



SAN MIGUEL CORPORATION

August 14, 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

Gentlemen:

We transmit herewith a copy of Supplement to the Prospectus dated August 10, 2012 which was filed with the Securities and Exchange Commission today.

Very truly yours,


MARY ROSE S. TAN
Assistant Corporate Secretary

COVER SHEET

P W - 2 7 7

S. E. C. Registration Number

S A N

M I G U E L

C O R P O R A T I O N

(Company's Full Name)

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

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

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

Atty. Mary Rose S. Tan

Contact Person

(632) 632-3000

Company Telephone Number

1 2

Month

3 1

Day

Supplement to the Final Prospectus

FORM TYPE

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

STAMPS

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SAN MIGUEL CORPORATION

Primary Offer in the Philippines of 1,067,000,000 Series "2" Preferred Shares
consisting of

Subseries "2-A": 7.500% per annum,
Subseries "2-B": 7.625% per annum and
Subseries "2-C": 8.000% per annum

at an Offer Price of ₱75.00 per Share

to be issued upon the approval by the Securities and Exchange Commission of the increase in authorized capital stock from ₱22.5 billion to ₱30 billion and, subject to the approval by the Philippine Stock Exchange, Inc., to be listed and traded on the First Board of The Philippine Stock Exchange, Inc.

Sole Issue Manager

The Hongkong and Shanghai Banking Corporation Limited

Joint Bookrunners

The Hongkong and Shanghai Banking Corporation Limited

UnionBank of the Philippines

BDO Capital & Investment Corporation

China Banking Corporation

RCBC Capital Corporation

First Metro Investment Corporation

ING Bank N.V., Manila Branch

Philippine Commercial Capital, Inc.

SB Capital and Investment Corporation

Standard Chartered Bank

United Coconut Planters Bank

Participating Underwriters

Insular Investment Corporation

PNB Capital & Investment Corporation

Selling Agents

Bank of Commerce

Trading Participants of the Philippine Stock Exchange, Inc.

**This Supplement to the Prospectus dated August 10, 2012
is dated August 14, 2012**

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 Supplement to the Prospectus dated August 10, 2012 (the "Supplement") relates to the offer and sale by way of a primary offer in the Philippines (the "Offer") of 1,067,000,000 cumulative, non-voting, non-participating, non-convertible Series "2" Preferred Shares at an Offer Price of ₱75.00 per share (the "Offer Shares") of San Miguel Corporation ("SMC", the "Company" or the "Issuer"), a corporation duly organized and existing under Philippine law.

This Supplement contains the Quarterly Report (SEC Form 17-Q) as of June 30, 2012 of the Company as filed with the Securities and Exchange Commission on August 14, 2012.

This Supplement updates and amends the Prospectus dated August 10, 2012.

Unless otherwise indicated, capitalized words and terms have the same meaning ascribed to them in the Prospectus dated August 10, 2012.

SAN MIGUEL CORPORATION

By:



RAMON S. ANG
President

COVER SHEET

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S. E. C. Registration Number

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(Company's Full Name)

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

Atty. Mary Rose S. Tan

Contact Person

(632) 632-3000

Company Telephone Number

SEC FORM

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Annual Meeting

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Secondary License Type, If Applicable

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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

1. For the quarterly period ended **June 30, 2012**
2. Commission identification number **PW00000227**
3. BIR Tax Identification No **041-000-060-741**
4. Exact name of issuer as specified in its charter **SAN MIGUEL CORPORATION**
5. **Philippines**
Province, country or other jurisdiction
of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. **No. 40 San Miguel Avenue,**
Mandaluyong City **1550**
Address of issuer's principal office Postal Code
8. **(632) 632-3000**
Issuer's telephone number, including area code
9. **N/A**
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

	Number of shares of common stock and Debt outstanding (as of June 30, 2012)
Common Shares	2,369,705,708
Preferred Shares	970,506,353
Total Liabilities	P633,885 million

11. Are any or all of the securities listed on a Stock Exchange?
Yes [x] No []

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

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of San Miguel Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended June 30, 2012 (with comparative figures as of December 31, 2011 and for the period ended June 30, 2011) and Selected Notes to Consolidated Financial Statements is hereto attached as **Annex "A"**.

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

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

PART II--OTHER INFORMATION

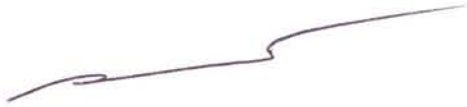
The Company may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C, which otherwise be required to be filed with respect to such information,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

NONE

SIGNATURES

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

Issuer **SAN MIGUEL CORPORATION**

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

Date August 14, 2012

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

Date August 14, 2012

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and December 31, 2011
(In Millions)

ANNEX "A"

ASSETS

	2012 Unaudited	2011 Audited
Current Assets		
Cash and cash equivalents (Notes 7 and 8)	P 109,717	P 128,975
Trade and other receivables - net (Notes 3, 7 and 8)	100,975	84,472
Inventories	89,087	65,720
Current portion of biological assets - net	4,369	4,124
Prepaid expenses and other current assets (Notes 7 and 8)	34,278	22,620
	<u>338,426</u>	<u>305,911</u>
Assets held for sale	10	2,268
Total Current Assets	<u>338,436</u>	<u>308,179</u>
Noncurrent Assets		
Investments and advances - net	173,710	166,854
Available-for-sale financial assets (Notes 7 and 8)	3,310	2,068
Property, plant and equipment - net (Note 4)	343,063	319,626
Investment properties - net	3,308	2,850
Biological assets - net of current portion	1,810	1,812
Goodwill - net	41,254	30,990
Other intangible assets - net	13,082	11,407
Deferred tax assets	8,692	8,233
Other noncurrent assets - net (Notes 3, 7 and 8)	31,854	38,517
Total Noncurrent Assets	<u>620,083</u>	<u>582,357</u>
	<u>P 958,519</u>	<u>P 890,536</u>

LIABILITIES AND EQUITY

	2012 Unaudited	2011 Audited
Current Liabilities		
Drafts and loans payable (Notes 7 and 8)	P 117,997	P 82,588
Accounts payable and accrued expenses (Notes 3, 7 and 8)	81,895	61,629
Finance lease liabilities - current portion (Notes 7 and 8)	15,383	15,388
Income and other taxes payable	9,372	9,041
Dividends payable	2,050	2,153
Current maturities of long-term debt - net of debt issue costs (Notes 3, 7 and 8)	1,309	19,453
	<u>228,006</u>	<u>190,252</u>
Liabilities directly associated with assets held for sale	-	578
Total Current Liabilities	<u>228,006</u>	<u>190,830</u>
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 3, 7 and 8)	202,566	191,967
Deferred tax liabilities	12,290	11,257
Finance lease liabilities - net of current portion (Notes 7 and 8)	185,508	192,873
Other noncurrent liabilities (Notes 7 and 8)	5,515	4,509
Total Noncurrent Liabilities	<u>405,879</u>	<u>400,606</u>
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common	16,400	16,397
Capital stock - preferred	4,852	4,852
Additional paid-in capital	103,657	103,511
Revaluation increment	1,355	1,443
Cumulative translation adjustments	4,447	5,264
Retained earnings:		
Appropriated	24,716	24,315
Unappropriated	150,278	141,126
Treasury stock	(67,430)	(67,441)
	<u>238,275</u>	<u>229,467</u>
Amounts recognized directly in equity relating to assets held for sale	-	(53)
	<u>238,275</u>	<u>229,414</u>
Non-controlling Interests	86,359	69,686
Total Equity	<u>324,634</u>	<u>299,100</u>
	<u>P 958,519</u>	<u>P 890,536</u>

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

CERTIFIED CORRECT:


BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Period Ended June 30, 2012 and 2011 (Unaudited)
(In Millions, Except Per Share Data)

	2012		2011		For the Quarter Ended	
					2012	2011
SALES (Note 2)	P	329,547	P	263,318	P	187,508
					P	136,726
COST OF SALES		280,388		210,162		165,043
						110,862
GROSS PROFIT		49,159		53,156		22,465
						25,864
SELLING AND ADMINISTRATIVE EXPENSES		(24,069)		(21,952)		(12,216)
						(11,795)
INTEREST EXPENSE AND OTHER FINANCING CHARGES		(15,412)		(13,447)		(8,243)
						(6,690)
INTEREST INCOME		2,114		2,407		1,012
						956
EQUITY IN NET EARNINGS OF ASSOCIATES		2,155		1,267		805
						637
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT		1,191		67		653
						17
OTHER INCOME - Net		7,210		916		3,331
						975
INCOME BEFORE INCOME TAX		22,348		22,414		7,807
						9,964
INCOME TAX EXPENSE		3,745		5,788		939
						3,374
NET INCOME	P	18,603	P	16,626	P	6,868
					P	6,590
Net Income Attributable to :						
Equity Holders of the Parent Company	P	14,123	P	10,799	P	5,646
Non-controlling Interests		4,480		5,827		1,222
						3,661
						2,929
	P	18,603	P	16,626	P	6,868
					P	6,590
Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 5):						
Basic	P	4.73	P	3.37	P	1.77
Diluted	P	4.70	P	3.35	P	1.76
					P	0.93
					P	0.93

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

CERTIFIED CORRECT:


BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Period Ended June 30, 2012 and 2011 (Unaudited)
(In Millions)

	2012	2011	For the Quarter Ended 2012	2011
NET INCOME	<u>P 18,603</u>	<u>P 16,626</u>	<u>P 6,868</u>	<u>P 6,590</u>
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	(1,715)	(83)	(1,325)	(266)
NET LOSS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	(159)	(1,238)	(415)	(490)
INCOME TAX BENEFIT	-	6	-	2
SHARE IN COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES	<u>444</u>	<u>(1)</u>	<u>288</u>	<u>-</u>
OTHER COMPREHENSIVE LOSS - NET OF TAX	<u>(1,430)</u>	<u>(1,316)</u>	<u>(1,452)</u>	<u>(754)</u>
TOTAL COMPREHENSIVE INCOME - NET OF TAX	<u><u>P 17,173</u></u>	<u><u>P 15,310</u></u>	<u><u>P 5,416</u></u>	<u><u>P 5,836</u></u>
Comprehensive Income Attributable to :				
Equity Holders of the Parent Company	<u>P 13,306</u>	<u>P 9,563</u>	<u>P 4,809</u>	<u>P 2,909</u>
Non-controlling Interests	<u>3,867</u>	<u>5,747</u>	<u>607</u>	<u>2,927</u>
	<u><u>P 17,173</u></u>	<u><u>P 15,310</u></u>	<u><u>P 5,416</u></u>	<u><u>P 5,836</u></u>

