SAN MIGUEL CORPORATION

November 20, 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:

Please find attached the Offering Circular relating to the secondary offering of the common shares of San Miguel Pure Foods Company, Inc.

Very truly yours,

MARY ROSE S. TAN
Assistant Corporate Secretary

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(a corporation incorporated under the laws of the Republic of the Philippines)

Secondary Offer of 22,500,000 Common Shares from San Miguel Corporation

Offer Price: ₱240 per share

This Offering Circular relates to the offer and sale of common shares (the "Offer Shares") of San Miguel Pure Foods Company, Inc. ("San Miguel Pure Foods" or the "Company"), with a par value of ₱10 per share (the "Common Shares"). The Offer Shares are being offered by San Miguel Corporation (the "Selling Shareholder" or "SMC"), a corporation organized under the laws of the Republic of the Philippines, at the offer price of ₱240 per share (the "Offer Price"). The offer of the Offer Shares is referred to as the "Offer." San Miguel Pure Foods will not receive any proceeds from the sale of the Offer Shares.

The Offer Shares are being offered and sold by Maybank ATR Kim Eng Capital Partners, Inc., Standard Chartered Securities (Singapore) Pte. Limited and UBS AG, Hong Kong Branch (the "Joint Bookrunners"), to persons outside the United States in reliance on Regulation S ("Regulation S") under the United States Securities Act of 1933, as amended (the "U.S. Securities Act").

The Common Shares (including the Offer Shares) are listed on the Philippine Stock Exchange, Inc. ("PSE") under the symbol "PF." The Offer Shares have been registered with the Philippine Securities and Exchange Commission ("Philippine SEC"). Prior to the Offer, there has been very limited trading of the Common Shares, and past trading is not indicative of either past or future valuation of San Miguel Pure Foods. The Offer Shares are expected to be ready for delivery in book-entry form through the Philippine Depository & Trust Corporation ("PDTC") against payment on or about November 23, 2012 (the "Closing Date").

See "Risk Factors" beginning on page 11 for factors that investors should consider before making an investment in the Offer Shares.

The Offer Shares are being offered only outside the United States in offshore transactions in compliance with Regulation S under the U.S. Securities Act. The Offer Shares have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any other jurisdiction. Unless they are so registered, the Offer Shares may be offered only in transactions that are exempt from or not subject to registration under the U.S. Securities Act or the securities laws of any other jurisdiction. For further details, see "Plan of Distribution."

In connection with the Offer, the Selling Shareholder has granted UBS AG, Hong Kong Branch, in its role as stabilizing agent on behalf of the Joint Bookrunners, an option, exercisable in whole or in part for 30 days from and including the Closing Date, to procure purchasers for or purchase up to 2,500,000 additional Common Shares (approximately 11% of the total number of Offer Shares), solely to cover over-allotments under the Offer (the "Over-allotment Option"), if any. The stabilization arrangements are subject to approval by the Philippine SEC. See "Plan of Distribution."

Joint Global Coordinators and Joint Bookrunners (in alphabetical order)

Maybank ATR Kim Eng | Standard Chartered | UBS

The date of this Offering Circular is November 19, 2012.

If investors are in any doubt about this Offering Circular, they should consult their stockbroker, bank manager, legal counsel, professional accountant or other professional advisor. This Offering Circular is confidential. Investors are authorized to use this Offering Circular solely for the purpose of considering the purchase of the Offer Shares pursuant to this Offering Circular. San Miguel Pure Foods has provided information contained in this Offering Circular that also includes information from other identified sources that are believed to be reliable. This Offering Circular does not purport to be all-inclusive or to necessarily contain all the information that an investor may desire in investigating the Company or necessary to make an informed investment decision regarding the Offer. None of the Joint Bookrunners, any of their respective affiliates, or the Selling Shareholder make any representation or warranty, express or implied, as to the accuracy or completeness of such information, and nothing contained in this Offering Circular is, or should be relied upon as, a promise or representation by the Joint Bookrunners, any of their respective affiliates, or the Selling Shareholder. Investors may not reproduce or distribute this Offering Circular, in whole or in part, and may not disclose any contents of this Offering Circular or use any information herein for any purpose other than considering an investment in the Offer Shares offered hereby. Investors hereby agree to the foregoing by accepting delivery of this Offering Circular.

No representation is made by San Miguel Pure Foods or the Selling Shareholder regarding the legality of an investment in the Offer Shares under any legal, investment or similar laws or regulations. The contents of this Offering Circular are not investment, legal or tax advice. Investors should consult their own counsel, accountants and other advisors as to legal, tax, business, financial and related aspects of a purchase of the Offer Shares. In making any investment decision regarding the Offer Shares, investors must rely on their own examination of San Miguel Pure Foods and the terms of the Offer, including the merits and risks involved.

The Offer Shares have not been and will not be registered under the U.S. Securities Act for offer or sale as part of their distribution and are not being offered or sold in the United States. The Offer Shares are not transferable except in accordance with the restrictions described herein. For a description of the restrictions on offers, sales and resales of the Offer Shares and distribution of this Offering Circular, see "Transfer Restrictions" and "Plan of Distribution."

No person has been authorized to give any information or to make any representations other than those contained in this Offering Circular and, if given or made, such information or representations must not be relied upon as having been authorized by San Miguel Pure Foods or the Selling Shareholder. This Offering Circular does not constitute an offer to sell or the solicitation of an offer to purchase any securities other than the Offer Shares or an offer to sell or the solicitation of an offer to purchase such securities by any person in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Offering Circular nor any sale of the Offer Shares offered hereby shall, under any circumstances, create any implication that there has been no change in the affairs of San Miguel Pure Foods since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof.

The distribution of this Offering Circular and the offer and sale of the Offer Shares in certain jurisdictions may be restricted by law. San Miguel Pure Foods, the Selling Shareholder and the Joint Bookrunners require persons into whose possession this Offering Circular comes to inform themselves about and to observe any such restrictions. This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the Offer Shares in any jurisdiction in which such offer or invitation would be unlawful. Each prospective purchaser of the Offer Shares must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers, sells or resells the Offer Shares or possesses and distributes this Offering Circular and must obtain any consents, approvals or permissions required for the purchase, offer, sale or resale by it of the Offer Shares under the laws, rules and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or resales, and none of San Miguel Pure Foods, the Selling Shareholder and the Joint Bookrunners shall have any responsibility therefor.

THE OFFER SHARES ARE BEING OFFERED ON THE BASIS OF THIS OFFERING CIRCULAR ONLY. ANY DECISION TO PURCHASE THE OFFER SHARES MUST BE BASED ONLY ON THE INFORMATION CONTAINED HEREIN.

IN CONNECTION WITH THE OFFER, UBS AG, HONG KONG BRANCH (AS STABILIZING AGENT ON BEHALF OF THE JOINT BOOKRUNNERS) OR ANY PERSON ACTING FOR UBS AG, HONG KONG BRANCH MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE OFFER SHARES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD OF TIME AFTER THE TIME OF DELIVERY. HOWEVER, THERE IS NO OBLIGATION FOR UBS AG, HONG KONG BRANCH OR ANY AGENT OF UBS AG, HONG KONG BRANCH TO DO THIS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. SEE "PLAN OF DISTRIBUTION."

The Selling Shareholder reserves the right to withdraw the offer and sale of Offer Shares at any time, and the Joint Bookrunners reserve the right to reject any commitment to subscribe for the Offer Shares in whole or in part and to allot to any prospective purchaser less than the full amount of the Offer Shares sought by such purchaser. The Joint Bookrunners and certain related entities may acquire for their own account a portion of the Offer Shares.

CONVENTIONS WHICH APPLY TO THIS OFFERING CIRCULAR

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the "Philippines" are references to the Republic of the Philippines. All references to the "Government" are to the national government of the Philippines. All references to the "BSP" are references to Bangko Sentral ng Pilipinas, the central bank of the Philippines. All references to "United States" or "U.S." are to the United States of America. All references to "Pesos" and "₱" are to the lawful currency of the Philippines, and all references to "U.S. dollars" and "US$" are to the lawful currency of the United States.

BASIS FOR CERTAIN MARKET DATA

Market data and certain industry forecasts and other data used throughout this Offering Circular were obtained or derived from internal surveys, market research, governmental data, publicly available information, industry publications and/or San Miguel Pure Foods' internal assumptions and calculations. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but the accuracy and completeness of such information are not guaranteed and have not been independently verified by San Miguel Pure Foods, the Selling Shareholder or the Joint Bookrunners. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of San Miguel Pure Foods, the Selling Shareholder and the Joint Bookrunners make any representation or warranty, express or implied, as to the accuracy or completeness of such information. In addition, such information may not be consistent with other information compiled within or outside the Philippines.

PRESENTATION

The financial information included in this Offering Circular has been derived from the consolidated financial statements of San Miguel Pure Foods and its subsidiaries. Unless otherwise indicated, the description of San Miguel Pure Foods' business activities in this Offering Circular is presented on a consolidated basis. Unless otherwise indicated, financial information in this Offering Circular has been prepared in accordance with Philippine Financial Reporting Standards ("PFRS").

Except as otherwise indicated, certain Peso amounts have been translated into U.S. dollar amounts, based on the prevailing exchange rate on September 30, 2012 of ₱41.880 = US$1.00, being the weighted average rate for that date for the purchase of U.S. dollars with Pesos under the Philippine Dealing System (the "PDS") and published in the Reference Exchange Rate Bulletin by the BSP (the "BSP Rate"). Such translations should not be construed as representations that the Peso or U.S. dollar amounts referred to could have been, or could be, converted into Pesos or U.S. dollars, as the case may be, at the rates indicated or any other rate, or at all. For further information regarding rates of exchange between the Peso and the U.S. dollar, see "Exchange Rates." Figures in this Offering Circular have been subjected to rounding adjustments. Accordingly, figures shown for the same item of information may vary, and figures which are totals may not be an arithmetic aggregate of their components.

ENFORCEABILITY OF CIVIL LIABILITIES

Each of San Miguel Pure Foods and the Selling Shareholder is organized under the laws of the Republic of the Philippines, and a substantial portion of the assets of each of San Miguel Pure Foods and the Selling Shareholder are located in the Philippines. It may be difficult for investors to effect service of process outside the Philippines upon San Miguel Pure Foods or the Selling Shareholder with respect to claims pertaining to the Offer or the Offer Shares. Moreover, it may be difficult for investors to enforce in the Philippines judgments against San Miguel Pure Foods or the Selling Shareholder obtained outside the Philippines, in any action pertaining to the Offer Shares, particularly with respect to actions for claims to which San Miguel Pure Foods or the Selling Shareholder has not consented to service of process outside the Philippines. In addition, most of the directors and officers of each of San Miguel Pure Foods and the Selling Shareholder are residents of the Philippines, and all or a substantial portion of the assets of such persons are or may be located in the Philippines. As a result, it may be difficult for investors to effect service of process upon such persons outside the Philippines or enforce against such persons judgments obtained in courts outside the Philippines.

The Philippines is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments. A judgment obtained against San Miguel Pure Foods or the Selling Shareholder in any foreign court may be recognized and enforced by the courts of the Philippines in an independent action brought in accordance with the relevant procedures set forth in the Rules of Court of the Philippines to enforce such judgment. However, such foreign judgment or final order may be rejected in the following instances: (i) such judgment was obtained by collusion or fraud, (ii) the foreign court rendering such judgment did not have jurisdiction, (iii) such order or judgment is contrary to Philippine prohibitive laws concerning persons, their acts or property and those that have as their object good customs, public order or public policy, (iv) the defendant did not have notice of the proceedings before the foreign court or (v) such judgment was based upon a clear mistake of law or fact. Furthermore, Philippine courts have held that a foreign judgment is presumed to be valid and binding in the country from which it issues, until the contrary is shown, and the party contesting the foreign judgment has the burden of overcoming the presumption of its validity.

FORWARD-LOOKING STATEMENTS

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

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

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

- San Miguel Pure Foods' ability to successfully implement its strategies;
- San Miguel Pure Foods' ability to anticipate and respond to consumer trends;
- changes in availability and prices of raw materials used in San Miguel Pure Foods' production processes;
- San Miguel Pure Foods' ability to successfully manage its growth;
- the condition of, and changes in, the Philippine, Asian or global economies;
- any future political instability in the Philippines;
- changes in interest rates, inflation rates and the value of the Peso against the U.S. dollar and other currencies;
- changes in laws, rules and regulations, including tax laws and licensing requirements, in the Philippines; and
- competition in the food industry in the Philippines and globally.

Additional factors that could cause San Miguel Pure Foods' actual results, performance or achievements to differ materially from forward-looking statements include, but are not limited to, those disclosed under "Risk Factors" and elsewhere in this Offering Circular. These forward-looking statements speak only as of the date of this Offering Circular. San Miguel Pure Foods, the Selling Shareholder and the Joint Bookrunners expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in San Miguel Pure Foods' expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any statement is based.

This Offering Circular includes statements regarding San Miguel Pure Foods' expectations and projections for future operating performance and business prospects. The words "believe," "expect," "anticipate," "estimate," "project," "intend" and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular are forward-looking statements. Statements in the Offering Circular as to the opinions, beliefs and intentions of San Miguel Pure Foods accurately reflect in all material respects the opinions, beliefs and intentions of its management as to such matters as of the date of this Offering Circular, although San Miguel Pure Foods gives no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Offering Circular discloses, under the section "Risk Factors" and elsewhere, important factors that could cause actual results to differ materially from San Miguel Pure Foods' expectations. All subsequent written and oral forward-looking statements attributable to San Miguel Pure Foods or persons acting on behalf of San Miguel Pure Foods are expressly qualified in their entirety by the above cautionary statements.

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GLOSSARY OF TERMS

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

BIR	Bureau of Internal Revenue of the Philippines
Board	Board of Directors of San Miguel Pure Foods
Breeder	A type of hog or chicken that is raised to produce marketable hogs or broilers, as applicable
Broiler	A type of chicken raised specifically for production of chicken meat for human consumption
BSP	Bangko Sentral ng Pilipinas, the Central Bank of the Philippines
BSP Rate	The weighted average rate for the purchase of U.S. dollars with Pesos, as published by the BSP
Corporation Code	Batas Pambansa Blg. 68, otherwise known as "The Corporation Code of the Philippines"
DA	Department of Agriculture of the Philippines
DENR	Department of Environment and Natural Resources of the Philippines
DOH	Department of Health of the Philippines, including the FDA
DTI	Philippine Department of Trade and Industry
ECC	Environmental Compliance Certificate
EIS	Environmental Impact Statement
EISS Law	Philippine Environmental Impact Statement System
FDA	Food and Drug Administration of the Philippines
FDDC Act	Food, Drugs and Devices, and Cosmetics Act, as amended by the FDA Act of 2009
Government	The national government of the Republic of the Philippines
Joint Bookrunners	Maybank ATR Kim Eng Capital Partners, Inc., Standard Chartered Securities (Singapore) Pte. Limited and UBS AG, Hong Kong Branch
Meralco	Manila Electric Company
Monetary Board	The Monetary Board of the BSP
Nielsen	AC Nielsen
NMIS	National Meat Inspection Service of the Philippines
PDS	Philippine Dealing System
PDTC	Philippine Depository & Trust Corporation
PFC	Pure Foods Corporation
Peso or ₱	Philippine Peso, the lawful currency of the Republic of the Philippines
PFC	Pure Foods Corporation
PFRS	Philippine Financial Reporting Standards
Philippine SEC	Philippine Securities and Exchange Commission
PSE	Philippine Stock Exchange, Inc.
San Miguel Hormel Vietnam	San Miguel Hormel (Vn) Co., Ltd.
San Miguel Pure Foods	San Miguel Pure Foods Company, Inc., including, as the context requires, its subsidiaries
SCCP	Securities Clearing Corporation of the Philippines

Selling Shareholder	San Miguel Corporation
SMC	San Miguel Corporation, including, as the context requires, its subsidiaries
U.S. dollar or US$	The lawful currency of the United States of America

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SUMMARY

The following summary is qualified in its entirety by, and is subject to, the more detailed information presented in this Offering Circular, including San Miguel Pure Foods' consolidated financial statements, and related notes included elsewhere in this Offering Circular. For a discussion of certain matters that should be considered in evaluating an investment in the Offer Shares, see "Risk Factors." Investors should read this Offering Circular carefully and in its entirety. Terms not defined in this summary are defined in the "Glossary of Terms" or elsewhere in this Offering Circular.

BUSINESS OVERVIEW

San Miguel Pure Foods is a leading Philippine food company with market-leading positions in many key products and offers a broad range of high-quality food products and services to household, institutional and food service customers. San Miguel Pure Foods has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream and milk products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Coffee* for coffee and *B-Meg* for animal feeds.

San Miguel Pure Foods organizes its operations into four business segments: agro-industrial, value-added meats, milling, and others. The agro-industrial business segment includes the feeds, poultry and fresh meats businesses; the value-added meats business segment includes the production of refrigerated processed meats and canned meats; the milling business segment includes the production of flour, premixes and other flour-based products; and others includes the dairy, spreads and oils, coffee, food service and franchising businesses and international operations.

In 2011 and the nine months ended September 30, 2012, the contribution of each business segment to San Miguel Pure Foods' revenues was as follows:

	Year Ended December 31, 2011		Nine Months Ended September 30, 2012	
	Revenues	% of Revenues	Revenues	% of Revenues
	(in millions, except %)			
Agro-industrial	₱56,982	63.6	₱45,687	65.9
Value-added Meats	12,103	13.5	8,980	13.0
Milling	8,354	9.3	6,337	9.1
Others	12,152	13.6	8,350	12.0
Total	₱89,591	100.0	₱69,354	100.0

In addition to the Philippines, San Miguel Pure Foods also operates in Vietnam and Indonesia. The contribution of San Miguel Pure Foods' international operations to its total revenues was approximately 4% in 2011 and 3% for the nine months ended September 30, 2012.

The following table sets forth San Miguel Pure Foods' operating results by business segment for the periods indicated:[1]

	Year Ended December 31, 2011		Nine Months Ended September 30, 2012	
	Operating Results	% of Total Operating Results	Operating Results	% of Total Operating Results
	(in millions, except %)			
Agro-industrial	₱2,370	38.0	₱ 993	29.5
Value-added Meats	1,031	16.5	585	17.4
Milling	1,867	30.0	1,453	43.1
Others	923	14.8	301	8.9
Eliminations[2]	40	0.6	36	1.1
Total	₱6,231	100.0	₱3,368	100.0

[1] Includes operating results from intersegment sales and realized mark-to-market gains (losses) from derivatives that are presented as part of "Other income (charges) — net" in the consolidated financial statements. For information concerning the amount of intersegment revenue for each segment, see Note 2 to the September 2012 consolidated interim financial statements and Note 6 to the 2011 audited consolidated financial statements. Intersegment revenues represent primarily (i) sales of pollard from the milling segment to the agro-industrial segment, (ii) sales of poultry and fresh meat from the agro-industrial segment to the value-added meats segment and (iii) sales of dairy products, specifically cheese, oil and margarine, from the others segment to the value-added meats segment.

[2] Represents mainly the unrealized profit component of inventories remaining at the end of each period transferred from one San Miguel Pure Foods subsidiary to another subsidiary.

San Miguel Pure Foods also owns a 5.2% equity interest in Manila Electric Company ("Meralco"), the biggest power distributor and private sector utility in the Philippines, which accounted for 55% of all Philippine electricity sales in 2011 according to the 2011 annual report of Meralco.

