to the commencement of the Luzon WESM commercial operations, the ERC issued the Enforcement of 90% cap on the Bilateral Supply Contracts of Distribution Utilities to address other issues that may arise during the

commercial operations of the WESM. The ERC is responsible for monitoring the 90% cap on power sourced from bilateral PSCs of distribution utilities' total monthly demand.

As of the date of this Prospectus, there were more than 200 entities registered as WESM members.

Retail Competition and Open Access

The EPIRA likewise provides for a system of Retail Competition and Open Access on transmission and distribution wires, whereby TransCo/NGCP and distribution utilities may not refuse the use of their wires by qualified persons, subject to the payment of distribution and wheeling charges. Conditions for the commencement of the Open Access system are as follows:

- establishment of the WESM;
- approval of unbundled transmission and distribution wheeling charges;
- initial implementation of the cross-subsidy removal scheme;
- privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPPAs.

The Philippine government expects retail competition and open access to be implemented in phases. As far as Luzon is concerned, the WESM began operations in June 2006 and Retail Competition has already been introduced, with end-users who comprise the Contestable Market for this purpose already identified.

The ERC officially declared December 26, 2011 as the Open Access date, marking the commencement of the full operation of the competitive Retail Electricity Market in Luzon and Visayas. This declaration (ERC Resolution No. 10 Series of 2011) was signed on June 6, 2011.

On October 24, 2011, through ERC Case No. 2011-009 RM, the ERC declared the deferment of the Open Access Date. The ERC found that not all rules, systems, preparations, and infrastructures required to implement Retail Competition and Open Access have been put in place to allow a December 26, 2011 Open Access commencement. For instance, the accounting and billing system had not been finalized. The essential business-to-business system, an information technology structure that shall handle the information exchange among Retail Competition and Open Access participants, is also not yet in place. A final Open Access Date has yet to be announced, but is expected to occur late in 2012.

Upon implementation of Open Access, the various contracts entered into by utilities and suppliers may potentially be "stranded". Stranded contract cost refers to the excess of the contracted cost of electricity under eligible IPP contracts of NPC over the actual selling price of the contracted energy output of such contracts in the market. Under the EPIRA, recovery of stranded contract cost may be allowed provided that such contracts were approved by the Energy Regulatory Board (now the ERC) as of December 31, 2000.

Unbundling of Rates and Removal of Cross Subsidies

The EPIRA mandates that transmission and distribution wheeling charges be unbundled from retail rates and that rates reflect the respective costs of providing each service. The EPIRA also states that cross-subsidies shall be phased out within a period not exceeding three years from the establishment by the ERC of a universal charge, which shall be collected from all electricity end-users. However, the ERC may extend the period for the removal of the cross-subsidies for a maximum of one year if it determines that there will be a material adverse effect upon the public interest or an immediate, irreparable and adverse financial effect on a distribution utility. The initial implementation of the cross-subsidy removal scheme was accomplished in 2001.

These arrangements are now in place, in satisfaction of the conditions for retail competition and open access.

The EPIRA likewise provides for a socialized pricing mechanism such as the lifeline rate subsidy to be set by the ERC for marginalized or low-income captive electricity consumers who cannot afford to pay the full cost of electricity. These end-users are exempt from the cross-subsidy removal for a period of ten years, unless extended by law. Its application was extended for another 10 years by Republic Act No. 10150, which was approved on June 2011.

Implementation of the PBR

On June 22, 2009, the ERC issued the Rules for Setting Distribution Wheeling Rates that apply to privately owned distribution utilities entering Performance Based Regulation (“PBR”) for the fourth entry points, which set out the manner in which the new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR is intended to replace the return-on-rate-base regulation (RORB) that has historically determined the distribution charges paid by the distribution companies’ customers. Under the PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period will be set by reference to projected revenues which are reviewed and approved by the ERC and used by the ERC to determine a distribution utility’s efficiency factor. For each year during the regulatory period, a distribution utility’s distribution charge is adjusted upwards or downwards taking into consideration the utility’s efficiency factor set against changes in overall consumer prices in the Philippines. The ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will also take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time to provide connections to customers and the average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

Reduction of Taxes and Royalties on Indigenous Energy Resources

To equalize prices between imported and indigenous fuels, the EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported fuels. Following the promulgation of the EPIRA IRR, President Arroyo enacted Executive Order No. 100 on May 3, 2002, to equalize the taxes among fuels used for power generation. This mechanism, however, is yet to be implemented.

Government Approval Process

As set forth in the EPIRA, power generation is not considered a public utility operation. Thus, an entity engaged or intending to engage in the generation of electricity is not required to secure a franchise. However, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a certificate of compliance from the ERC to operate facilities used in the generation of electricity. A certificate of compliance is valid for a period of five years from the date of issuance.

In addition to the certificate of compliance requirement, a generation company must comply with technical, financial and environmental standards. A generation company must ensure that all its facilities connected to the grid meet the technical design and operational criteria of the Grid Code and Distribution Code promulgated by the ERC. In this connection, the ERC has issued “Guidelines for the Financial Standards of Generation Companies,” which sets the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its certificate of compliance. For certificate of compliance applications and renewals, the guidelines require the submission to the ERC of, among other things, comparative audited financial statements for the two most recent 12-months periods, if available, a schedule of liabilities, and a five-year financial plan. For the duration of the certificate of compliance, the guidelines also require a generation company to submit audited financial statements and forecast financial statements to the ERC for the next two financial years, as well as other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be a ground for the imposition of fines and penalties.

The ERC also governs the approval process for Power Supply Agreement (PSAs) between distribution utilities and power suppliers. Under ERC Resolution No. 38, Series of 2006, Rule 20 (B), the ERC specified that the procedures established by the *Guidelines for the Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Rates* (ERC Res. No. 11, s. 2005), shall also be applicable for PSAs of the distribution utilities. Aside from the regulatory certificates from the SEC, BOI, DOE, and the like, the ERC also requires additional documentary support for PSA approval. For instance, they require financial data such as debt-to-equity ratios, project costs, annual interests, weighted average cost of capital, bank loans, to name a few. The ERC also requires a specification of the cash flow on the initial costs, operating & maintenance expenses, Minimum Energy Offtake ("MEOT"), fuel costs, and the like. In addition, technical and economic characteristics of the generating plant such as the kWh generation (basis of maintenance allowance), installed capacity, mode of operation, and dependable capacity, also need to be presented for ERC approval.

Both resolutions specify that ERC must render a decision within 90 days from the date of filing of the application. If no decision is rendered within the 90 day period, the PSA shall be deemed approved, unless the extension of the period is due to extraordinary circumstances

Upon the introduction of Retail Competition and Open Access, the rates charged by a generation company will no longer be regulated by the ERC, except rates for Captive Markets (which are determined by the ERC). In addition, since the establishment of the WESM, generation companies are now required to comply with the membership criteria and appropriate dispatch scheduling as prescribed under the WESM Rules.

In the course of developing a power plant, other permits, approvals and consents must also be obtained from relevant national, provincial and local government authorities, relating to, among others, site acquisition, construction and operation, including environmental licenses and permits.

THE PACKAGING BUSINESS

Safety and Quality Regulations under the Consumer Act

The DTI is tasked to implement the Consumer Act with respect to labels and packaging of consumer products other than food products, and regulates product labeling, proper and correct description of goods, product labels with foreign characters/languages, data/information on product contents and origins and other similar matters.

Manufacturers, distributors, importers or repackers of consumer products are required to indicate in their labels or packaging, a parallel translation in the English or Filipino language of the nature, quality and quantity and other relevant prescribed information or instructions of such consumer products in a manner that cannot be easily removed, detached or erased. In addition to the information required to be displayed in the principal and secondary panels, DTI Administrative Order No. 01-08 mandates that all consumer products sold in the Philippines, whether manufactured locally or imported shall indicate and specify the (i) country of manufacture; (ii) required information of consumption duration safety; (iii) warranty of the manufacturer; (iv) weight content prior to packaging; (v) consumer complaint desk address; and (vi) all other information necessary for giving effect to a consumer's right to information.

The packaging of consumer products must not cause the purchaser to be deceived as to the contents, size, quantity, measurement or fill of the product. For consumer products which are packaged in such a way that the contents cannot be seen or inspected upon purchase, samples or labeling describing the product inside the package, in words, in pictorial or graphical representation or by similar means, shall be provided for the inspection of the purchaser. Such sample or description should accurately represent the product in the package.

With respect to the packaging and repackaging of food products, such activities are regulated by the DOH and the FDA as discussed above. Establishments engaged in these activities are required to comply with, among others, the current guidelines on good manufacturing practice in manufacturing, packing, repacking, or holding food promulgated by the DOH.

ENVIRONMENTAL MATTERS

The operations of the businesses of SMC are subject to various laws, rules and regulations that have been promulgated for the protection of the environment.

EISS Law

The Philippine Environmental Impact Statement System (the “EISS Law”), which is implemented by the DENR, is the general regulatory framework for any project or undertaking that is either (a) classified as environmentally critical or (b) is situated in an environmentally critical area. It requires an entity that will undertake any such declared environmentally critical project or operate in any such declared environmentally critical area to submit an Environmental Impact Statement (“EIS”) which is a comprehensive study of the significant impacts of a project on the environment. The EIS serves as an application for the issuance of an Environmental Compliance Certificate (“ECC”). An ECC is a Philippine government certification that the proposed project or undertaking will not cause significant negative environmental impact; that the proponent has complied with all the requirements of the EISS in connection with said project; and that the proponent is committed to implement its approved Environmental Management Plan in the EIS. In general, only projects that pose potential significant impact on the environment shall be required to secure an ECC. The proponent of a project for which an ECC is issued and determined by the DENR to pose a significant public risk or necessitate rehabilitation or restoration shall be required to establish an Environmental Guarantee Fund. Said Fund is intended to meet any damage caused by, as well as any rehabilitation and restoration measures in connection with, the said project.

Clean Water Act

The Philippine Clean Water Act of 2004 (the “Clean Water Act”) and its implementing rules and regulations provide for water quality standards and regulations for the prevention, control, and abatement of pollution of the country’s water resources. Said Act require owners or operators of facilities that discharge regulated effluents (such as wastewater from manufacturing plants or other commercial facilities) to secure a discharge permit from the DENR which authorizes said owners and operators to discharge waste and/or pollutants of specified concentration and volumes from their facilities into a body of water or land resource for a specified period of time. The DENR, together with other government agencies and the different local government units, are tasked to implement the Clean Water Act and to identify existing sources of water pollutants, as well as strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law.

Other Regulations on Water Pollution

Philippine maritime laws and regulations are enforced by two Philippine government agencies: the Maritime Industry Authority (“MARINA”) and the Philippine Coast Guard. Both are agencies under the Philippine Department of Transportation and Communications.

The MARINA is responsible for integrating the development, promotion, and regulation of the maritime industry in the Philippines. It exercises jurisdiction over the development, promotion, and regulation of all enterprises engaged in the business of designing, constructing, manufacturing, acquiring, operating, supplying, repairing, and/or maintaining vessels, or component parts thereof, of managing and/or operating shipping lines, shipyards, dry docks, marine railways, marine repair ships, shipping and freight forwarding agencies, and similar enterprises.

To address issues on marine pollution and oil spillage, the MARINA mandated the use of double-hull vessels for transporting Black Products beginning at end of 2008 and by year 2011 for White Products.

The Philippine Coast Guard, in a 2005 Memorandum Circular, provided implementing guidelines based on the International Convention for the Prevention of Pollution from Ships, MARPOL 73/78.

The guidelines provide that oil companies in major ports or terminals/depots are required to inform the Philippine Coast Guard through its nearest station of all transfer operations of oil cargoes in their respective areas. Furthermore, oil companies and tanker owners are required to conduct regular team trainings on managing oil spill operations including the handling and operations of MARPOL combating equipment. A dedicated oil spill response team is required to be organized to react to land and ship-originated oil spills.

Moreover, both the Philippine Clean Water Act and the Philippine Coast Guard Guidelines provide that the spiller or the person who causes the pollution have the primary responsibility of conducting clean-up operations at its own expense.

Clean Air Act

The Philippine Clean Air Act of 1999 (the “Clean Air Act”) provides for air quality standards and regulations against air pollution. It provides that the DENR shall have authority to issue permits as it may determine necessary for the prevention and abatement of air pollution. Said permits shall cover emission limitations for regulated air pollutants to help attain and maintain the ambient air quality standards. Under the implementing rules and regulations of the Clean Air Act, all sources of air pollution are required to obtain a valid Permit to Operate while new or modified sources must first obtain an Authority to Construct. The DENR, together with other government agencies and the different local government units, are tasked to implement the Clean Air Act.