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

CERTIFIED CORRECT:


BELLA C. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Period Ended June 30, 2012 and 2011 (Unaudited)
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company													Non-controlling Interests	Total Equity									
	Capital Stock		Additional Paid-in Capital	Revaluation Increment	Cumulative Translation Adjustments		Retained Earnings		Treasury Stock	Total														
	Common	Preferred			Translation Reserve	Fair Value Reserve	Appropriated	Unappropriated																
As of January 1, 2012 (Audited)	P	16,397	P	4,852	P	103,511	P	1,443	P	5,662	P	(451)	P	24,315	P	141,126	P	(67,441)	P	229,414	P	69,686	P	299,100
Foreign currency translation differences	-	-	-	-	-	-	-	(1,106)	-	-	-	-	-	-	-	-	-	(1,106)	-	(609)	-	(1,715)		
Share in comprehensive income of associates	-	-	-	-	-	-	-	-	444	-	-	-	-	-	-	-	-	444	-	-	-	444		
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	-	-	-	(155)	-	-	-	-	-	-	-	-	(155)	-	(4)	-	(159)		
Other comprehensive income (loss)	-	-	-	-	-	-	-	(1,106)	289	-	-	-	-	-	-	-	-	(817)	-	(613)	-	(1,430)		
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,123	-	-	-	14,123	-	4,480	-	18,603
Total comprehensive income (loss) for the period	-	-	-	-	-	-	-	(1,106)	289	-	-	-	-	-	-	14,123	-	-	-	13,306	-	3,867	-	17,173
Issuance of capital stock	3	-	-	26	-	-	-	-	-	-	-	-	-	-	-	-	-	29	-	-	-	-	-	29
Reissuance of treasury stock	-	-	-	6	-	-	-	-	-	-	-	-	-	-	-	-	11	17	-	-	-	-	-	17
Stock options	-	-	-	114	-	-	-	-	-	-	-	-	-	-	-	-	-	114	-	-	-	-	-	114
Net addition to non-controlling interests and others	-	-	-	-	-	-	(88)	53	-	-	-	-	-	-	-	-	-	(35)	-	17,116	-	-	-	17,081
Appropriations - net	-	-	-	-	-	-	-	-	-	-	401	-	(401)	-	-	-	-	-	-	-	-	-	-	-
Cash dividends (Note 6):	-	-	-	-	-	-	-	-	-	-	-	-	(1,658)	-	-	-	-	(1,658)	-	(3,234)	-	-	-	(4,892)
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
As of June 30, 2012 (Unaudited)	P	16,400	P	4,852	P	103,657	P	1,355	P	4,609	P	(162)	P	24,716	P	150,278	P	(67,430)	P	238,275	P	86,359	P	324,634
As of January 1, 2011 (Audited)	P	16,343	P	4,852	P	101,406	P	1,391	P	5,241	P	124	P	5,671	P	150,544	P	(69,541)	P	216,031	P	50,794	P	266,825
Foreign currency translation differences	-	-	-	-	-	-	-	(14)	-	-	-	-	-	-	-	-	-	(14)	-	(69)	-	-	-	(83)
Share in comprehensive loss of associates	-	-	-	-	-	-	-	-	-	(1)	-	-	-	-	-	-	-	(1)	-	-	-	-	-	(1)
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	-	-	-	-	(1,221)	-	-	-	-	-	-	-	(1,221)	-	(11)	-	-	-	(1,232)
Other comprehensive loss	-	-	-	-	-	-	-	(14)	-	(1,222)	-	-	-	-	-	-	-	(1,236)	-	(80)	-	-	-	(1,316)
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,799	-	-	-	10,799	-	5,827	-	16,626
Total comprehensive income (loss) for the period	-	-	-	-	-	-	-	(14)	-	(1,222)	-	-	-	-	-	10,799	-	-	-	9,563	-	5,747	-	15,310
Issuance of capital stock	17	-	-	246	-	-	-	-	-	-	-	-	-	-	-	-	-	263	-	-	-	-	-	263
Reissuance of treasury stock	-	-	-	929	-	-	-	-	-	-	-	-	-	-	-	-	2,043	2,972	-	-	-	-	-	2,972
Stock options	-	-	-	113	-	-	-	-	-	-	-	-	-	-	-	-	-	113	-	-	-	-	-	113
Addition to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,903	-	-	-	14,903
Appropriations - net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends (Note 6):	-	-	-	-	-	-	-	-	-	-	-	-	12,892	-	(12,892)	-	-	-	-	-	-	-	-	-
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,642)	-	-	-	(1,642)	-	(2,841)	-	(4,483)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,912)	-	-	-	(2,912)	-	(777)	-	(3,689)
As of June 30, 2011 (Unaudited)	P	16,360	P	4,852	P	102,694	P	1,391	P	5,227	P	(1,098)	P	18,563	P	143,897	P	(67,498)	P	224,388	P	67,826	P	292,214

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance / Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Period Ended June 30, 2012 and 2011 (Unaudited)
(In Millions)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 22,348	P 22,414
Adjustments for:		
Depreciation, amortization and others - net	1,191	6,534
Interest expense and other financing charges	15,412	13,447
Interest income	(2,114)	(2,407)
Equity in net earnings of associates	(2,155)	(1,267)
Gain on sale of investments and property and equipment	(1,191)	(67)
Operating income before working capital changes	33,491	38,654
Changes in noncash current assets, certain current liabilities and others	(22,199)	(16,739)
Cash generated from operations	11,292	21,915
Interest and other financing charges paid	(9,141)	(6,676)
Income taxes paid	(4,663)	(7,535)
Net cash flows provided by (used in) operating activities	(2,512)	7,704
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	(19,787)	-
Additions to investments and advances	(21,428)	(7,806)
Additions to property, plant and equipment	(16,873)	(11,478)
Payment of other liabilities	(2,122)	(14,082)
Payments by (advances to) related parties - net	12,126	(5,085)
Increase in other noncurrent assets and others	(1,244)	(1,138)
Proceeds from sale of investments and property and equipment	14,896	196
Interest received	1,610	2,436
Dividends received from associates	2,846	725
Net cash flows used in investing activities	(29,976)	(36,232)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	299,129	232,974
Long-term borrowings	43,043	39,871
Payments of:		
Short-term borrowings	(277,045)	(241,971)
Long-term borrowings	(47,693)	(4,324)
Payment of finance lease liabilities	(8,840)	(5,987)
Cash dividends paid	(4,536)	(3,716)
Dividends paid to non-controlling shareholders	(4,446)	(3,912)
Proceeds from issuance of capital stock	29	263
Proceeds from reissuance of treasury stock	-	2,977
Net proceeds from issuance of preferred shares of a subsidiary	14,216	14,828
Net cash flows provided by financing activities	13,857	31,003
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(627)	(285)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,258)	2,190
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	128,975	125,188
CASH AND CASH EQUIVALENTS ASSOCIATED TO ASSETS HELD FOR SALE	-	(86)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P 109,717	P 127,292

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION (Parent Only)
 ACCOUNTS RECEIVABLE - NON-TRADE
 JUNE 30, 2012
 (AMOUNTS IN MILLIONS)

	ACCT. CODE	TOTAL	OVER 90 DAYS
ACCOUNTS RECEIVABLE - NON-TRADE	P	233	<u>233</u>
ALLOW. FOR DOUBTFUL ACCOUNTS		<u>(233)</u>	
NET	P	<u>0</u>	

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

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its consolidated interim financial statements as of and for the period ended June 30, 2012 and comparative financial statements for the same period in 2011 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, Interim Financial Reporting. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

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

Adoption of New Standards, Amendments to Standards and Interpretations

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

Amendments to Standard and Interpretations Adopted in 2012

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

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7, Financial Instruments: Disclosures)*, require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of the consolidated financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in the derecognized financial assets. Entities are required to apply the amendments for annual period beginning on or after July 1, 2011.
- *Deferred Tax: Recovery of Underlying Assets (Amendments to PAS 12, Income Taxes)* introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with PAS 40, *Investment Property*. The exception also applies to investment properties acquired in a business combination accounted for in accordance with PFRS 3 provided the acquirer subsequently measure these assets applying the fair value model. The amendments integrated the guidance of Philippine Interpretation Standards Interpretation Committee (SIC) - 21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets*, into PAS 12, and as a result Philippine Interpretation SIC - 21 has been withdrawn. The effective date of the amendments is for periods beginning on or after January 1, 2012 and is applied retrospectively.

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

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

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

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

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

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

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

- Philippine Interpretation IFRIC-15, *Agreements for the Construction of Real Estate*, applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. It provides guidance on the recognition of revenue among real estate developers for sales of units, such as apartments or houses, ‘off plan’; i.e., before construction is completed. It also provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and the timing of revenue recognition. The Philippine Securities and Exchange Commission (SEC) issued a notice dated August 5, 2011 that defers the adoption of this interpretation indefinitely.

2. Segment Information

Operating Segments

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

The Group’s reportable segments are beverage, food, packaging, power generation and distribution, fuel and oil, infrastructure and telecommunications.

The beverage segment produces and markets alcoholic and nonalcoholic beverages.

The food segment includes, among others, poultry, feeds production and selling, livestock farming, processing and selling of basic meat products, processing and marketing of refrigerated and canned meat products, manufacturing and marketing of flour products, premixes and flour-based products, dairy-based products, breadfill, desserts, cooking oil, importation and marketing coffee and coffee-related products and processed meats.