San Miguel Pure Foods was formed in 2001 through the operational integration of two leading Philippine food groups — the food businesses of SMC and Pure Foods Corporation ("PFC"). As of the date of this Offering Circular, SMC owns 99.92% of San Miguel Pure Foods' Common Shares. Its revenues, gross profit, Adjusted EBITDA and net income were ₱89,591 million, ₱16,174 million, ₱8,106 million and ₱4,214 million, respectively, for 2011, and ₱69,354 million, ₱12,054 million, ₱6,031 million and ₱2,956 million, respectively, for the nine months ended September 30, 2012.

San Miguel Pure Foods is listed on the PSE, with its Common Shares listed under the symbol "PF" and its preferred shares (the "Preferred Shares") listed under the symbol "PFP."

Competitive Strengths

San Miguel Pure Foods believes that it has the following competitive strengths:

- Portfolio of well-recognized brands known for quality;
- Broad and diverse product portfolio catering to different customer needs and preferences;
- Strong track record of innovation in products and selling formats;
- Extensive market penetration through multi-channel distribution network;
- "Farm to plate" and "asset light" vertical integration allowing for higher efficiency, profitability and operational synergies; and
- Experienced management team and strong benefits from the "San Miguel" brand, reputation and ownership.

Business Strategies

San Miguel Pure Foods plans to maintain its market-leading position and expand its business operations by implementing the following three-pronged business strategy:

- Enhance product offering and distribution:
  - Focus on increasing stable-priced and value-added product offerings; and
  - Continuous investment in brand equity;
- Improve profitability through cost leadership:
  - Continue sourcing alternative raw materials;
  - Focus on efficiency improvements; and
  - Continue harvesting synergies through further integration of the businesses; and
- Explore growth opportunities.

SUMMARY OF THE OFFERING

The following is a general summary of the Offer. This summary is derived from and should be read in conjunction with the rest of the information in this Offering Circular.

Company	San Miguel Pure Foods Company, Inc., a corporation organized under Philippine law (the "Company" or "San Miguel Pure Foods").
Selling Shareholder	San Miguel Corporation, a corporation organized under the laws of the Republic of the Philippines (the "Selling Shareholder" or "SMC").
Joint Bookrunners	Maybank ATR Kim Eng Capital Partners, Inc., Standard Chartered Securities (Singapore) Pte. Limited and UBS AG, Hong Kong Branch.
The Offer	An offering by the Selling Shareholder of an aggregate of Common Shares (the "Offer Shares") of the Company at the Offer Price. The Offer Shares are being offered and sold outside the United States in reliance on Regulation S. See "Transfer Restrictions."
Offer Price	₱240 per Offer Share.
Over-allotment Option	In connection with the Offer, the Selling Shareholder has granted UBS AG, Hong Kong Branch, in its role as stabilizing agent on behalf of the Joint Bookrunners (the "Stabilizing Agent"), an Over-allotment Option, which is exercisable in whole or in part for 30 days from and including the Closing Date, to purchase up to 2,500,000 additional Common Shares (approximately 11% of the total number of Offer Shares), on the same terms and conditions as the Offer Shares as set forth in this Offering Circular, solely to cover over-allotments, if any, under the Offer. Such over-allotments are subject to approval by the Philippine SEC. See "Plan of Distribution—The Over-allotment Option."
Transfer Restrictions	The Offer Shares are initially being offered and sold outside the United States in offshore transactions in reliance on Regulation S. The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States. See "Plan of Distribution" and "Transfer Restrictions."
Use of Proceeds	Proceeds from the Offer will be for the account of the Selling Shareholder. The Company will not receive any of the proceeds from the Offer or the exercise of the Over-allotment Option. The Selling Shareholder will use the proceeds from the Offer for general corporate purposes. The Selling Shareholder will pay for all expenses relating to the Offer.
Lock-up	Each of the Company and the Selling Shareholder has agreed with the Joint Bookrunners that neither the Company, the Selling Shareholder nor any of their affiliates over which they exercise management or voting control will, for a period of 180 days from the Closing Date, without the prior written consent of the Joint Bookrunners, issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal of) any Common Shares or any shares of the Company or securities convertible or exchangeable into or exercisable for shares of the Company or warrants or other rights to purchase shares of the Company or any security or financial product whose value is determined directly or indirectly by reference to the price of the Common Shares, including equity swaps, forward sales and options, except for (i) the sale of the Offer Shares as contemplated by this Offering Circular; or (ii) the sale of Common Shares pursuant to any exercise of the Over-allotment

	Option. Neither the Company nor the Selling Shareholder will at any time offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any securities under circumstances where such offer, sale, pledge, contract or disposition would cause the safe harbor of Regulation S thereunder to cease to be applicable to the offer and sale of the Offer Shares. See "Plan of Distribution."
Voting Rights	The Offer Shares will have full voting rights as Common Shares of the Company. Each holder of an Offer Share will be entitled to one vote for each share held. See "Description of the Shares."
Dividends	The Board is authorized to declare dividends. A cash dividend declaration does not require any further approval from the Company's shareholders. Under Philippine laws, a corporation is permitted to declare dividends only to the extent that it has unrestricted retained earnings that represent the undistributed earnings of the corporation that have not been allocated for any managerial, contractual or legal purposes and that are free for distribution to the shareholders as dividends. A corporation may pay dividends in cash, by the distribution of property or by the issuance of shares. Stock dividends may only be declared and paid with the approval of shareholders representing at least two-thirds of the outstanding capital stock of the corporation voting at a shareholders' meeting duly called for such purpose. San Miguel Pure Foods has adopted a policy to distribute cash dividends to holders of the Common Shares in an amount up to approximately 70% of the prior year's recurring net income. San Miguel Pure Foods expects that the dividend distributions shall be made over the four quarters of the following year, subject to the discretion of the Board. Recurring net income is net income calculated without respect to extraordinary events that are not expected to recur. In considering dividend declarations each quarter, the Board has in the past and will in the future, take into consideration dividend payments on the Preferred Shares, and other factors such as, among others, the implementation of business plans, debt service requirements, debt covenant restrictions, funding for new investments, major capital expenditure requirements, appropriate reserves and working capital. See "Dividends and Dividend Policy" and "Description of the Shares."
Listing and Trading	The Common Shares (including the Offer Shares) are listed on the PSE under the symbol "PF."
Restrictions on Foreign Ownership . . .	San Miguel Pure Foods and certain of its subsidiaries own land or are engaged in activities reserved to Philippine nationals. "Philippine national" is defined under Republic Act No. 7042, as amended. Accordingly, non-Philippine nationals cannot own more than 40% of the outstanding shares of San Miguel Pure Foods entitled to vote and any sale or transfer of the Common Shares in excess of this threshold will not be recorded in its stock and transfer book. For more information relating to restrictions on the ownership of the Common Shares, including the Offer Shares, see "Description of the Shares—Restrictions on Foreign Ownership."

Registration of Foreign Investments	Foreign investments need not be registered with the BSP. The registration of foreign investment is only necessary if the foreign exchange needed to service capital repatriation and dividend remittance will be purchased from the Philippine banking system. The registration with the BSP of all foreign investments in the Offer Shares shall be the responsibility of the foreign investor. See "Philippine Foreign Exchange Regulations."
Tax Considerations	See "Philippine Taxation" for further information on the tax consequences of the purchase, ownership and disposal of the Offer Shares.
Risks of Investing	Prospective investors in the Offer Shares should carefully consider the risks connected with an investment in the Offer Shares, including, but not limited to, those discussed under "Risk Factors" beginning on page 11.
Closing Date	The Offer Shares are expected to be ready for delivery in book entry form through the PDTC against payment, on or about November 23, 2012.

SUMMARY FINANCIAL INFORMATION

San Miguel Pure Foods' summary financial information presented below as of and for the years ended December 31, 2009, 2010 and 2011 are derived from San Miguel Pure Foods' consolidated financial statements, audited by Manabat Sanagustin & Co., a member firm of KPMG, and prepared in compliance with PFRS. The summary financial information presented below as of and for the nine months ended September 30, 2011 and 2012 were derived from the consolidated interim financial statements of San Miguel Pure Foods, reviewed by Manabat Sanagustin & Co. The information below should be read in conjunction with San Miguel Pure Foods' consolidated financial statements and related notes included elsewhere in this Offering Circular and also the section "Management's Discussion and Analysis of Financial Condition and Results of Operations." San Miguel Pure Foods' historical financial condition, results of operations and cash flows are no guarantee of its future operating and financial performance.

San Miguel Pure Foods' consolidated financial statements are reported in Pesos and are presented in accordance with PFRS. All translations of amounts in Pesos into U.S. dollars are provided for convenience only.

CONSOLIDATED STATEMENTS OF INCOME DATA

	Audited				Unaudited		
	Years Ended December 31,				Nine Months Ended September 30,		
	2009	2010	2011	2011[1]	2011	2012	2012[1]
	(in millions)				(in millions)		
Revenues	₱75,043	₱ 79,270	₱ 89,591	US$2,139	₱64,286	₱69,354	US$1,656
Cost of sales	61,448	63,291	73,417	1,753	52,539	57,300	1,368
Gross profit	13,595	15,979	16,174	386	11,747	12,054	288
Selling and administrative expenses	(8,957)	(10,077)	(10,032)	(240)	(7,493)	(8,780)	(210)
Interest expense and other financing charges	(751)	(359)	(531)	(13)	(385)	(426)	(10)
Interest income	69	105	394	9	361	122	3
Equity in net earnings of an associate	—	—	270	6	100	710	17
Gain (loss) on sale of property and equipment	(25)	(33)	7	0	(0)	28	1
Other income (charges) — net	(89)	98	(324)	(8)	(110)	253	6
Income before income tax	3,842	5,713	5,958	142	4,220	3,961	95
Income tax expense	1,184	1,654	1,744	42	1,165	1,005	24
Net income	₱ 2,658	₱ 4,059	₱ 4,214	US$ 101	₱ 3,055	₱ 2,956	US$ 71
Attributable to:							
Equity holders of San Miguel Pure Foods	₱ 2,597	₱ 3,846	₱ 4,103	US$ 98	₱ 2,945	₱ 2,957	US$ 71
Non-controlling interests	62	213	111	3	110	(0)	(0)
	₱ 2,658	₱ 4,059	₱ 4,214	US$ 101	₱ 3,055	₱ 2,956	US$ 71

[1] For the reader's convenience, certain amounts in Pesos have been translated to U.S. dollars at the September 30, 2012 exchange rate of ₱41.880 = US$1.00.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DATA

	Audited				Unaudited	
	As of December 31,				As of September 30,	
	2009	2010	2011	2011[1]	2012	2012[1]
	(in millions)				(in millions)	
ASSETS						
Current Assets						
Cash and cash equivalents	₱ 3,950	₱ 7,041	₱ 4,933	US$ 118	₱ 4,025	US$ 96
Trade and other receivables — net	9,024	7,760	8,700	208	7,862	188
Inventories	11,804	12,123	12,068	288	15,555	371
Biological assets	2,525	3,267	4,124	98	4,406	105
Derivative assets	47	108	32	1	101	2
Prepaid expenses and other current assets	1,246	1,766	1,969	47	2,186	52
Total Current Assets	28,596	32,065	31,826	760	34,135	815
Noncurrent Assets						
Investments	₱ —	₱ —	₱13,178	US$ 315	₱13,166	US$ 314
Investment properties — net	108	113	135	3	192	5
Property, plant and equipment — net	8,295	9,106	8,744	209	9,849	235
Biological assets — net of current portion	1,285	1,479	1,812	43	1,813	43
Other intangible assets — net	168	3,426	3,657	87	3,817	91
Goodwill — net	171	416	423	10	411	10
Deferred tax assets	1,220	600	503	12	484	12
Other noncurrent assets	334	313	676	16	700	17
Total Noncurrent Assets	11,580	15,453	29,127	695	30,430	727
	₱40,176	₱47,518	₱60,953	US$1,455	₱64,565	US$1,542
LIABILITIES AND EQUITY						
Current Liabilities						
Notes payable	₱ 8,816	₱ 5,173	₱ 4,988	US$ 119	₱ 5,929	US$ 142
Trade payables and other current liabilities	12,667	15,146	11,019	263	12,684	303
Current maturities of long-term debt	—	—	25	1	25	1
Income tax payable	467	162	305	7	302	7
Total Current Liabilities	21,950	20,481	16,337	390	18,940	452
Noncurrent Liabilities						
Long-term debt — net of current maturities and debt issue costs	₱ —	₱ 4,461	₱ 4,646	US$ 111	₱ 4,633	US$ 111
Deferred tax liabilities	399	271	167	4	193	5
Other noncurrent liabilities	181	88	116	3	204	5
Total Noncurrent Liabilities	581	4,819	4,929	118	5,031	120

[1] For the reader's convenience, certain amounts in Pesos have been translated to U.S. dollars at the September 30, 2012 exchange rate of ₱41.880 = US$1.00.

	Audited				Unaudited	
	As of December 31,				As of September 30,	
	2009	2010	2011	2011[1]	2012	2012[1]
	(in millions)				(in millions)	
Equity						
Equity Attributable to Equity Holders of San Miguel Pure Foods						
Capital stock	₱ 1,455	₱ 1,709	₱ 1,859	US$ 44	₱ 1,859	US$ 44
Additional paid-in-capital	5,821	5,821	20,500	489	20,500	489
Revaluation surplus	18	18	18	0	18	0
Cumulative translation adjustments	(48)	(92)	(85)	(2)	(231)	(6)
Retained earnings	8,181	11,773	14,476	346	15,933	380
Treasury stock	(182)	(182)	(182)	(4)	(182)	(4)
Total Equity Attributable to Equity Holders of San Miguel Pure Foods	15,245	19,047	36,586	874	37,897	905
Non-controlling Interests	2,400	3,171	3,101	74	2,697	64
Total Equity	17,645	22,218	39,687	948	40,594	969
	₱40,176	₱47,518	₱60,953	US$1,455	₱64,565	US$1,542

SUMMARY CONSOLIDATED STATEMENTS OF CASH FLOWS

	Audited				Unaudited		
	Years Ended December 31,				Nine Months Ended September 30,		
	2009	2010	2011	2011[1]	2011	2012	2012[1]
	(in millions)				(in millions)		
Net cash flows provided by operating activities	₱ 5,536	₱ 4,816	₱ 3,756	US$ 90	₱ 2,396	₱ 2,436	US$ 58
Net cash flows used in investing activities	(1,518)	(2,038)	(18,935)	(452)	(18,332)	(2,413)	(58)
Net cash flows provided by (used in) financing activities	(2,850)	316	13,072	312	12,849	(939)	(22)
Effect of exchange rate changes on cash and cash equivalents	—	(3)	(1)	(0)	(0)	8	0
Net increase (decrease) in cash and cash equivalents	1,168	3,091	(2,109)	(50)	(3,088)	(908)	(22)
Cash and cash equivalents at beginning of year	2,782	3,950	7,041	168	7,041	4,933	118
Cash and cash equivalents at end of period	₱ 3,950	₱ 7,041	₱ 4,933	US$ 118	₱ 3,953	₱ 4,025	US$ 96

[1] For the reader's convenience, certain amounts in Pesos have been translated to U.S. dollars at the September 30, 2012 exchange rate of ₱41.880 = US$1.00.

OTHER FINANCIAL DATA

Calculation of Adjusted EBIT and Adjusted EBITDA[2]

	Years Ended December 31,				Nine Months Ended September 30,		
	2009	2010	2011	2011[1]	2011	2012	2012[1]
	(in millions)				(in millions)		
Net income	₱2,658	₱4,059	₱4,214	US$101	₱3,055	₱2,956	US$ 71
Add (deduct)							
Income tax expense	1,184	1,654	1,744	42	1,165	1,005	24
Net financing charges							
Interest expense and other financing charges	751	359	531	13	385	426	10
Interest income	(69)	(105)	(394)	(9)	(361)	(122)	(3)
Foreign exchange losses	1	25	60	1	20	35	1
Equity in net earnings of an associate	—	—	(270)	(6)	(100)	(710)	(17)
Cash dividend from an associate	—	—	100	2	—	722	17
Adjusted EBIT	₱4,525	₱5,992	₱5,985	US$143	₱4,164	₱4,312	US$ 103
Depreciation and amortization	1,705	1,926	2,120	51	1,531	1,718	41
Adjusted EBITDA	₱6,229	₱7,918	₱8,106	US$194	₱5,694	₱6,031	US$ 144

Calculation of Net Income Attributable to Common Shareholders

	Years Ended December 31,				Nine Months Ended September 30,		
	2009	2010	2011	2011[1]	2011	2012	2012[1]
	(in millions)				(in millions)		
Net income attributable to equity holders of San Miguel Pure Foods	₱2,597	₱3,846	₱4,103	US$ 98	₱2,945	₱2,957	US$ 71
Dividend on preferred shares for the period	—	—	(993)	(24)	(690)	(900)	(21)
Net income attributable to common shareholders	₱2,597	₱3,846	₱3,110	US$ 74	₱2,255	₱2,057	US$ 49

(1) For the reader's convenience, certain amounts in Pesos have been translated to U.S. dollars at the September 30, 2012 exchange rate of ₱41.880 = US$1.00.

(2) Adjusted EBIT and Adjusted EBITDA are measures used by San Miguel Pure Foods' management to internally evaluate the performance of its businesses. Adjusted EBIT is calculated as net income plus the following: income tax expense, net financing charges (interest expense and other financing charges net of interest income), foreign exchange losses (gains), equity in net losses (earnings) of an associate and cash dividends (including property dividends already sold and converted to cash) from an associate. Adjusted EBITDA is calculated as Adjusted EBIT plus depreciation and amortization. Adjusted EBIT and Adjusted EBITDA are not measures determined in accordance with PFRS, and prospective investors should not consider Adjusted EBIT or Adjusted EBITDA as an alternative to net income as a measure of operating performance or to cash flow as a measure of free cash flow for management's discretionary use, as they do not reflect certain cash requirements such as interest payments, tax payments and capital expenditures. San Miguel Pure Foods' calculation of Adjusted EBIT and Adjusted EBITDA may be different from the calculations used by other companies, and, as a result, San Miguel Pure Foods' Adjusted EBIT and Adjusted EBITDA may not be comparable to other similarly titled measures of other companies.

RISK FACTORS

An investment in the Offer Shares involves a number of risks. The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. Past performance is not a guide to future performance and there may be a large difference between the buying price and the selling price of the Offer Shares. The occurrence of any of the following events, or other events not currently anticipated, could have a material adverse effect on the business, financial condition and results of operations of San Miguel Pure Foods and cause the market price of the Offer Shares to decline. Prospective investors should carefully consider the risks described below, in addition to the other information contained in this Offering Circular before making any investment in the Offer Shares. The business, financial condition and results of operations of San Miguel Pure Foods could be materially and adversely affected by any of these risk factors.

RISKS RELATING TO SAN MIGUEL PURE FOODS

San Miguel Pure Foods' financial performance may be materially and adversely affected by price fluctuations in, or disruptions in the supply of, major raw materials.

Many of San Miguel Pure Foods' products and businesses depend on raw materials, most of which are procured from third parties, including purchases of some critical raw materials from both within and outside of the Philippines. These raw materials are subject to price volatility caused by a number of factors, including changes in global supply and demand, foreign exchange rate fluctuations, weather conditions and governmental controls. For example, the prices of corn and soybean meal increased by an average of 7%, based on domestic prices, and 18%, based on Chicago Board of Trade prices, respectively, over the first three quarters of 2012 as compared to prices for the same period in 2011 due to the severe drought experienced in the United States in 2012.

San Miguel Pure Foods also may face disruptions in the supply of major raw materials. For example, there was insufficient local supply of cassava in 2012 due to adverse weather conditions in the Philippines in the latter part of 2011, which prompted some farmers to switch to planting corn rather than cassava for the next cycle. As a result, San Miguel Pure Foods had to purchase and use a greater quantity of higher cost raw materials such as corn, which adversely affected profit margins in the first half of 2012.