The Clean Air Act provides more stringent fuel specifications over a period of time to reduce emission that pollutes the air. The Philippine Clean Air Act mandates the sulfur and benzene content for gasoline and automotive diesel. Under the law, oil firms are mandated to lower the sulfur content of automotive diesel oils to 0.05% by January 1, 2004 nationwide. The law also regulates the use of any fuel or fuel additives. Furthermore, the Philippine Clean Air Act prohibits a manufacturer, processor or trader of any fuel or additive to import, sell, offer for sale, or introduce into commerce such fuel or additive unless these have been registered with the DOE. All the requirements of the said law have been implemented, starting with the phase-out of leaded gasoline in Metro Manila in April 2000 and all over the country in December 2000.

The Technical Committee on Petroleum Products and Additives sets the standards for certain petroleum products following strict time-bound and quality-specific targets under the mandate of the Philippine Clean Air Act and the DOE initiative on alternative fuels.

The Biofuels Act of 2006

Republic Act No. 9637, also known as “The Biofuels Act of 2006”, aims to reduce the dependence of the transport sector on imported fuel and mandates that, starting February 2009, at least 5% bioethanol shall comprise the total annual volume of gasoline fuel sold by every oil company. Oil companies are allowed to blend the different premium gasoline grades with 10% ethanol to be sold in selected areas to achieve the 5% of total gasoline volume requirement. The requirement to sell ethanol blended gasoline commenced on February 9, 2009. For diesel engines, the mandated biodiesel blend in the country was increased from 1% to 2% starting February 2009.

In 2008, a Joint Administrative Order known as the “Guidelines Governing the Biofuel Feedstock Production and Biofuel Blends Production, Distribution and Sale” (the “Guidelines”) was issued by various Philippine government agencies. The Guidelines provide for responsibilities of oil companies in the sourcing and blending of biodiesel and bioethanol with diesel and gasoline. The Guidelines mandate that oil companies should source biofuels only from biofuel Producers accredited by the DOE or from Biofuel distributors registered with the DOE. Moreover, unless authorized by DOE to import in case of shortage of supply of locally-produced bioethanol as provided for under the Act, an oil company’s failure to source its biofuels from accredited biofuels producers and/or registered biofuel distributors would constitute a prohibited act.

Renewable Energy Act of 2008

Republic Act No. 9513, also known as “The Renewable Energy Act” aims to promote development and commercialization of renewable and environment-friendly energy resources such as biomass, solar, and wind through various tax incentives. Some of the tax incentives granted to renewable energy developers under the law include (i) a seven-year income tax holiday; (ii) duty free importation of renewable energy machinery, equipment, and materials; (iii) special realty tax rates on equipment and machinery; (iv) zero percent VAT rate for power generated from these energy sources; and (v) the imposition of a reduced corporate tax of 10% on its net taxable income after the income tax holiday.

Other Laws

Other regulatory environmental laws and regulations applicable to the businesses of SMC include the following:

- The Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990 regulates, restricts or prohibits the (i) importation, manufacture, processing, handling, storage, transportation, sale, distribution, use and disposal of chemical substance and mixtures that present unreasonable risk or injury to health or the environment, and (ii) entry into the Philippines or the keeping in storage of hazardous wastes which include by-products, process residue, contaminated plant or equipment or other substances from manufacturing operations. Said Act is implemented by the DENR.
- The Ecological Solid Waste Management Act of 2000 provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. Said Act prohibits, among others, the transporting and dumping of collected solid wastes in areas other than such centers and facilities prescribed thereunder. The National Solid Waste Management Commission, together with other government agencies and the different local government units, are responsible for the implementation and enforcement of the said law.
- The Sanitation Code provides for sanitary and structural requirements in connection with the operation of certain establishments such as food establishments which include such places where food or drinks are manufactured, processed, stored, sold or served. Under the Sanitation Code, food establishments are required to secure sanitary permits prior to operation which shall be renewable on a yearly basis. Said Code is implemented by the DOH.

The Philippine Stock Market

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by the Issuer, the Joint Bookrunners or any of their respective subsidiaries, affiliates or advisors in connection with sale of the Offer Shares.

Brief History

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulating, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Government have resulted in the unification of the two bourses into the Philippine Stock Exchange (“PSE”). The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. While the PSE maintains two trading floors, one in Makati City and the other in Pasig City, these floors are linked by an automated trading system which integrates all bid and ask quotations from the bourses.

In June 1998, the Philippine SEC granted the Self-Regulatory Organization (“SRO”) status to the PSE, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC. The PSE has an authorized capital stock of ₱36.8 million, of which ₱30.6 million is subscribed and fully paid-up. Each of the 184 member-brokers was granted 50,000 common shares of the new PSE at a par value of ₱1.00 per share. In addition, a trading right evidenced by a “Trading Participant Certificate” was immediately conferred on each member broker allowing the use of the trading facilities of the PSE. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President.

On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry.

Classified into financial, industrial, holding firms, property, services, and mining and oil sectors, companies are listed either on the First Board, Second Board or the Small and Medium Enterprises Board of the PSE. Each index represents the numerical average of the prices of component stocks. The PSE has an index, referred to as the PHISIX, which as at the date thereof reflects the price movements of selected stocks listed on the PSE, based on traded prices of stocks from the various sectors. The PSE shifted from full market capitalization to free float market capitalization effective April 3, 2006 simultaneous with the migration to the free float index and the renaming of the PHISIX to PSEi. The PSEi includes 30 selected stocks listed on the PSE.

With the increasing calls for good corporate governance, PSE has adopted an online daily disclosure system to improve the transparency of listed companies and to protect the investing public.

The table below sets out movements in the composite index from 1995 up to December 1, 2010 and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

Year	Composite Index at Closing	Number of Listed Companies	Aggregate Market Capitalization (in ₱ 'billions)	Combined Value of Turnover (in ₱ 'billions)
1995	2,594.2	205	1,545.7	379.0
1996	3,170.6	216	2,121.1	668.9
1997	1,869.2	221	1,261.3	588.0
1998	1,968.8	221	1,373.7	408.7
1999	2,142.9	226	1,938.6	713.9
2000	1,494.5	230	2,577.6	357.6
2001	1,168.1	232	2,142.6	159.5
2002	1,018.4	234	2,083.2	159.7
2003	1,442.2	236	2,973.8	145.4
2004	1,822.8	236	4,766.2	206.6
2005	2,096.0	237	5,948.4	383.5
2006	2,982.5	240	7,172.8	572.6
2007	3,621.6	244	7,980.0	1,340.0
2008	1,872.9	248	4,070.0	763.9
2009	3,052.7	248	6,029.1	994.2
2010	4,201.1	253	8,866.1	1,207.4
2011	4,372.0	253	8,697.0	1,422.6
2012*				
*as of []				
Source: Philippine Stock Exchange, Inc.				

Trading

The PSE is a double auction market. Buyers and sellers are each represented by stockbrokers. To trade, bids or ask prices are posted on the electronic trading system of the PSE. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Payment of purchases of listed securities must be made by the buyer on or before the third trading day (the settlement date) after the trade.

Trading on the PSE starts at 9:30 a.m. and ends at 12:00 p.m. Trading resumes at 1:30 p.m. and ends at 3:30 p.m. with a 10-minute extension during which transactions may be conducted, provided that they are executed at the last traded price and are only for the purpose of completing unfinished orders. Trading days are Monday to Friday, except legal holidays and days when the BSP clearing house is closed.

Minimum trading lots range from 10 to 1,000,000 shares depending on the price range and nature of the security traded. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, when the price of a listed security moves up by 50% or down by 50% in one day (based on the previous closing price or last posted bid price, whichever is higher), the price of that security is automatically frozen by the PSE, unless there is an official statement from the company or a government agency justifying such price fluctuation, in which case the affected security can still be traded but only at the frozen price. If a company fails to submit such explanation, a trading halt is imposed by the PSE on the listed security the following day. Resumption of trading shall be allowed only when the disclosure of the company is disseminated, subject again to the trading ban.

Settlement

The Securities Clearing Corporation of the Philippines ("SCCP") is a private institution organized primarily as a clearance and settlement agency for depository eligible trades executed on the PSE.

The PSE holds 100% ownership of SCCP. SCCP received its permanent license to operate on January 17, 2002. It is responsible for:

- (a) synchronizing the settlement of funds and the transfer of securities through Delivery versus Payment (DVP) clearing and settlement of transactions of Clearing Members, who are also Trading Participants of the Exchange;
- (b) guaranteeing the settlement of trades in the event of a Trading Participant's default through the implementation of its Fails Management System and administration of the Clearing and Trade Guaranty Fund ("CTGF"), and;
- (c) performance of Risk Management and Monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place three (3) trading days after transaction date ("T+3"). The deadline for settlement of trades is 12:00 noon on T+3. Securities sold should be in scripless form and lodged under the book-entry system of the Philippine Depository & Trust Corporation's ("PDTC", formerly the Philippine Central Depository, Inc). Each Trading Participant maintains a Cash Settlement Account with one of the four existing Settlement Banks of SCCP which are Banco de Oro Unibank, Inc., Deutsche Bank AG (Manila Branch), Metropolitan Bank & Trust Company and Rizal Commercial Banking Corporation. Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its new clearing and settlement system called Central Clearing and Central Settlement ("CCCS") on May 29, 2006. CCCS employs multilateral netting whereby the system automatically offsets "buy" and "sell" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each Clearing Member. All cash debits and credits are also netted into a single net cash position for each Clearing Member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-Eligible trade cleared through it.

Scripless Trading

In 1995, the Philippine Depository & Trust Corporation (formerly the Philippine Central Depository, Inc.), was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the Philippine SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks, Banco de Oro Unibank, Inc., Deutsche Bank AG (Manila Branch), Metropolitan Bank & Trust Company and Rizal Commercial Banking Corporation.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares of stock in favor of PCD Nominee Corporation ("PCD Nominee"), a corporation wholly owned by the PDTC whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged into the PDTC. "Immobilization" is the process by which the warrant or share certificates of lodging holders are canceled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares in the account of PCD Nominee through the PDTC participant will be recorded in the registry of the Issuer. This trust arrangement between the participants and PDTC through PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No

consideration is paid for the transfer of legal title to PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP, and into the PDTC system. Once it is determined on the settlement date (T+3) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the CCCS system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a stockholder wishes to withdraw his stockholdings from the PDTC System, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the stockholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under the PDC nominee. The expenses for upliftment are for the account of the uplifting shareholder.

The difference between the depository and the registry would be on the recording of ownership of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are canceled and a new certificate is issued in the name of PCD Nominee Corp. to confirm new balances of the shares lodged with the PDTC. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the nominee's name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current "de facto" custodianship role.

Amended Rule on Lodgment of Securities

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the SEC, without any jumbo or mother certificate in compliance with the requirements of Section 43 of the Securities Regulation Code. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in Article III Part A of the Revised Listing Rules.

Further, the PSE apprised all listed companies and market participants on May 21, 2010 through Memorandum No. 2010-0246 that the Amended Rule on Lodgment of Securities under Section 16 of Article III, Part A of the Revised Listing Rules of the Exchange shall apply to all securities that are lodged with the PDTC or any other entity duly authorized by the Philippine SEC.

For listing applications, the amended rule on lodgment of securities is applicable to:

- a. The offer shares/securities of the applicant company in the case of an initial public offering;
- b. The shares/securities that are lodged with the PDTC, or any other entity duly authorized by the Philippine SEC in the case of a listing by way of introduction;
- c. New securities to be offered and applied for listing by an existing listed company; and
- d. Additional listing of securities of an existing listed company.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

For new companies to be listed at the PSE as of July 1, 2009, the usual procedure will be observed but the Transfer Agent on the companies shall no longer issue a certificate to PCD Nominee Corp but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the Depository Participants on listing date.

On the other hand, for existing listed companies, the PDTC shall wait for the advice of the Transfer Agents that it is ready to accept surrender of PCD Nominee jumbo certificates and upon such advice the PDTC shall surrender all PCD Nominee jumbo certificates to the Transfer Agents for cancellation. The Transfer Agents shall issue a Registry Confirmation Advice to PCD Nominee evidencing the total number of shares registered in the name of PCD Nominee in the registry of the Issuer as of confirmation date.

Issuance of Certificated Offer Shares

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply to PDTC through his broker or custodian-participant for a withdrawal from the book-entry system and return to the conventional paper-based settlement. If a stockholder wishes to withdraw his stockholdings from the PDTC System, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the stockholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are on the account of the uplifting shareholder.