The packaging segment is involved in the production and marketing of the following packaging products, among others, glass containers, glass molds, polyethylene terephthalate (PET) bottles and preforms, PET recycling, plastic closures, corrugated cartons, woven polypropylene, kraft sacks and paperboard, pallets, flexible packaging, plastic crates, plastic floorings, plastic films, plastic trays, plastic pails and tubs, metal closures and two-piece aluminum cans, woven products, industrial laminates and radiant barriers. It is also involved in crate and plastic pallet leasing, PET bottle filling graphics design, packaging research and testing, packaging development and consultation, contract packaging and trading.

The power generation and distribution segment is engaged in power generation and mining. The power generation assets supply electricity to a variety of customers, including the Manila Electric Corporation (Meralco), electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market (WESM).

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

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

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

Inter-segment Transactions

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

Financial information about reportable segments follow:

	Beverage		Food		Packaging		Power Generation and Distribution		Fuel and Oil		Infra-structure		Telecommu-nications		Others		Eliminations		Consolidated	
	2012	2011	201	2011	2012	2011	2012	2011	2012	2011	2011	2011	2011	2011	2012	2011	2012	2011	2012	2011
Sales																				
External sales	P44,07	P43,89	P45,34	P42,30	P9,249	P9,63	P39,103	P35,1	P191,121	P132,167			1		P -	P	P -	P	P329,547	P263,31
Inter-segment sales	59	4	2	7	2,630	2,344	389	286	2,178	2,730			-		-	-	(5,258)	(5,371)	-	-
Total sales	P44,13	P43,89	P45,35	P42,31	11,879	P11,98	P39,492	P35,1	P193,299	P134,897			1		P -	P -	(P5,258)	(P5,37)	P329,547	P263,31
Results																				
Segment results	P10,41	P9,69	P1,86	P2,99	P1,124	P1,07	P8,833	P7,1	P4,399	P10,991			(1	(1	(P1,657)	(P1,084	P348	P37	P25,090	P31,20

3. Related Party Disclosures

The Parent Company, certain subsidiaries and their shareholders and associates in the normal course of business, purchase products and services from one another. Transactions with related parties are made at normal market prices and terms. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

	Relationship with Related Parties	Period	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Revenue From Related Parties	Purchases From Related Parties
Petron Corporation						
Employee Retirement Plan (PCERP)	Retirement plan	June 30, 2012 December 31, 2011	P 11,508 23,247	P - -	P - -	P - -
SMC Retirement Plan (SMCRP)	Retirement plan	June 30, 2012 December 31, 2011	5,849 5,755	- -	- -	- -
Meralco	Associate	June 30, 2012 December 31, 2011	5,595 4,166	9 60	23,015 32,871	133 494
Top Frontier Investment Holdings, Inc.	Associate	June 30, 2012 December 31, 2011	2,490 2,592	- -	- -	- -
Liberty Telecoms Holdings, Inc.	Associate	June 30, 2012 December 31, 2011	855 433	- -	10 47	- -
Atlantic Aurum Investments BV	Associate	June 30, 2012 December 31, 2011	534 537	90 -	- -	- -
Petrochemical Asia (HK) Limited	Associate	June 30, 2012 December 31, 2011	506 701	- -	- -	- -
Ginebra San Miguel, Inc. Retirement Plan	Retirement plan	June 30, 2012 December 31, 2011	137 137	- -	- -	- -
Thai San Miguel Liquor Co. Ltd.	JVC	June 30, 2012 December 31, 2011	118 118	- -	- -	- -
Hormel Netherlands, BV	Shareholder in a subsidiary	June 30, 2012 December 31, 2011	57 19	- -	- -	- -
Private Infra Dev Corporation	Associate	June 30, 2012 December 31, 2011	55 13	- -	137 95	- -
Manila North Harbour Port Inc.	Associate	June 30, 2012 December 31, 2011	10 6	- -	26 -	- -
Bank of Commerce (BOC)	Associate	June 30, 2012 December 31, 2011	7 13	- -	1 31	- -
Kirin Holdings Company, Limited and Subsidiaries	Shareholder in a subsidiary	June 30, 2012 December 31, 2011	4 4	- -	6 19	1 18
Limay Energen Corp.	Associate	December 31, 2011	-	-	-	1,393
Super Coffee Corporation Pte. Ltd.	Shareholder in a subsidiary	June 30, 2012 December 31, 2011	- -	90 61	- -	- -
Others	Others	June 30, 2012 December 31, 2011	19 4	310 205	- 1	- 76
June 30, 2012			P27,744	P499	P23,195	P134
December 31, 2011			P37,745	P326	P33,064	P1,981

- Amounts owed by related parties consist of trade and non-trade receivables, share in expenses and cash advances, and are unsecured and non-interest bearing, except as discussed in items c and d below.
- Amounts owed to related parties consist of trade payables, professional fees and cash advances, and are unsecured and non-interest bearing.

- c. The Parent Company has advances to SMCRP amounting to P5,849 and P5,755 as of June 30, 2012 and December 31, 2011, respectively, included as part of “Trade and other receivables” account in the consolidated statements of financial position. The advances are subject to interest.
- d. Petron has outstanding advances to PCERP for some investment opportunities, included as part of “Other noncurrent assets” account in the consolidated statements of financial position. The advances are subject to interest.
- e. Golden Food and Dairy Creamery Corporation has an outstanding loan from BOC amounting to P191 and P204, as of June 30, 2012 and December 31, 2011, respectively, included as part of “Long-term debt” account in the consolidated statements of financial position.
- f. San Miguel Brewery Hong Kong has an outstanding loan from BOC amounting to US\$30 as of June 30, 2012, included as part of “Long-term debt” account in the consolidated statements of financial position.

4. Property, Plant and Equipment

Property, plant and equipment consist of:

June 30, 2012

	January 1, 2012	Additions and Transfers	Disposals and Reclassifications	Currency Translation Adjustments	June 30, 2012
Cost:					
Land and land improvements	P16,408	P440	P4,304	(P77)	P21,0
Buildings and improvements	32,662	136	7,621	(479)	39,9
Power plants	214,319	-	-	-	214,3
Refinery and plant equipment	37,810	2	10,905	-	48,7
Service stations and other equipment	6,070	507	6,805	-	13,3
Machinery and equipment	86,664	1,011	199	(1,187)	86,6
Telecommunications equipment	7,394	164	-	-	7,5
Transportation equipment	10,880	304	359	(19)	11,5
Tools and small equipment	2,507	93	(92)	(42)	2,4
Office equipment, furniture and fixtures	4,806	191	256	(27)	5,2
Molds	809	108	(226)	(2)	6
Leasehold improvements	1,551	20	102	(2)	1,6
Construction in progress	21,009	13,897	(376)	(4)	34,5
	442,889	16,873	29,857	(1,839)	487,7
Accumulated depreciation and amortization:					
Land improvements	2,612	75	(23)	(12)	2,6
Buildings and improvements	12,100	629	3,655	(249)	16,1
Power plants	10,628	2,593	-	-	13,2
Refinery and plant equipment	18,579	1,042	7,632	(204)	27,0
Service stations and other equipment	4,221	422	4,032	(110)	8,5
Machinery and equipment	48,620	1,936	(107)	(538)	49,9
Telecommunications equipment	5,406	222	27	-	5,6
Transportation equipment	2,947	439	(10)	(17)	3,3
Tools and small equipment	1,810	98	(93)	(31)	1,7
Office equipment, furniture and fixtures	3,724	175	402	(38)	4,2
Molds	638	106	(165)	(2)	5
Leasehold improvements	655	46	2	(1)	7
	111,940	7,783	15,352	(1,202)	133,8

(forward)

	January 1, 2012	Additions and Transfers	Disposals and Reclassifications	Currency Translation Adjustments	June 30, 2012
Accumulated impairment losses:					
Land improvements	P385	P -	P -	P -	P3
Buildings and improvements	3,812	-	(1)	(163)	3,6
Machinery and equipment	7,007	-	(47)	(264)	6,6
Telecommunications equipment	45	-	-	-	
Transportation equipment	13	-	-	(1)	
Tools and small equipment	20	-	-	(1)	
Office equipment, furniture and fixtures	41	-	-	(2)	
	11,323	-	(48)	(431)	10,8
Net book value	P319,626	P9,090	P14,553	(P206)	P343,0

June 30, 2011

	January 1, 2011	Additions and Transfers	Disposals, Reclassifications and Transfers to Assets Held for Sale	Currency Translation Adjustments	June 30, 2011
Cost:					
Land and land improvements	P15,277	P366	(P16)	(P33)	P15,5
Buildings and improvements	32,224	726	5,843	(39)	38,7
Power plants	214,899	596	(1,175)	-	214,3
Refinery and plant equipment	37,286	35	6	-	37,3
Service stations and other equipment	5,319	130	30	-	5,4
Machinery and equipment	86,765	730	(4,206)	(87)	83,2
Transportation equipment	8,615	662	(418)	1	8,8
Tools and small equipment	2,327	148	(39)	12	2,4
Office equipment, furniture and fixtures	4,194	276	(1,183)	(1)	3,2
Molds	702	129	(53)	1	7
Leasehold improvements	1,237	28	-	(1)	1,2
Construction in progress	6,097	7,652	(18)	8	13,7
	414,942	11,478	(1,229)	(139)	425,0
Accumulated depreciation and amortization:					
Land improvements	2,462	69	(6)	3	2,5
Buildings and improvements	10,732	516	(3,942)	(19)	7,2
Power plants	5,611	2,752	(328)	-	8,0
Refinery and plant equipment	16,545	1,018	(7)	-	17,5
Service stations and other equipment	3,742	238	10	-	3,9
Machinery and equipment	47,330	1,932	2,302	(74)	51,4
Transportation equipment	2,389	303	318	1	3,0
Tools and small equipment	1,691	106	(53)	5	1,7
Office equipment, furniture and fixtures	3,585	140	1,491	(1)	5,2
Molds	510	92	(24)	(1)	5
Leasehold improvements	555	77	6	-	6
	95,152	7,243	(233)	(86)	102,0
Accumulated impairment losses:					
Land improvements	412	-	-	-	4
Buildings and improvements	3,829	-	(1)	16	3,8
Machinery and equipment	7,403	-	(62)	53	7,3
Transportation equipment	12	-	-	-	
Tools and small equipment	20	-	-	-	
Office equipment, furniture and fixtures	41	-	-	-	
	11,717	-	(63)	69	11,7
Net book value	P 308,073	P4,235	(P933)	(P122)	P311,2

Depreciation and amortization charged to operations amounted to P7,783 and P7,243 in June 2012 and 2011, respectively.