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

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

Outbreaks of disease at any of San Miguel Pure Foods' owned or contracted hog, cattle or poultry farms could adversely affect San Miguel Pure Foods' financial condition and results of operations.

San Miguel Pure Foods' fresh meats and poultry businesses are subject to risk of losses caused by outbreaks of disease at any of the hog, cattle or poultry farms owned or contracted by San Miguel Pure Foods. The

livestock industry in the Philippines has experienced outbreaks of disease in the past. In particular, an industry-wide porcine diarrhea epidemic that affected several of San Miguel Pure Foods' facilities in the second quarter of 2008 and the third quarter of 2010, and a porcine reproductive and respiratory syndrome outbreak at contract growing facilities in the second and third quarters of 2008 negatively affected revenue growth in San Miguel Pure Foods' fresh meats business during those periods.

In addition, several countries around the world have in recent years reported cases of avian influenza, or bird flu. A false positive case of avian flu in 2005 contributed to decreased growth in the Philippine poultry industry in that year. Furthermore, bird flu cases elsewhere in Asia have required producers to destroy their flocks and have restricted producers from transporting or selling their poultry. Any outbreaks could significantly decrease consumer demand for San Miguel Pure Foods' products and severely disrupt the supply and distribution networks for its products.

There is no assurance that San Miguel Pure Foods' policies and controls will be successful in preventing disease outbreaks or recurrences or that any actual or suspected outbreak of bird flu or any other contagious disease affecting San Miguel Pure Foods' livestock production in the Philippines or elsewhere will not occur. Any occurrence of such events could have a material adverse effect on San Miguel Pure Foods' business, financial condition and results of operations.

Product liability claims or other circumstances could harm the reputation of, and customer support for, San Miguel Pure Foods' products and materially reduce San Miguel Pure Foods' sales and profitability.

San Miguel Pure Foods' success depends largely upon consumers' perception of the reliability and quality of its products. Any event or development that detracts from the perceived reliability or quality of San Miguel Pure Foods' products could materially reduce demand for its products. For example, a contamination of products by bacteria or other external agents, such as Listeria monocytogenes, Salmonella or E. coli, whether arising accidentally or through deliberate third-party action, could potentially result in product liability claims. In particular, San Miguel Pure Foods has little, if any, control over handling procedures once its products have been dispatched for distribution and is, therefore, particularly vulnerable to problems in this phase. Even an inadvertent distribution of contaminated products may constitute a violation of law and may lead to increased risk of exposure to product liability claims, product recalls, increased scrutiny and penalties, including injunctive relief and plant closings by regulatory authorities, and adverse publicity, which could exacerbate the associated negative consumer reaction. While no material product liability claim has been filed against San Miguel Pure Foods, any such product liability claim, whether or not successful, could damage the reputation of San Miguel Pure Foods and its products. These problems could harm the reputation of, and customer support for, San Miguel Pure Foods' products and materially reduce San Miguel Pure Foods' sales and profitability.

San Miguel Pure Foods' businesses and prospects may be adversely affected by changes in consumers' preferences or purchasing power.

San Miguel Pure Foods' ability to successfully develop and launch new products, which is a key part of its strategy, as well as its ability to maintain or increase demand for existing products, depends on the acceptance of these products by consumers, as well as consumer purchasing power. Consumer preferences may shift for a variety of reasons, including changes in culinary, demographic and social trends, leisure activity patterns or consumer lifestyle choices.

Concerns about health effects due to negative publicity regarding negative dietary effects or other factors may also affect consumer purchasing patterns of food products. If San Miguel Pure Foods' marketing strategies are not successful or do not respond timely or effectively to changes in consumer preferences, San Miguel Pure Foods' businesses and prospects could be materially and adversely affected.

In addition, demand for many of San Miguel Pure Foods' food products is closely linked to consumers' purchasing power and disposable income levels, which may be adversely affected by unfavorable economic developments in the Philippines. Any decrease in consumers' purchasing power and disposable income levels could have a material adverse effect on San Miguel Pure Foods' financial condition and results of operations. For example, in 2008, the macroeconomic slowdown in the Philippines negatively affected sales volumes in San Miguel Pure Foods' flour, dairy, spreads and oils businesses, as consumers prioritized staple commodities such as rice over bread and bread spreads. A significant decrease in disposable income levels or consumers' purchasing power in the Philippines could materially decrease San Miguel Pure Foods' sales and profitability.

San Miguel Pure Foods operates in a competitive environment, and if it is unable to maintain its competitive position, its market share and operating margins may be reduced, and its business, financial condition, results of operations and prospects may be materially and adversely affected.

The Philippine food industry is, in general, highly competitive. While San Miguel Pure Foods believes that it has the highest market share across several of its product categories, there is no assurance that it will be able to maintain or grow its current market share. In the food industry, competitive factors generally include price, product quality, brand awareness, distribution coverage, customer service and the ability to respond effectively to shifts in consumer tastes and preferences. Consolidation of San Miguel Pure Foods' competitors, the entry of new, larger competitors into the Philippine food market or irrational actions by San Miguel Pure Foods' competitors, such as irrational pricing of products at below-market prices or unconventional promotional activities, could exert downward pressure on prices or cause San Miguel Pure Foods' market share to decline. Any failure by San Miguel Pure Foods to successfully compete with its competitors or maintain market share could have a material adverse effect on its business, financial condition, results of operations and prospects.

San Miguel Pure Foods outsources most of its manufacturing, production and distribution operations to third parties. If any of these third party contractors fails to perform its contractual obligations to San Miguel Pure Foods, or if San Miguel Pure Foods is unable to find new contractors to meet increased demand, its businesses and results of operations could be materially and adversely affected.

San Miguel Pure Foods outsources a substantial majority of its manufacturing, production and distribution operations to third party contractors. If one or more of San Miguel Pure Foods' contract manufacturers, facility operators or distributors fail to or are unable to manufacture, produce or distribute products in a timely manner, including as a result of labor disruptions or otherwise, in sufficient quantities or at satisfactory quality levels, or if San Miguel Pure Foods cannot successfully renew existing agreements with its contract manufacturers, its ability to bring products to the market and its reputation could suffer, which could have a material adverse effect on its businesses and financial performance, as well as its prospects. In addition, there is no assurance that San Miguel Pure Foods will continue to find sufficient new contract manufacturers, operators or distributors to meet increased customer demand in the future, which could materially and adversely affect San Miguel Pure Foods' businesses and prospects. Furthermore, San Miguel Pure Foods operates in an industry that is subject to many regulatory regimes, including but not limited to safety, health, environmental and insolvency. Failure on the part of any significant third party contractor to comply with any of these regulatory regimes could materially and adversely affect San Miguel Pure Foods' business and prospects.

San Miguel Pure Foods' business and prospects may be materially and adversely affected by increased imports of lower-priced products as import duties are decreased or eliminated, or as a result of misdeclaration of imports to avoid tariffs, or as import bans on certain food products are lifted.

San Miguel Pure Foods may face increased competition from less expensive product imports to the Philippines as import duties on those products are decreased or eliminated. In particular, the Philippines is a signatory to several free trade agreements, including the ASEAN Free Trade Agreement, the ASEAN-China Free Trade Agreement, the ASEAN-Korea Free Trade Area Agreement, the Japan-Philippines Economic Partnership Agreement, the ASEAN-Japan Comprehensive Economic Partnership, the ASEAN-Australia-New Zealand Free Trade Area Agreement and the ASEAN-India Free Trade Area Agreement, each of which may lead to increasingly lower-priced imported products entering the Philippine market. For example, as of January 1, 2010, import duties on certain value-added products, such as instant coffee, were reduced from 5% to zero for imports from other ASEAN countries. San Miguel Pure Foods has already experienced the effects of increased competition as a result of the elimination of these import duties, and expects that competition from imported products will continue to increase. In addition, any reduction in tariffs on imports from other ASEAN countries, such as Thailand and Vietnam, could give rise to increased competition for San Miguel Pure Foods' products. Furthermore, there were news reports and statements by Philippine livestock industry trade associations stating that some pork imports have been incorrectly declared for customs purposes, a practice that San Miguel Pure Foods believes escalated in the first half of 2012, with imported pork cuts such as shoulder and bellies misrepresented as offals, resulting in a tariff rate of 5% instead of either 30% or 40%. San Miguel Pure Foods believes these tariff avoidances led to substantially higher imports of frozen pork, contributing to an oversupply in the market, which resulted in lower average selling prices. Moreover, imports of pork products from China into the Philippines are currently banned under phytosanitary restrictions. If this ban were to be lifted in the future, San Miguel Pure Foods would face competition from lower-priced Chinese imports.

If San Miguel Pure Foods is unable to compete effectively with lower-priced imports, its market share and sales may decrease, and its business, financial condition, results of operations and prospects could be materially and adversely affected.

San Miguel Pure Foods depends on its trademarks and proprietary rights to enhance its reputation, and any infringement of or failure to protect such rights could materially and adversely affect its business.

San Miguel Pure Foods owns and/or otherwise uses various brand names, related trademarks and other intellectual property rights to prepare, package, advertise, distribute and sell its products in the Philippines, including *Purefoods, Magnolia, B-Meg, Monterey, Star, Dari Crème, Buttercup, Baker's Best, Choco Magic* and *JellyAce*. Protection of these brands and intellectual property rights is important to maintaining San Miguel Pure Foods' distinctive corporate and market identities. If third parties sell products that use counterfeit versions of San Miguel Pure Foods brands or otherwise look like San Miguel Pure Foods brands, consumers may confuse San Miguel Pure Foods products with products that are inferior. This could negatively impact San Miguel Pure Foods' brand image and sales, particularly for its retail food products.

While San Miguel Pure Foods has been granted numerous trademark registrations covering its brands and products, and has filed, and expects to continue to file, trademark applications seeking to protect newly developed brands and products, there can be no assurance that third parties will not challenge or infringe any existing or future trademarks issued to, or licensed by, San Miguel Pure Foods. Any failure to protect San Miguel Pure Foods' proprietary rights may significantly harm San Miguel Pure Foods' competitive position, which, in turn, could materially and adversely affect San Miguel Pure Foods' business, financial condition, results of operations and prospects, as well as San Miguel Pure Foods' reputation.

San Miguel Pure Foods relies significantly on the "San Miguel" brand name, and any dilution of this brand equity could materially and adversely affect San Miguel Pure Foods' reputation and business.

San Miguel Pure Foods believes the San Miguel brand is positively perceived by consumers in the Philippines as a result of its long presence in the Philippine market. San Miguel Pure Foods also believes the San Miguel brand name lends its own products an image of trust and quality. Although San Miguel Pure Foods relies significantly on the San Miguel brand name, it has little or no control over its use by other SMC group companies or any other third parties. Any decrease in the brand equity of the San Miguel brand name could materially and adversely affect San Miguel Pure Foods' reputation, business, financial condition, results of operations and prospects.

San Miguel Pure Foods' largest shareholder has significant ability to influence San Miguel Pure Foods' corporate actions.

SMC is San Miguel Pure Foods' single largest shareholder and is expected to hold and control approximately 86% of San Miguel Pure Foods' Common Shares and the corresponding voting rights immediately after the closing of the Offer, assuming no exercise of the Over-allotment Option.

As a result of this shareholding, SMC has effective control over San Miguel Pure Foods, including San Miguel Pure Foods' management, policies and business, through its ability to control actions that require majority shareholder approval and through its representatives on San Miguel Pure Foods' Board. Furthermore, this concentration of voting power may discourage or prevent a change in control or other business combination, which could deprive investors of an opportunity to receive a premium for the Common Shares as part of a sale of San Miguel Pure Foods. The interests of SMC may differ from the interests of San Miguel Pure Foods' other shareholders. To the extent that there are conflicts of interest between SMC and San Miguel Pure Foods or its other shareholders, there can be no assurance that SMC will not choose to pursue strategic objectives that conflict with the interests of San Miguel Pure Foods or its other shareholders.

In addition, SMC has ownership interests in a number of companies in the Philippines, including companies that are involved in businesses related to San Miguel Pure Foods' businesses, or which have entered into, or may enter into, business transactions with San Miguel Pure Foods, such as, for example, transactions with San Miguel Yamamura Packaging Corporation for packing materials. There can be no assurance that SMC or its officers or directors will make corporate opportunities available to San Miguel Pure Foods. For further information, see "Related Party Transactions."

The growth in the number and scale of supermarkets as well as a general consolidation of wholesale buyers in the Philippine market could have a material adverse effect on San Miguel Pure Foods' financial condition and results of operations.

The Philippine retail market has historically been highly fragmented among numerous small neighborhood stores, groceries and traditional wet markets. Small neighborhood stores service limited geographical areas and purchase relatively small quantities of San Miguel Pure Foods' products from distributors and larger supermarkets. In recent years, larger supermarkets have begun to gain market share in the Philippines. There is a risk that San Miguel Pure Foods' business may become concentrated in fewer, larger customers, which could increase the relative bargaining power of these customers. There is no assurance that supermarkets or one of these larger customers will not exert downward pressure on wholesale prices of San Miguel Pure Foods' products, which could have a material adverse effect on San Miguel Pure Foods' financial condition and results of operations.

San Miguel Pure Foods is exposed to the credit risks of its customers, and defaults in payment by its customers could have a material adverse effect on San Miguel Pure Foods' financial condition, results of operations and liquidity.

San Miguel Pure Foods is exposed to the credit risk of its customers, and defaults on material payments owed to San Miguel Pure Foods by customers could significantly reduce San Miguel Pure Foods' operating cash flows and liquidity, as well as have a material adverse effect on its financial condition and results of operations. Some of San Miguel Pure Foods' customers could also experience cash flow difficulties or become subject to liquidation, which could in turn lead to San Miguel Pure Foods being unable to collect payments or experiencing long delays in collection. Trade receivables are non-interest bearing and are generally on 30-day terms. As of September 30, 2012, over 60% of the trade receivables of San Miguel Pure Foods were due within 30 days. There is no assurance that San Miguel Pure Foods' exposure to the risk of delayed payments from its customers or defaults in payment by its customers will not increase, or that it will not experience losses or cash flow constraints as a result. If any of these events were to occur, San Miguel Pure Foods' net income and cash flows could be materially reduced.

San Miguel Pure Foods generally does not have long-term contracts with its customers, and it is subject to uncertainties and variability in demand and product mix, which could materially decrease net sales and materially and adversely affect its business, financial condition and results of operations.

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

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

San Miguel Pure Foods has experienced terminations of, and reductions and delays in, its customers' orders in the past. If San Miguel Pure Foods does not receive substitute orders, such events could lower its facility utilization rates, which could materially decrease San Miguel Pure Foods' revenues and profitability.

San Miguel Pure Foods may be subject to labor unrest, slowdowns and increased wage costs.

San Miguel Pure Foods is subject to a variety of national and local laws and regulations, including those relating to labor. As of September 30, 2012, San Miguel Pure Foods had approximately 3,600 full-time employees, including approximately 1,000 employees who are members of labor unions from the Philippine, Vietnam and Indonesia businesses. San Miguel Pure Foods has in the past, and may in the future, be required to defend against labor claims. For example, in 2010, San Miguel Pure Foods' decision to convert one of its poultry

plants located in San Fernando, Pampanga into a toller-operated plant was resisted by many of that plant's employees. The affected employees instituted legal proceedings by filing labor cases against San Miguel Foods, Inc., a subsidiary of San Miguel Pure Foods. There can be no assurance that similar labor disputes will not occur in the future.

San Miguel Pure Foods generally considers its labor relations to be good. However, there can be no assurance that it will not experience future disruptions to its operations due to disputes or other issues with its employees, or any disruptions at any of its toller-operated plants. In addition, any changes in labor laws and regulations could result in San Miguel Pure Foods having to incur substantial additional costs to comply with increased minimum wage and other labor laws. Any of these events may materially and adversely affect San Miguel Pure Foods' business, financial condition and results of operations.

San Miguel Pure Foods' businesses are exposed to substantial safety, health and environmental costs and liabilities.

San Miguel Pure Foods' businesses are subject to a variety of national and local laws, rules and regulations that impose limitations, prohibitions and standards with respect to health and safety, management of solid waste, water and air quality, as well as the use, discharge, emission, treatment, release, disposal and management of, regulated materials and hazardous substances. Safety, health and environmental laws and regulations in the Philippines have become increasingly stringent and it is possible that these laws and regulations will become significantly more stringent in the future. The adoption of new safety, health and environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments in the future may require additional capital expenditures or the incurrence of additional operating expenses in order to comply with such laws and to maintain current operations as well as any costs related to fines and penalties. For further information, see "Regulation" and "Environmental Matters."

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

San Miguel Pure Foods depends on its senior management, and its business and growth prospects may be disrupted if their services are lost.

San Miguel Pure Foods has relied and will continue to rely significantly on the continued individual and collective contributions of its senior management team. Some members of San Miguel Pure Foods' management are leaders or members of certain key industry associations in the Philippines, and San Miguel Pure Foods believes it benefits from those relationships. If any of San Miguel Pure Foods' senior management are unable or unwilling to continue in their present positions, or if they join a competitor or form a competing business, San Miguel Pure Foods may not be able to replace them easily, and its business, financial condition, results of operations and prospects could be materially and adversely affected.

Losses and/or property damage, production loss and accident claims at San Miguel Pure Foods' facilities that are not covered by insurance could have a material adverse effect on its financial condition and results of operations.

San Miguel Pure Foods may not be fully insured against, and insurance may not be available for, losses caused by accidents, natural disasters, breakdowns or other events that could affect the facilities and processes used by its businesses. For example, San Miguel Pure Foods does not carry business interruption insurance for any of its domestic businesses. Any losses caused by events against which it is not fully insured could result in a decline in production, adverse publicity, and significant expenditure of resources to address such losses, and

would as a result, have a material adverse effect on, its business, financial condition and results of operations. Any accident at San Miguel Pure Foods' operations and facilities could result in significant losses. It could suffer a decline in production, receive adverse publicity and be forced to invest significant resources in addressing such losses, both in terms of time and money. There is no assurance that there will not be work-related or other accidents in the future. Furthermore, there is no assurance that amicable settlements will be secured in the event of accidents or that accidents will not result in litigation or regulatory action against San Miguel Pure Foods. Such events could materially and adversely affect its financial condition and results of operations.

Any significant disruption at San Miguel Pure Foods' facilities and operations could materially and adversely affect its business, financial condition and results of operations.

San Miguel Pure Foods' facilities and operations could be severely disrupted by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, natural disasters and other unforeseen circumstances and problems. For example, San Miguel Pure Foods decided to cease operations at its Marikina plant after it was severely damaged as a result of Typhoon Ondoy affecting Metro Manila in September 2009. As a result of this closure, and the consequent transfer of production capacities to a Cavite plant and other third party contracted plants, San Miguel Pure Foods was unable to meet volume demand during the relevant period, and its revenues were adversely affected during the fourth quarter of 2009. San Miguel Pure Foods' business, financial condition and results of operations may be materially and adversely affected by any disruption of operations at its or its suppliers' facilities, including due to any of the events mentioned above.

Outbreaks of contagious diseases in the Philippines could have a material adverse effect on San Miguel Pure Foods' financial condition and results of operations.

Any outbreak of a contagious disease in the Philippines, including bird flu or H1N1 influenza (or swine flu), could have a material adverse effect on San Miguel Pure Foods' financial condition and results of operations. In particular, any outbreak of a contagious disease could adversely affect San Miguel Pure Foods' ability to adequately staff its operations and the distribution networks for San Miguel Pure Foods' products, as well as the general level of economic activity in the Philippines. There is no assurance that any future outbreak of a contagious disease will not have a material adverse effect on San Miguel Pure Foods' results of operations, sales and profitability.