Upon the issuance of certificated shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of beneficial ownership in the shares to certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until certificated shares shall have been issued by the relevant company's transfer agent.

Appendix

- A. Reviewed Unaudited Consolidated Financial Statements as of and for the three months ended March 31, 2012
- B. Audited Consolidated Financial Statements as of and for the years ended December 31, 2011, 2010 and 2009
- C. List of properties owned and leased by SMC

**A. Reviewed Unaudited Consolidated Financial Statements
as of and for the three months ended March 31, 2012**

**B. Audited Consolidated Financial Statements
as of and for the years ended December 31, 2011, 2010 and 2009**

C. List of properties owned and leased by SMC

Company Name / Subsidiary		Address	Rented / Owned	Condition
BEVERAGE BUSINESS				
1	SAN MIGUEL BREWERY, INC.			
	A. DOMESTIC			
	<u>Breweries</u>			
	Polo Brewery	Marulas, Valenzuela City, Metro Manila	Owned	Good
	San Fernando Brewery	Brgy. Quebiawan, McArthur Highway, San Isidro, San Fernando, Pampanga	Owned	Good
	Sta. Rosa Brewery	Sta. Rosa Industrial Complex, Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna	Owned	Good
	Bacolod Brewery	Brgy. Granada, Sta. Fe, Bacolod City, Negros Occidental	Owned	Good
	Mandaue Brewery	National Highway, Brgy. Tipolo, Mandaue City	Owned	Good
	Davao Brewery	Brgy. Darong, Sta. Cruz, Davao del Sur	Owned	Good
	<u>Sales/Area Offices and Warehouses</u>			
	Central North Luzon Area	SMC Complex, Brgy. Quebiawan, McArthur Highway, San Fernando, Pampanga	Owned	Good
	Central North Luzon Area	Carmen East, Rosales, Pangasinan	Owned	Good
	Central North Luzon Area	Caranglaan Dist., Dagupan City, Pangasinan	Owned	Good
	Central North Luzon Area	Naguilian Road, San Carlos Heights, Brgy. Irisan, Baguio City, Benguet	Owned	Good
	Central North Luzon Area	Pennsylvania Ave., Brgy. Madayegdeg, San Fernando, La Union	Owned	Good
	Central North Luzon Area	Brgy. San. Fermin, Cauayan, Isabela	Owned	Good
	Central North Luzon Area	National Road, Brgy. Mabini, Santiago City, Isabela	Owned	Good
	Central North Luzon Area	San Andres St., San Angelo Subdivision, Sto. Domingo, Angeles City, Pampanga	Owned	Good
	Central North Luzon Area	Maharlika Road, Bitas, Cabanatuan City, Nueva Ecija	Owned	Good
	Central North Luzon Area	Brgy. 22, San Guillermo, San Nicolas, Ilocos Norte	Owned	Good
	Central North Luzon Area	Cabanatuan S.O. - No. 140, Bitas, Cabanatuan City	Land & Building-Rented	Good
	Greater Manila Area North	Cagayan Valley Rd., Brgy. Sta. Cruz, Guiguinto, Bulacan	Owned	Good
	Greater Manila Area North	Gapan-Olongapo Rd., Poblacion San Isidro, Nueva Ecija	Owned	Good
	Greater Manila Area North	A. Cruz St., Brgy. 96, Caloocan City	Owned	Good
	Greater Manila Area North	Honorio Lopez Blvd., Guidote St., Tondo, Manila	Owned	Good
	Greater Manila Area North	Brgy. Mangga, Cubao, Quezon City	Owned	Good
	Greater Manila Area North	Bldg. 23 Plastic City Cpd., #8 T. Santiago St., Brgy. Canumay, Valenzuela City, Metro Manila	Owned	Good
	Greater Manila Area North	Quirino Highway, Novaliches, Quezon City, Metro Manila	Owned	Good
	Greater Manila Area North	Tondo S.O. - Guidote St., Tondo Manila	Land-Rented	Good
	Greater Manila Area North	Valenzuela S.O. - Bldg. 23 Plastic City Cpd., #8 T. Santiago St., Brgy. Canumay, Valenzuela City, Metro Manila	Land & Land Improvement-Rented	Good
	Greater Manila Area North	Novaliches S.O. - Quirino Highway, Novaliches, Quezon City, Metro Manila	Land & Buildings-Rented	Good

Company Name / Subsidiary		Address	Rented / Owned	Condition
	Greater Manila Area North	Bottle Segregation Site - Maysilo, Malabon	Open Space-Rented	Good
	Greater Manila Area North	Bottle Segregation Site - Portrero, Malabon	Open Space-Rented	Good
	Greater Manila Area South	Brgy. 425, Zone 43, Sampaloc District, Manila	Owned	Good
	Greater Manila Area South	M. Carreon St., Brgy. 864, Sta. Ana District, Manila	Owned	Good
	Greater Manila Area South	Manila East Rd., Brgy. Dolores, Taytay, Rizal	Owned	Good
	Greater Manila Area South	No. 100 Bernabe Subd., Brgy. San Dionisio, Sucat, Parañaque City, Metro Manila	Owned	Good
	Greater Manila Area South	Mercedes Ave., Pasig City, Metro Manila	Owned	Good
	Greater Manila Area South	Pasig S.O. - Mercedes Ave., Pasig City, Metro Manila	Land & Warehouse-Rented	Good
	South Luzon Area	Silangan Exit, Canlubang, Calamba City, Laguna	Owned	Good
	South Luzon Area	Maharlika Highway, Brgy. Isabang, Lucena City, Quezon	Owned	Good
	South Luzon Area	Maharlika Highway, Brgy. Villa Bota, Gumaca, Quezon	Owned	Good
	South Luzon Area	Maharlika Highway, Brgy. Concepcion Grande Pequeña, Naga City, Camarines Sur	Owned	Good
	South Luzon Area	Brgy. Mandaragat, Puerto Princesa City, Palawan	Owned	Good
	South Luzon Area	Aurora Quezon and Calderron St., Brgy. Labangan, San Jose, Occidental Mindoro	Owned	Good
	South Luzon Area	Brgy. Lankaan II, Governor's Drive, Dasmariñas, Cavite	Owned	Good
	South Luzon Area	National Rd., Brgy. Balagtas, Batangas City, Batangas	Owned	Good
	South Luzon Area	Ayala Highway, Brgy. Balintawak, Lipa City, Batangas	Owned	Good
	South Luzon Area	Corner Gogon and Patricio Streets, Bgy. Cruzada, Legaspi City, Bicol	Owned	Good
	South Luzon Area	Tirona Highway, Habay, Bacoar, Cavite	Owned	Good
	South Luzon Area	T. de Castro St., Zone 8, Bulan, Sorsogon	Owned	Good
	South Luzon Area	Matungao, Tugbo, Masbate City	Owned	Good
	South Luzon Area	Brgy. Bulilan Norte, Pila, Laguna	Owned	Good
	South Luzon Area	Legazpi S.O. - Corner Cogon and Patricio Streets, Bgy. Cruzada, Legaspi City, Bicol	Land & Land Improvement s-Rented	Good
	South Luzon Area	Dasmariñas S.O. - Brgy. Langkaan II, Governors Drive, Dasmariñas, Cavite	Warehouse-Rented	Good
	South Luzon Area	Bacoar S.O. - Tirona Highway, Habay 1, Bacoar, Cavite	Warehouse-Rented	Good
	South Luzon Area	Bulan S.O. - T. de Castro St., Zone 8, Bulan, Sorsogon	Warehouse-Rented	Good
	South Luzon Area	Masbate S.O. - Magtungao, Tugbo, Masbate City	Warehouse-Rented	Good
	South Luzon Area	Pila S.O. - Brgy. Bulilan Norte, National Highway, Pila, Laguna	Warehouse-Rented	Good
	South Luzon Area	Sta. Rosa Bottling Plant - Sta. Rosa Industrial Complex, Brgy. Pulong, Sta. Cruz, Sta. Rosa City, Laguna	Land-Rented	Good
	Negros	Brgy. Granada, Sta. Fe, Bacolod City, Negros Occidental	Owned	Good

Company Name / Subsidiary		Address	Rented / Owned	Condition
	Negros	Muelle Loney St., Brgy. Legaspi, Iloilo City	Owned	Good
	Negros	National Hi-way, Brgy. 4, Himamaylan City, Negros Occidental	Owned	Good
	Negros	Flores St., Brgy. Sum-Ag, Bacolod City, Negros Occidental	Owned	Good
	Negros	Brgy., Camansi Norte, Numancia, Aklan	Owned	Good
	Negros	Brgy. Libas, Roxas City, Capiz	Owned	Good
	Negros	Brgy. Pulang Tubig, Dumaguete City	Owned	Good
	Negros	Samar Region Office - San Bartolome St., Catbalogan, Samar	Office Space-Rented	Good
	Negros	Dumaguete Region Office - Brgy. Pulang Tubig, Dumaguete City	Land Improvement-Rented	Good
	Negros	Dumaguete S.O. - Brgy. Pulang Tubig, Dumaguete City	Warehouse-Rented	Good
	Negros	Tagbilaran S.O. - Graham Ave., Tagbilaran City	Warehouse-Rented	Good
	Visayas	National Highway, Brgy. Tipolo, Mandaue City	Owned	Good
	Visayas	Access Rd., Fatima Village, Brgy. 73 (formerly part of Brgy. Sagcahan), Tacloban City, Leyte	Owned	Good
	Visayas	Graham Ave., Tagbilaran City, Bohol	Owned	Good
	Visayas	San Bartolome St., Catbalogan, Samar	Owned	Good
	Mindanao	Brgy. Darong Sta. Cruz, Davao del Sur	Owned	Good
	Mindanao	Ulas Crossing, Ulas, Davao City	Owned	Good
	Mindanao	National Highway, Brgy. Magugpo, Tagum City	Owned	Good
	Mindanao	Sergio Osmeña, Brgy. Poblacion, Koronadal City	Owned	Good
	Mindanao	National Highway, Brgy. Lagao, Gen. Santos City	Owned	Good
	Mindanao	National Highway, Brgy. Luyong Bonbon, Opol, Misamis Oriental	Owned	Good
	Mindanao	R.T. Lim Blvd., Baliwasan, Zamboanga City	Owned	Good
	Mindanao	Fort Poyohan, Molave St., Butuan City, Agusan del Norte	Owned	Good
	Mindanao	Brgy. Mangangoy, Bislig City, Surigao del Sur (building only)	Owned	Good
	Mindanao	Brgy. Bongtod, Tandag City, Surigao del Sur	Owned	Good
	Mindanao	J.P. Rizal Ave., Poblacion, Digos City	Owned	Good
	Mindanao	National Highway, Sta. Felomina, Dipolog City	Owned	Good
	Mindanao	Pandan, Sta. Filomena, Iligan City	Owned	Good
	Mindanao	Baybay, Liloy, Zamboanga del Norte	Owned	Good
	Mindanao	Butuan Region Office - Fort Poyohan, Molave St., Butuan City, Agusan del Norte	Land & Land Improvement-Rented	Good
	Mindanao	Ozamis Region Office - Bonifacio St., Lam-an, Ozamis City, Misamis Occidental	Land & Building-Rented	Good
	Mindanao	Iligan S.O. - Pandan, Sta. Filomena, Iligan City	Warehouse-Rented	Good
	Mindanao	Liloy S.O. - Baybay, Liloy, Zamboanga del Norte	Warehouse-Rented	Good
	Mindanao	Dipolog S.O. - Sta. Filomena, Dipolog City	Warehouse-Rented	Good