5. Basic and Diluted Earnings Per Share (EPS)

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

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

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

Basic and Diluted EPS is computed as follows:

	June 30	
	2012	2011
Income attributable to equity holders of the Parent Company	P14,123	P10,799
Less dividends on preferred shares for the period (a)	2,912	2,912
Net income attributable to common shareholders of the Parent Company (b)	P11,211	P7,887
Weighted average number of common shares outstanding (in millions) - basic (c)	2,369	2,341
Effect of dilution - common	16	14
Weighted average number of common shares outstanding (in millions) - diluted (d)	2,385	2,355
Common:		
Basic EPS (b/c)	P4.73	P3.37
Diluted EPS (b/d)	P4.70	P3.35

6. Dividends

Cash dividends declared by the Parent Company's Board of Directors (BOD) to common shareholders amounted to P0.70 per share both in June 2012 and 2011.

Cash dividends declared by the Parent Company's BOD to preferred shareholders amounted to P3.00 per share both in June 2012 and 2011.

On July 24, 2012, the Parent Company's BOD declared cash dividend at P0.35 per share, payable on September 3, 2012 to all common shareholders as of August 10, 2012.

7. Financial Risk Management Objectives and Policies

Objectives and Policies

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

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

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

The Group's principal non-trade related financial instruments include cash and cash equivalents, available-for-sale (AFS) financial assets, financial assets at FVPL, short-term and long-term loans, and derivative instruments. These financial instruments, except financial assets at FVPL and derivative instruments, are used mainly for working capital management purposes. The Group's trade-related financial assets and financial liabilities such as trade and other receivables, noncurrent receivables and deposits, accounts payable and accrued expenses, finance lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The Group's outstanding derivative instruments such as commodity and currency options, forwards and swaps are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency, interest rate and commodity price risks arising from the Group's operating and financing activities.

The BOD has the overall responsibility for the establishment and oversight of the Group's risk management framework. The BOD has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the BOD on its activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group's accounting policies in relation to derivatives are set out in Note 8 to the consolidated financial statements.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the Group's long-term borrowings and investment securities. Investments acquired or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investment securities acquired or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

On the other hand, the Group's investment policy is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the Group's operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any;
- fair value reserves arising from increases or decreases in fair values of AFS financial assets reported as part of other comprehensive income; and
- hedging reserves arising from increases or decreases in fair values of hedging instruments designated in qualifying cash flow hedge relationships reported as part of other comprehensive income.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P849 and P962 for the period ending June 30, 2012 and December 31, 2011, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

As at June 30, 2012 and December 31, 2011, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

June 30, 2012	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed rate							
Philippine peso-denominated							
Interest rate	P513 6.3212% - 9.33%	P29,284 6.3212% - 9.33%	P513 6.3212% - 9.33%	P7,019 5.4885% - 9.33%	P3,036 6.05% - 7.2%	P43,230 5.93% - 10.5%	P83,595
Foreign currency-denominated (expressed in Philippine peso)							
Interest rate	-	25,171 2%	-	12,636 7%	-	-	37,807
Floating rate							
Philippine peso-denominated							
Interest rate	539 PDST-F + margin	539 PDST-F + margin	856 PDST-F + margin	11,664 PDST-F + margin	114 PDST-F + margin	172 PDST-F + margin	13,884
Foreign currency-denominated (expressed in Philippine peso)							
Interest rate	272 LIBOR and THBFX + margin	746 LIBOR and THBFX + margin	19,187 LIBOR + margin	47,896 LIBOR + margin	2,888 LIBOR + margin	-	70,989
	P1,324	P55,740	P20,556	P79,215	P6,038	P43,402	P206,275
December 31, 2011	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed rate							
Philippine peso-denominated							
Interest rate	P15,040 6.3212% - 9.33%	P513 6.3212% - 9.33%	P29,284 6.3212% - 9.33%	P1,270 5.4885% - 9.33%	P6,048 6.145% - 9.33%	P26,230 6.3212% - 10.5%	P78,385
Foreign currency-denominated (expressed in Philippine peso)							
Interest rate	-	-	26,216 2%	-	13,152 7%	-	39,368
Floating rate							
Philippine peso-denominated							
Interest rate	1,025 PDST-F + margin	875 PDST-F + margin	1,104 PDST-F + margin	11,550 PDST-F + margin	-	-	14,554
Foreign currency-denominated (expressed in Philippine peso)							
Interest rate	3,577 LIBOR and THBFX + margin	4,115 LIBOR and THBFX + margin	13,323 LIBOR and THBFX + margin	59,656 LIBOR + margin	997 LIBOR + margin	-	81,668
	P19,642	P5,503	P69,927	P72,476	P20,197	P26,230	P213,975

Foreign Currency Risk

The Group's functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The Group's exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The Group's risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using a combination of non-derivative and derivative instruments such as foreign currency forwards, options or swaps to manage its foreign currency risk exposure.

Short-term currency forward contracts (deliverable and non-deliverable) and options are entered into to manage foreign currency risks arising from importations, revenue and expense transactions, and other foreign currency-denominated obligations. Currency swaps are entered into to manage foreign currency risks relating to long-term foreign currency-denominated borrowings.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their Philippine peso equivalents is as follows:

	June 30, 2012		December 31, 2011	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$991	P41,696	US\$1,386	P60,759
Trade and other receivables	865	36,438	567	24,879
AFS financial assets	16	686	20	862
Noncurrent receivables	231	9,737	44	1,918
	2,103	88,557	2,017	88,418
Liabilities				
Drafts and loans payable	489	20,593	88	3,878
Accounts payable and accrued expenses	1,166	49,122	661	28,990
Long-term debt (including current maturities)	2,583	108,796	2,761	121,036
Finance lease liabilities	2,525	106,276	2,574	112,751
Other noncurrent liabilities	48	2,013	10	434
	6,811	286,800	6,094	267,089
Net foreign currency-denominated monetary liabilities	(US\$4,708)	(P198,243)	(US\$4,077)	(P178,671)

The Group reported net foreign exchange gains amounting to P7,051 and P1,277 in 2012 and 2011, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Philippine Peso to US Dollar
December 31, 2010	43.84
June 30, 2011	43.33
December 31, 2011	43.84
June 30, 2012	42.12

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios. Foreign exchange movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in unrealized and realized foreign exchange gains or losses;
- translation reserves arising from increases or decreases in foreign exchange gains or losses recognized directly as part of other comprehensive income; and
- hedging reserves arising from increases or decreases in foreign exchange gains or losses of the hedged item and the hedging instrument.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations) as of June 30, 2012 and December 31, 2011:

June 30, 2012	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P772)	(P754)	P772	P754
Trade and other receivables	(153)	(819)	153	819
AFS financial assets	-	(16)	-	16
Noncurrent receivables	(27)	(223)	27	223
	(952)	(1,812)	952	1,812
Drafts and loans payable	73	467	(73)	(467)
Accounts payable and accrued expenses	438	1,033	(438)	(1,033)
Long-term debt (including current maturities)	2,553	1,713	(2,553)	(1,713)
Finance lease liabilities	2,523	1,766	(2,523)	(1,766)
Other noncurrent liabilities	17	43	(17)	(43)
	5,604	5,022	(5,604)	(5,022)
	P4,652	P3,210	(P4,652)	(P3,210)

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

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

Commodity Price Risk

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

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

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

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

Liquidity Risk

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

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of June 30, 2012 and December 31, 2011.

June 30, 2012

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P109,717	P109,717	P109,717	P -	P -	P -
Trade and other receivables - net	100,975	100,975	100,975	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	243	243	243	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	227	227	227	-	-	-
AFS financial assets	3,310	3,310	-	3,310	-	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	15,943	15,943	-	15,943	-	-
<i>(forward)</i>						

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Liabilities						
Drafts and loans payable	P 117,997	P 118,596	P 118,596	P -	P -	P -
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	81,515	81,515	81,515	-	-	-
Derivative liabilities (included under “Accounts payable and accrued expenses” account in the consolidated statements of financial position)	138	138	138	-	-	-
Long-term debt (including current maturities)	203,875	247,022	11,837	65,456	120,942	48,787
Finance lease liabilities (including current portion)	200,891	288,631	18,212	19,371	65,181	185,867
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	2,489	2,489	-	2,489	-	-

December 31, 2011

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

(forward)

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

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables and investment securities. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on the credit risk.

Goods are subject to retention of title clauses so that in the event of default, the Group would have a secured claim. Where appropriate, the Group obtains collateral or arranges master netting agreements.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments

The Group recognizes impairment losses based on specific and collective impairment tests, when objective evidence of impairment has been identified either on an individual account or on a portfolio level.

Financial information on the Group's maximum exposure to credit risk as of June 30, 2012 and December 31, 2011, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	June 30,	December 31,
Cash and cash equivalents	P109,717	P128,975
Trade and other receivables - net	100,975	84,472
Derivative assets	243	121
Financial assets at FVPL	227	194
AFS financial assets	3,310	2,068
Noncurrent receivables and deposits - net	15,943	27,471
	P230,415	P243,301

The credit risk for cash and cash equivalents, derivative assets, financial assets at FVPL and AFS financial assets is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous trade customers. The Group does not execute any credit guarantee in favor of any counterparty.

Financial and Other Risks Relating to Livestock

The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling prices of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces of supply and demand, and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below.

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken in all dressing plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.
- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at reasonable price.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (financial assets at FVPL and AFS financial assets). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its businesses and maximize shareholder value.