Problems may develop among partners of joint ventures operated by San Miguel Pure Foods, which may result in disruptions to these businesses.

The businesses of some of San Miguel Pure Foods' subsidiaries and associates are conducted through joint ventures with other partners, including Hormel Netherlands B.V., for processed meats and Super Coffee Corporation Pte Ltd. for coffee. Cooperation among the joint venture partners on business decisions is crucial to the sound operation and financial success of these joint venture companies. Although San Miguel Pure Foods believes it maintains good relationships with its joint venture partners, there is no assurance that these relationships will be sustained in the future or that problems will not develop. For example, San Miguel Pure Foods' joint venture partners may be unable or unwilling to fulfill their obligations, take actions contrary to its policies or objectives, or may experience financial difficulties. If any of these events occur, the businesses of these joint ventures could be severely disrupted, which could have a material adverse effect on San Miguel Pure Foods' business, financial condition and results of operations.

Failure to obtain financing or the inability to obtain financing on reasonable terms could adversely affect the execution of San Miguel Pure Foods' future business activities.

San Miguel Pure Foods' future business activities are expected to be funded through a combination of internally generated funds and external fund raising activities, including debt and equity financing. San Miguel Pure Foods' continued access to debt and equity financing as a source of funding for new projects and acquisitions and for refinancing maturing debt is subject to many factors, including: (i) Philippine regulations limiting bank exposure (including single borrower limits) to a single borrower or related group of borrowers; (ii) San Miguel Pure Foods' compliance with existing debt covenants; (iii) the ability of San Miguel Pure Foods, its affiliates and its subsidiaries to service new debt; and (iv) perceptions in the capital markets regarding San Miguel Pure Foods and the industries in which it operates and other factors, some of which may be outside of its control, including general conditions in the debt and equity capital markets, political instability, an economic downturn, social unrest, changes in the Philippine regulatory environment or the bankruptcy of an unrelated

company operating in one or more of the same industries as San Miguel Pure Foods, any of which could increase San Miguel Pure Foods' cost of borrowing or other financing or restrict its ability to obtain debt or equity financing. In addition, while there are growing signs of recovery from the current disruptions in global capital and credit markets, which began in the second half of 2008, such disruptions may recur, continue indefinitely or intensify, and such disruptions could adversely affect San Miguel Pure Foods' access to financing. There is no assurance that San Miguel Pure Foods will be able to arrange its required financing on acceptable terms, if at all. Any inability of San Miguel Pure Foods to obtain financing from banks and other financial institutions or from capital markets would adversely affect San Miguel Pure Foods' ability to execute its future business activities as well as its financial condition and prospects.

Certain products of San Miguel Pure Foods' businesses may be subject to price control by the Philippine government.

Basic necessities such as fresh pork, beef and poultry meat, milk, coffee and cooking oil, and prime commodities such as flour, dried, processed and canned pork, beef and poultry meat, other dairy products and swine and poultry feeds may be made subject to price control by the national government of the Republic of the Philippines (the "Government"). Under the Philippine Republic Act No. 7581 (the "Price Act"), the President of the Philippines may impose a price ceiling on basic necessities and prime commodities in the event of a calamity, an emergency, illegal price manipulation or when the prevailing prices have risen to unreasonable levels.

If the conditions specified under the Price Act occur, the President of the Philippines may exercise the price control powers provided in the Price Act and impose price ceilings on certain products of San Miguel Pure Foods that are considered basic necessities and prime commodities under the law. A ceiling imposed pursuant to the Price Act remains effective throughout the duration of the calamity, but in any case, may not exceed a period of 60 days. Any resulting price control may have a material adverse effect on San Miguel Pure Foods' business, results of operations and financial performance.

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

San Miguel Pure Foods is exposed to foreign exchange risk. Fluctuations in the exchange rate between the Peso and other currencies, such as the U.S. dollar, could have a material adverse effect on San Miguel Pure Foods' business, financial condition and results of operations.

A substantial portion of San Miguel Pure Foods' expenses, including raw materials, are denominated in U.S. dollars. In addition, as of September 30, 2012, 5.5% of San Miguel Pure Foods' outstanding debt was denominated in foreign currencies.

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

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

Fluctuations in the financial results of Meralco or the market value of San Miguel Pure Foods' 5.2% equity interest in Meralco could have a significant effect on San Miguel Pure Foods' financial condition and results of operations.

San Miguel Pure Foods uses the equity method to account for its 5.2% equity interest in Meralco. In the last five months of 2011 and the first nine months of 2012, San Miguel Pure Foods' equity in the net earnings of

Meralco were ₱270 million and ₱710 million, respectively, and accounted for 4.5% and 17.9%, respectively, of San Miguel Pure Foods' total income before income tax. Meralco's net earnings may fluctuate from time to time depending on many factors outside of San Miguel Pure Foods' control, including conditions in the Philippine wholesale electricity market. In addition, San Miguel Pure Foods may explore opportunities to dispose of its equity interest in Meralco, and there can be no assurance that any such disposition would not result in a loss. For these reasons, fluctuations in Meralco's results of operations and in the market value of San Miguel Pure Foods' equity interest in Meralco could have a material adverse effect on San Miguel Pure Foods' financial condition and results of operations.

Increases in tax rates may affect demand for San Miguel Pure Foods' products and may adversely affect its business, financial condition and result of operations.

San Miguel Pure Foods and its products are subject to various taxes, including value-added taxes ("VAT"), duties and tariffs. The increase in prices due to additional taxes may affect demand for San Miguel Pure Foods' products in the Philippines, as San Miguel Pure Foods' consumers are generally price sensitive. A decline in demand for San Miguel Pure Foods' products may adversely affect its business, financial condition and results of operations.

San Miguel Pure Foods' implementation of its expansion plans may not result in the generation of cash or income, or the creation of synergies, which may have a material adverse effect on San Miguel Pure Foods' liquidity, results of operations and financial condition.

San Miguel Pure Foods intends to expand its distribution network, particularly in remote areas in the Visayas and Mindanao. It also intends to enter into new product categories and expand its existing production capabilities to support its growing range of product offerings, as well as to continue sourcing potential acquisition targets in food or food-related businesses, including strategic acquisitions in fast-growing emerging Asian countries, as part of its growth strategy. These expansion plans are intended to result in the generation of cash, income or the reduction of risk or the creation of synergies. Acquisitions made as part of these expansion plans may be financed by additional borrowings or by the issuance of the common stock or other securities of San Miguel Pure Foods.

These transactions involve risks, and there can be no assurance that:

- implementation of any expansion plans would result in an increase in income;
- any acquisitions made or joint ventures entered into as part of these expansion plans would be successfully integrated into San Miguel Pure Foods' operations and internal controls;
- the due diligence prior to an acquisition, joint venture or other investment would uncover situations that could result in financial or legal exposure, or that San Miguel Pure Foods will appropriately quantify the exposure from known risks;
- use of cash for acquisitions would not adversely affect San Miguel Pure Foods' cash available for capital expenditures and other uses;
- any acquisitions, joint ventures, investments or integrations would not divert management resources; or
- any acquisitions, joint ventures, investments or integrations would not otherwise have a material adverse effect on San Miguel Pure Foods' liquidity, financial condition or results of operations.

San Miguel Pure Foods engages in derivative and hedging transactions that involve risks and may incur significant losses that could adversely affect its financial performance.

San Miguel Pure Foods enters into various commodity derivative instruments, such as forward purchases, caps and collars for wheat and soybean meal, to manage its price risks on strategic commodities. For hedging transactions, if prices decrease, hedging positions may result in mark-to-market losses, which are, in turn, expected to be offset by lower raw material costs. As a policy, San Miguel Pure Foods endeavors to hedge up to 20% of its wheat and soybean meal requirements. As San Miguel Pure Foods' hedging transactions are mark-to-market, to the extent that the market price of the raw materials subject to such hedging transactions falls below the fixed price under its futures contracts, San Miguel Pure Foods' results of operation will be lower than it

would have been if San Miguel Pure Foods had not engaged in such transactions. Consequently, San Miguel Pure Foods' financial performance could be adversely affected during periods in which prices of raw materials are volatile.

RISKS RELATING TO THE PHILIPPINES

San Miguel Pure Foods' operations and assets are concentrated in the Philippines, and any downturn in general economic conditions in the Philippines could have a material adverse effect on San Miguel Pure Foods' business, financial condition, results of operations and prospects.

Historically, San Miguel Pure Foods' financial condition and results of operations have been influenced, and will continue to be influenced, to a significant extent by the overall performance of the Philippine economy. In particular, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Peso and the imposition of exchange controls.

In addition, global financial, credit and currency markets have, since the second half of 2008, experienced, and may continue to experience, significant dislocations and liquidity disruptions. Recently, there has been particular focus on the potential for sovereign debt defaults and banking failures in Europe. The recent volatility in global financial markets has added to the uncertainty of the global economic outlook, and a number of countries are experiencing slowing economic activity. In the past, the Philippine economy and the securities of Philippine companies have been, to varying degrees, influenced by economic and market conditions in other countries, particularly other countries in Southeast Asia, as well as investors' responses to those conditions. The current uncertainty surrounding the global economic outlook could cause economic conditions in the Philippines to deteriorate. Any downturn in the Philippine economy may negatively impact consumer sentiment and general business conditions in the Philippines, which may materially reduce San Miguel Pure Foods' revenues, profitability and cash flows. Moreover, there is no assurance that current or future government policies will continue to be conducive to sustaining economic growth.

Political instability or acts of terrorism in the Philippines could destabilize the country and may have a negative effect on San Miguel Pure Foods.

The Philippines has from time to time experienced political and military instability. In the last few years, there has been political instability in the Philippines, including impeachment proceedings against two former presidents and the chief justice of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by previous administrations. In addition, there is no guarantee that acts of election-related violence will not occur in the future and such events could negatively impact the Philippine economy. An unstable political environment, whether due to the imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on San Miguel Pure Foods' business, financial condition and results of operations. The Philippines has also been subject to a number of terrorist attacks since 2000, and the Philippine armed forces have been in conflict with groups that have been identified as being responsible for kidnapping and terrorist activities in the Philippines. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. Political instability, acts of terrorism, violent crime and similar events could have a material adverse effect on San Miguel Pure Foods' business, financial condition, results of operations and prospects.

The occurrence of natural catastrophes and electricity blackouts may materially disrupt San Miguel Pure Foods' operations.

The Philippines has experienced a number of major natural catastrophes in recent years, including typhoons, volcanic eruptions, earthquakes, mudslides, droughts and floods related to El Niño and La Niña weather events. Natural catastrophes may disrupt San Miguel Pure Foods' ability to produce or distribute its products and impair the economic conditions in affected areas, as well as the overall Philippine economy. For example, in 2009, Typhoons Ondoy, Pepeng and Santi caused about 500,000 bird mortalities as well as damages in the form of wet feeds, spoiled products and damaged vehicles resulting in total damage to San Miguel Pure Foods' agro-industrial business of approximately ₱20 million, of which only ₱5.6 million was recovered from insurance. In late 2011, Typhoon Sendong caused extensive damage to the cassava crop in Northern Mindanao, forcing San Miguel Pure Foods to increase its reliance on more expensive corn as the primary raw material for its

feeds business. The Philippines has also experienced electricity blackouts, both from insufficient power generation and from disruptions such as typhoons. These types of events may materially disrupt San Miguel Pure Foods' business and operations, as well as have a material adverse effect on San Miguel Pure Foods' business, financial condition and results of operations.

The credit rating of the Philippines may materially and adversely affect San Miguel Pure Foods' ability to obtain financing on commercially acceptable terms, or at all.

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

If foreign exchange controls were to be imposed in the Philippines, San Miguel Pure Foods' ability to purchase raw materials or to meet its foreign currency payment obligations could be severely constrained.

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

San Miguel Pure Foods purchases certain critical key raw materials, such as milk, wheat and soybean meal, from abroad and requires foreign currency to make these purchases. There is no assurance that foreign exchange controls will not be imposed by the Philippine government in the future. Any foreign currency restrictions could severely curtail San Miguel Pure Foods' ability to pay for certain key inputs or to meet its foreign currency payment obligations, which could materially and adversely affect its financial condition and results of operations.

Corporate governance, disclosure and financial reporting standards in the Philippines may differ from those in other countries.

There may be less publicly available information about Philippine public companies, such as San Miguel Pure Foods, than is regularly made available by public companies in other countries. In addition, although it complies with the requirements of the Philippine SEC with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the Philippine SEC requires public companies such as San Miguel Pure Foods to have at least two independent directors. San Miguel Pure Foods has at least two independent directors in compliance with Philippine laws, rules and regulations, whereas a greater number of independent directors may be required in other jurisdictions.

Investors may face difficulties enforcing judgments against San Miguel Pure Foods.

San Miguel Pure Foods is organized under the laws of the Republic of the Philippines and most of its assets are located in the Philippines. It may be difficult for investors to effect service of process outside the Philippines upon San Miguel Pure Foods with respect to claims pertaining to the Offer or the Offer Shares. Moreover, it may be difficult for investors to enforce in the Philippines judgments against it obtained outside the Philippines in any actions pertaining to the Offer or the Offer Shares, particularly with respect to actions for claims to which San Miguel Pure Foods has not consented to service of process outside the Philippines. In addition, most of its directors and officers are residents of the Philippines and all or a substantial portion of the assets of such persons are or may be located in the Philippines. As a result, it may be difficult for investors to effect service of process upon such persons outside the Philippines or enforce against such persons in the Philippines judgments obtained in courts outside the Philippines.

The Philippines is not a party to any international treaty relating to the recognition or enforcement of foreign judgments. Philippine law provides that a judgment or final order of a foreign court is enforceable in the Philippines, unless there is evidence that: (i) such judgment was obtained by collusion or fraud; (ii) the foreign

court rendering such judgment did not have jurisdiction over the subject matter of the action in accordance with its jurisdictional rules; (iii) such order or judgment is contrary to Philippine laws on good customs, public order or public policy; (iv) San Miguel Pure Foods did not have notice of the proceedings before the foreign court; or (v) such judgment was based upon a clear mistake of law or fact.

RISKS ASSOCIATED WITH THE OFFER AND THE OFFER SHARES

The Offer Shares may not be a suitable investment for all investors.

Each potential investor in the Offer Shares must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of San Miguel Pure Foods and its businesses, the merits and risks of investing in the Offer Shares and the information contained in this Offering Circular;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Offer Shares and the impact the Offer Shares will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Offer Shares, including where the currency for purchasing and receiving dividends on the Offer Shares is different from the potential investor's currency;
- understand and be familiar with the behavior of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

There has been very limited trading of the Common Shares and historical trading prices are not indicative of either past or future valuation of San Miguel Pure Foods.

San Miguel Pure Foods is listed on the PSE. Since 2001, SMC, has been San Miguel Pure Foods' single largest shareholder, beneficially owning 99.92% of the Common Shares. Given the limited number of Common Shares available to the public, there has been very limited trading of the Common Shares. Accordingly, historical trading prices are not indicative of either past or future valuation of San Miguel Pure Foods.

The liquidity and trading price of the Offer Shares may be volatile, which could result in substantial losses to investors.

The trading price of the Offer Shares may be volatile and could fluctuate in response to factors beyond San Miguel Pure Foods' control, including general market conditions in the Philippines, the Asia Pacific region and elsewhere in the world, (ii) changes in earnings estimates and recommendations by financial analysts, (iii) changes in market valuations of listed stocks, in general, and other food producer stocks, in particular, (iv) changes to Government policy, legislation or regulations, and (v) general operational and business risks. In particular, the performance and fluctuation of the market prices of securities of other companies that operate in the same industries as San Miguel Pure Foods may affect the volatility in the price of and trading volume for the Offer Shares. Broad market and industry factors may cause the market price of the Offer Shares to decline, regardless of San Miguel Pure Foods' operating performance. If the price of the Offer Shares declines after the Offer, investors could lose a significant part of their investment. In addition to market and industry factors, the price and trading volume of the Offer Shares may be highly volatile for specific business reasons. In particular, factors such as variations in San Miguel Pure Foods' revenues, earnings and cash flow could cause the market price of the Offer Shares to change substantially. Any of these factors may result in large and sudden changes in the volume and trading prices of the Offer Shares.

In addition, the securities market in the Philippines is smaller and less liquid than the securities markets in the United States and certain other countries. The total market capitalization of all companies listed on the PSE at the end of 2011 was approximately ₱8.7 trillion, and, as of September 30, 2012, the total market capitalization of all companies listed on the PSE was approximately ₱10.6 trillion. There is no assurance regarding the liquidity of the market of Philippine securities in general. Liquidity fluctuations may arise as a result of temporary exchange

closures, broker defaults, settlement delays and broker strikes. Accordingly, there is no assurance that a shareholder will be able to dispose of the Offer Shares, or direct the sale of such Offer Shares through the PSE, at prices or at times at which such shareholder may have been able to do so in other, more liquid, markets, or at all.

San Miguel Pure Foods may be unable to pay dividends on the Offer Shares.

There is no assurance that San Miguel Pure Foods can or will declare dividends on the Offer Shares in the future. Future dividends, if any, will be at the discretion of the Board and will depend upon San Miguel Pure Foods' future results of operations and general financial condition, capital requirements, its ability to receive dividends and other distributions and payments from its subsidiaries, foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations, including loan obligations of its subsidiaries, and other factors the Board may deem relevant. In particular, San Miguel Pure Foods' Preferred Shares and debt instruments contain restrictive covenants which could impair its ability to pay dividends.

In addition, San Miguel Pure Foods is primarily a holding company and is a separate and distinct legal entity from its subsidiaries. San Miguel Pure Foods conducts limited business operations and typically derives its cash flow principally from (i) royalty income from its subsidiaries for the use of certain brands, (ii) dividends from its subsidiaries and (iii) other investments. As a result, San Miguel Pure Foods' ability to pay dividends and meet other obligations is partially dependent on receiving such payments from its subsidiaries and other investments. San Miguel Pure Foods' subsidiaries incur debts on their own behalf and the instruments governing the debts they incur may restrict their ability to pay dividends or make other distributions to San Miguel Pure Foods, which in turn would limit San Miguel Pure Foods' ability to pay dividends on the Offer Shares.

The Offer Shares are subject to restrictions on transfer.

The Offer Shares are being offered and sold only outside the United States in compliance with Regulation S, and may be transferred or resold in the United States only in transactions registered under or exempt from registration under the U.S. Securities Act and applicable state securities laws. These restrictions on transfer may materially limit the ability of any holder of the Offer Shares to transfer the Offer Shares in the United States.

If foreign exchange controls were to be imposed, access to foreign currency and dividends may be adversely affected.

The Philippine government has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency-denominated obligations. The Monetary Board of the BSP, with the approval of the President of the Philippines, has statutory authority, during a foreign exchange crisis or in times of national emergency, to suspend temporarily or restrict sales of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee. San Miguel Pure Foods is not aware of any pending proposals by the Government regarding such restrictions. Although the Government has from time to time made public pronouncements of a policy not to impose restrictions on foreign exchange, there is no assurance that the Philippine government will maintain such policy or will not impose economic or regulatory controls that may restrict free access to foreign currency. Any such restriction imposed in the future could adversely affect the ability of investors to repatriate foreign currency upon sale of the Offer Shares or receipt of any dividends.

Rights of shareholders under Philippine law may be more limited than under the laws of other jurisdictions.

The obligations under Philippine law of majority shareholders and directors with respect to minority shareholders may be more limited than those in certain other countries, such as the United States and United Kingdom. Consequently, minority shareholders may not be able to protect their interests under current Philippine law to the same extent as in certain other countries.