Company Name / Subsidiary		Address	Rented / Owned	Condition
	Mindanao	National Highway, Brgy. Darong, Sta. Cruz, Davao	Parking Space-Rented	Good
	<u>Terminal</u>			
	Bataan Malt Terminal (land, building, machineries & equipment, furnitures & fixtures)	Mariveles, Bataan	Building & Facilities- Owned; Land-Rented	Good
	<u>Investment Properties</u>	HAD Flora St. Brgy. Estefania, Bacolod City	Owned	Idle
		No. 31 Rosario St., Brgy. Granada, Bacolod City	Owned	Idle
		Brgy. Penabatan, Pulilan, Bulacan	Owned	Idle
		L26 B11, Brgy. Sto.Domingo, Sta.Rosa, Laguna	Owned	Idle
		Brgy. Estefanía, Bacolod City (TCT 092-2011004583)	Owned	Idle
		No. 047 Brgy. Estefanía, Bacolod City (TCT 092-2011010662)	Owned	Idle
	B. INTERNATIONAL			
	<u>Breweries</u>			
	San Miguel Beer (Thailand) Ltd.	89 Moo2, Tivanon Rd., Baan Mai, Muang , Pathumtani 12000	Owned	Good
	PT Delta Djakarta Tbk	Inspeksi Tarum Barat Desa Setia Darma Tambun Bekasi	Owned	Good
	San Miguel Brewery Hong Kong Limited	22 Wang Lee Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong	Owned	Good
	San Miguel (Guangdong) Brewery Co.,Ltd	San Miguel Road 1#, Longjiang Town, Shunde District, Guangdong Province, China	Owned	Good
	San Miguel (Baoding) Brewery Co. Ltd.	Shengli street, Tianwei west Road, Baoding City ,Hebei Province, China	Owned	Good
	San Miguel Brewery Vietnam Ltd.	Quoc Lo 1 , Suoi Hiep , Dien Khanh , Khanh Hoa	Owned	Good
	<u>Sales/Area Offices and Warehouses</u>			
	San Miguel Brewery Limited	9 th Floor, Citimark Building , No.28 Yuen Shun Circuit, Siu Lek Yuen, Shatin, NT, Hong Kong	Owned	Good
	San Miguel Brewery Limited	San Miguel Industrial Building, Nos. 9-11 Shing Wan Road, Tai Wai, Shatin, NT, Hong Kong	Owned	Good
	San Miguel Guangdong Brewery Company Limited			
	SMGFB warehouse	Longjiang Town, Shunde district	Warehouse-Rented	Good
	Guangzhou San Miguel Brewery Co. Ltd.			
	Shantou Sales Office	Room 803 and Room 804, underground parking, Huamei Garden, Shantou City	Owned	Good
	Guangzhou Office	4th Floor,100 Liwan Road, Liwan District, Guangzhou, Guangdong Province, China	Office Space-Rented	Good
	Pingsha Warehouse	2nd Floor,NO.1,E building,Junhe Street,Baiyun district,Guangzhou City	Warehouse-Rented	Good
	San Miguel Baoding Brewery Company Limited			

Company Name / Subsidiary		Address	Rented / Owned	Condition
	Shijiazhuang Sales Office	Room 3-502,11 Building,25 Donggang Road, Century Park east District, Shijiazhuang City, Hebei Province, China	Office Space-Rented	Good
	Handan Sales Office	Room 2-101,8 Buiding,xinghuaxiaoqu, Xingtai City, Hebei Province, China	Office Space-Rented	Good
	San Miguel China Investment Company Limited	Room 1805 , Zhongyu Building, Jia 6 Gongti Bei Lu , Chaoyang DistrictBeijing 1000027, China	Office Space-Rented	Good
	San Miguel Marketing Thailand Limited			
	North sales office	403/8 Lumpoon Road, Wadked , Amphor Muang , Lumpoon	Office Space-Rented	Good
	South sales office (Phuket)	14/4 Moo 4 , Tambon Wichit Amphor Muang, Phuket	Office Space-Rented	Good
	South sales office (Samui)	44/38 Moo 1 Tambon Maenam,Amphur Koh Samui Suratthani	Office Space-Rented	Good
	Northeast sales office	44/50 Moo 3 Chataphadung Rd, Amphur Muang Khonkean	Office Space-Rented	Good
	Warehouse Pattaya	263/91 Moo 12 Tambon Nongprue Banglamung Chonburi	Warehouse-Rented	Good
	Pattaya sales office	324 Moo 12 Tambon Nongprue Banglamung Chonburi	Office Space-Rented	Good
	San Miguel Brewery Vietnam Limited			
	San Miguel Brewery Vietnam Ltd.	Quoc Lo 1 , Suoi Hiep , Dien Khanh, Khanh Hoa	Land-Rented	Good
	Ho Chi Minh Sales Office	422-424 Ung Van Khiem , Ward 25, Binh Thanh Dist, HCM City	Office Space-Rented	Good
	Da Nang Sales Office	26 Nguyen Van Linh , Da Nang City	Office Space-Rented	Good
	Nha Trang Sales Office	48 B Yersin , Nha Trang City	Office Space-Rented	Good
	Ho Chi Minh warehouse	111A 13 National Road , Ward 26, Binh Thanh Dist	Warehouse-Rented	Good
	PT Delta Jakarta/JDI			
1	Admin Office For Region	Ruko Setia Budi Square No.2 Komplek Perumahan Setia Budi Indah Medan-20131	Office Space-Rented	Good
2	Admin Office For Region	Plaza Pasific Blok A1 No.22 Bolevard Raya Barat Kelapa Gading Streets Jakarta Utara 14240	Office Space-Rented	Good
3	Admin Office For Region	Perumahan Villa Bukit Mas Mediterian Blok K5 Bukit Pakis Timur III streets Dukuh Pakis-Surabaya 60255	Office Space-Rented	Good
5	Admin Office For Region	Srigala No.37 streets Makasar	Office Space-Rented	Good
	San Miguel Brewery Hong Kong	22 Wang Lee Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong	Land-Rented	Good
	<u>Power Plant</u>	Shengli street, Tianwei west Road, Baoding City ,Hebei Province, China	Owned	Idle
	<u>Investment Properties</u>			
	Guangzhou San Miguel Brewery	Room 302, Haitao Building, Marine Fisheries Pier, North Binhai Avenue, Haikou City	Owned	Good

Company Name / Subsidiary		Address	Rented / Owned	Condition
	Guangzhou San Miguel Brewery	1 st -4 th Floor, Xianda Building, Shuichan Pier, North Binhai Avenue, Haikou City	Owned	Good
	San Miguel (China) Investment Co. Ltd.	1-7A, 1-11A, 1-12A, 1-9C, 1-7C Parkview Tower Chaoyang District Beijing 100027, China	Owned	Good
2	GINEBRA SAN MIGUEL, INC.			
	Cabuyao Plant	Silangan Industrial Estate, Bgy Pittland, Terelay Phase, Cabuyao, Laguna	Owned	Good
	Lucena Plant	Bgy. Gulang-gulang, Lucena City, Quezon	Owned	Good
	Sta. Barbara Plant	Tebag West, Sta. Barbara, Pangasinan	Owned	Good
	Cebu Plant	Subandaku, Mandaue City, Cebu	Owned	Good
	Distileria Bago, Inc. (Alcohol Distillery)	Km 13.5 Bgy. Taloc, Bago City, Negros Occidental	Owned	Good
	San Miguel Properties Centre (SMPC) Bldg.	3rd & 6th Floors SMPC Bldg., St. Francis Ave., Ortigas Centre, Mandaluyong City	Owned	Good
	San Miguel Properties Centre (SMPC) Bldg.	5th Floors SMPC Bldg., St. Francis Ave., Ortigas Centre, Mandaluyong City	Rented	Good
	Valenzuela Sales Office	#8 T.Santiago St., Canumay West, Plastic City, Valenzuela	Rented	Good
	Pureza Sales Office	Brgy. 425, 489 Pureza, Sta. Mesa Manila	Rented	Good
	Cainta Sales Office	167 Felix Ave. Brgy. Sto. Domingo Cainta Rizal	Rented	Good
	San Fernando Sales Office	Brgy. San Isidro, McArthur Highway, San Fernando, Pampanga	Rented	Good
	DOS Pampanga Warehouse	San Fernando, Pampanga	Rented	Good
	San Jacinto Warehouse	Bo. Macayug, San Jacinto, Pangasinan	Rented	Good
	SMCSL Damortis	Brgy. Namonitan, Sto. Tomas, La Union	Rented	Good
	Metro Bottling Corporation (MBC)	Gen. Hizon Ave., Sta. Lucia, San Fernando, Pampanga	Rented	Good
	SMDCI Warehouse	Bo. Maimpis, San Fernando, Pampanga	Rented	Good
	Porac Warehouse	Sta. Cruz, Porac, Pampanga	Rented	Good
	East Pacific Star Bottlers, Inc.	San Fermin, Cauayan, Isabela	Rented	Good
	Pua's Warehouse	San Fermin, Cauayan, Isabela	Rented	Good
	Tropical Fruit Asia Co., (TFAC)	First Bulacan Industrial Complex Bo. Tikay, Malolos Bulacan	Rented	Good
	San Miguel PET and Brewery Plant-San Fernando	San Fernando Complex, Bo. Quebiawan, San Fernando, Pampanga	Rented	Good
	Margarrett	Sitio Iloguin, Sandoval St, Cainta, Rizal	Rented	Good
	Inno Bev	Warehouse II, Kabesang Purong, Brgy. Punturin, Valenzuela City	Rented	Good
	Integrated Mfg. Service Providers Inc. (IMSPI)	98 Marcos Alvarez Avenue, Talon 1 Las Pinas Metro Manila	Rented	Good
	Lakeside Food and Beverage Co. (LFBC)	Brgy. Tulo, Calamba Laguna	Rented	Good
	GMV Cold Storage	107 North Main Avenue, LTI, Brgy. Biñan, Biñan Laguna	Rented	Good
	Consolidated Packaging	183 Judge, Juan Luna Street San Francisco Del Monte, Quezon City	Rented	Good
	San Miguel Brewery-Polo Plant line 3	McArthur Highway, Marulas, Valenzuela	Rented	Good

Company Name / Subsidiary		Address	Rented / Owned	Condition
	SMC-SL Warehouse	Silangan Industrial Estate, Bgy Pittland, Terelay Phase, Cabuyao, Laguna	Owned	Good
	Alliance Warehouse	Bgy. Pulo, Cabuyao, Laguna	Rented	Good
	GMV Warehouse	107 North Main Avenue, LTI, Brgy. Biñan, Biñan Laguna	Rented	Good
	STMI Warehouse	Bgy. Lawa, Calamba City, Laguna	Rented	Good
	Tabangao Depot	Bgy. Tabangao, Batangas City	Rented	Good
	Cotta Depot	Bgy. Cotta, Lucena City	Rented	Good
	Calamba Plant	Sito Pulang Lupa, Makiling, Calamba Laguna	Owned	Good
	Newport Industries	Sito Pulang Lupa, Makiling, Calamba Laguna	Rented	Good
	Tulo Warehouse	Bgy. Tulo, Calamba City, Laguna	Rented	Good
	Polo Tolling Warehouse	SMBB Polo Brewery, Brgy. BBB Valenzuela City	Rented	Good
	East Pacific Star Tolling - Ligao	Km 503 Hacienda Mitra, Paulog, Ligao City, Albay	Rented	Good
	Banlic Warehouse	Bgy. Banlic, Cabuyao, Laguna	Rented	Good
	Pittland Warehouse	Brgy. Pittland, Cabuyao	Rented	Good
	San Miguel PET and Brewery Plant-Cebu	San Miguel Brewery Complex, SMBD Hi-way, Mandaue City	Rented	Good
	Davao Sales Office	Brgy. Talomo, Ulas, Davao City	Rented	Good
	SMCSL Warehouse K, J, I, A	Ouano, Mandaue City	Rented	Good
	VENSU Ventures (DOS GENSAN)	National Highway (Back of Land Bank, near BFAR Office) Brgy. City Heights, General Santos City	Rented	Good
	Pacific Bay Premium Water (DOS ILO-ILO)	2nd Floor, Pacific Bay Building, Brgy. Balabago, Jaro, Iloilo City	Rented	Good
	Leyte SR Development Corporation (TACLOBAN Satellite Warehouse)	Cong. Mate Extension St., Tacloban City	Rented	Good
	Ouano Depot	Ouano Mandaue City	Rented	Good
	Pagadian Sales Office	BF Araw Avenue, Tiguma, Pagadian City	Rented	Good
	Cagayan de Oro Sales Office	Unit 118, LYL Apartment, Kimwa Compound, Barangay Baloy, Cagayan de Oro City	Rented	Good
	Balayan Distillery Inc.	Brgy. Talisay, Calaca, Batangas	Rented	Good
	Berbacks Chemicals, Inc.	San Antonio, San Pedro, Laguna	Rented	Good
	SMC-SL Batangas Bay Terminal Inc.	Bauan, Batangas	Rented	Good
	Southbay Bulk Terminal, Inc.	Calaca, Batangas	Rented	Good
FOOD BUSINESS				
1	SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES			
	JMT Corporate Condominium Building	ADB Avenue, Ortigas Center, Pasig City	Owned	Good
	Feeds & Poultry Iloilo Office	Melliza St., Brgy. Zamora, Iloilo City	Owned	Good
	<u>Manufacturing Plants/Facilities/Farms/Hatcheries/Cold Storage</u>			
	Processed Meats Cavite Plant	Governor's Drive, Bo. De Fuego, Gen. Trias, Cavite	Owned	Good
	Mabini Flourmill	Brgy. Bulacan, Mabini, Batangas	Owned	Good
	Tabangao Flourmill	Brgy. Tabangao, Batangas City	Owned	Good
	Pampanga Poultry Dressing Plant	SMC Complex, Bo. Quebiawan, San Fernando, Pampanga	Owned	Idle