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock and cumulative translation adjustments are excluded from capital for purposes of capital management.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business, operation and industry.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

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

8. Financial Assets and Financial Liabilities

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

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial

measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction costs.

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

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

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

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

Financial Assets

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;
- the assets are part of a group of financial assets which are managed and their performances are

evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

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

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

The combined carrying amounts of financial assets under this category amounted to P470, P378 and P315 as of June 30 and March 31, 2012 and December 31, 2011, respectively.

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

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

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

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

The combined carrying amounts of financial assets under this category amounted to P226,635, P263,769 and P240,918 as of June 30 and March 31, 2012 and December 31, 2011, respectively.

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

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

As of June 30 and March 31, 2012 and December 31, 2011, the Group has no investments accounted for under this category.

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

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

The Group’s investments in equity and debt securities included under “Available-for-sale financial assets” account are classified under this category.

The carrying amounts of financial assets under this category amounted to P3,310, P2,219 and P2,068 as of June 30 and March 31, 2012 and December 31, 2011, respectively.

Financial Liabilities

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

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

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

The carrying amounts of financial liabilities under this category amounted to P138, P132 and P118 as of June 30 and March 31, 2012 and December 31, 2011, respectively.

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

part of the effective interest rate of the liability.

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

The combined carrying amounts of financial liabilities under this category amounted to P606,767, P623,152 and P566,041 as of June 30 and March 31, 2012 and December 31, 2011, respectively.

Debt Issue Costs

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

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

Classification of Financial Instruments Between Debt and Equity

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

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

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

Offsetting Financial Instruments

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

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of June 30, 2012 and December 31, 2011:

	June 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P109,717	P109,717	P128,975	P128,975
Trade and other receivables - net	100,975	100,975	84,472	84,472
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	243	243	121	121
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	227	227	194	194
AFS financial assets	3,310	3,310	2,068	2,068
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	15,943	15,943	27,471	27,471
Financial Liabilities				
Drafts and loans payable	117,997	117,997	82,588	82,588
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	81,515	81,515	61,424	61,424
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	138	138	118	118
Long-term debt (including current maturities)	203,875	216,400	211,420	228,523
Finance lease liabilities (including current portion)	200,891	200,891	208,261	208,261
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	2,489	2,489	2,348	2,348

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Trade and Other Receivables and Noncurrent Receivables and Deposits. The carrying amount of cash and cash equivalents and receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of long-term receivables, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

Financial Assets at FVPL and AFS Financial Assets. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets. Unquoted equity securities are carried at cost less impairment.

Drafts and Loans Payable and Accounts Payable and Accrued Expenses. The carrying amount of drafts and loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. As of June 30, 2012 and December 31, 2011, discount rates used for Philippine peso-denominated loans range from 2.4% to 5.9% and 1.7% to 5.4%, respectively. The discount rates used for foreign currency-denominated loans range from 0.2% to 1.0% and 0.3% to 1.0% as of June 30, 2012 and December 31, 2011, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments are discussed below.

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

Derivative Instruments Accounted for as Hedges

Freestanding Derivatives

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

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

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

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

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

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

As of June 30 and March 31, 2012 and December 31, 2011, the Group has no outstanding derivatives accounted for as fair value hedges.

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

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

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

As of June 30 and March 31, 2012 and December 31, 2011, the Group has no outstanding derivatives accounted for as cash flow hedge.

Net Investment Hedge. As of June 30 and March 31, 2012 and December 31, 2011, the Group has no hedge of a net investment in a foreign operation.

Other Derivative Instruments Not Designated as Hedges

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

Freestanding Derivatives

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

Currency Forwards

As of June 30 and March 31, 2012 and December 31, 2011, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$157, US\$549 and US\$220, respectively, and with various maturities in 2012. As of June 30 and March 31, 2012 and December 31, 2011, the net positive (negative) fair value of these currency forwards amounted to (P63), (P12) and P40, respectively.

Currency Options

The Group entered into short-term currency options with an aggregate notional amount as of June 30 and March 31, 2012 of US\$716 and US\$985, respectively. The net negative fair value of these currency options as of June 30 and March 31, 2012 amounted to P52 and P45, respectively. The Group has no outstanding currency option agreements as of December 31, 2011.

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2012. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps as of June 30 and March 31, 2012 and December 31, 2011 is 1,520, 2,055 and 845 metric tons, respectively. As of June 30 and March 31, 2012 and December 31, 2011, the net negative fair value of these swaps amounted to P11, P4 and P13, respectively.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2012. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps as of June 30 and March 31, 2012 and December 31, 2011 is 0.9, 1.2 and 1.8 million barrels, respectively. As of June 30 and March 31, 2012 and December 31, 2011, the positive fair value of these swaps amounted to P125, P192 and P147, respectively.

Commodity Options

The Group has outstanding bought and sold options covering its wheat requirements with notional quantities as of June 30 and March 31, 2012 and December 31, 2011 of 103,963, 99,337 and 47,083 metric tons, respectively. These options can be exercised at various calculation dates in 2012 with specified quantities on each calculation date. As of June 30 and March 31, 2012 and December 31, 2011, the net positive (negative) fair value of these options amounted to P59, P19 and (P5), respectively.

As of March 31, 2012 and December 31, 2011, the Group has outstanding bought and sold options

covering its soybean meal requirements with notional quantity of 5,625 and 7,439 metric tons, respectively. These options can be exercised at various calculation dates in 2012 with specified quantities on each calculation date. As of March 31, 2012 and December 31, 2011, the positive (negative) fair value of these options amounted to P6 and (P5), respectively. The Group has no outstanding options on the purchase of soybean meal as of June 30, 2012.

The Group has outstanding commodity options covering its crude oil requirements with notional quantity of 1.3 million barrels as of June 30, 2012 and December 31, 2011, and 1.5 million barrels as of March 31, 2012. These call and put options can be exercised at various calculation dates in 2012 with specified quantities on each calculation date. The net positive (negative) fair value of these options as of June 30 and March 31, 2012 and December 31, 2011 amounted to (P155), (P100) and P47, respectively.

Embedded Derivatives

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

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

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

Embedded Currency Forwards

As of June 30 and March 31, 2012 and December 31, 2011, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$202, US\$216 and US\$201, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. As of June 30 and March 31, 2012 and December 31, 2011, the net positive (negative) fair value of these embedded currency forwards amounted to P180, P79 and (P2), respectively.

Embedded Currency Options

As of June 30 and March 31, 2012 and December 31, 2011, the total outstanding notional amount of currency options embedded in non-financial contracts amounted to US\$19, US\$20 and US\$24, respectively. These non-financial contracts consist mainly of sales agreements. These embedded options are not clearly and closely related to their host contracts. The net negative fair value of these embedded currency options amounted to P8 as of June 30 and March 31, 2012 and P11 as of December 31, 2011.

For the periods ended June 30, 2012 and 2011 and March 31, 2012 and 2011, the Group recognized marked-to-market losses from freestanding and embedded derivatives amounting to P435, P883, P76 and P1,662, respectively.

Fair Value Hierarchy

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

The table below analyzes financial instruments carried at fair value, by valuation method as of June 30, 2012 and December 31, 2011. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

June 30, 2012

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	P -	P243	P243
Financial assets at FVPL	227	-	227
AFS financial assets	2,411	899	3,310
Financial Liabilities			
Derivative liabilities	-	138	138

December 31, 2011

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

As of June 30, 2012 and December 31, 2011, the Group has no financial instruments valued based on Level 3. During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

9. Other Matters

- a. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.
- b. There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.
- c. Certain amounts in prior year have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations for any period.

- d. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- e. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.
- f. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual statements of financial position date, except for Note 26 (c-1) of the 2011 Audited Consolidated Financial Statements that remain outstanding as of June 30, 2012. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended June 30, 2012.
- h. The effects of seasonality or cyclicity on the interim operations of the Group's businesses are not material.
- i. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end of June 30, 2012. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.



SAN MIGUEL CORPORATION

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

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Corporation ("SMC" or the "Parent Company" or the "Corporation") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended June 30, 2012 (with comparative figures as of December 31, 2011 and for the period ended June 30, 2011). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at June 30, 2012, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. 2012 TRANSACTIONS

A. INVESTMENTS

- On March 28, 2012, the Board of Directors (BOD) of the Parent Company approved its investment, through San Miguel Equity Investments Inc. (SMEII), in the Philippine Airlines, Inc. (PAL) and Air Philippines Corporation (Air Phil). On April 3, 2012, the Parent Company, through SMEII, and the Lucio Tan Group signed investment agreements whereby SMEII agreed to subscribe to unissued common shares constituting 49% of the outstanding capital stock of Trustmark and Zuma, the holding companies of PAL and Air Phil, respectively, for a total consideration of ₱21,400 million. The investment resulted in the Parent Company indirectly owning a minority stake in PAL and Air Phil.
- On March 30, 2012, Petron Corporation's (Petron) indirect offshore subsidiary, Petron Oil & Gas International Sdn Bhd (POGI), completed the acquisition of 65% of Esso Malaysia Berhad (EMB), and 100% of ExxonMobil Malaysia Sdn Bhd (EMMSB) and ExxonMobil Borneo Sdn Bhd (EMBSB) for an aggregate purchase price of US\$577.3 million. POGI also served the notice of mandatory general offer (MGO) to acquire the remaining 94,500,000 shares representing 35% of the total voting shares of EMB for RM3.59 per share from the public. The Unconditional Mandatory Take-Over Offer was closed on May 14, 2012. As a result of the MGO, POGI was able to acquire an additional 22,679,063 shares from the public and increased its interest in EMB to 73.4%.

The acquisition resulted to the consolidation of EMB, EMMSB and EMBSB and the recognition of goodwill amounting to ₱10,704 million as of June 30, 2012.

On April 23, 2012, the Companies Commission of Malaysia (CCM) approved the change of name of EMMSB to Petron Fuel International Sdn Bhd and of EMBSB to Petron Oil (M) Sdn Bhd. Thereafter, on July 11, 2012, CCM approved the change of name of EMB to Petron Malaysia Refining & Marketing Bhd.