For example, under PSE Rules, a majority of the Board may pass a resolution to delist San Miguel Pure Foods shares from the PSE, subject to making a tender offer following which the person(s) making the tender offer will acquire at least 95% of the issued and outstanding shares of San Miguel Pure Foods. Furthermore, Philippine Batas Pambansa Blg. 68 (the "Corporation Code") grants dissenting shareholders appraisal rights to require the corporation to purchase such shareholder's shares in certain instances. In addition, derivative actions

are rarely brought on behalf of corporations in the Philippines. Accordingly, there is no assurance that legal rights or remedies of minority shareholders will be the same, or as extensive, as those available in other jurisdictions or that they will be sufficient to protect the interests of minority shareholders.

Overseas shareholders may not be able to participate in San Miguel Pure Foods' future rights offerings or certain other equity issues.

If San Miguel Pure Foods offers or causes to be offered to holders of the Offer Shares rights to subscribe for additional Common Shares or any right of any other nature, San Miguel Pure Foods will have discretion as to the procedure to follow in making such rights available to holders of the Offer Shares or in disposing of such rights for the benefit of such holders and making the net proceeds available to such holders.

For example, San Miguel Pure Foods will not offer such rights to holders of Offer Shares who are U.S. persons (as defined in Regulation S) or have a registered address in the United States unless:

- a registration statement is in effect, if a registration statement under the U.S. Securities Act is required in order for San Miguel Pure Foods to offer such rights to holders and sell the securities represented by such rights; or
- the offer and sale of such rights or the underlying securities to such holders are exempt from registration under the provisions of the U.S. Securities Act.

San Miguel Pure Foods has no obligation to prepare or file any registration statement. Accordingly, shareholders who are subject to similar restrictions may be unable to participate in rights offerings and may experience a dilution in their holdings as a result.

RISKS RELATING TO CERTAIN STATISTICAL INFORMATION IN THIS OFFERING CIRCULAR

Certain statistical information in this Offering Circular relating to the Philippines, the markets in which San Miguel Pure Foods competes, the market share for the Company's products in those markets and other data used in this Offering Circular were obtained or derived from internal surveys, market research, governmental data, publicly available information, industry publications and/or San Miguel Pure Foods' internal assumptions, calculations and estimates. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable. However, there is no assurance that such information is accurate or complete. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of San Miguel Pure Foods, the Selling Shareholder and the Joint Bookrunners make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

EXCHANGE RATES

The PDS, a computer network supervised by the BSP, through which the members of the Bankers Association of the Philippines effect spot and forward currency exchange transactions, was introduced in 1992. The PDS was adopted by the BSP as a means to monitor foreign exchange rates. The BSP Rate is the weighted average rate for the purchase of U.S. dollars with Pesos, which is quoted by the PDS and published in the BSP's Reference Exchange Rate Bulletin and major Philippine financial press on the following business day. On November 9, 2012, the BSP Rate was ₱41.065 = US$1.00.

The following table sets forth certain information concerning the BSP Rate between the Peso and the U.S. dollar for the periods and dates indicated, expressed in Pesos per US$1.00:

	Peso/U.S. Dollar Exchange Rate			
Year	**Period End**	**Average[1]**	**High[2]**	**Low[3]**
2009	46.356	47.637	49.056	45.947
2010	43.885	45.248	46.983	42.516
2011	43.928	43.313	44.585	41.955
2012				
January	42.946	43.619	44.246	42.859
February	42.864	42.661	43.038	42.193
March	43.000	42.857	43.061	42.503
April	42.436	42.700	42.934	42.436
May	43.451	42.851	43.796	42.166
June	42.283	42.776	43.630	42.137
July	41.907	41.905	42.276	41.630
August	42.315	42.045	42.352	41.758
September	41.880	41.749	42.178	41.454
October	41.263	41.452	41.818	41.210
November (through November 9)	41.065	41.177	41.245	41.065

[1] Simple average of daily closing exchange rates for the period.

[2] Highest closing exchange rate for the period.

[3] Lowest closing exchange rate for the period.

Source: Reference Exchange Rate Bulletin, Treasury Department of the BSP.

USE OF PROCEEDS

Proceeds from the Offer will be for the account of the Selling Shareholder. San Miguel Pure Foods will not receive any of the proceeds from the Offer. The Selling Shareholder will use the proceeds from the Offer for general corporate purposes. The Selling Shareholder will pay for all expenses relating to the Offer.

DIVIDENDS AND DIVIDEND POLICY

Dividends may be declared at the discretion of the Board and will depend upon San Miguel Pure Foods' future results of operations and general financial condition, capital requirements, its ability to receive dividends and other distributions and payments from its subsidiaries, foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations both at the parent and subsidiary level and other factors the Board may deem relevant.

Since March 30, 2010, the cash dividend policy of San Miguel Pure Foods has been to distribute cash dividends to the holders of the Common Shares in an amount up to approximately 70% of the prior year's recurring net income. San Miguel Pure Foods expects that the dividend distributions shall be made over the four quarters of the following year, subject to the discretion of the Board. Recurring net income is net income calculated without respect to extraordinary events that are not expected to recur. In considering dividend declarations each quarter, the Board has in the past and will in the future, take into consideration dividend payments on the Preferred Shares, and other factors such as, among others, the implementation of business plans, debt service requirements, debt covenant restrictions, funding for new investments, major capital expenditure requirements, appropriate reserves and working capital.

While there is no assurance that San Miguel Pure Foods will declare dividends on the Common Shares and on the Preferred Shares in the future, the table below sets forth the amount or quantity of dividends declared and paid or issued on the Common Shares since 2009 and the Preferred Shares since their issuance in 2011:

Common Shares

Year	Type	Per Share Amount Except Stock Dividends	Payment Date
2009	—	—	—
Total		—	
2010:	Stock	25,423,746 shares in payment of 18% stock dividend	July 26
Total:		25,423,746 shares	
2011	Cash	₱3.00	June 13
Total:		**₱3.00**	
2012:	Cash	₱1.20	March 3
2012	Cash	1.20	June 3
2012	Cash	1.20	September 3
2012	Cash	1.20	December 3[1]
Total		**₱4.80**	

Preferred Shares

Year	Type	Per Share Amount	Payment Date
2011	Cash	₱20.00	June 3
2011	Cash	20.00	September 3
2011	Cash	20.00	December 3
Total		**₱60.00**	
2012	Cash	₱20.00	March 3
2012	Cash	20.00	June 3
2012	Cash	20.00	September 3
2012	Cash	20.00	December 3[1]
Total		**₱80.00**	

[1] Approved by the Board on November 5, 2012.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth San Miguel Pure Foods' capitalization and long-term debt as of September 30, 2012. San Miguel Pure Foods will not receive any of the proceeds from the Offer.

This table should be read in conjunction with the consolidated financial statements, related notes and other financial information contained elsewhere in this Offering Circular.

	As of September 30, 2012[4]	
	(in millions)	
Total long-term debt[1]	₱ 4,633	US$ 111
Shareholders' equity		
166,667,096 Common Shares at par value of ₱10 per share	1,709	41
15,000,000 Preferred Shares at par value of ₱10 per share[2]	150	4
Additional paid-in capital	20,500	489
Revaluation surplus	18	0
Cumulative translation adjustments	(231)	(6)
Retained earnings	15,933	380
Treasury stock	(182)	(4)
Non-controlling interests	2,697	64
Total shareholders' equity	40,594	969
Total capitalization[3]	₱45,227	US$1,080

(1) Long-term debt (net of current maturities and debt issue costs) consists of (i) ₱3,678 million relating to San Miguel Food, Inc.'s ₱3,700 million floating rate notes due in 2015, (ii) ₱795 million relating to San Miguel Foods, Inc.'s ₱800 million fixed rate notes due in 2015 and (iii) ₱160 million relating to the ₱210 million unsecured loan facility extended by Bank of Commerce to Golden Food & Dairy Creamery Corporation that matures in 2014.

(2) 15,000,000 cumulative, non-voting, non-participating and non-convertible Preferred Shares issued at an offer price of ₱1,000 per share.

(3) Total capitalization computed as sum of long-term debt and total shareholders' equity.

(4) For the reader's convenience, certain amounts in Pesos have been translated to U.S. dollars at the September 30, 2012 exchange rate of ₱41.880 = US$1.00.

SELECTED FINANCIAL INFORMATION

Investors should read the selected financial information presented below in conjunction with San Miguel Pure Foods' consolidated financial statements and the notes to those consolidated financial statements included elsewhere in this Offering Circular. Investors should also read "Management's Discussion and Analysis of Financial Condition and Results of Operations."

San Miguel Pure Foods' selected financial information presented below as of and for the years ended December 31, 2009, 2010 and 2011 are derived from San Miguel Pure Foods' consolidated financial statements, audited by Manabat Sanagustin & Co., a member firm of KPMG, and prepared in compliance with PFRS. The selected financial information presented below as of and for the nine months ended September 30, 2011 and 2012 are derived from the consolidated interim financial statements of San Miguel Pure Foods, reviewed by Manabat Sanagustin & Co. The information below should be read in conjunction with San Miguel Pure Foods' consolidated financial statements and related notes included elsewhere in this Offering Circular and also the section "Management's Discussion and Analysis of Financial Condition and Results of Operations." San Miguel Pure Foods' historical financial condition, results of operations and cash flows are no guarantee of its future operating and financial performance.

San Miguel Pure Foods' consolidated financial statements are reported in Pesos and are presented in accordance with PFRS. All translations of amounts in Pesos into U.S. dollars are provided for convenience only.

CONSOLIDATED STATEMENTS OF INCOME DATA

	Audited				Unaudited		
	Years Ended December 31,				Nine Months Ended September 30,		
	2009	2010	2011	2011[1]	2011	2012	2012[1]
	(in millions)				(in millions)		
Revenues	₱75,043	₱ 79,270	₱ 89,591	US$ 2,139	₱64,286	₱69,354	US$ 1,656
Cost of sales	61,448	63,291	73,417	1,753	52,539	57,300	1,368
Gross profit	13,595	15,979	16,174	386	11,747	12,054	288
Selling and administrative expenses	(8,957)	(10,077)	(10,032)	(240)	(7,493)	(8,780)	(210)
Interest expense and other financing charges	(751)	(359)	(531)	(13)	(385)	(426)	(10)
Interest income	69	105	394	9	361	122	3
Equity in net earnings of an associate	—	—	270	6	100	710	17
Gain (loss) on sale of property and equipment	(25)	(33)	7	0	(0)	28	1
Other income (charges) — net	(89)	98	(324)	(8)	(110)	253	6
Income before income tax	3,842	5,713	5,958	142	4,220	3,961	95
Income tax expense	1,184	1,654	1,744	42	1,165	1,005	24
Net income	₱ 2,658	₱ 4,059	₱ 4,214	US$ 101	₱ 3,055	₱ 2,956	US$ 71
Attributable to:							
Equity holders of San Miguel Pure Foods	₱ 2,597	₱ 3,846	₱ 4,103	US$ 98	₱ 2,945	₱ 2,957	US$ 71
Non-controlling interests	62	213	111	3	110	(0)	(0)
	₱ 2,658	₱ 4,059	₱ 4,214	US$ 101	₱ 3,055	₱ 2,956	US$ 71

[1] For the reader's convenience, certain amounts in Pesos have been translated to U.S. dollars at the September 30, 2012 exchange rate of ₱41.880 = US$1.00.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DATA

	Audited				Unaudited	
	As of December 31,				As of September 30,	
	2009	2010	2011	2011[1]	2012	2012[1]
	(in millions)				(in millions)	
ASSETS						
Current Assets						
Cash and cash equivalents	₱ 3,950	₱ 7,041	₱ 4,933	US$ 118	₱ 4,025	US$ 96
Trade and other receivables — net	9,024	7,760	8,700	208	7,862	188
Inventories	11,804	12,123	12,068	288	15,555	371
Biological assets	2,525	3,267	4,124	98	4,406	105
Derivative assets	47	108	32	1	101	2
Prepaid expenses and other current assets	1,246	1,766	1,969	47	2,186	52
Total Current Assets	28,596	32,065	31,826	760	34,135	815
Noncurrent Assets						
Investments	₱ —	₱ —	₱13,178	US$ 315	₱13,166	US$ 314
Investment properties — net	108	113	135	3	192	5
Property, plant and equipment — net	8,295	9,106	8,744	209	9,849	235
Biological assets — net of current portion	1,285	1,479	1,812	43	1,813	43
Other intangible assets — net	168	3,426	3,657	87	3,817	91
Goodwill — net	171	416	423	10	411	10
Deferred tax assets	1,220	600	503	12	484	12
Other noncurrent assets	334	313	676	16	700	17
Total Noncurrent Assets	11,580	15,453	29,127	695	30,430	727
	₱40,176	₱47,518	₱60,953	US$1,455	₱64,565	US$1,542
LIABILITIES AND EQUITY						
Current Liabilities						
Notes payable	₱ 8,816	₱ 5,173	₱ 4,988	US$ 119	₱ 5,929	US$ 142
Trade payable and other current liabilities	12,667	15,146	11,019	263	12,684	303
Current maturities of long-term debt	—	—	25	1	25	1
Income tax payable	467	162	305	7	302	7
Total Current Liabilities	21,950	20,481	16,337	390	18,940	452
Noncurrent Liabilities						
Long-term debt — net of current maturities and debt issue costs	₱ —	₱ 4,461	₱ 4,646	US$ 111	₱ 4,633	US$ 111
Deferred tax liabilities	399	271	167	4	193	5
Other noncurrent liabilities	181	88	116	3	204	5
Total Noncurrent Liabilities	581	4,819	4,929	118	5,031	120

[1] For the reader's convenience, certain amounts in Pesos have been translated to U.S. dollars at the September 30, 2012 exchange rate of ₱41.880 = US$1.00.

	Audited				Unaudited	
	As of December 31,				As of September 30,	
	2009	2010	2011	2011[1]	2012	2012[1]
	(in millions)				(in millions)	
Equity						
Equity Attributable to Equity Holders of San Miguel Pure Foods						
Capital stock	₱ 1,455	₱ 1,709	₱ 1,859	US$ 44	₱ 1,859	US$ 44
Additional paid-in-capital	5,821	5,821	20,500	489	20,500	489
Revaluation surplus	18	18	18	0	18	0
Cumulative translation adjustments	(48)	(92)	(85)	(2)	(231)	(6)
Retained earnings	8,181	11,773	14,476	346	15,933	380
Treasury stock	(182)	(182)	(182)	(4)	(182)	(4)
Total Equity Attributable to Equity Holders of San Miguel Pure Foods	15,245	19,047	36,586	874	37,897	905
Non-controlling Interests	2,400	3,171	3,101	74	2,697	64
Total Equity	17,645	22,218	39,687	948	40,594	969
	₱40,176	₱47,518	₱60,953	US$1,455	₱64,565	US$1,542

CONSOLIDATED STATEMENTS OF CASH FLOWS DATA

	Audited				Unaudited		
	Years Ended December 31,				Nine Months Ended September 30,		
	2009	2010	2011	2011[1]	2011	2012	2012[1]
	(in millions)				(in millions)		
Net cash flows provided by operating activities	₱ 5,536	₱ 4,816	₱ 3,756	US$ 90	₱ 2,396	₱ 2,436	US$ 58
Net cash flows used in investing activities	(1,518)	(2,038)	(18,935)	(452)	(18,332)	(2,413)	(58)
Net cash flows provided by (used in) financing activities	(2,850)	316	13,072	312	12,849	(939)	(22)
Effect of exchange rate changes on cash and cash equivalents	—	(3)	(1)	(0)	(0)	8	0
Net increase (decrease) in cash and cash equivalents	1,168	3,091	(2,109)	(50)	(3,088)	(908)	(22)
Cash and cash equivalents at beginning of year	2,782	3,950	7,041	168	7,041	4,933	118
Cash and cash equivalents at end of period	₱ 3,950	₱ 7,041	₱ 4,933	US$ 118	₱ 3,953	₱ 4,025	US$ 96

[1] For the reader's convenience, certain amounts in Pesos have been translated to U.S. dollars at the September 30, 2012 exchange rate of ₱41.880 = US$1.00.

OTHER FINANCIAL DATA

Calculation of Adjusted EBIT and Adjusted EBITDA[2]

	Years Ended December 31,				Nine Months Ended September 30,		
	2009	2010	2011	2011[1]	2011	2012	2012[1]
	(in millions)				(in millions)		
Net income	₱2,658	₱4,059	₱4,214	US$101	₱3,055	₱2,956	US$ 71
Add (deduct)							
Income tax expense	1,184	1,654	1,744	42	1,165	1,005	24
Net financing charges							
Interest expense and other financing charges	751	359	531	13	385	426	10
Interest income	(69)	(105)	(394)	(9)	(361)	(122)	(3)
Foreign exchange losses	1	25	60	1	20	35	1
Equity in net earnings of an associate	—	—	(270)	(6)	(100)	(710)	(17)
Cash Dividends from an associate	—	—	100	2	—	722	17
Adjusted EBIT	₱4,525	₱5,992	₱5,985	US$143	₱4,164	₱4,312	US$ 103
Depreciation and amortization	1,705	1,926	2,120	51	1,531	1,718	41
Adjusted EBITDA	₱6,229	₱7,918	₱8,106	US$194	₱5,694	₱6,031	US$ 144

Calculation of Net Income Attributable to Common Shareholders

	Years Ended December 31,				Nine Months Ended September 30,		
	2009	2010	2011	2011[1]	2011	2012	2012[1]
	(in millions)				(in millions)		
Net income attributable to equity holders of San Miguel Pure Foods	₱ 2,597	₱ 3,846	₱ 4,103	US$ 98	₱ 2,945	₱ 2,957	US$ 71
Dividend on preferred shares for the period	—	—	(993)	(24)	(690)	(900)	(21)
Net income attributable to common shareholders	₱ 2,597	₱ 3,846	₱ 3,110	US$ 74	₱ 2,255	₱ 2,057	US$ 49

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(1) For the reader's convenience, certain amounts in Philippine Pesos have been translated to U.S. dollars at the September 30, 2012 exchange rate of ₱41.880 = US$1.00.

(2) Adjusted EBIT and Adjusted EBITDA are measures used by San Miguel Pure Foods' management to internally evaluate the performance of its businesses. Adjusted EBIT is calculated as net income plus the following: income tax expense, net financing charges (interest expense and other financing charges net of interest income), foreign exchange losses (gains), equity in net losses (earnings) of an associate and cash dividends (including property dividends already sold and converted to cash) from an associate. Adjusted EBITDA is calculated as Adjusted EBIT plus depreciation and amortization. Adjusted EBIT and Adjusted EBITDA are not measures determined in accordance with PFRS, and prospective investors should not consider Adjusted EBIT or Adjusted EBITDA as an alternative to net income as a measure of operating performance or to cash flow as a measure of free cash flow for management's discretionary use, as they do not reflect certain cash requirements such as interest payments, tax payments and capital expenditures. San Miguel Pure Foods' calculation of Adjusted EBIT and Adjusted EBITDA may be different from the calculations used by other companies, and, as a result, San Miguel Pure Foods' Adjusted EBIT and Adjusted EBITDA may not be comparable to other similarly titled measures of other companies.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Prospective investors should read the following discussion and analysis of San Miguel Pure Foods' consolidated financial condition and results of operations together with (i) San Miguel Pure Foods' consolidated interim financial statements as of and for the nine months ended September 30, 2011 and 2012 (the "September 2012 consolidated interim financial statements"), (ii) San Miguel Pure Foods' consolidated financial statements as of and for the years ended December 31, 2009, 2010 and 2011 (the "2011 audited consolidated financial statements") and (iii) San Miguel Pure Foods' consolidated financial statements as of and for the years ended December 31, 2008, 2009 and 2010 (the "2010 audited consolidated financial statements"), in each case including the notes relating thereto, included elsewhere in this Offering Circular. The September 2012 consolidated interim financial statements, the 2011 audited consolidated financial statements and the 2010 audited consolidated financial statements are collectively referred to as the "consolidated financial statements." San Miguel Pure Foods' consolidated financial statements have been prepared in accordance with PFRS.