Company Name / Subsidiary	Address	Rented / Owned	Condition
Cebu Poultry Dressing Plant	Brgy. Canduman, Mandaue City	Owned	Good
Davao Poultry Dressing Plant	Toril, Sirawan, Davao City	Owned	Good
Feeds Spent Drying and Rendering Plant	SMC Complex, San Fernando, Pampanga	Owned	Good
Feeds Spent Drying Plant	Mc Arthur Hi-way, Valenzuela City	Owned	Good
Bulacan Feedmill	Brgy. Magmarale, San Miguel, Bulacan	Owned	Good
Laguna Feedmill	Brgy. Malitlit, Sta. Rosa, Laguna	Owned	Good
Tarlac Feedmill	Luisita Industrial Park, San Miguel, Tarlac City	Owned	Good
BMEG Pangasinan Feedmill	Km. 189, Brgy. Bued, Binalonan, Pangasinan	Owned	Good
Isabela Feedmill	Brgy. Soyung, Echague, Isabela	Owned	Good
Bataan Feedmill	Mindanao Avenue, cor 10th Avenue, BEZ, Mariveles, Bataan	Owned	Good
General Santos Feedmill	SMPFC Cmpd., Rivera St., Brgy. Calumpang, Gen. Santos City	Owned	Good
Cagayan de Oro Feedmill	Brgy. Baloy, Tablon, Cagayan de Oro City	Owned	Good
Bukidnon Feedmill	Milmar Compound, Impalutao, Impasug-ong, Bukidnon	Owned	Good
Magnolia Plant	Governor's Drive, Bo. De Fuego, Gen. Trias, Cavite	Owned	Good
Magnolia Ice Cream Plant	Sta. Rosa Industrial Complex, Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna	Owned	Good
Cabuyao Poultry Plant	Banay-banay, Cabuyao, Laguna	Owned	Idle
Monterey Meat Plant	Governor's Drive, Langkaan, Dasmariñas, Cavite	Owned	Good
Processed Meats Indonesia Plant	Jl. Raya Bogor Km. 37 Sukamaju, Cilodong, Indonesia	Owned	Good
Bin Duong Feedmill and Farm	Cau Sat Hamlet, Lai Hung Village, Ben Cat, Binh Duong, Vietnam	Owned	Good
Processed Meats Vietnam Plant	An Tay, Ben Cat, Binh Duong, Vietnam	Owned	Good
Calamba Hatchery	Brgy. Licheria, Calamba City	Owned	Good
Bulacan Hatchery	Km. 37, Pulong Buhangin, Sta. Maria, Bulacan	Owned	Good
San Pablo Poultry Farm	San Rafael, San Pablo, Laguna	Owned	Idle
Grandparent Hatchery	Kapitan Bayong, Impasug-ong, Bukidnon	Owned	Good
Orion Experimental Training Farm	Brgy. General Lim, Orion, Bataan	Owned	Good
Calauan Experimental Farms	SMC Cmpd., Brgy. Mabacan, Calauan, Laguna	Owned	Good
Angat Hog Farm	Brgy. Pulong Yantok, Angat, Bulacan	Owned	Idle
Alfonso Hog Farm	Buck Estate & Brgy. Amuyong, Alfonso, Cavite	Owned	Idle
Quilo Hog Farm	Lot No. 2489, Quilo, Ibaan, Batangas	Owned	Idle
Sta. Maria Hog Farm	Brgy. Guyong, Sta. Maria, Bulacan	Owned	Idle
Isabela Cattle Farm	Bo. San Luis, Cauayan, Isabela	Owned	Idle
Calamias Hog Farm	Tulay na Patpat, Ibaan, Batangas	Owned	Idle
Lipa Hog Farm	Barrio San Jose Patay, Lipa, Batangas	Owned	Idle
San Miguel Farm	Magmarale, San Miguel, Bulacan	Owned	Good
Sumilao Farm	San Vicente, Sumilao, Bukidnon	Owned	Good
Polomolok Cattle Farm	Matinao, Polomolok, South Cotabato	Owned	Good
Processed Meats Marikina Warehouse	JP Rizal St., Bo. San Roque, Marikina City	Owned	Idle
Processed Meats Fairview Cold Storage	34 Consul St., Fairview Park Subdivision, Fairview, Quezon City	Owned	Idle
Otis Warehouse	Mendiola Ext., Otis, Pandacan, Manila	Owned	Good
<u>Foreshore (FLOUR)/Warehouse/Sales & Administration Offices</u>			

Company Name / Subsidiary		Address	Rented / Owned	Condition
	BMEG Pangasinan Feedmill (lot only)	Km. 189, Brgy. Bued, Binalonan, Pangasinan	Rented	Good
	Bataan Feedmill (lot only)	Mindanao Avenue, cor 10th Avenue, BEZ, Mariveles, Bataan	Rented	Good
	Cagayan de Oro Feedmill (lot only)	Brgy. Baloy, Tablon, Cagayan de Oro City	Rented	Good
	Pampanga Poultry Dressing Plant (lot only)	SMC Complex, Bo. Quebiawan, San Fernando, Pampanga	Rented	Good
	Great Food Solutions Commissary	Lapu-Lapu Ave. cor. North Bay Blvd., Navotas, Metro Manila	Rented	Good
	Orion Experimental Training Farm			
	(lot only)	Brgy. General Lim, Orion, Bataan	Rented	Good
	Mabini (foreshore)	Brgy. Bulacan, Mabini, Batangas	Rented	Good
	Tabangao (foreshore)	Brgy. Tabangao, Batangas City	Rented	Good
	Food Group Consolidated Warehouse	403 F. Legaspi Street, Maybunga, Pasig City	Rented	Good
	Food Group Purchasing Office	4F JMT Corp. Cond. ADB Avenue, Ortigas Center, Pasig City	Rented	Good
	Bulacan Warehouse - Flour	Sta. Rita, Guiguinto, Bulacan	Rented	Good
	Pampanga - Poultry	RRK Building, Jose Abad Santos Ave., Dolores, City of San Fernando, Pampanga	Rented	Good
	Polytrade Warehouse - Poultry	Lagundi, Mexico, Pampanga	Rented	Good
	Pangasinan - Poultry	Brgy. San Vicente, San Jacinto, Pangasinan	Rented	Good
	Bataan - Poultry	Brgy. Tumalo, Hermosa, Bataan	Rented	Good
	Isabela - Poultry	Purol 5, Brgy. Rizal, Santiago City, Isabela	Rented	Good
	Zambales - Poultry	Brgy. Mangan-vaca, Subic, Zambales	Rented	Good
	VAO Office - Poultry	San Roque, Sto. Tomas, Batangas	Rented	Good
	Laguna - Poultry	3rd Flr Dencris Bus. Center, Brgy. Halang, Calamba City, Laguna	Rented	Good
	MIPC Office - Poultry	Anderson Bldg. II, Parian, Calamba City, Laguna	Rented	Good
	Quezon - Poultry	Brgy. Lagalag, Tiaong, Quezon	Rented	Good
	Albay - Poultry	Brgy. Anislag, Daraga, Albay	Rented	Good
	Bohol - Poultry	Albur Dressing Plant, Eastern Poblacion, Albuquerque, Bohol	Rented	Good
	Pavia Warehouse - Poultry	19 B San Jose St., Cogon Dist., Tagbilaran City	Rented	Good
	Leyte - Poultry	Robledo Compound, Real St., Brgy. Campitik, Palo, Leyte	Rented	Good
	Bacolod - Poultry	Door 3 & 4, VCY Center, Hilado Extension, Kamagong St., Bacolod City	Rented	Good
	Dumaguete - Poultry	2F THS Bldg., Real St., Brgy. 7, North Hi-way, Dumaguete City, Negros Oriental	Rented	Good
	LTE Transport Warehouse – Poultry	Dumaguete City, Negros Occidental	Rented	Good
	San Roberto Warehouse - Poultry	Hacienda Maquina, Silay City, Negros Occidental	Rented	Good
	Tacloban - Poultry	Brgy. 79, Marasbaras, Tacloban, Leyte	Rented	Good
	Cebu - Poultry	6th Flr Clotilde Bldg., Casuntingan, Mandaue City	Rented	Good
	Ormoc - Poultry	Door 4, 2nd Flr Tan Bldg., Lilia Ave., Cogon, Ormoc	Rented	Good
	Davao - Poultry and Great Food	2nd Flr. ARC Bldg., cor Dakudao Ave. and Lakandula St., Agdao, Davao City	Rented	Good

Company Name / Subsidiary		Address	Rented / Owned	Condition
	Solutions			
	Zamboanga - Poultry	Door #2, Nuño Bldg, MCLL Highway, Guiwan, Zamboanga City	Rented	Good
	Cagayan de Oro - Poultry, Feeds and Great Food Solutions	3rd Flr, HBL Bldg., Gusa, Cagayan de Oro City	Rented	Good
	Bukidnon - Poultry	Gellor Bldg., Propia St., Malaybalay City	Rented	Good
	Ozamis - Poultry	Mialen, Clarin, Misamis Occidental	Rented	Good
	Butuan - Poultry	Km 9, Tag-ibo, Butuan City	Rented	Good
	Bulacan Sales Office - Feeds	Cabiawan St., Banga 1st, Plaridel, Bulacan	Rented	Good
	Cebu Office - Feeds	Ground Flr., GSMI Bldg., Subangdaku, Mandaue City	Rented	Good
	Bacolod Sales Office - Feeds	JA Building, San Patricio, Brgy. Banago, Bacolod City	Rented	Good
	Butuan Sales Office - Feeds	Brgy. 23, Langihan Road, Butuan City	Rented	Good
	Tacoma - Feeds	Tacoma & 2nd St., Port Area, Manila	Rented	Good
	Nawaco - Feeds	Port Area, Manila	Rented	Good
	PNOC - Feeds	Mainaga, Mabini, Batangas	Rented	Good
	G1 Airmoving Logistics - Feeds	3270 Merville, MIA District, Brgy. 201, Pasay City	Rented	Good
	NFA Isabela - Feeds	Northern Philippine Grains Complex, Echague, Isabela	Rented	Good
	Marilao Warehouse - Feeds	Bo. Loma de Gato, Marilao, Bulacan	Rented	Good
	Intercity Warehouse - Feeds	Bocaue, Bulacan	Rented	Good
	CRM Warehouse - Feeds	San Fermin and Minante, Cauayan, Isabela	Rented	Good
	Fortune Warehouse - Feeds	Bacnotan, La Union	Rented	Good
	Alejo Sim - Feeds	Nancayasan, Urdaneta City, Pangasinan	Rented	Good
	William Sim - Feeds	Nancayasan, Urdaneta City, Pangasinan	Rented	Good
	UGMC Warehouse - Feeds	Cabatuan, Isabela	Rented	Good
	JNPL Morning Star Warehouse – Feeds	Brgy. Rizal, Moncada, Tarlac	Rented	Good
	YKK Warehouse - Feeds	Mabini, Moncada, Tarlac	Rented	Good
	Warensburg Warehouse - Feeds	Mariveles, Bataan	Rented	Good
	Paddad Warehouse - Feeds	Brgy. Victoria, Alicia, Isabela	Rented	Good
	Masaya Warehouse - Feeds	Brgy. Masaya, Rosario, Batangas	Rented	Good
	Malitlit Warehouse - Feeds	Brgy. Malitlit, Sta. Rosa, Laguna	Rented	Good
	Isarog Logistics & Property Management Corp. - Feeds	Pili, Camarines Sur	Rented	Good
	Queen Elizabeth Trading - Feeds	Santiago, Pili, Camarines Sur	Rented	Good
	Pili-Queen Elizabeth Trading – Feeds	Santiago, Pili, Camarines Sur	Rented	Good
	Pili-Cosay Warehouse - Feeds	Maharlika Hi-way, Santiago, Pili, Camarines Sur	Rented	Good
	PKS Shipping - Feeds	Sitio Tawagan, Tayud Consolacion, Cebu	Rented	Good
	San Miguel Shipping and Lighterage - Feeds	Looc, Mandaue City, Cebu	Rented	Good
	Rocksun Warehouse - Feeds	Marasbaras, Tacloban City	Rented	Good
	5's Feed Milling Corp. - Feeds	Brgy. Loboc, Lapaz, Iloilo City	Rented	Good
	SIAIN Warehouse - Feeds	Brgy. Loboc, Lapaz, Iloilo City	Rented	Good
	Bassett Land, Inc. - Feeds	Sitio Tawagan, Tayud Consolacion, Cebu	Rented	Good
	MARBEMCO - Feeds	Marvick Compound, Sitio Tawagan, Tayud Consolacion, Cebu	Rented	Good
	LMDC Enterprises Co. -	Brgy. Guaan, Leganes, Iloilo City	Rented	Good