- On January 27, 2012, Ginebra San Miguel, Inc. (GSMI) acquired 100% of the outstanding capital stock of East Pacific Star Bottlers Phils Inc. (EPSBPI) for ₱200 million.
- On May 14, 2012, the Group received 1,042,801,676 common shares of stock of Rockwell Land Corporation (Rockwell Land Shares), with a book value of ₱1,522 million, as property dividend from the Manila Electric Company (Meralco).

On July 27, 2012, the Group sold thru the Exchange its Rockwell Land Shares at ₱2.01 per share.

- On June 18, 2012, Top Frontier Holdings, Inc. (Top Frontier) redeemed a total of 693,500 preferred shares out of the 2,598,040 preferred shares issued to the Parent Company, at the total redemption price of ₱12,899 million, corresponding to the original issue price of the said preferred shares.

The Group recognized a gain of ₱945 million from the transaction.

B. FINANCING

- On April 18, 2012, the BOD of the Parent Company approved the amendment of its Articles of Incorporation to increase the authorized capital stock from ₱22,500 million to ₱30,000 million as follows:
 - a. the increase in the number of the common shares from 3,390,000,000 common shares to 3,790,000,000, or an increase of 400,000,000 common shares; and
 - b. creation and issuance of 1,100,000,000 Series “2” preferred shares with a par value ₱5.00 per share.

Other than the dividend rate, redemption period and dividend adjustment rate, the features of the Series “2” preferred shares shall be the same as the Series “1” preferred shares.

The amendment of the Articles of Incorporation of the Corporation to increase the capital stock was approved by the stockholders of the Corporation in its meeting on June 14, 2012.

On June 26, 2012, the Parent Company filed with the Securities and Exchange Commission (SEC) a Notice of Filing of Registration Statement 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 Series “2” Preferred Shares may be issued in up to three subseries, at the discretion of the Issuer with the following terms:

Subseries “2-A” callable starting 3rd year with a step-up on the 5th year
Subseries “2-B” callable starting 5th year with a step-up on the 7th year; and
Subseries “2-C” callable starting 7th year with a step-up on the 10th year.

The Series “2” Preferred Shares shall be offered at a price of ₱75.00 per share.

As and if cash dividends are declared by the BOD, cash dividends on the Series “2” Preferred Shares shall be at the fixed rates of:

- Subseries “2-A”: 7.500% per annum;
- Subseries “2-B”: 7.625% per annum; and
- Subseries “2-C”: 8.000% 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).

The offer period shall commence at 9:00 a.m., Manila Time on August 13, 2012 and end at 12:00 noon, Manila Time on September 14, 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.

Proceeds from the Offering shall be used by the Parent Company to redeem the Series “1” Preferred Shares as well as for general corporate purposes such as the refinancing of its short-term loan obligations..

- Pursuant to the approvals of the BOD of San Miguel Brewery Inc. (SMB) on October 11, 2011, February 7, 2012 and March 13, 2012, SMB offered for subscription fixed rate peso-denominated bonds with an aggregate principal amount of ₱20,000 million (the “₱20 billion Bonds”) on March 19 to 23, 2012 (the “Offer”). The Bonds were issued on April 2, 2012 (“Issue Date”) at the issue price of 100.00% of face value in three series: Series D, E and F Bonds.

The ₱20 billion Bonds consisted of the following: Series D Bonds with the aggregate principal amount of ₱3,000 million having a term of 5 years and 1 day beginning on April 2, 2012 (“Issue Date”) and ending on April 3, 2017, with a fixed interest rate of 6.05% per annum; Series E Bonds with an aggregate principal amount of ₱10,000 million having a term of 7 years beginning on Issue Date and ending on April 2, 2019, with a fixed interest rate of 5.93% per annum; and Series F Bonds with an aggregate principal amount of ₱7,000 million having a term of 10 years beginning on Issue Date and ending on April 2, 2022, with a fixed interest rate of 6.60% per annum. The Series E Bonds and Series F Bonds of the ₱20 billion Bonds were listed on the Philippine Dealing & Exchange Corp. on the same date.

On April 3, 2012, SMB completed the payment of the aggregate principal amount of the Series A fixed rate bonds (“Series A Bonds”) of ₱13,590 million, which matured on the same day. The Series A Bonds form part of the ₱38,800 million fixed rate bonds that were issued by SMB in 2009. Part of the proceeds of SMB’s ₱20 billion Bonds offering was used for the said payments.

On April 13, 2012, SMB made a partial payment of its US\$300 million term facility in the amount of US\$100 million. A subsequent partial payment was made on April 27, 2012 in the amount of US\$50 million. Part of the proceeds of SMB’s ₱20 billion Bonds offering was used for the said payments.

- On March 14, 2012, Petron Global Limited (BVI) (Petron Global), a wholly-owned subsidiary of Petron, issued 150,000,000 cumulative, non-voting, non-participating and non-convertible Series A preferred shares and 200,000,000 cumulative, non-voting, non-participating and non-convertible Series B preferred shares at an issue price equal to the par value of US\$1.00 per share.

- On February 15, 2012, Petron availed of the remaining US\$400 million of the US\$480 million term loan facility which was signed and executed on September 30, 2011.
- On March 27, 2012, San Miguel Brewery Hong Kong Limited (SMBHK) availed a US\$30 million long-term loan from Bank of Commerce (BOC) for working capital requirements.

C. DIVESTMENTS

- In 2011, the Parent Company through San Miguel Yamamura Packaging International Limited (SMYPIL) and Nihon Yamamura Glass Co., Ltd. (NYG), entered into a non-binding Memorandum of Understanding (MOU), wherein NYG offered to buy 51% equity interest in PT San Miguel Yamamura Utama Indoplas (SMYUI). On December 2, 2011, the BOD unanimously accepted NYG's offer and approved the share sale transaction as contemplated in the MOU. The transaction was completed on January 31, 2012.

The Group recognized a net gain of ₱22 million from the sale.

- On February 15, 2012, the sale of San Miguel (Thailand) Co. Ltd. (SMTCL) was completed. This is pursuant to the share sale and purchase agreement signed on December 7, 2011, between San Miguel Foods and Beverage International Limited (SMFBIL) and Pepsi Thai Trading Co. for the sale of all of the outstanding shares of SMFBIL in SMTCL.

The Group recognized a net gain of ₱62 million from the sale.

- On February 23, 2012, the Parent Company through San Miguel (Vietnam) Co. Ltd. (SMVCL) completed the sale of its building and land use rights located in the Amata Industrial Zone, Vietnam to PepsiCo International-Vietnam Company for US\$12 million and recognized a gain amounting to ₱256 million.

On June 30, 2012, SMVCL was dissolved by virtue of the Certificate of Dissolution issued to SMVCL by the State Securities Commission of Vietnam on May 31, 2012.

- On May 8, 2012, the Parent Company through San Miguel Properties, Inc. (SMPI), together with the other stockholders of BOC, namely, San Miguel Corporation Retirement Plan and Q-Tech Alliance Holdings, Inc., have executed a share purchase agreement with CIMB for the sale of up to 65,083,087 fully paid ordinary shares, equivalent to a 58% equity interest in BOC for a total consideration of up to approximately ₱12 billion. Under the provisions of the agreement, the completion of the sale is subject to certain closing conditions, inclusive of the mandatory approvals from the Monetary Board of the Bangko Sentral ng Pilipinas and the Bank of Negara Malaysia.

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

D. OTHERS

- On March 16, 2012, the SEC approved the amendment of the Articles of Incorporation and By-Laws of the Parent Company to extend the corporate term of the Parent Company for another fifty (50) years from August 21, 2013, and the change of the date of the annual regular meeting

of the stockholders from second Tuesday of May to second Tuesday of June, as approved on the March 14, 2011 and June 7, 2011 meeting of the Parent Company's BOD and stockholders, respectively.

- On June 29, 2012, Top Frontier and Master Year Limited (MYL) purchased 125,234,667 common shares and 368,140,516 common shares of the Parent Company, respectively. The sale was transacted at the Philippine Stock Exchange thru a special block sale at the price of ₱75.00 per share.

As of June 30, 2012, Top Frontier and MYL own approximately 66.38% and 15.54%, respectively, of the outstanding common stock of the Parent Company.

- As of June 30, 2012, Golden Bay Grain Terminal Corporation (GBGTC) incurred ₱543 million for the construction of its grains terminal in Batangas. GBGTC is a wholly-owned subsidiary of SMMI, incorporated in November 2011.

II. FINANCIAL PERFORMANCE

2012 vs. 2011

San Miguel Corporation's consolidated sales revenue for the first semester of 2012 amounted to about ₱329,547 million, 25% higher than last year. Most of the businesses continued to post revenue growth versus last year with increased volumes and selling prices. However, June 2012 year-to-date consolidated operating income amounted to ₱25,090 million, 20% lower than last year. The Group's performance in the second quarter was weighed down by Petron's performance due to lower retail prices of fuel coupled with high costs of inventory being used in production.

With the gains in other investments coupled with favorable foreign exchange rates, though partially offset by higher financing charges, SMC's resulting June year-to-date 2012 net income attributable to the equity holders of the Parent Company amounted to ₱14,123 million, 31% higher than last year.

2011 vs. 2010

San Miguel Corporation's consolidated sales revenue for the first semester of 2011 reached ₱263,318 million, over two and a half times of 2010's level. The second quarter sustained the growth trend in the first quarter with most of the businesses duplicating and even surpassing their first quarter sales performances. June 2011 consolidated operating income ended at ₱31,204 million, more than double of 2010's level, with most of the businesses outperforming their 2010's operating performances.

Equity in net earnings of associates increased in 2011 mainly due to the increase in the Group's share in net income of Meralco, net of the equity in net losses of Top Frontier, Liberty Telecoms Holdings, Inc. (LTHI) and Petrochemical Asia (HK) Limited (PAHL).