Certain statements set forth below constitute "forward-looking statements." Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of San Miguel Pure Foods, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and in "Risk Factors" and "Business." San Miguel Pure Foods' historical financial performance should not be considered as indicative of future financial performance.

OVERVIEW

San Miguel Pure Foods is a leading Philippine food company with market-leading positions in many key products and offers a broad range of high-quality food products and services to household, institutional and food service customers. San Miguel Pure Foods has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Coffee* for coffee and *B-Meg* for animal feeds.

San Miguel Pure Foods organizes its operations into four business segments: agro-industrial, value-added meats, milling, and others. The agro-industrial business segment includes the feeds, poultry and fresh meats businesses; the value-added meats business segment includes the production of refrigerated processed meats and canned meats; the milling business segment includes the production of flour, premixes and other flour-based products; and others includes the dairy, spreads and oils, coffee, food service and franchising businesses and international operations.

The following table sets forth San Miguel Pure Foods' revenues by business segment for the periods indicated:

	Years ended December 31,						Nine Months ended September 30,			
	2009		2010		2011		2011		2012	
	Revenues	% of Revenues	Revenues	% of Revenues	Revenues	% of Revenues	Revenues	% of Revenues	Revenues	% of Revenues
	(in millions, except %)						(in millions, except %)			
Agro-industrial	₱49,069	65.4	₱52,300	66.0	₱56,982	63.6	₱41,735	64.9	₱45,687	65.9
Value-added										
Meats	11,234	15.0	11,534	14.6	12,103	13.5	7,910	12.3	8,980	13.0
Milling	7,482	10.0	7,155	9.0	8,354	9.3	6,154	9.6	6,337	9.1
Others	7,258	9.7	8,281	10.4	12,152	13.6	8,486	13.2	8,350	12.0
Total	₱75,043	100.0	₱79,270	100.0	₱89,591	100.0	₱64,286	100.0	₱69,354	100.0

In addition to the Philippines, San Miguel Pure Foods also operates in Vietnam and Indonesia. The contribution of its international operations to its total revenues was approximately 4% in 2011 and 3% for the nine months ended September 30, 2012.

The following table sets forth San Miguel Pure Foods' operating results by business segment for the periods indicated:[1]

	Years ended December 31,						Nine Months ended September 30,			
	2009		2010		2011		2011		2012	
	Operating Results	% of Total Operating Results	Operating Results	% of Total Operating Results	Operating Results	% of Total Operating Results	Operating Results	% of Total Operating Results	Operating Results	% of Total Operating Results
	(in millions, except %)						(in millions, except %)			
Agro-industrial	₱3,085	67.9	₱3,299	54.9	₱2,370	38.0	₱1,792	41.2	₱ 993	29.5
Value-added										
Meats	489	10.8	772	12.8	1,031	16.5	489	11.2	585	17.4
Milling	752	16.6	1,574	26.2	1,867	30.0	1,399	32.1	1,453	43.1
Others	333	7.3	310	5.2	923	14.8	634	14.6	301	8.9
Eliminations[2]	(118)	(2.6)	55	0.9	40	0.6	39	0.9	36	1.1
Total	₱4,541	100.0	₱6,010	100.0	₱6,231	100.0	₱4,354	100.0	₱3,368	100.0

(1) Includes operating results from intersegment sales and realized mark-to-market gains (losses) from derivatives that are presented as part of "Other income (charges) — net" in the consolidated financial statements. For information concerning the amount of intersegment revenue for each segment, see Note 2 to the September 2012 consolidated interim financial statements and Note 6 to the 2011 audited consolidated financial statements. Intersegment revenues represent primarily (i) sales of pollard from the milling segment to the agro-industrial segment, (ii) sales of poultry and fresh meat from the agro-industrial segment to the value-added meats segment and (iii) sales of dairy products, specifically cheese, oil and margarine, from the others segment to the value-added meats segment.

(2) Represents mainly the unrealized profit component of inventories remaining at the end of each period transferred from one San Miguel Pure Foods subsidiary to another subsidiary.

Factors Affecting Results of Operations

The following are the primary factors that affect San Miguel Pure Foods' results of operations:

Raw Materials Costs and Product Prices

San Miguel Pure Foods depends on raw materials, including certain critical raw materials, most of which are procured from third parties, from both within and outside the Philippines. These materials are subject to price volatility caused by a number of factors, including changes in global supply and demand, foreign exchange rate fluctuations, weather conditions and government regulations and controls. Prices of certain raw materials, such as corn and soybean meal for the feeds business and wheat for the flour business, are generally volatile. In addition, San Miguel Pure Foods' ability to obtain raw materials is affected by a number of factors beyond its control, including natural disasters, governmental laws and policies, and interruptions in production by suppliers.

Changes in the prices of raw materials will necessarily affect San Miguel Pure Foods' cost of sales and may affect pricing of San Miguel Pure Foods' products. Changes in prices may also affect consumer demand, as San Miguel Pure Foods' consumers are generally price sensitive. In addition, there is no assurance that any increases in cost of sales can be fully passed on to consumers. As a result, any material increase in the market price of raw materials could have a material adverse effect on San Miguel Pure Foods' operating margins, which may affect its financial position and operating performance.

Product Mix

San Miguel Pure Foods' profit margins and operational performance are affected by changes in its product mix. San Miguel Pure Foods categorizes its product portfolio into three groups: (i) value-added products; (ii) stable-priced products; and (iii) commodity products.

Value-added products include processed meats, dairy, breadspreads, oils, ice cream and coffee. These products are typically branded and command a higher selling price than stable-priced and commodity products. Stable-priced products include flour premixes and bakery ingredients and poultry and fresh meats products that are distributed through the Company's differentiated stable-priced sales channels. These products include (i) minimally processed branded products sold through *Magnolia* chicken stations and *Monterey* meat shops, (ii) branded products that have undergone further processing, such as marinated meats, ready-to-cook and ready-to-eat products sold through *Magnolia* chicken stations and *Monterey* meat shops and (iii) non-branded

customized products sold to food service clients. Commodity products include (i) feeds, (ii) live chickens and hogs, (iii) fresh-chilled and frozen whole chicken, and chicken, pork and beef cuts sold through wet markets and supermarkets, and (iv) basic flour products.

San Miguel Pure Foods has made a concerted effort to improve its product mix by shifting away from commodity products, which generally have lower and more volatile margins, and into value-added and stable-priced products, which it believes have higher and more consistent margins. San Miguel Pure Foods has limited pricing power for its commodity products due to the lack of product differentiation, while it believes that its stable-priced and value-added products are able to command higher and more stable prices and margins due to (i) strong brand equity with customers, (ii) processing or customization to cater to specific needs or tastes and/or (iii) sale through its branded distribution outlets (such as *Monterey* meat shops and *Magnolia* chicken stations), where cleanliness, convenience and quality assurance allow for premium pricing and higher margins.

Through a variety of initiatives, San Miguel Pure Foods has significantly increased the proportion of value-added and stable-priced products in its product offerings over the past 10 years. In 2011, the contribution of value-added and stable-priced products accounted for approximately 50% of San Miguel Pure Foods' total revenues, as compared to approximately 27% in 2000.

Since value-added and stable-priced products generally have higher margins compared to commodity products, changes from period to period in San Miguel Pure Foods' product mix have a significant impact on trends in its profit margins and financial performance.

Taxes and Regulatory Environment

San Miguel Pure Foods and its products are subject to various taxes, including VAT, duties and tariffs. The increase in prices due to additional taxes may affect demand for San Miguel Pure Foods' products in the Philippines, as San Miguel Pure Foods' consumers are generally price sensitive. In turn, a decline in demand for San Miguel Pure Foods' products may adversely affect its business, financial condition and results of operations.

In addition, San Miguel Pure Foods is subject to a number of national and local laws, rules and regulations in the Philippines and other countries in which it operates. These include, among others, laws, rules and regulations relating to environmental protection, employee health and safety, food safety and product labeling requirements. Changes in laws, rules and regulations may result in substantial compliance costs and have material adverse effects on San Miguel Pure Foods' business and operations. See "Regulation" and "Environmental Matters."

Competition

San Miguel Pure Foods faces competition in the Philippines as well as in the other countries in which it operates. It competes with a number of multi-national, national, regional and local competitors. Although certain of San Miguel Pure Foods' products have significant market shares in the Philippines and in many cases are market leaders in their respective product categories, San Miguel Pure Foods expects to face increasing competition as it continues to grow its business across an increasing number of product areas in the Philippines. Competitive factors generally affecting San Miguel Pure Foods' businesses include price, product quality and availability, brand awareness and loyalty, distribution coverage, customer service and the ability to effectively respond to changes in the regulatory environment as well as to shifting consumer tastes and preferences.

Economic, Social and Political Conditions in the Philippines

While San Miguel Pure Foods has operations outside the Philippines, over 90% of San Miguel Pure Foods' assets as of September 30, 2012 were located in the Philippines, and approximately 97% of its revenues in the nine months ended September 30, 2012 were derived from its operations in the Philippines. As a result, San Miguel Pure Foods' business, financial condition, results of operations and prospects are substantially influenced by economic and political conditions in the Philippines. Although the Philippine economy has experienced stable growth in recent years, the Philippine economy has in the past experienced periods of slow or negative growth, high inflation, significant devaluation of the Peso, and has been significantly affected by economic volatilities in the Asia-Pacific region. Also, in the past, there have been periods of political instability in the Philippines, including impeachment proceedings against two former presidents and the chief justice of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by previous administrations.

Sales of most of San Miguel Pure Foods' products are directly related to the strength of the Philippine economy (including overall growth levels and interest rates) and tend to decline during economic downturns. Any deterioration in the Philippine economy, including a significant deterioration in the value of the Peso, may adversely affect consumer sentiment and lead to a reduction in demand for San Miguel Pure Foods' products.

Seasonality

San Miguel Pure Foods' sales are affected by seasonality in customer purchase patterns. In the Philippines, most food products, including those produced by San Miguel Pure Foods, experience increased sales during the Christmas season. Seasonality varies according to product type; in particular, dairy and value-added products experience a particularly high degree of seasonality, with increased sales during the fourth quarter of the year. In 2009, 2010 and 2011, on average, 23.2% of San Miguel Pure Foods' net sales were in the first quarter of the year, 24.2% were in the second quarter, 24.4% were in the third quarter and 28.2% were in the last quarter of the year. As a result of this pattern, seasonality could affect San Miguel Pure Foods' financial condition and results of operations from one quarter to another, particularly in relation to the fourth quarter of each year.

Introduction of New Products and Branding Initiatives

San Miguel Pure Foods believes that many consumer food products are impulse and discretionary purchases, which are particularly sensitive to competitive pressures. A key element in maintaining its market share in the highly competitive Philippine food market has been for San Miguel Pure Foods to continuously introduce new consumer food products and product extensions. As examples of this strategy, San Miguel Pure Foods introduced its *Purefoods* chicken nuggets line, establishing a market in the Philippines for frozen ready-to-cook chicken nuggets, and *Purefoods* drummets.

In addition to introducing new products, San Miguel Pure Foods has embarked on branding initiatives using organized advertising campaigns to differentiate its products and further expand market share. San Miguel Pure Foods devotes significant expenditures to support advertising and branding, including funding for advertising campaigns, such as television commercials and radio and print advertisements. In 2009, 2010 and 2011, San Miguel Pure Foods' advertising and promotion costs accounted for a significant proportion of its selling and administrative expenses, comprising 14.4%, 15.2%, and 14.7% in the years 2009, 2010 and 2011, respectively. In the first nine months of 2012, advertising and promotion costs accounted for 21.7% of selling and administrative expenses for the period, primarily as a result of the introduction of new products and variants in anticipation of the expected higher level of sales in the fourth quarter of the year.

The development and introduction of new products and the use of branding initiatives can substantially increase San Miguel Pure Foods' operating costs. Although San Miguel Pure Foods believes that these higher costs are justified by increased sales from new and existing products, there is typically a delay between the incurrence of these costs and any such sales. Furthermore, San Miguel Pure Foods cannot be assured of when, if ever, these expenditures will result in increased revenues.

CRITICAL ACCOUNTING POLICIES

The preparation of San Miguel Pure Foods' consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements at the reporting date. However, uncertainty about these estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting policies are those that are both (i) relevant to the presentation of San Miguel Pure Foods' financial condition and results of operations and (ii) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex. In order to provide an understanding of how San Miguel Pure Foods' management forms its judgments about future events, including the variables and assumptions underlying the estimates, and the sensitivity of those judgments to different circumstances, San Miguel Pure Foods has identified the significant accounting judgments, estimates and

assumptions discussed in Note 4 to the 2011 audited consolidated financial statements included elsewhere in this Offering Circular. While San Miguel Pure Foods believes that all aspects of its consolidated financial statements, including the accounting policies discussed in Note 3 to the 2011 audited consolidated financial statements, should be studied and understood in assessing San Miguel Pure Foods' current and expected consolidated financial condition and results of operations, San Miguel Pure Foods believes that the significant accounting judgments, estimates and assumptions discussed in Note 4 to the 2011 audited consolidated financial statements warrant additional attention.

DESCRIPTION OF REVENUE AND COST ITEMS

The following discussion of San Miguel Pure Foods' results of operations with respect to the years ended December 31, 2009, 2010 and 2011 and the nine months ended September 30, 2011 and 2012 is based on, and should be read in conjunction with, San Miguel Pure Foods' consolidated financial statements and related notes included elsewhere in this Offering Circular.

Revenues

San Miguel Pure Foods generates its revenues from its agro-industrial, value-added meats, milling and other businesses. In 2009, 2010 and 2011, San Miguel Pure Foods had revenues of ₱75,043 million, ₱79,270 million and ₱89,591 million, respectively, with revenues from operations in the Philippines accounting for over 95% of total revenues in each period. In the nine months ended September 30, 2011 and 2012, San Miguel Pure Foods had revenues of ₱64,286 million and ₱69,354 million, respectively, with revenues from operations in the Philippines accounting for over 95% of total revenues in each period. These revenues consist of sales of goods (excluding intercompany sales) in the course of ordinary activities measured at the fair value of the consideration received or receivable, net of returns, trade discounts, volume rebates and VAT. Fair valuation adjustments on agricultural produce also form part of revenues.

Cost of Sales

San Miguel Pure Foods' cost of sales consists primarily of:

- inventories used, including the cost of raw materials that San Miguel Pure Foods uses in its operations and the cost of contracted services such as tollers' fees, contract growers' fees, slaughterhouse fees and processing plant fees;
- depreciation and amortization, including depreciation on property, plant and equipment and amortization of breeding stocks;
- freight, trucking and handling costs relating to transfers of raw materials from storage to farms and manufacturing or production facilities;
- communications, light and water costs;
- personnel expenses, including salaries, wages and related employee benefits for employees involved in San Miguel Pure Foods' manufacturing activities;
- repairs and maintenance costs relating to the upkeep of production equipment, facilities and buildings;
- rental expenses attributable to production, such as rental cost of warehouses and pallets; and
- other costs attributable to cost of sales, such as research and development costs, travel and transportation expenses, fuel costs and security expenses.

In 2009, 2010 and 2011, San Miguel Pure Foods' cost of sales was ₱61,448 million, ₱63,291 million and ₱73,417 million, respectively. In the nine months ended September 30, 2011 and 2012, San Miguel Pure Foods' cost of sales was ₱52,539 million and ₱57,300 million, respectively.

Selling and Administrative Expenses

San Miguel Pure Foods' selling and administrative expenses consist primarily of:

- freight, trucking and handling expenses incurred in connection with the shipment and distribution of finished products;
- personnel expenses, including salaries, wages and employee benefits for administrative, sales and corporate support unit personnel;

- advertising and promotion expenses incurred in marketing San Miguel Pure Foods' products, including the cost of media advertisements, event sponsorships, billboards, trade shows, merchandising activities and other marketing and promotional activities;
- contracted services, which represent cost of services performed by outside contractors related to selling and administrative activities;
- rental expenses, which include, among others, rental of warehouses for finished goods, and rental of administrative and sales offices;
- depreciation and amortization, including depreciation on property, plant and equipment attributable to selling and administrative expenses; and
- other selling and administrative expenses, such as professional fees, taxes and licenses, supplies, travel and transportation, communications, light and water expenses, repairs and maintenance and impairment losses on receivables.

In 2009, 2010 and 2011, selling and administrative expenses were ₱8,957 million, ₱10,077 million and ₱10,032 million, respectively. In the nine months ended September 30, 2011 and 2012, selling and administrative expenses were ₱7,493 million and ₱8,780 million, respectively.

Interest Expense and Other Financing Charges

San Miguel Pure Foods' interest expense and other financing charges primarily consist of:

- interest on notes payable, which mainly consist of unsecured Peso- and foreign currency-denominated loans payable to local and foreign banks; and
- interest expense on long-term unsecured Peso-denominated loans.

In 2009, 2010 and 2011, San Miguel Pure Foods' interest expense and other financing charges were ₱751 million, ₱359 million and ₱531 million, respectively. In the nine months ended September 30, 2011 and 2012, San Miguel Pure Foods' interest expense and other financing charges were ₱385 million and ₱426 million, respectively.

Interest Income

San Miguel Pure Foods' interest income primarily consists of interest received on short-term investments, such as money market placements, and cash deposited with banks.

In 2009, 2010 and 2011, San Miguel Pure Foods' interest income was ₱69 million, ₱105 million and ₱394 million, respectively. In the nine months ended September 30, 2011 and 2012, San Miguel Pure Foods' interest income was ₱361 million and ₱122 million, respectively.

Equity in Net Earnings of an Associate

San Miguel Pure Foods' equity in net earnings of an associate represents San Miguel Pure Foods' share in the net profit of Meralco, following San Miguel Pure Foods' acquisition of a 5.2% equity interest in Meralco from SMC in August 2011.

In 2011, San Miguel Pure Foods' equity in net earnings of an associate was ₱270 million. In the nine months ended September 30, 2011 and 2012, San Miguel Pure Foods' equity in net earnings of an associate was ₱100 million and ₱710 million, respectively.

Gain (Loss) on Sale of Property and Equipment

San Miguel Pure Foods' gain (loss) on sale of property and equipment primarily consists of gain or loss on sale of machinery and equipment, tools and small equipment, office equipment, furniture and fixtures and transportation equipment.

In 2009 and 2010, loss on sale of property and equipment was ₱25 million and ₱33 million, respectively. In 2011, gain on sale of property and equipment was ₱7 million. In the nine months ended September 30, 2011, loss on sale of property and equipment was ₱72,820, while, in the nine months ended September 30, 2012, gain on sale of property and equipment was ₱28 million.

Other Income (Charges) — Net

San Miguel Pure Foods' other income consists primarily of:

- mark-to-market gains on derivatives;
- foreign exchange gains; and
- dividend income.

San Miguel Pure Foods' other charges consist primarily of:

- mark-to-market losses on derivatives;
- foreign exchange losses;
- losses on impairment of property, plant and equipment and idle machinery and equipment; and
- maintenance cost and depreciation of idle production facilities.

In 2009 and 2011, net other charges were ₱89 million and ₱324 million, respectively. In 2010, net other income was ₱98 million. In the nine months ended September 30, 2011, net other charges were ₱110 million, while, in the nine months ended September 30, 2012, net other income was ₱253 million.