Company Name / Subsidiary	Address	Rented / Owned	Condition
Feeds			
Cabigon Mktg. Realty Dev. Corp. - Feeds	87 Senator Enage St., Tacloban City	Rented	Good
KIMWA Warehouse - Feeds	KIMWA Cmpd., Baloy, Cagayan de Oro City	Rented	Good
MITIMCO Warehouse - Feeds	Mitimco Cmpd., Baloy, Cagayan de Oro City	Rented	Good
CATIMCO Warehouse - Feeds	Puntod, Cagayan de Oro City	Rented	Good
Manzano Warehouse - Feeds	Puntod, Cagayan de Oro City	Rented	Good
Anakciano Warehouse - Feeds	Valencia City, Bukidnon	Rented	Good
Tan Warehouse - Feeds	Lam-an, Ozamiz City	Rented	Good
Western Feedmill Corp. - Feeds	Coaco Road, Sasa, Davao City	Rented	Good
MIMIJOE - Feeds	Ladislawa Village, Buhangin, Davao City	Rented	Good
LSL Multi-Serve Company – Feeds	Km 8 Pareñas Compound, Diversion Road, Buhangin, Davao City	Rented	Good
Greenhills Milling Corporation – Feeds	MCLL Highway, Culianan, Zamboanga City	Rented	Good
GFI Warehouse - Feeds	Polomolok, South Cotabato	Rented	Good
Pampanga Livestock Selling Station - Fresh Meats	Sta. Barbara, Bacolor, Pampanga	Rented	Good
Batangas Livestock Selling Station - Fresh Meats	Brgy. San Felix., Sto. Tomas, Batangas	Rented	Good
Tacloban Office - Fresh Meats	17 Justice Romualdez, Tacloban City	Rented	Good
Mandaue Office - Fresh Meats	SFI Bldg., S. E. Jayme St., Paknaan, Mandaue City. Cebu	Rented	Good
Iloilo Office - Fresh Meats	F. Palmares St., Passi City, Iloilo	Rented	Good
Jaro Office - Fresh Meats	Sambag, Jaro, Iloilo City	Rented	Good
Davao Office - Fresh Meats	Marapangi, Toril, Davao City	Rented	Good
Misamis Oriental - Fresh Meats	Sta. Ana, Tagoloan, Misamis Oriental	Rented	Good
South Cotabato Office - Fresh Meats	Purok 3, Brgy. Glamang, Polomolo, South Cotabato	Rented	Good
Bukidnon Live Operations Office – Fresh Meats	Gellor Bldg., Propia St., Malaybalay City	Rented	Good
Cebu Office - Great Food Solutions	PSO Bldg., SMC Complex, Highway, Tipolo, Mandaue City	Rented	Good
Pasig Office - San Miguel Integrated Sales	El Magnifico Bldg., No. 19 General Atienza St., San Antonio Village, Pasig City	Rented	Good
Pampanga Office - San Miguel Integrated Sales	2F Rickshaw Arcade, Greenfield Square, Km. 76, Mc Arthur Highway, Sindalan, San Fernando City, Pampanga	Rented	Good
Laguna Office - San Miguel Integrated Sales	Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna	Rented	Good
Bacolod Office - San Miguel Integrated Sales	William Lines Warehouse, Magsaysay cor. Araneta Sts., Singcang, Bacolod City	Rented	Good
Iloilo Office - San Miguel Integrated Sales	YK Marine Bldg., Iloilo Fishing Port Complex, Brgy. Tanza, Bay-bay, Iloilo City	Rented	Good
Mandaue Office - San Miguel Integrated Sales	2nd Flr. Planters Bldg., West Office, SMC Shipping & Lighterage Comp., Ouano Wharf, Mandaue City, Cebu	Rented	Good

Company Name / Subsidiary		Address	Rented / Owned	Condition
	Tacloban Office - San Miguel Integrated Sales	Barangay No. 91, Abucay, Tacloban City	Rented	Good
	Cagayan de Oro Office - San Miguel Integrated Sales	Door 5, Banyan Place, Alwana Compound, Cugman, Cagayan de Oro City	Rented	Good
	Davao Office - San Miguel Integrated Sales	Door #6 Plug Holding Cmpd., R. Castillo St., Agdao, Davao	Rented	Good
	Bandung Office - San Miguel Pure Foods Indonesia	3rd Flr Jl. Soekarno Hatta No. 606 Bandung	Rented	Good
	Surabaya Office - San Miguel Pure Foods Indonesia	Perumahan Citra Harmoni Block C1 No. 25 Trosobo Sidoarjo Jawa Timur	Rented	Good
	Yogyakarta Office - San Miguel Pure Foods Indonesia	Jl. Palagan Tentara Pelajar Gg. Gambir No. 100B, Sleaman-Yogyakarta	Rented	Good
	Ho Chi Minh Admin Office - San Miguel Hormel Vietnam	6F Mekong Tower, 235-241 Ward 13, Tan Binh, Ho Chi Minh City	Rented	Good
	Long An Sales Office - San Miguel Hormel Vietnam	High Way 1A, 1 Hamlet, My Yen, Ben Luc, Long An	Rented	Good
	Ho Chi Minh Sales Office - San Miguel Hormel Vietnam	Tan Thanh Tay, Cu Chi District, Ho Chi Minh City	Rented	Good
	Tay Ninh Sales Office - San Miguel Hormel Vietnam	Long Binh, Long Thanh Nam, Hoa Thanh, Tay Ninh	Rented	Good
	Chau Thanh Sales Office - San Miguel Hormel Vietnam	Phuoc Hoa, Phuoc Thanh, Chau Thanh, Tien Giang	Rented	Good
	Go Cong Tay Sales Office - San Miguel Hormel Vietnam	Tan Thanh, Thanh Nhut, Go Cong Tay, Tien Giang	Rented	Good
	Trang Bom Sales Office - San Miguel Hormel Vietnam	39/2 An Hoa, Tay Hoa, Trang Bom, Dong Nai	Rented	Good
	Xuan Loc District Sales Office - San Miguel Hormel Vietnam	Bao Hoa Village, Xuan Loc District, Dong Nai	Rented	Good
	Tan Phu Sales Office - San Miguel Hormel Vietnam	160 Tho Lam 2, Phu Xuan, Tan Phu, Dong Nai	Rented	Good
	Vinh Long Sales Office - San Miguel Hormel Vietnam	194/2 Pham Hung St., Ward 9, Vinh Long	Rented	Good
	Soc Trang Sales Office - San Miguel Hormel Vietnam	Dong Hai, Dai Hai, Ke Sach, Soc Trang	Rented	Good
	Tra Vinh Sales Office - San Miguel Hormel Vietnam	Xom Trang, Nguyet Hoa, Chau Thanh, Tra Vinh	Rented	Good
	Bac Ninh Sales Office - San Miguel Hormel Vietnam	Dinh Bang Village, Tu Son District, Bac Ninh	Rented	Good
	Bao Loc Sales Office - San Miguel Hormel Vietnam	1023 Tran Phu Road, Loc Tien, Bao Loc, Lam Dong	Rented	Good
	Duc Trong Sales Office - San Miguel Hormel Vietnam	5 Thon An Hiep I, Lien Hiep, Duc Trong, Lam Dong	Rented	Good
	Dak Lak Sales Office - San Miguel Hormel Vietnam	Tan Hoa Ward, Buon Ma Thuoc City, Dak Lak	Rented	Good
	Binh Dinh Sales Office - San Miguel Hormel Vietnam	150 Tran Phu Street, Tuy Phuoc Town, Tuy Phuoc District, Binh Dinh	Rented	Good
	Ben Tre Sales Office - San Miguel Hormel Vietnam	Phu Nhon, Thi Tran Chau Than, Cau Than, Ben Tre	Rented	Good

Company Name / Subsidiary		Address	Rented / Owned	Condition
	Ha Noi Sales Office - San Miguel Hormel Vietnam	116 Thanh Liet, Thanh Tri, Ha Noi	Rented	Good
	<u>Cold Storage / Reefer Vans/Depots</u>			
	Vifel Ice Plant and Cold Storage Inc. - Poultry and Purefoods-Hormel	North Bay Blvd., Navotas, Metro Manila	Rented	Good
	Diaz Dressing Plant - Poultry	Km. 104, Brgy. Tabuating, San Leonardo, Nueva Ecija	Rented	Good
	Kenwood Construction - Poultry and Fresh Meats	Brgy. San Vicente, San Jacinto, Pangasinan	Rented	Good
	Lolim Dressing Plant - Poultry	Brgy. Mabilao, San Fabian, Pangasinan	Rented	Good
	Abanilla Dressing Plant - Poultry	Laoag, Ilocos Norte	Rented	Good
	ARS Dressing Plant - Poultry	Purok 5, Brgy. Rizal, Santiago City, Isabela	Rented	Good
	Aces AMS Integrated Poultry Processing Corporation - Poultry	Km. 342, Purok III, Garit Norte, Echague, Isabela	Rented	Good
	New Vreed Dressing Plant – Poultry	Brgy. Mangan-vaca, Subic, Zambales	Rented	Good
	Integrated Meat and Poultry Processing, Inc. - Poultry	Brgy. Tumalo, Hermosa, Bataan	Rented	Good
	Adriano Dressing Plant - Poultry	95 Landicho St., Brgy. Balasing, Sta. Maria, Bulacan	Rented	Good
	Mayharvest Corp. - Poultry	Caysio, Sta. Maria, Bulacan	Rented	Good
	Poltyrade Sales and Services, Inc. - Poultry and Fresh Meats	Lagundi, Mexico, Pampanga	Rented	Good
	SG Farms - Poultry	San Simon, Pampanga	Rented	Good
	V & F Ice Plant and Cold Storage, Inc. - Poultry, Fresh Meats and Purefoods-Hormel	San Roque, Sto. Tomas, Batangas and Antipolo	Rented	Good
	Gallintina Industrial Corp. – Poultry	GIC Compound, Brgy. Tagbong, Pili, Camarines Sur	Rented	Good
	Palmas Agribusiness Inc. – Poultry	Brgy. Anislag, Daraga, Albay	Rented	Good
	Johanna's Chicken Processing Center - Poultry	Brgy. Bocohan, Lucena City and Brgy. Lagalag, Tiaong, Quezon	Rented	Good
	Silangan Poultry Farms - Poultry	Brgy. San Jose and Brgy. Kayumangi, Lipa City, Batangas	Rented	Good
	Cariño & Sons Agri-Dev't Inc.- Poultry	Brgy. Aya, San Jose, Batangas	Rented	Good
	MKC Poultry Dressing Plant – Poultry	Brgy. Tagburos, Puerto Princesa City, Palawan	Rented	Good
	Technofreeze, Inc. - Poultry	114 East Science Drive, Laguna Techno Park, Biñan, Laguna	Rented	Good
	Malogo Agri-ventures & Management Service Corporation – Poultry	Hacienda Binunga, Brgy. Guinhalaran, Silay City, Negros Occidental	Rented	Good
	First Farmers Food Corp. – Poultry	Brgy. Dos Hermanos, Talisay City, Negros Occidental	Rented	Good
	Corden Agro Industries -	Brgy. Tungay, Sta. Barbara, Iloilo	Rented	Good