Net financing charges increased to ₱11,040 million from ₱3,144 million mainly due to higher debt balance in 2011 and the interest expense on finance lease liabilities of SMC Global Power Holdings Corp. (SMC Global).

Gain on sale of investments and property and equipment and others decreased on account of the derivative loss incurred by Petron.

The Group's consolidated net income attributable to equity holders of the Parent Company amounted to ₱10,799 million, 72% above 2010.

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

1. BEVERAGES

2012 vs. 2011

a. SMB

San Miguel Brewery Inc. and Subsidiaries' first semester 2012 consolidated revenues reached about ₱36,884 million, 4% higher than last year. This was achieved on sales volumes of about 112 million cases, 3% below a year-ago level. June 2012 year-to-date selling prices were higher with the price increase in May 2011.

With continued domestic beer's management of fixed costs and beer international's improved operating performance, consolidated operating income for the first semester of 2012 ended at ₱10,828 million, 6% higher than last year's performance.

b. GSMI

With continued soft demand for Ginebra San Miguel, Inc.'s GSM Blue and Gran Matador, GSMI's hard liquor sales volume for the first semester of 2012 reached only about 12 million cases, lower than year-ago level. This resulted to June year-to-date sales revenue of about ₱7,226 million, 12% lower than last year's level.

Despite the overall decline in volume, flagship Ginebra San Miguel surpassed year-ago volume level by 13%, and showed improvement in the second quarter performance with operating loss for the quarter down to only ₱42 million from first quarter loss of ₱115 million. This resulted to a June year-to-date 2012 consolidated operating loss of about ₱157 million, lower than last year's loss owing to improved alcohol and container costs and managed fixed costs. GSMI expects much more improvement in profitability with more aggressive sales and marketing campaigns and incremental contribution of new products.

2011 vs. 2010

a. SMB

San Miguel Brewery, Inc. and Subsidiaries generated June 2011 consolidated revenues of ₱35,593 million, 7% higher than 2010's level. This was on volumes of about 115 million cases, above 2010 level by 5%.

With increased volumes and managed fixed cost, consolidated operating income improved at ₱10,244 million, higher by 8% versus 2010.

b. GSMI

Ginebra San Miguel, Inc.'s consolidated sales revenues for the first six months of 2011 registered at ₱8,191 million, 27% below 2010's level. Demand for GSMI's hard liquor products remained soft amidst intense competitive environment as volumes reached only 14 million cases, 30% below 2010. Low sell-in volumes were also due to dealers' depletion of inventories.

Decline in volumes and higher fixed costs, particularly cost associated with efforts to drive volume up, led to consolidated operating loss amounting to ₱186 million.

2. PACKAGING

2012 vs. 2011

San Miguel Yamamura Packaging Group's (SMYPG) June 2012 year-to-date sales revenue amounted to ₱11,879 million, slightly lower than last year's level. Offshore operations faced difficulties and weaknesses in international market resulting to lower volumes particularly on Cospak and SMPP Malaysia. This was, however, offset by growth in the domestic businesses lead by metal cans, composites and plastic businesses.

With the domestic business favorable June year-to-date performance and continuing efficiency initiatives to lower fixed costs, consolidated operating income for the period reached ₱1,124 million, 5% above last year.

2011 vs. 2010

SMYPG's June 2011 sales revenue reached ₱11,981 million, 4% higher than 2010. The business continued to benefit from higher glass sales from major domestic customers and higher exports, higher sales of beer crates for plastics business, new accounts for paper business and higher sales in the international operations. With higher cost of fuel and raw materials coupled with competitive pricing, operating income ended at ₱1,070 million, 1% higher than 2010.

3. FOOD

2012 vs. 2011

San Miguel Pure Foods Group's consolidated revenues for the first semester of 2012 was ₱45,350 million, 7% higher than last year. Most domestic food clusters continued to grow their revenues from last year level with increased volumes led by the coffee and value-added businesses' sustained strong volume performance and aided by better poultry, meats and feeds prices.

Consolidated operating income for the 1st semester of 2012 reached about ₱1,862 million. This is still lower than previous year's level with the high costs of feeds particularly wheat and corn and lower supply of cassava during the first quarter. On a positive note, raw materials prices improved in the second quarter and already made an impact in the Group's

performance during the quarter where operating income increased almost double its first quarter performance.

2011 vs. 2010

As of June 2011, San Miguel Pure Foods Group reached consolidated revenues of ₱42,310 million, 11% higher than 2010. This is due to sustained volume growth driven mostly by poultry, basic meats, butter, margarine and cheese, ice cream, coffee and regional operations. Better selling prices were implemented, in the feeds, flour and dairy businesses among others, to mitigate rising raw material costs.

This, coupled with continuous cost reduction programs, focus on high-margin products and production efficiency improvements, resulted to a consolidated operating income of ₱2,998 million, 8% greater than 2010.

4. POWER

2012 vs. 2011

As of June 2012, SMC Global Power's net generation from the power plants grew 12% over last year to 8.1 million megawatt hours (MWH). All plants were better utilized with the increased demand from bilateral customers resulting to consolidated revenues of about ₱39,492 million in the first semester of 2012, an 11% improvement from last year.

The resulting June year-to-date 2012 consolidated operating income was ₱8,833 million, 17% higher than last year.

2011 vs. 2010

The four power plants – Sual, Limay, San Roque and Ilijan dispatched energy totaling 7.23 million megawatt hours during the first half of 2011. This is almost double of 2010 with the addition of the Ilijan Power Plant to the group's portfolio. Consolidated revenue was thus 47% higher than 2010 at ₱35,562 million. Further revenue growth, however, was curbed by lower Wholesale Electricity Spot Market (WESM) prices and limited energy dispatch of the Limay plant.

Nevertheless, the power business achieved consolidated operating income of ₱7,550 million, significantly higher than 2010.

5. FUEL AND OIL

2012 vs. 2011

Petron Corporation delivered first semester 2012 volumes of over 32 million barrels, 40% above last year with the contribution of Petron Malaysia of almost 9 million barrels. Petron Philippines' domestic volumes, on the other hand, grew by 9% contributing about 22 million barrels. With these, six months' consolidated revenue amounted to ₱193,299 million, 43% higher than last year.

Despite the volume growth, volatility in global oil markets led to substantial margin contraction. Prices of both crude oil and finished products declined steeply from April to the first week of July. In the Philippines alone, this meant 13 weeks of consecutive price roll backs in local pump prices totaling ₱10.50 per liter for gasoline and nearly ₱9.0 per liter for diesel. With higher-cost inventory sold at reduced prices, Petron Philippines reported much lower operating income – just ₱954 million in the second quarter, rounding to only ₱5,572 million in the first semester. Petron Malaysia even reported an operating loss equivalent to ₱1,173 million. Consolidated operating income as of June 2012 thus reached ₱4,399 million, significantly lower than last year. Improvements are expected in the third quarter as retail prices begin to recover.

2011 vs. 2010

Petron Corporation delivered first semester revenues of ₱134,897 million, 17% higher than 2010. This was achieved on sales volume of 23.2 million barrels, 3% lower than 2010. Revenue growth can be largely attributed to higher oil price and increased finished product exports. During the first semester of 2011, as much as 1.7 million barrels of petrochemical products were sold which also contributed to the better margin performance of Petron. The growth in revenue and margin were partly tempered by the strength of the peso and lower domestic sales volume. Income from operations improved significantly to ₱10,991 million, 65% higher than 2010's level.

III. FINANCIAL POSITION

2012 vs. 2011

The Group's consolidated total assets as of June 30, 2012 amounted to ₱958,519 million, ₱67,983 million higher than 2011, mainly due to the consolidation of the total assets of ExxonMobil:

Cash and cash equivalents decreased by 15% to ₱109,717 million in 2012 mainly due to the a) investments made in Trustmark and Zuma and the acquisition of ExxonMobil by Petron; b) major capital expenditures such as the Refinery Master Plan Phase 2 and Refinery Solid Fuel Fired Power Plant of Petron, construction of GBGTC's grains terminal in Batangas and of Cavite Plant's breaded, butter, fried nuggets line by PF-Hormel; c) net payment of long-term debt, dividends, finance lease liabilities and payment in full of liabilities related to the acquisition of Meralco shares of stock by SMC Global, net of the proceeds from a) issuance of preferred shares by Petron Global; b) the net availment of short-term loans; c) redemption of Top Frontier's preferred shares; d) net collection of noncurrent receivables from Petron Corporation Employee Retirement Plan (PCERP); and e) dividends received from associates.

Trade and other receivables increased by 20% to ₱100,975 million in 2012 mainly due to the consolidation of ExxonMobil's balance; increase in a) receivable from Meralco on the sale of power and b) trade receivables of GSMI on account of extension of longer credit terms to dealers to support volume generation.

Inventories increased by 36% to ₱89,087 million in 2012 mainly due to the increase in the price of finished products and increase in volume of crude oil inventory of Petron, consolidation of ExxonMobil's balance and the increase in purchases of corn, meat materials and importations of coffee to cover the second half of the year requirements of SMPFC.

Biological assets increased by 4% to ₱6,179 million due to higher feed costs and increase in volume of growing poultry livestock and hogs in anticipation of demand surge in the second half of the year.

Prepaid expenses and other current assets increased by 52% to ₱34,278 million mainly due to the excess input tax over VAT payable of Petron and SMC Global, consolidation of ExxonMobil's prepaid expenses and other current assets balance, short-term investments of more than 90 days of Petron and increase in tax certificates on hand of SMC Global.

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

Investments and advances increased by 4% to ₱173,710 million mainly due to the investments made in Trustmark and Zuma and equity in net earnings of Meralco, net of the redemption of Top Frontier's preferred shares and dividends received from Meralco and Top Frontier.

Available-for-sale (AFS) financial assets increased by 60% to ₱3,310 million in 2012 mainly due to the Rockwell Land Shares received as property dividend from Meralco, net of the fair value adjustment on the investment in shares of stock of Indophil Resources NL (Indophil).