Income Tax Expense

San Miguel Pure Foods' income tax expense consists primarily of:

- current income tax expense; and
- deferred income tax expense.

In 2009, 2010 and 2011, income tax expense was ₱1,184 million, ₱1,654 million and ₱1,744 million, respectively. In the nine months ended September 30, 2011 and 2012, income tax expense was ₱1,165 million and ₱1,005 million, respectively.

Segment Operating Results

San Miguel Pure Foods' segment operating results consist of the revenues (including the operating results from intersegment transactions) from each of its reportable segments, namely: agro-industrial, value-added meats, milling and others, less (i) cost of sales, (ii) selling and administrative expenses, (iii) realized mark-to-market gains and losses from derivatives that are presented as part of "Other income (charges) — net," and (iv) eliminations representing mainly the unrealized profit component of inventories remaining at the end of each period transferred from one San Miguel Pure Foods subsidiary to another subsidiary.

RESULTS OF OPERATIONS

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

Revenues

San Miguel Pure Foods' revenues increased by 7.9% from ₱64,286 million in the nine months ended September 30, 2011 to ₱69,354 million in the nine months ended September 30, 2012. The following table sets forth San Miguel Pure Foods' revenues by business segment for the periods indicated:

	Nine Months ended September 30,			
	2011		2012	
	Revenues	% of Revenues	Revenues	% of Revenues
	(in millions, except %)			
Agro-industrial	₱41,735	64.9	₱45,687	65.9
Value-added Meats	7,910	12.3	8,980	13.0
Milling	6,154	9.6	6,337	9.1
Others	8,486	13.2	8,350	12.0
Total	₱64,286	100.0	₱69,354	100.0

Agro-industrial. Agro-industrial revenues increased by 9.5% from ₱41,735 million in the nine months ended September 30, 2011 to ₱45,687 million in the nine months ended September 30, 2012. This increase was due to increases in feeds, poultry and fresh meats revenues.

- Feeds revenues increased by 9.7% from ₱14,648 million in the nine months ended September 30, 2011 to ₱16,073 million in the nine months ended September 30, 2012. This increase was primarily due to a 5.5% increase in feeds sales volume and higher average selling prices for feeds products. The overall increase in feeds sales volume was a result of an increase in the number of trade outlets covered by San Miguel Pure Foods' distributors and increased demand for poultry and aquatic feeds. Higher average selling prices were primarily due to upward price adjustments in response to increases in the prices of raw materials such as corn and soybean meal.
- Poultry revenues increased by 10.2% from ₱22,025 million in the nine months ended September 30, 2011 to ₱24,282 million in the nine months ended September 30, 2012. This increase was primarily due to an 8.5% increase in sales volume, mainly attributable to increased market penetration through *Magnolia* chicken stations and increased sales to food service customers. Average selling prices also increased, mainly as a result of higher priced products, primarily those sold through *Magnolia* chicken stations, constituting a higher proportion of the products sold.
- Fresh meats revenues increased by 5.3% from ₱5,062 million in the nine months ended September 30, 2011 to ₱5,332 million in the nine months ended September 30, 2012. This increase was primarily due to a 7.0% increase in sales volume, mainly attributable to an increase in the number of *Monterey* meat shops. The effect of higher sales volume was partially offset by a decrease in the average selling prices of fresh meats products, as considerably lower average selling prices in the first half of 2012 were only partially offset by higher average selling prices in the third quarter of 2012. The lower average selling prices in the first half of 2012 were caused primarily by sharply higher imports of lower-priced frozen meats.

Value-added Meats. Value-added meats revenues increased by 13.5% from ₱7,910 million in the nine months ended September 30, 2011 to ₱8,980 million in the nine months ended September 30, 2012. This increase was principally due to a 13.5% increase in sales volume resulting from continued growth in sales of San Miguel Pure Foods' core value-added meats brands, such as *Tender Juicy* and *Star* hotdog brands, and the introduction of new products and variants, such as *Purefoods Fun Nuggets*. Average selling prices largely remained unchanged.

Milling. Milling revenues increased by 3.0% from ₱6,154 million in the nine months ended September 30, 2011 to ₱6,337 million in the nine months ended September 30, 2012. This increase was principally due to a 4.8% increase in sales volume resulting from an increase in the number of distribution outlets and strong consumer demand. Average selling prices decreased slightly, as producers passed on lower wheat prices to customers.

Others. Others revenues decreased by 1.6% from ₱8,486 million in the nine months ended September 30, 2011 to ₱8,350 million in the nine months ended September 30, 2012. This decrease was principally a result of lower revenues in international operations due to (i) lower average selling prices resulting from an oversupply of hogs in Vietnam and (ii) lower sales volume resulting from limited supply of beef in Indonesia due to the imposition of certain import restrictions.

Cost of Sales

Cost of sales increased by 9.1% from ₱52,539 million in the nine months ended September 30, 2011 to ₱57,300 million in the nine months ended September 30, 2012. This increase was primarily the result of (i) an increase in inventories used and (ii) an increase in freight, trucking and handling costs relating to production.

The increase in inventories used was principally due to: (i) higher volume of raw materials used, in line with the increased volume of products sold, (ii) higher raw material costs resulting from higher average prices of raw materials and the use of more expensive cost alternatives, such as corn and feed wheat, due to the limited supply of cassava and (iii) an increase in contracted tolling fees due to higher production volume.

The increase in freight, trucking and handling costs was largely due to an increase in fuel prices and higher volumes.

Gross Profit

As a result of the foregoing, gross profit increased by 2.6% from ₱11,747 million in the nine months ended September 30, 2011 to ₱12,054 million in the nine months ended September 30, 2012.

Selling and Administrative Expenses

Selling and administrative expenses increased by 17.2% from ₱7,493 million in the nine months ended September 30, 2011 to ₱8,780 million in the nine months ended September 30, 2012. This increase was the result of increases in advertising and promotions, freight, trucking and handling expenses, rental expenses and contracted services costs.

The significant increase in advertising and promotions expenses was mainly due to higher spending on brand-building and expenses related to the launch of new products, including new variants of *Star* hotdogs, new ice cream flavors and new coffee products. The increase in freight, trucking and handling expenses was primarily due to an expansion of distribution coverage, increased volumes and higher fuel costs. The increase in rental expenses and contracted services were due to increased volumes.

Interest Expense and Other Financing Charges

Interest expense and other financing charges increased by 10.6% from ₱385 million in the nine months ended September 30, 2011 to ₱426 million in the nine months ended September 30, 2012. This increase was attributable to a higher level of borrowings.

Interest Income

Interest income decreased by 66.2% from ₱361 million in the nine months ended September 30, 2011 to ₱122 million in the nine months ended September 30, 2012, primarily due to the lower level of short-term money market placements compared to the first nine months of 2011, when San Miguel Pure Foods had a higher level of such placements following its Preferred Shares issuance in March 2011 and prior to the payment of the purchase price for the 5.2% equity interest in Meralco in August 2011.

Equity in Net Earnings of an Associate

Equity in net earnings of an associate increased significantly from ₱100 million in the nine months ended September 30, 2011 to ₱710 million in the nine months ended September 30, 2012, due to the recognition of equity in the net earnings of Meralco for the full nine-month period of 2012, compared to only two months in 2011, as the 5.2% equity interest in Meralco was acquired in August 2011.

Gain (Loss) on Sale of Property and Equipment

Gain on sale of property and equipment was ₱28 million in the nine months ended September 30, 2012, a reversal from the ₱72,820 loss in the nine months ended September 30, 2011.

Other Income (Charges) — Net

San Miguel Pure Foods had net other income of ₱253 million in the nine months ended September 30, 2012, compared to net other charges of ₱110 million in the nine months ended September 30, 2011. Net other income for the nine months ended September 30, 2012 was primarily attributable to (i) mark-to-market gains on derivative currency forwards embedded in non-financial contracts, (ii) mark-to-market gains on commodity derivatives and (iii) gains from sale of Rockwell Land Corporation shares that were received as property dividends from Meralco.

Income before Income Tax

As a result of the foregoing, income before income tax decreased by 6.1% from ₱4,220 million in the nine months ended September 30, 2011 to ₱3,961 million in the nine months ended September 30, 2012.

Income Tax Expense

Income tax expense decreased by 13.7% from ₱1,165 million in the nine months ended September 30, 2011 to ₱1,005 million in the nine months ended September 30, 2012. This decrease was primarily due to lower taxable income in the nine months ended September 30, 2012.

Net Income

As a result of the foregoing, net income decreased by 3.2% from ₱3,055 million in the nine months ended September 30, 2011 to ₱2,956 million in the nine months ended September 30, 2012.

Segment Operating Results

The following table sets forth San Miguel Pure Foods' operating results by business segment for the periods indicated:[1]

	Nine Months ended September 30,			
	2011		2012	
	Operating Results	% of Total Operating Results	Operating Results	% of Total Operating Results
	(in millions, except %)			
Agro-industrial	₱1,792	41.2	₱ 993	29.5
Value-added Meats	489	11.2	585	17.4
Milling	1,399	32.1	1,453	43.1
Others	634	14.6	301	8.9
Eliminations[2]	39	0.9	36	1.1
Total	₱4,354	100.0	₱3,368	100.0

[1] Includes operating results from intersegment sales and realized mark-to-market gains (losses) from derivatives that are presented as part of "Other income (charges) — net" in the consolidated financial statements. For information concerning the amount of intersegment revenue for each segment, see Note 2 to the September 2012 consolidated interim financial statements. Intersegment revenues represent primarily (i) sales of pollard from the milling segment to the agro-industrial segment, (ii) sales of poultry and fresh meat from the agro-industrial segment to the value-added meats segment and (iii) sales of dairy products, specifically cheese, oil and margarine, from the others segment to the value-added meats segment.

[2] Represents mainly the unrealized profit component of inventories remaining at the end of each period transferred from one San Miguel Pure Foods subsidiary to another subsidiary.

Agro-industrial. Agro–industrial operating results decreased by 44.6% from ₱1,792 million in the nine months ended September 30, 2011 to ₱993 million in the nine months ended September 30, 2012. This decrease was primarily the result of (i) higher raw material costs resulting from higher average prices of raw materials and the use of more expensive raw materials, such as corn and feed wheat, due to the limited supply of cassava and (ii) a substantial increase in selling and administrative expenses primarily due to higher freight, trucking and handling, warehousing and contracted services costs. The higher raw materials prices were particularly noticeable in the first quarter of 2012, but lessened in the second and third quarters, as the price of corn slightly declined. The effect of higher costs was partially offset by the 9.5% increase in revenues, with the revenues from fresh meats increasing by only 5.3%, partially as a result of lower average selling prices, particularly in the first and second quarters, as discussed above.

Value-added Meats. Value-added meats operating results increased by 19.6% from ₱489 million in the nine months ended September 30, 2011 to ₱585 million in the nine months ended September 30, 2012. This increase was primarily the result of the 13.5% increase in revenues discussed above. In addition, in the nine months ended September 30, 2012, San Miguel Pure Foods recognized realized mark-to-market gains on derivative currency forwards embedded in non-financial contracts, which are primarily purchase contracts for raw materials, as compared to mark-to-market losses in the nine months ended September 30, 2011. These factors were offset in part by (i) a significant increase in cost of sales primarily due to higher volume of raw materials used and (ii) a significant increase in selling and administrative expenses primarily due to higher advertising and promotions, freight, trucking and handling, and warehousing costs.

Milling. Milling operating results increased by 3.8% from ₱1,399 million in the nine months ended September 30, 2011 to ₱1,453 million in the nine months ended September 30, 2012. This increase was primarily the result of the increase in revenues discussed above, and intersegment revenues, which were partially offset by (i) an increase in cost of sales primarily due to higher volume of raw materials used and (ii) an increase in selling and administrative expenses mainly due to higher freight, trucking and handling and advertising and promotions costs.

Others. Others operating results decreased by 52.5% from ₱634 million in the nine months ended September 30, 2011 to ₱301 million in the nine months ended September 30, 2012. This decrease was primarily the result of (i) the 1.6% decrease in revenues discussed above, including lower revenues in San Miguel Pure Foods' operations in Vietnam and Indonesia and (ii) a substantial increase in selling and administrative expenses. The increase in selling and administrative expenses was primarily due to (i) higher advertising and promotions costs due to the launch of new dairy and coffee products and (ii) higher freight, trucking and handling and warehousing costs, resulting from higher volumes for dairy, spreads and coffee. The effects of these factors were partially offset by a decrease in cost of sales primarily due to lower volumes of raw materials used for the international operations and lower average cost of raw materials purchased for the dairy business.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Revenues

San Miguel Pure Foods' revenues increased by 13.0% from ₱79,270 million in 2010 to ₱89,591 million in 2011. The following table sets forth San Miguel Pure Foods' revenues by business segment for the periods indicated:

	Years ended December 31,			
	2010		2011	
	Revenues	% of Revenues	Revenues	% of Revenues
	(in millions, except %)			
Agro-industrial	₱52,300	66.0	₱56,982	63.6
Value-added Meats	11,534	14.6	12,103	13.5
Milling	7,155	9.0	8,354	9.3
Others	8,281	10.4	12,152	13.6
Total	₱79,270	100.0	₱89,591	100.0

Agro-industrial. Agro-industrial revenues increased by 9.0% from ₱52,300 million in 2010 to ₱56,982 million in 2011. This increase was due to increases in feeds, poultry and fresh meats revenues. In particular:

- Feeds revenues increased by 8.3% from ₱18,314 million in 2010 to ₱19,838 million in 2011. This increase was primarily due to a 2.7% increase in feeds sales volume and higher average selling prices for feeds products. Sales volumes across the different types of feeds varied, as increases in sales volume for broiler and game fowl feeds were partially offset by lower demand for hog feeds and aquatic feeds. The overall increase in feeds sales volume was primarily a result of higher sales through general trade and farm channels due to an increased number of dealers and broiler farm customers, respectively. Higher average selling prices were primarily due to higher priced feed products constituting a higher proportion of products sold and upward price adjustments in response to increases in raw material prices.
- Poultry revenues increased by 9.9% from ₱27,814 million in 2010 to ₱30,558 million in 2011. This increase was primarily due to a 5.8% increase in sales volume, mainly attributable to increased market penetration through *Magnolia* chicken stations and geographical expansion of the distribution network as well as increased export sales. Average selling prices also increased, primarily due to higher priced poultry products constituting a higher proportion of the products sold and upward price adjustments in response to increases in raw material prices.
- Fresh meats revenues increased by 6.7% from ₱6,172 million in 2010 to ₱6,585 million in 2011. This increase was due to a 9.9% increase in sales volume, mainly attributable to higher production volumes, particularly in the live and branded product segments, and an increase in the number of *Monterey* meat shops. The effect of the higher sales volume was partially offset by lower average selling prices, which were primarily due to industry-wide high supply of hogs combined with increased imports of frozen meats.

Value-added Meats. Value-added meats revenues increased by 4.9% from ₱11,534 million in 2010 to ₱12,103 million in 2011. This increase was mainly due to a 5.4% increase in sales volume resulting from the continued growth in sales of San Miguel Pure Foods' mid-price hotdog brand, more competitive pricing in

supermarkets, the introduction of new products and variants, such as *Purefoods Stuffed Nuggets*, *Star Cheezeedog*, *Purefoods Turkey Franks* and *Purefoods Corned Beef Chili*, and increased export sales. In addition, in the last quarter of 2011, San Miguel Pure Foods increased production volumes when it entered into a tolling arrangement to replace the lost capacity resulting from the closure of its Marikina plant in 2010. Average selling prices decreased due to competitive pressure.

Milling. Milling revenues increased by 16.8% from ₱7,155 million in 2010 to ₱8,354 million in 2011. This increase was due to higher average selling prices in 2011 in response to higher global wheat prices. Volume remained relatively flat due to the increased availability of lower-priced imported flour.

Others. Others revenues increased by 46.7% from ₱8,281 million in 2010 to ₱12,152 million in 2011. This increase was primarily due to (i) the full year impact of the consolidation of San Miguel Hormel (Vn) Co., Ltd. ("San Miguel Hormel Vietnam"), which was acquired from SMC in August 2010 and (ii) increased sales volume for butter, margarine, cheese, cooking oil and ice cream primarily due to increased market penetration resulting from the geographical expansion of the distribution network. The increases in sales volume, combined with higher average selling prices to partly cover the increases in raw material prices, contributed to higher revenues in 2011.

Cost of Sales

Cost of sales increased by 16.0% from ₱63,291 million in 2010 to ₱73,417 million in 2011, which was consistent with increased sales volume over the period. These increases included a 15.4% increase in inventories used from ₱56,705 million in 2010 to ₱65,417 million in 2011 and a 45.2% increase in freight, trucking and handling costs relating to production from ₱1,737 million in 2010 to ₱2,521 million in 2011.

The increase in inventories used was principally due to: (i) higher volume of raw materials used, in line with the increased volume of products sold, (ii) higher average purchase prices of key raw materials, such as wheat, corn, soybean meal, anhydrous milk fat, buttermilk powder, and coconut and palm oil, (iii) an increase in contracted tolling fees due to higher production volume, an increase in tolling rates for the feeds business and the imposition of VAT on tolling fees paid by the poultry business starting in 2011 and (iv) the full year impact of the consolidation of San Miguel Hormel Vietnam.

The increase in freight, trucking and handling costs was largely due to an increase in fuel prices and higher volumes.

Gross Profit

As a result of the foregoing, gross profit increased by 1.2% from ₱15,979 million in 2010 to ₱16,174 million in 2011.

Selling and Administrative Expenses

Selling and administrative expenses decreased by 0.4% from ₱10,077 million in 2010 to ₱10,032 million in 2011. This decrease was primarily due to slight decreases in personnel expenses, advertising and promotions, professional fees and depreciation and amortization, the effect of which was offset by an increase in freight, trucking and handling expenses, contracted services and rental expenses. The increase in freight, trucking and handling expenses was primarily due to an expansion of distribution coverage, which resulted in higher volumes and higher fuel costs.

Interest Expense and Other Financing Charges

Interest expense and other financing charges increased by 47.7% from ₱359 million in 2010 to ₱531 million in 2011. This increase was attributable to the issuance by a subsidiary, San Miguel Foods, Inc., in December 2010 of ₱4,500 million in aggregate principal amount of Peso-denominated floating and fixed rate notes due in 2015.

Interest Income

Interest income increased significantly from ₱105 million in 2010 to ₱394 million in 2011 as proceeds from San Miguel Pure Foods' Preferred Shares issuance in March 2011 were temporarily held in short-term placements prior to the payment of the purchase price for the 5.2% equity interest in Meralco in August 2011.

Equity in Net Earnings of an Associate

San Miguel Pure Foods started recognizing equity in net earnings of an associate in 2011 following its acquisition of a 5.2% equity interest in Meralco in August 2011. Total equity in net earnings of Meralco recognized in 2011 amounted to ₱270 million.

Gain (Loss) on Sale of Property and Equipment

Gain on sale of property and equipment was ₱7 million in 2011, a reversal from the ₱33 million loss in 2010, primarily due to gain recognized from the disposal of assets in 2011, compared to a loss recognized from the retirement in 2010 of certain fixed assets that had been damaged by a typhoon.