Company Name / Subsidiary		Address	Rented / Owned	Condition
	Poultry			
	FBIC Reefer Corporation - Poultry	Dumaguete City, Negros Oriental	Rented	Good
	Quest Blast Freezing and Cold Storage Corp. - Poultry	Brgy. Canduman, Mandaue City, Cebu	Rented	Good
	Big Blue Logistic Corporation - Poultry, Fresh Meat and PureFoods-Hormel	S. E. Jayme St., Pakna-an, and Zuellig Ave., North Reclamation Area, Subangdaku, Mandaue City, Cebu	Rented	Good
	Coldlink Asia Logistics Corp. - Poultry	PC Suico St., Tabok, Mandaue City, Cebu	Rented	Good
	3G Logistics and Storage, Inc. - Poultry and Fresh Meats	Hernan Cortes St., Tipolo, Mandaue City, Cebu	Rented	Good
	Tsumetai Corp. - Poultry	Cabancalan, Mandaue City, Cebu	Rented	Good
	Cebu Sherilin Agro-Industrial Corp. - Poultry	Brgy. Pangdan, Naga City, Cebu	Rented	Good
	Mindanao Coolers Corporation - Poultry	Dacudao Cmpd., Corrales Ext., Cagayan de Oro City	Rented	Good
	Elim Dressing Plant - Poultry	Mialen, Clarin, Misamis Occidental	Rented	Good
	Green Pine Dressing Plant - Poultry	Km 9, Tag-ibo, Butuan City	Rented	Good
	St. Jude Dressing Plant - Poultry	Mohon, Tagoloan, Misamis Oriental	Rented	Good
	MK Business Ventures - Poultry	Boalan, Zamboanga City	Rented	Good
	ECA Cold Storage - Poultry and Fresh Meats	Brgy. Banisil, Tambler, General Santos City	Rented	Good
	Davao Fresh Foods Corporation - Poultry	Km. 20 Los Amigos, Tugbok, Davao City	Rented	Good
	Sirawan Ice Plant - Poultry	Sirawan, Toril, Davao City	Rented	Good
	Polar Bear Freezing & Storage - Poultry and Fresh Meats	Phividec Industrial Estate, Sugbongcogon, Tagoloan, Misamis Oriental	Rented	Good
	Polar Bear Cold Storage - Poultry and Fresh Meats	Davao Fishing Port Complex, Brgy. Daliao, Toril, Davao City	Rented	Good
	Koldstor Centre Philippines, Inc. - Fresh Meats, Purefoods-Hormel and Magnolia	Anabu Hills Industrial Estate, Anabu I-C, Imus, Cavite	Rented	Good
	METS Logistics, Inc. - Fresh Meats and Purefoods-Hormel	Governor's Drive, Bo. Bancal, Carmona, Cavite	Rented	Good
	Rombe Philippines, Inc. - Fresh Meats	Dampol 1st, Pulilan, Bulacan	Rented	Good
	Icon Reefer Corp. - Fresh Meats	Unit 526 5F Valero Plaza Building, Salcedo Village, Makati City and F. Palmares St., Passi City, Iloilo	Rented	Good
	Supreme Aqua Resources Corporation - Fresh Meats	17 Justice Romualdez St., Tacloban City	Rented	Good
	Sunpride Foods, Inc. - Fresh Meats	SFI Bldg., S.E. Jayme St., Pakna-an, Mandaue City, Cebu	Rented	Good
	Jentec Storage, Inc. - Fresh Meats	Diit Rd., Brgy. 99, Tacloban City	Rented	Good

Company Name / Subsidiary		Address	Rented / Owned	Condition
	Everest Cold Storage, Inc. – Fresh Meats	Sambag, Jaro, Iloilo City	Rented	Good
	ECA Resources, Inc. - Fresh Meats	Brgy. Banisil, Tambler, General Santos City	Rented	Good
	Royal Cargo Combined Logistics Inc. -Purefoods-Hormel	7001 Emilio Aguinaldo Hi-way, Salitran1, Dasmariñas, Cavite	Rented	Good
	UTS Logistics & Distribution Co., Inc. - Purefoods-Hormel	New Cavite Industrial Center, Stateland Subd., Brgy. Mangahan Gen. Trias, Cavite	Rented	Good
	PT Haga Jaya Kemasindo Sarana - San Miguel Pure Foods Indonesia	Graha Cempaka, Mas Block C-28, Jl. Letjend Suprato, Jakarta Pusat	Rented	Good
	Tiga Raksa Satria- San Miguel Pure Foods Indonesia	3rd Flr. Jl. Soekarno Hatta No. 606 Bandung	Rented	Good
	PT. Sewu Segar Nusantara	Jl. Beringin Bendo Kawasan Industri Ragam II Kav. 8 RT 06/08 Taman Sepayang Surabaya	Rented	Good
	Alex H - San Miguel Pure Foods Indonesia	Jl. Raya Bogor Km.37, Sukamaju, Cilodong, Depok	Rented	Good
	Joko P - San Miguel Pure Foods Indonesia	Jl. Ring Road Utara Pandega Patma DP 16D Yogyakarta	Rented	Good
	Cebu - San Miguel Integrated Sales	SMC-SL Compound, Ouano Wharf, Brgy. Looc, Mandaue City	Rented	Good

PACKAGING BUSINESS

	A. DOMESTIC			
1	SAN MIGUEL YAMAMURA PACKAGING CORPORATION			
	SMYPC Metal Container Plant	Bgy. San Francisco de Malabon, Gen. Trias, 4107 Cavite	Owned	Good
	SMYPC San Fernando Bev. Packaging Plant	Barangay Maimpis, City of San Fernando, Pampanga (Gate 2, SMC PET Plant)	Owned	Good
	SMYPC Glass Business Office	023 Halayhay, Tanza, Cavite, 4108	Owned	Good
2	SAN MIGUEL YAMAMURA ASIA CORPORATION	Km 12, Aguinaldo Highway, Imus, Cavite	Owned	Good
3	SMC YAMAMURA FUSO MOLDS CORPORATION	Governor Dr., Bo. De Fuego, Bgy. San Francisco, Gen. Trias, Cavite	Owned	Good
4	SAN MIGUEL PAPER PACKAGING CORPORATION	Dr. A Santos Avenue, Sucat, Parañaque City	Owned	Closed
5	MINDANAO CORRUGATED FIBREBOARD, INC.	Km 12 Sasa, Davao City	Owned	Good
	B. INTERNATIONAL			
6	SAN MIGUEL YAMAMURA PACKAGING INTERNATIONAL LTD.	9/F Citimark Building, 28 Yuen Shun Circuit, Siu Lek Yuen, Shatin, N.T. Hongkong, PRC	Land Use Rights	Good
7	SAN MIGUEL YAMAMURA GLASS (VIETNAM) LTD.	9/F Citimark Building, 28 Yuen Shun Circuit, Siu Lek Yuen, Shatin, N.T. Hongkong, PRC	Land Use Rights	Good
8	ZHAOQING SAN MIGUEL YAMAMURA GLASS COMPANY LTD.	12 North Avenue, Housha St., Zhaoqing City Guangdong Province, PRC 526020	Land Use Rights	Good

Company Name / Subsidiary		Address	Rented / Owned	Condition
9	FOSHAN SAN MIGUEL YAMAMURA PACKAGING COMPANY LTD.	3 Dongdi Road, Junan Township, Guangdong Province, PRC	Land Use Rights	Good
10	PT SAN MIGUEL YAMAMURA UTAMA INDOPLAS	Jalan Jababeka V 42-43, Kawasan Industri Jababeka, Cikarang, Bekasi 17832, Indonesia	Land Use Rights	Good
11	SAN MIGUEL YAMAMURA HAIPHONG GLASS COMPANY LTD.	17-A Ngo Quyen St., Ngo Quyen District, Haiphong City, Vietnam	Land Use Rights	Good
12	SAN MIGUEL YAMAMURA PHU THO PACKAGING COMPANY LTD.	1 Le Van Khuong Street, Hiep Thanh Ward, District 12, Ho Chi Minh City, Vietnam	Owned	Good
13	SAN MIGUEL YAMAMURA PLASTICS FILMS SDN. BHD.	No. 172, Jalan Usaha 5, lots 83, 84, 85, 75, 76 Ayer Keroh Industrial Estate, 75450 Melaka, Malaysia	Land Lease Rights	Good
14	SAN MIGUEL YAMAMURA PACKAGING AND PRINTING SDN. BHD.	Lot 5078 and 5079, Jalan Jenjarum 28/39, Seksyen 28, 40400 Shah Alam, Selangor Darul Ehsan, Malaysia	Owned	Good
15	SAN MIGUEL YAMAMURA WOVEN PRODUCTS SDN. BHD.	Lot 9 and 10, Jalan Usuha 4, Ayer Keroh Industrial Estate, 75450 Melaka, Malaysia	Owned	Good
16	SAN MIGUEL YAMAMURA KNOX PTY. LTD. COSPAK PTY. LTD.	1 Culverston Road Minto NSW 2566, Australia	Rented	Good
17	COSPAK PLASTICS PTY. LTD.	21 Huntsmore Road Minto NSW 2566, Australia	Rented	Good
18	COSPAK NZ LTD. PREMIER PLASTICS LTD.	27 Ross Reid Place East Tamaki Auckland New Zealand 2013	Rented	Good
19	FOSHAN NANHAI COSPAK PACKAGING COMPANY LIMITED	Beijia Team of Niande Village Committee, Nanfeng Road, Leping Town, Sanshui District, Foshan City, Guangdong Province, PRC	Rented	Good
FUEL AND OIL BUSINESS				
1	PETRON CORPORATION			
	<u>Terminals and Depots</u>			
	Depot	J.P.de Carreon St. Punta Aparri, Cagayan	Rented except Building & Facilities	Good
	Depot	PFDA CMPD., Navotas, M.M.	Rented except Building & Facilities	Good
	Depot	Parola, Brgy. Maunlad, Puerto Princesa City, Palawan	Rented Except Building & Facilities	Good
	Depot	Brgy. Camangi, Pasacao Camarines Sur	Rented except Building & Facilities	Good
	Depot	Poro Pt., San Fernando, La Union	Rented except Building & Facilities	Good
	Depot	Gen. Trias, Rosario, Cavite	Rented except Building & Facilities	Good

Company Name / Subsidiary		Address	Rented / Owned	Condition
	Depot	Tandayag, Amlan, Negros Oriental	Rented except Building and Facilities	Good
	Depot	Bo. San Patricio, Bacolod City, Negros Occidental	Rented except Building & Facilities	Good
	Depot	Lapuz, Iloilo City	Rented except Building & Facilities	Good
	Depot	LIDE, Isabel, Leyte	Rented except Building & Facilities	Good
	Depot	MEPZ, Lapu- lapu City	Rented except Building & Facilities	Good
	Depot	Bo. Linao, Ormoc City, Leyte	Rented except Building & Facilities	Good
	Depot	Arnaldo Blvd., Culasi, Roxas, City	Rented except Building & Facilities	Good
	Depot	Anibong, Tacloban City	Rented except Building & Facilities	Good
	Depot	Graham Ave., Tagbilaran, Bohol	Rented except Building & Facilities	Good
	Depot	Km. 9, Bo. Pampanga, Davao City	Rented except Buildings & Facilities	Good
	Depot	Purok Cabu, Bawing, General Santos City	Rented except Buildings & Facilities	Good
	Depot	Bo. Tuminobo, Iligan City, Lanao del Norte	Rented except Building & Facilities	Good
	Depot	Jimenez, Misamis Occidental	Rented except Building and Facilities	Good
	Depot	Talisay, Nasipit, Agusan del Norte	Rented except Building and Facilities	Good
	Depot	Tagoloan, Misamis Oriental	Rented except Building and Facilities	Good
	Depot	Bgy. Campo Islam, Lower Calarian, Zamboanga City	Rented except Building and Facilities	Good

Company Name / Subsidiary		Address	Rented / Owned	Condition
	Depot (LPG Operation)	Lakandula Drive, brgy. Bonot, Legaspi City	Rented except Building & Facilities	Good
	Depot (Gasul - San Fernando)	San Fernando, Pampanga	Rented except Building and Facilities	Good
	Sales Office	Roxas St., Brgy. Ilaya, Calapan City, Oriental Mindoro	Rented	Good
	Sales Office	1020 A Mabini St., San Jose, Occidental Mindoro	Rented	Good
	Terminal	Bo. Mainaga, Mabini, Batangas	Rented except Building & Facilities	Good
	Terminal	Petron Bataan Refinery, Limay, Bataan	Rented except Building & Facilities	Good
	Terminal	Jesus St., Panadacan, Manila	Rented except Building & Facilities	Good
	Terminal	Looc, Mandaue City, Cebu	Rented except Building & Facilities	Good
	Terminal (Gasul – Pasig)	Bo. Ugong, Pasig, M.M	Rented except Building & Facilities	Good
	Airport Installations	Davao Airport	Rented except Building & Facilities	Good
	Airport Installations	Brgy. Airport, Mandurriao, Iloilo City	Rented except Building & Facilities	Good
	Airport Installations	Laoag Airport	Rented except Building & Facilities	Good
	Airport Installations	JOCASP, CPD, NAIA, Pasay City	Rented except Building & Facilities	Good
POWER GENERATION AND DISTRIBUTION BUSINESS				
1	SAN MIGUEL ELECTRIC CORPORATION			
	1000MW Sual Coal-Fired Thermal Power Plant	Sual, Pangasinan	IPPA with PSALM	Good
2	SOUTH PREMIERE POWER CORP.			
	1200MW Ilijan Combined Cycle Power Plant	Brgy. Ilijan, Batangas City	IPPA with PSALM	Good
3	STRATEGIC POWER DEVT. CORP.			
	345MW San Roque Multipurpose Hydroelectric Power Plant	Brgy. San Roque, San Manuel, Pangasinan	IPPA with PSALM	Good