Property, plant and equipment increased by 7% to ₱343,063 million in 2012 mainly due to the consolidation of ExxonMobil and EPSBPI's property balance, major capital projects such as the Refinery Master Plan Phase 2 and Refinery Solid Fuel Fired Power Plant of Petron and the construction of GBGTC's grains terminal in Batangas and of Cavite Plant's breaded, butter, fried nuggets line by PF-Hormel, net of the depreciation for the period.

Investment properties increased by 16% to ₱3,308 million mainly due to the acquisition by SMPI of a property in Alabang, Muntinlupa City and consolidation of Alloy Manila Toll Expressway's balance.

Goodwill increased by 33% to ₱41,254 million in 2012 mainly due to the recognition of additional goodwill upon the consolidation of ExxonMobil with Petron and of EPSBPI with GSMI, net of translation adjustments.

Other intangible assets increased by 15% to ₱13,082 million in 2012 mainly due to the consolidation of ExxonMobil's leasehold rights balance.

Deferred tax assets increased by 6% to ₱8,692 million in 2012 mainly due to the recognition of Net Operating Loss Carry Over (NOLCO), net of the effect of recognition of deferred tax on unrealized foreign exchange gains of the Parent Company.

Other noncurrent assets decreased by 17% to ₱31,854 million in 2012 mainly due to the net payments made by PCERP, net of the consolidation of ExxonMobil's balance and the purchase of new bottles for domestic operations of SMB.

Drafts and loans payable increased by 43% to ₱117,997 million in 2012 mainly due to the consolidation of ExxonMobil's balance and the net availments made during the period for the Group's working capital requirements.

Accounts payable and accrued expenses increased by 33% to ₱81,895 million mainly due to the consolidation of ExxonMobil's balance, higher liabilities for crude and petroleum products of Petron, increase in payable to PSALM for the power rate adjustments and increase in trade payables for power purchases, energy fees and coal supplies of SMC Global, net of the payment in full of the liability related to the acquisition of Meralco shares of stock by SMC Global.

Dividends payable decreased by 5% to ₱2,050 million in 2012 mainly due to the dividend payments made by SMYPC, SMYPIL and GSMI to non-controlling stockholders, which were outstanding as of December 31, 2011.

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

Long-term debt decreased by 4% to ₱203,875 million in 2012 mainly due to a) loan payments made by Petron, SMB, San Miguel Yamamura Asia Corporation, the Parent Company and GSMI; b) SMB's redemption of Series A bonds and c) translation adjustments, net of the issuance of a) ₱20 billion bonds by SMB, b) corporate notes by Petron and SMBHK and c) consolidation of EPSBPI's balance.

Deferred tax liabilities increased by 9% to ₱12,290 million in 2012 mainly due to the consolidation of ExxonMobil's balance.

Finance lease liabilities decreased by 4% to ₱200,891 million mainly due to payments and the effect of favorable foreign exchange rates, net of the recognition of effective interest for the period.

Other noncurrent liabilities increased by 22% to ₱5,515 million in 2012 mainly due to the consolidation of ExxonMobil's balance.

Cumulative translation adjustments decreased by 16% to ₱4,447 million in 2012 mainly due to the translation adjustment on the net assets of foreign subsidiaries, particularly from Petron International, and the effect of fair value adjustments on the investment in shares of stock of Indophil, net of the share in comprehensive income of associates. The exchange rates used are ₱42.12 to US\$1 in June 30, 2012 (₱43.84 in December 31, 2011) for net assets and ₱42.903 to US\$1 as of June 30, 2012 (₱43.515 as of June 30, 2011) for income and expense items.

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

Non-controlling interests (NCI) increased by 24% to ₱86,359 million in 2012 mainly due to the recognition of NCI upon the consolidation of ExxonMobil, issuance of preferred shares by Petron Global and the share of NCI in the net income of mainly SMB, SMPFC and Petron, net of dividends declared.

2011 vs. 2010

The Group's consolidated total assets as of June 30, 2011 amounted to ₱865,972 million, ₱36,172 million higher than 2010, mainly due to:

Inventories increased by 27% to ₱73,110 million in 2011 mainly due to: a) increase in volume and price of crude oil inventory of Petron; b) higher soybean meal inventory and increase in prices of feeds costs, wheat and meat materials of SMPFC; and c) increase in molasses inventory of GSMI, net of the decrease in fuel inventory of SMC Global due to reclassification to assets held for sale of Panasia Energy Holdings, Inc.'s (PanAsia) inventory balance.

Current biological assets increased by 16% to ₱3,796 million in 2011 due to the increase in volume of growing poultry livestock and hogs and higher feed costs.

Prepaid expenses and other current assets increased by 18% to ₱19,891 million in 2011 mainly due to excess input tax over VAT payable of Petron.

The increase in assets held for sale pertains to the total assets of PanAsia.

Investments increased by 5% from ₱152,814 million in 2010 mainly due to the advances made for investments in a telecommunications company, additional investment in BOC shares of stock by SMPI, the investment of Petron in 35% stake of Manila North Harbour Port Inc. and equity in net income of Meralco, net of equity in net loss of Top Frontier, LTHI and PAHL, and dividends from Meralco and Top Frontier.

Available-for-sale financial assets decreased by 41% from ₱3,597 million in 2010 mainly due to the fair value and translation adjustments of the investment in shares of stock of Indophil.

Noncurrent biological assets increased by 18% to ₱1,748 million in 2011 due to the increase in volume of breeding stocks coupled with higher feed costs.

Deferred tax assets increased by 6% to ₱7,555 million in 2011 mainly due to the effect of recognition of NOLCO by the Parent Company.

Drafts and loans payable decreased by 12% from ₱74,128 million in 2010 mainly due to net payments made during the period.

Finance lease liabilities decreased by ₱1,398 million mainly due to payments made during the period.

Income and other taxes payable decreased by 6% from ₱10,001 million in 2010 due to payment of the last quarter of 2010 and first quarter of 2011 income tax payable.

Dividends payable increased by 66% mainly due to the dividends payable of the Parent Company to its common shareholders (which was subsequently paid on July 22, 2011), net of the dividends payable in 2010 subsequently paid by The Purefoods-Hormel Company, Inc. in 2011 to its non-controlling stockholder.

Liabilities directly associated with assets classified as held for sale pertains to the total liabilities of PanAsia.

Long-term debt increased by ₱35,049 million from ₱168,927 million in 2010 mainly due to issuance of bonds by the Parent Company and SMC Global and of corporate notes by SMC Shipping and Lighterage Corporation (SMCSL), net of payments made by Petron, the Parent Company, SMFBIL and GSMI and translation adjustments.

Other noncurrent liabilities decreased by 80% in 2011 mainly due to reclassification to current liabilities of the amount due next year related to the acquisition of Meralco shares of stock.

Cumulative translation adjustments decreased by 23% from ₱5,365 million in 2010 mainly due to the translation of foreign subsidiaries' net assets. The exchange rates used are ₱43.33 to US\$1 in June 30, 2011 (₱43.84 in December 31, 2010) for net assets and ₱43.515 to US\$1 as of June 30, 2011 (₱45.778 as of June 30, 2010) for income and expense items.

Appropriated retained earnings increased by ₱ 12,892 million mainly due to additional appropriations made by Petron, SMPI, GSMI and SMCSL, net of reversal of appropriations made by SMC Stock Transfer Service Corporation and Anchor Insurance Brokerage Corporation.

Non-controlling interests increased by ₱17,032 million in 2011 mainly due to the recognition of NCI on the preferred shares issued by SMPFC and the share of NCI in the net income of mainly SMB and Petron, net of dividends declared.

Equity

The increase (decrease) in equity is due to:

<i>(In millions)</i>	June 30	
	2012	2011
Addition to non-controlling interest and others	₱17,081	₱14,903
Income during the period	18,603	16,626
Issuance of capital stock	160	3,348
Effect of translation adjustments	(1,430)	(1,316)
Cash dividends	(8,880)	(8,172)
	₱25,534	₱25,389

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	June 30	
	2012	2011
Net cash flows provided by (used in) operating activities	(₱2,512)	₱7,704
Net cash flows used in investing activities	(29,976)	(36,232)
Net cash flows provided by financing activities	13,857	31,003

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

Net cash flows used in investing activities included the following:

<i>(In millions)</i>	June 30	
	2012	2011
Proceeds from sale of investments and property and equipment	₱14,896	₱196
Payment by (advances to) related parties	12,126	(5,085)
Dividends received from associates	2,846	725
Interest received	1,610	2,436
Payment of other liabilities	(2,122)	(14,082)
Additions to property, plant and equipment	(16,873)	(11,478)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(19,787)	-
Additions to investments and advances	(21,428)	(7,806)
Increase in other noncurrent assets and others	(1,244)	(1,138)

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

<i>(In millions)</i>	June 30	
	2012	2011
Proceeds from (payment of) short-term loans - net	₱22,084	(₱8,997)
Net proceeds from issuance of preferred shares	14,216	14,828
Proceeds from issuance of capital stock	29	263
Proceeds from reissuance of treasury stock	-	2,977
Proceeds from (payment of) long-term debt - net	(4,650)	35,547
Payment of finance lease liabilities	(8,840)	(5,987)
Payments of dividends	(8,982)	(7,628)

The effect of exchange rate changes on cash and cash equivalents amounted to (₱627 million) and (₱285 million) in June 30, 2012 and 2011, respectively.

V. KEY PERFORMANCE INDICATORS

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

	June 2012	December 2011
<u>Liquidity:</u>		
Current Ratio	1.48	1.61
<u>Solvency:</u>		
Debt to Equity Ratio	1.95	1.98
Asset to Equity Ratio	2.95	2.98

	June 2012	December 2011
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	12.08%	7.87%
Interest Rate Coverage Ratio	2.49	2.81
	<u>Period Ended June 30</u>	
	2012	2011
<u>Operating Efficiency:</u>		
Volume Growth	22%	164%*
Revenue Growth	25%	168%*
Operating Margin	7.61%	11.85%

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

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

* Volume and revenue growth in 2011 mainly represents the 1st semester results of the new businesses consolidated in 2011.

** Annualized for quarterly reporting