Company Name / Subsidiary		Address	Rented / Owned	Condition
TELECOMMUNICATIONS BUSINESS				
1	BELL TELECOMMUNICATION PHILIPPINES, INC.			
	Base Station	28F The World Centre 330 Sen. Gil Puyat Avenue Makati City	Building Space-Rented, Machinery & Equipment - Owned	Good
	Base Station	EGI Rufino Plaza Taft cor. Sen. Gil Puyat Avenue Pasay City	Building Space-Rented, Machinery & Equipment - Owned	Good
	Base Station	157 Lauan Street Ayala Alabang Village Muntinlupa City	Building Space-Rented, Machinery & Equipment - Owned	Good
	Base Station	Chrysantemum St.Barangay Loma,Binan Laguna	Building & Land-Owned; Machinery & Equipment - Owned	Good
	Warehouse	Soler corner Calero Street, Sta.Cruz Manila	Building Space c/o ETPI; Machinery, Equipment, Furnitures & Fixtures – Owned	Good
2	EASTERN TELECOMMUNICATIONS PHILIPPINES, INC.			
	CONDOMINIUM UNIT	Pearl Drive cor. Amethyst St., Brgy. San Antonio, Pasig City, Metro Manila	OWNED	Good
	LAND/BLDG	Magenta Drive Corner Yellow St., Goodwill 2 Subdivision, Barangay San Dionisio, Paranaque City.	OWNED	Good
	LAND	Lots 2080 & 2081 along M.H. Evangelista St., Barrio San Nicolas, San Antonio, Zambales	OWNED	Good
	LAND/BLDG	Along Governor Drive Barangay Bancal, Carmona, Cavite	OWNED	Good
	LAND/BLDG	No. 1861 P. Florentino Street, Sampaloc District, Manila	OWNED	Good
	CONDOMINIUM UNIT	2nd Floor, Midland Plaza, Adriatico Street, Malate District City Manila	OWNED	Good
	LAND/BLDG	Nasugbu, Batanggas	OWNED	Good
	Technical office	Telecoms Plaza, Sen. Gil Puyat Avenue Makati City, Metropolitan Manila	Owned	Good
	Technical office	2nd Floor, National Press Club Building, Magallanes Drive, Intramuros, City of Manila	Rented	Good
	Technical office	4th Floor, Araneta Square Mall, Bonifacio Monumento Circle, Caloocan City, Metropolitan Manila	Rented	Good

Company Name / Subsidiary		Address	Rented / Owned	Condition
	Technical office	4th Floor, Old FTI Administration BLDG., Taug City Metropolitan Manila	Rented	Good
	Technical office	Carmela Industrial Complex Calamba, Laguna	Rented	Good
	Technical office	EPZA Compound, Rosario, Cavite	Rented	Good
	Technical office	GoodWill II Subdivision, Parañaque City, Metropolitan Manila	Rented	Good
	Technical office	Skyfreight Building, NAIA Road, Parañaque City Metropolitan Manila	Rented	Good
	Technical office	Various Location Of Metro Manila, Provinces of Laguna, Cavite and Batangas and Outside Philippines Area	Rented	Good
	Technical office	Victoria Wave Compound, Barangay Tala, Caloocan City, Metropolitan Manila	Rented	Good
3	TELECOMMUNICATIONS TECHNOLOGIES PHILS., INC.			
	LAND	No. 120 Maharlika Highway (National Road), Brgy. Tallungan, Aparri, Cagayan	OWNED	Good
	LAND	Calamaniugan-Sta. Ana Highway (National Road), Brgy. Bulala, Calaminiugan, Cagayan Valley	OWNED	Good
	LAND	Maharlika Highway (National Road) Brgy. Bagumbayan, Lal-Lo, Cagayan Valley	OWNED	Good
	LAND	No. 31 Rizal Street, Brgy. Centro 4 (Poblacion) Tuguegarao City	OWNED	Good
	LAND	Cabaruan Road, Barrio Cabaruan, Cauayan, Isabela	OWNED	Good
	LAND	Provincial Road, Brgy. Guinatan, Ilagan, Isabela	OWNED	Good
	LAND	Judge Taguinod corner Tumanut Streets, Brgy. Villasis, Santiago City, Isabela	OWNED	Good
	LAND	Aratal Street corner Maharlika Highway (Provincial Road), Barrio Roxas, Solano, Nueva Vizcaya	OWNED	Good
	LAND	Dumlao Blvd. corner Basa St., Brgy. Don Domingo, Maddela, Bayombong, Nueva Vizcaya	OWNED	Good
	LAND/BLDG	Jose Abad Santos Avenue, Tondo District, Manila	OWNED	Good
	LAND (Warehouse)	Corners of Comandante/Calero/Soler Streets, Sta. Cruz District, Manila (M3)	OWNED	Good
	LAND	Corners of Heroes Del 96/M Arce/Calaanan Streets, Barangay Calaanan, Caloocan City (M4)	OWNED	Good
OTHERS				
1	SAN MIGUEL CORPORATION			
	Iligan Coconut Oil Mill	Sta. Filomena, Iligan City	Owned	Good
	Land	A. Del Rosario Ave, Brgy. Tipolo, Mandaue City	Owned	Good
	Land	Bacolod Shrimp Processing Plant	Owned	Good
	Land	Baguio City Bmd Warehouse	Owned	Good
	Land	Binalonan (Sumabmit) Pangasinan	Owned	Good
	Land	Canlubang Laguna	Owned	Good
	Land	Canlubang Laguna Mclp Plant	Owned	Good
	Land	Canlubang, Laguna	Owned	Good
	Land	Carmen S.O. Carmen East, Rosales, Pangasinan	Owned	Good
	Land	Farola Complex Manila Manila Glass Plant	Owned	Good
	Land	Gen. Santos Feed Center	Owned	Good
	Land	Gen. T. De Leon Valenzuela City	Owned	Good
	Land	Ibazeta Farm	Owned	Good

Company Name / Subsidiary		Address	Rented / Owned	Condition
	Land	J.Panganiban Cam/Norte	Owned	Good
	Land	Karaan Farm	Owned	Good
	Land	Km. 71, Aguinaldo Highway, Amuyong, Alfonso, Cavite	Owned	Good
	Land	Looc Ouano, Mandaue City	Owned	Good
	Land	Mandaue City, Cebu	Owned	Good
	Land	Mandaue Plastics Plant, Mandaue City	Owned	Good
	Land	Mandaue Glass Plant Mandaue City	Owned	Good
	Land	Mandaue Mclp Plant, Mandaue City	Owned	Good
	Land	Manila Plastics Plant	Owned	Good
	Land	Muelle Dela Industria St., Binondo Manila	Owned	Good
	Land	Opol, Misamis	Owned	Good
	Land	Ouano Wharf, Mandaue City, Cebu	Owned	Good
	Land	San Fernando Pampanga	Owned	Good
	Land	San Fernando Pampanga Mclp Plant	Owned	Good
	Land	San Fernando Shrimp Processing Plant	Owned	Good
	Land	San Matias, San Fernando Pampanga	Owned	Good
	Land	Sto. Tomas, Batangas	Owned	Good
	Land	Tarlac S.O.; San Rafael, Tarlac, Tarlac	Owned	Good
	Land	Teresa Rizal	Owned	Good
	Land	Tomas Claudio St., Beata, Pandacan Manila	Owned	Good
	Land	Ulas Property Davao	Owned	Good
	Land and Building	Km. 71, Aguinaldo Highway, Amuyong, Alfonso, Cavite	Owned	Good
	Office Building	8Th-10Th Flr SMPC, St. Francis St., Ortigas Center Mandaluyong	Owned	Good
	Warehouse	Darong, Sta. Cruz, Davao Del Sur	Owned	Good
	Warehouse	Northbay Blvd., Navotas, Metro Manila	Owned	Good
	Warehouse	Smc Complex, Quebiawan, San Fernando, Pampanga	Owned	Good
	Warehouse	Smc Mandaue Complex, Hi-Way, Mandaue City	Owned	Good
2	SAN MIGUEL PROPERTIES, INC.			
	The Legacy	Las Piñas, Metro Manila	Owned	Good
	Bel Aldea	Gen. Trias, Cavite	Owned	Good
	Maravilla	Gen. Trias, Cavite	Owned	Good
	Office Spaces	PET Plans Tower, Makati	Owned	Good
	Office Spaces	San Miguel Properties Centre, Mandaluyong	Owned	Good
	Office Building, Land	No. 40, San Miguel Avenue, Mandaluyong City	Owned	Good
	Office Building	Edsa, Ortigas Center, Mandaluyong	Owned	Good
	Land	Lee St., Mandaluyong City	Owned	Good
	Land	Cabuyao, Laguna	Owned	Good
	Office Building, Land	Meralco Avenue, Pasig	Owned	Good
	Land	Filinvest Corporate City, Muntinlupa	Owned	Good
	Land	Canlubang, Laguna	Owned	Good
	Land	Gen. Trias, Cavite	Owned	Good
	Land	Alfonso, Cavite	Owned	Good
	Land	Lubao, Pampanga	Owned	Good
	Land	Masbate	Owned	Good
	Land	Sta. Cruz, Davao del Sur	Owned	Good
	Land	Polomolok, South Cotabato	Owned	Good
	Land	Boracay Is., Bo. Yapak, Malay, Aklan	Owned	Good

Company Name / Subsidiary		Address	Rented / Owned	Condition
	Land	Cauayan, Isabela	Owned	Good
	Legacy Homes, Inc.			
	Villa de Calamba	Calamba, Laguna	Owned	Good
	Primavera Hills	Liloan, Cebu	Owned	Good
	Buenavista Homes	Jugan, Cebu	Owned	Good
	Excel Unified Land Resources Corp.			
	Wedge Woods	Silang, Cavite	Owned	Good
	Bright Ventures Realty, Inc.			
	Land	Mabini St., Addition Hills, San Juan	Owned	Good
	Bel-Aldea Realty, Inc.			
	House and lot	La Loma, Quezon City	Owned	Good
	Highriser Group, Inc.			
	Land	Pasay Road, Makati	Owned	Good
	Dimanyan Wakes Holdings, Inc.			
	Land	Coron, Palawan	Owned	Good
	Busuanga Bay Holdings Inc.			
	Land	Coron, Palawan	Owned	Good
	Bulalacao Property Holdings, Inc.			
	Land	Coron, Palawan	Owned	Good
	Calamian Prime Holdings, Inc.			
	Land	Coron, Palawan	Owned	Good
	Palawan White Sands Holdings Corp.			
	Land	Coron, Palawan	Owned	Good
	Coron Islands Holdings, Inc.			
	Land	Coron, Palawan	Owned	Good
	Maison 17 Properties, Inc.			
	Land	Legaspi St., Makati City	Owned	Good
	SMPI-GSIS Joint Venture Corporation			
	Land	Legaspi St., Makati City	Owned	Good
	Carnell Realty, Inc.			
	Land	Lee St., Mandaluyong City	Owned	Good
	Brillar Realty and Development Corp.			
	Land	Nasugbu, Batangas	Owned	Good
	Grandioso Realty Corporation			
	Land	Tambler, General Santos City	Owned	Good
3	PHILIPPINE BREWERIES CORPORATION			
	Land	Bo. Ugong, Pasig City	Owned	Good
4	PACIFIC CENTRAL PROPERTIES, INC.			
	Land	Limay, Combined Power Plant, Limay Bataan	Owned	Good
	Land	Dauin, Negros Oriental	Owned	Good
	Land	Outlook Drive, Baguio City	Owned	Good
5	SM BULK WATER CO., INC.			
	Land	Bobulusan, Guinobatan, Albay	Owned	Good
	Land	Brgy. Batang, Ligao City	Owned	Good

Company Name / Subsidiary		Address	Rented / Owned	Condition
6	SMC STOCK TRANSFER SERVICE CORPORATION	1505, 1506, 1507 Condominium Units 15th Robinson's Equitable Tower ADB Avenue cor Poveda St., Pasig City	Owned	Good

Note: All owned properties are free of liens and encumbrances.

Parties to the Offer

Issuer

SAN MIGUEL CORPORATION

40 San Miguel Avenue, Mandaluyong City

Sole Issue Manager

**THE HONGKONG AND SHANGHAI BANKING CORPORATION
LIMITED**

HSBC Centre, 3058 Fifth Avenue West, Bonifacio Global City,
Taguig City