Other Income (Charges) — Net

San Miguel Pure Foods had net other charges of ₱324 million in 2011, compared to net other income of ₱98 million in 2010. Net other charges in 2011 were primarily attributable to (i) mark-to-market losses on derivatives due to lower market prices of wheat options, (ii) mark-to-market losses on derivative currency forwards embedded in non-financial contracts and (iii) foreign exchange losses resulting from unfavorable movements in foreign exchange rates. Non-financial contracts with embedded currency forwards mainly consist of foreign-currency denominated purchase orders, sales agreements and capital expenditures. Net other charges in 2011 also reflected a reduction in the net realizable value of certain assets of San Miguel Hormel Vietnam subsequent to its acquisition by San Miguel Pure Foods, the impact of which was presented as part of other charges in 2011. In 2010, by comparison, San Miguel Pure Foods recognized mark-to-market gains on derivatives due to higher market prices of wheat options and on derivative currency forwards embedded in non-financial contracts, the effect of which were partially offset by foreign exchange losses resulting from unfavorable movements in foreign exchange rates.

Income before Income Tax

As a result of the foregoing, income before income tax increased by 4.3% from ₱5,713 million in 2010 to ₱5,958 million in 2011.

Income Tax Expense

Income tax expense increased by 5.5% from ₱1,654 million in 2010 to ₱1,744 million in 2011. This increase was primarily due to San Miguel Pure Foods' higher taxable income in 2011.

Net Income

As a result of the foregoing, net income increased by 3.8% from ₱4,059 million in 2010 to ₱4,214 million in 2011.

Segment Operating Results

The following table sets forth San Miguel Pure Foods' operating results by business segment for the periods indicated:[1]

	Years ended December 31,			
	2010		2011	
	Operating Results	% of Total Operating Results	Operating Results	% of Total Operating Results
	(in millions, except %)			
Agro-industrial	₱3,299	54.9	₱2,370	38.0
Value-added Meats	772	12.8	1,031	16.5
Milling	1,574	26.2	1,867	30.0
Others	310	5.2	923	14.8
Eliminations[2]	55	0.9	40	0.6
Total	₱6,010	100.0	₱6,231	100.0

[1] Includes operating results from intersegment sales and realized mark-to-market gains (losses) from derivatives that are presented as part of "Other income (charges) — net" in the consolidated financial statements. For information concerning the amount of intersegment revenue for each segment, see Note 6 to the 2011 audited consolidated financial statements. Intersegment revenues represent primarily (i) sales of pollard from the milling segment to the agro-industrial segment, (ii) sales of poultry and fresh meat from the agro-industrial segment to the value-added meats segment and (iii) sales of dairy products, specifically cheese, oil and margarine, from the others segment to the value-added meats segment.

[2] Represents mainly the unrealized profit component of inventories remaining at the end of each period transferred from one San Miguel Pure Foods subsidiary to another subsidiary.

Agro-industrial. Agro–industrial operating results decreased by 28.2% from ₱3,299 million in 2010 to ₱2,370 million in 2011. This decrease was primarily the result of (i) a substantial increase in cost of sales primarily due to a higher volume of raw materials purchased, higher average prices of raw materials and the imposition in 2011 of a 12% VAT on tolling fees paid primarily by the poultry business and (ii) an increase in selling and administrative expenses primarily due to higher freight, trucking and handling costs. The effect of higher costs was partially offset by the 9.0% increase in agro-industrial revenues discussed above.

Value-added Meats. Value-added Meats operating results increased by 33.5% from ₱772 million in 2010 to ₱1,031 million in 2011. This increase was primarily due to the 5.4% increase in sales volume discussed above, which was proportionally higher than the increase in cost of sales, primarily due to product reformulations permitting the use of lower cost alternative raw materials. These factors resulted in an increase in gross margin, the effect of which was offset in part by an increase in selling and administrative expenses, primarily due to higher freight, trucking and handling, advertising and promotions and merchandising expenses.

Milling. Milling operating results increased by 18.6% from ₱1,574 million in 2010 to ₱1,867 million in 2011. This increase was primarily the result of the 16.8% increase in milling revenues discussed above, as well as a decrease in selling and administrative expenses primarily due to lower freight, trucking and handling costs. The effect of these factors was partially offset by a substantial increase in cost of sales, primarily due to higher wheat prices.

Others. Others operating results significantly increased from ₱310 million in 2010 to ₱923 million in 2011. This increase was primarily the result of the 46.7% increase in others revenues discussed above and the full year impact of royalty income of San Miguel Pure Foods from its subsidiaries, which was partially offset by a significant increase in cost of sales, primarily due to the full year impact of the consolidation of San Miguel Hormel Vietnam, higher volume of raw materials purchased and higher average purchase prices for raw materials.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenues

San Miguel Pure Foods' revenues increased by 5.6% from ₱75,043 million in 2009 to ₱79,270 million in 2010. The following table sets forth San Miguel Pure Foods' revenues by business segment for the periods indicated:

	Years ended December 31,			
	2009		2010	
	Revenues	% of Revenues	Revenues	% of Revenues
	(in millions, except %)			
Agro-industrial	₱49,069	65.4	₱52,300	66.0
Value-added Meats	11,234	15.0	11,534	14.6
Milling	7,482	10.0	7,155	9.0
Others	7,258	9.7	8,281	10.4
Total	₱75,043	100.0	₱79,270	100.0

Agro-industrial. Agro–industrial revenues increased by 6.6% from ₱49,069 million in 2009 to ₱52,300 million in 2010. This increase was primarily due to increases in feeds and poultry revenues, which offset a decrease in fresh meats revenues. In particular:

- Feeds revenues increased by 9.2% from ₱16,767 million in 2009 to ₱18,314 million in 2010. This increase was primarily due to a 10.2% increase in feeds sales volume, which was partially offset by lower average selling prices of commercial feeds. The increase in feeds sales volume resulted primarily from intensified programs to increase access to trade and farm customers and the introduction of new products supported by marketing activities. The decrease in average selling prices was primarily a result of competitive pricing among feeds industry participants.
- Poultry revenues increased by 9.0% from ₱25,522 million in 2009 to ₱27,814 million in 2010. This was due primarily to a 13.2% increase in sales volume, attributable to the increased number of *Magnolia* chicken stations and food service accounts, and increased export sales volume. The effect of increased sales volume was partially offset by lower average selling prices, which resulted primarily from an industry-wide oversupply of poultry products in the second half of 2010.
- Fresh meats revenues decreased by 9.0% from ₱6,779 million in 2009 to ₱6,172 million in 2010. This decrease was primarily attributable to an 8.8% decrease in volume due to incidences of disease affecting some of San Miguel Pure Foods' and its competitors' farms, resulting in lower production and supply. Average sales prices remained nearly constant.

Value-added Meats. Value-added meats revenues increased by 2.7% from ₱11,234 million in 2009 to ₱11,534 million in 2010. This increase primarily resulted from higher average selling prices mainly as a result of higher priced products constituting a higher proportion of the products sold. Sales volume was flat as a result of capacity constraints brought about by the closure of the Marikina plant that was damaged by a typhoon in 2009.

Milling. Milling revenues decreased by 4.4% from ₱7,482 million in 2009 to ₱7,155 million in 2010. This decrease was primarily caused by lower average selling prices in 2010 in response to lower global wheat prices, which was partially offset by a 0.6% increase in sales volume.

Others. Others revenues increased by 14.1% from ₱7,258 million in 2009 to ₱8,281 million in 2010. This increase was primarily due to the acquisition of San Miguel Hormel Vietnam in August 2010.

Cost of Sales

Cost of sales increased by 3.0% from ₱61,448 million in 2009 to ₱63,291 million in 2010. This increase was primarily due to a 3.0% increase in inventories used from ₱55,100 million in 2009 to ₱56,705 million in 2010 and an 11.6% increase in depreciation and amortization costs from ₱1,483 million in 2009 to ₱1,655 million in 2010, which was partially offset by a 20.3% decrease in personnel expenses from ₱862 million in 2009 to ₱687 million in 2010.

The increase in inventories used was principally due to: (i) an increase in the volume of products sold, (ii) higher average purchase prices for some major raw materials, such as imported beef, palm oil, anhydrous

milk fat and buttermilk powder, and (iii) an increase in contracted tolling fees due to higher production volume, which was partially offset by (i) lower average purchase prices for wheat and soybean meal due to lower global prices and (ii) improvements in operational efficiencies in the poultry and fresh meats businesses. The increase in depreciation and amortization costs was largely due to higher amortization of breeding stocks that resulted primarily from the full consolidation of San Miguel Hormel Vietnam in 2010. The decrease in personnel expenses was mainly due to outsourcing of certain operations, such as processing and farm operations.

Gross Profit

As a result of the foregoing, gross profit increased by 17.5% from ₱13,595 million in 2009 to ₱15,979 million in 2010.

Selling and Administrative Expenses

Selling and administrative expenses increased by 12.5% from ₱8,957 million in 2009 to ₱10,077 million in 2010. This increase was primarily due to a 24.4% increase in freight, trucking and handling expenses from ₱1,894 million in 2009 to ₱2,357 million in 2010, a 7.8% increase in personnel expenses from ₱2,151 million in 2009 to ₱2,319 million in 2010, a 19.3% increase in advertising and promotions expenses from ₱1,287 million in 2009 to ₱1,535 million in 2010 and a 79.7% increase in professional fees from ₱238 million in 2009 to ₱428 million in 2010. These increases were offset in part by an 8.7% decrease in contracted services from ₱1,270 million in 2009 to ₱1,159 million in 2010.

The increase in freight, trucking and handling expenses was due to an expansion of distribution coverage and an increase in fuel prices. The increase in personnel expenses was principally due to higher average salaries and the full year effect of the transfer of the Centralized Key Accounts Group from SMC to San Miguel Pure Foods in May 2009. The increase in advertising and promotions expenses was mainly due to higher spending on brand-building and product-visibility activities. The increase in professional fees was mainly due to disbursements related to projects undertaken in 2010, including internal systems review and San Miguel Foods, Inc.'s issuance, in December 2010, of ₱4,500 million in aggregate principal amount of Peso-denominated floating and fixed rate notes due in 2015. The decrease in contracted services was mainly due to a reduction in manpower requirements as San Miguel Pure Foods franchised out a number of *Monterey* meat shops in supermarkets.

Interest Expense and Other Financing Charges

Interest expense and other financing charges decreased by 52.1% from ₱751 million in 2009 to ₱359 million in 2010. This decrease was attributable to a lower average level of borrowings for working capital requirements due to the settlement of maturing short-term loans in 2010, combined with lower average bank interest rates.

Interest Income

Interest income increased by 52.6% from ₱69 million in 2009 to ₱105 million in 2010, primarily due to an increase in short-term money market placements.

Gain (Loss) on Sale of Property and Equipment

Loss on sale of property and equipment increased by 32.2% from ₱25 million in 2009 to ₱33 million in 2010. This increase was mainly due to a loss from the retirement in 2010 of certain fixed assets that had been damaged by a typhoon.

Other Income (Charges) — Net

San Miguel Pure Foods had net other income of ₱98 million in 2010, compared to net other charges of ₱89 million in 2009. Net other income in 2010 was primarily attributable to mark-to-market gains on commodity derivatives and derivative currency forwards embedded in non-financial contracts. In 2009, net other charges were primarily due to impairment losses on idle machinery and equipment.

Income before Income Tax

As a result of the foregoing, income before income tax increased by 48.7% from ₱3,842 million in 2009 to ₱5,713 million in 2010.

Income Tax Expense

Income tax expense increased by 39.8% from ₱1,184 million in 2009 to ₱1,654 million in 2010. This increase was primarily due to San Miguel Pure Foods' higher taxable income in 2010.

Net Income

As a result of the foregoing, net income increased by 52.7% from ₱2,658 million in 2009 to ₱4,059 million in 2010.

Segment Operating Results

The following table sets forth San Miguel Pure Foods' operating results by business segment for the periods indicated:[1]

	Years ended December 31,			
	2009		2010	
	Operating Results	% of Total Operating Results	Operating Results	% of Total Operating Results
	(in millions, except %)			
Agro-industrial	₱3,085	67.9	₱3,299	54.9
Value-added Meats	489	10.8	772	12.8
Milling	752	16.6	1,574	26.2
Others	333	7.3	310	5.2
Eliminations[2]	(118)	(2.6)	55	0.9
Total	₱4,541	100.0	₱6,010	100.0

[1] Includes operating results from intersegment sales and realized mark-to-market gains (losses) from derivatives that are presented as part of "Other income (charges) — net" in the consolidated financial statements. For information concerning the amount of intersegment revenue for each segment, see Note 6 to the 2011 audited consolidated financial statements. Intersegment revenues represent primarily (i) sales of pollard from the milling segment to the agro-industrial segment, (ii) sales of poultry and fresh meat from the agro-industrial segment to the value-added meats segment and (iii) sales of dairy products, specifically cheese, oil and margarine, from the others segment to the value-added meats segment.

[2] Represents mainly the unrealized profit component of inventories remaining at the end of each period transferred from one San Miguel Pure Foods subsidiary to another subsidiary.

Agro-industrial. Agro–industrial operating results increased by 6.9% from ₱3,085 million in 2009 to ₱3,299 million in 2010. This increase was primarily due to (i) increased sales volume in the feeds and poultry businesses, as discussed above, and (ii) a lower proportional increase in cost of sales due to (a) use of lower cost alternative raw materials and (b) improved operational efficiencies in the poultry and fresh meats businesses. These factors resulted in an increase in gross margin, the effect of which was partially offset by an increase in selling and administrative expenses primarily due to higher freight, trucking and handling and warehousing costs.

Value-added Meats. Value-added Meats operating results increased by 57.9% from ₱489 million in 2009 to ₱772 million in 2010. This increase was primarily the result of (i) the 2.7% increase in revenues discussed above and (ii) a slight decrease in cost of sales due to the receipt of insurance proceeds for incremental tolling costs incurred in relation to the closure of the Marikina plant. These factors resulted in an increase in gross margin, the effect of which was partially offset by an increase in selling and administrative expenses, primarily due to higher freight, trucking and handling and warehousing costs.

Milling. Milling operating results increased 109.3% from ₱752 million in 2009 to ₱1,574 million in 2010. This increase was primarily the result of a substantial decrease in cost of sales, primarily due to lower wheat costs, which was offset in part by (i) a decrease in revenues and (ii) a slight increase in selling and administrative expenses.

Others. Others operating results decreased by 6.9% from ₱333 million in 2009 to ₱310 million in 2010. This decrease was primarily the result of (i) an increase in cost of sales primarily due to the consolidation of San Miguel Hormel Vietnam and higher sales volumes and (ii) a 31.1% increase in selling and administrative expenses, primarily due to the consolidation of San Miguel Hormel Vietnam and higher freight, trucking and handling, warehousing and advertising and promotions costs. The effect of higher costs was partially offset by the 14.1% increase in revenues discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following table sets forth San Miguel Pure Foods' cash flows for the periods indicated:

	Years ended December 31,			Nine Months ended September 30,	
	2009	2010	2011	2011	2012
			(in millions)		
Net cash flows provided by operating activities	₱ 5,536	₱ 4,816	₱ 3,756	₱ 2,396	₱ 2,436
Net cash flows used in investing activities	(1,518)	(2,038)	(18,935)	(18,332)	(2,413)
Net cash flows provided by (used in) financing activities	(2,850)	316	13,072	12,849	(939)
Effect of exchange rate changes on cash and cash equivalents	—	(3)	(1)	—	8
Net increase (decrease) in cash and cash equivalents	1,168	3,091	(2,109)	(3,088)	(908)
Cash and cash equivalents at beginning of year	2,782	3,950	7,041	7,041	4,933
Cash and cash equivalents at end of period	₱ 3,950	₱ 7,041	₱ 4,933	₱ 3,953	₱ 4,025

Net Cash Flows Provided by Operating Activities

Net cash flows provided by operating activities for the nine months ended September 30, 2012 were ₱2,436 million. This primarily resulted from income before tax of ₱3,961 million, adjusted for non-cash items and changes in working capital, including depreciation and amortization expenses of ₱1,718 million, a net increase in working capital of ₱1,214 million, income taxes paid of ₱965 million and interest paid of ₱519 million. The increase in working capital was primarily due to: (i) an increase in inventories of ₱3,486 million due to the build-up of inventories in preparation for the Christmas season and increased purchases of certain raw materials, such as corn for the feeds business to take advantage of lower prices and (ii) an increase in biological assets of ₱257 million due to higher feed costs and higher volumes of growing livestock. These were partially offset by (i) an increase of ₱1,892 million in trade payables and other current liabilities due to higher inventory purchases and (ii) a decrease in trade and other receivables of ₱858 million due to the collection of receivables resulting from peak season sales.

Net cash flows provided by operating activities in 2011 were ₱3,756 million. This primarily resulted from income before tax of ₱5,958 million, adjusted for non-cash items and changes in working capital, including depreciation and amortization expenses of ₱2,120 million, a net increase in working capital of ₱2,684 million and income taxes paid of ₱1,594 million. The increase in working capital was primarily due to: (i) an increase in trade and other receivables of ₱891 million, in line with the increase in revenue, (ii) an increase in biological assets of ₱858 million due to higher feed costs and higher volumes of growing livestock and (iii) a decrease of ₱643 million in trade payables and other current liabilities due to higher inventory purchases.

Net cash flows provided by operating activities in 2010 were ₱4,816 million. This primarily resulted from income before tax of ₱5,713 million, adjusted for non-cash items and changes in working capital, including depreciation and amortization expenses of ₱1,926 million, a net increase in working capital of ₱1,279 million and income taxes paid of ₱1,489 million. The increase in working capital was primarily due to: (i) a decrease in trade payables and other current liabilities of ₱1,799 million mainly due to payments made to SMC for the transfer of its Centralized Key Accounts Group to San Miguel Pure Foods, (ii) an increase in prepaid expenses and other current assets of ₱453 million due to increased levels of creditable input taxes arising from the acquisition of certain brands from SMC and higher withholding taxes for application against tax liabilities, and (iii) an increase in biological assets of ₱284 million due to higher volume of growing livestock. These were partially offset by a decrease in trade and other receivables of ₱1,418 million, due to collection of Centralized Key Accounts Group receivables transferred from SMC and the partial collection of insurance claims on damages caused by a typhoon.

Net cash flows provided by operating activities in 2009 were ₱5,536 million. This primarily resulted from income before tax of ₱3,842 million, adjusted for non-cash items and changes in working capital, including depreciation and amortization expenses of ₱1,705 million and a net decrease in working capital of ₱308 million. The decrease in working capital was primarily due to an increase in trade payables and other current liabilities of

₱1,706 million, reflecting the amount payable to SMC for the transfer of its Centralized Key Accounts Group to San Miguel Pure Foods and a ₱408 million decrease in biological assets due to lower volume of growing livestock. This was partially offset by an increase of ₱1,349 million in trade and other receivables due to the transfer of SMC's Centralized Key Accounts Group to San Miguel Pure Foods and the recognition of insurance claims covering damages caused by a typhoon.

Net Cash Flows Used in Investing Activities

Net cash flows used in investing activities for the nine months ended September 30, 2012 were ₱2,413 million and primarily consisted of (i) ₱1,493 million for additions to property, plant and equipment, including the construction of a bulk grain handling and storage terminal adjacent to San Miguel Pure Foods' flour mill in Mabini, Batangas (the "Mabini grain terminal") and the expansion of production facilities for its value-added meats and dairy, spreads and oils businesses and (ii) ₱1,299 million for additions to noncurrent biological assets and other noncurrent assets.

Net cash flows used in investing activities were ₱18,935 million in 2011 and primarily consisted of (i) ₱13,000 million for the acquisition of a 5.2% equity interest in Meralco from SMC, (ii) ₱2,880 million for the payment of the 90% balance of the purchase price due to SMC for certain brands and intellectual property rights transferred by SMC to San Miguel Pure Foods and (iii) ₱1,491 million in additions to noncurrent biological assets and other noncurrent assets.

Net cash flows used in investing activities were ₱2,038 million in 2010. This primarily reflected additions to noncurrent biological assets and other noncurrent assets of ₱1,188 million and acquisitions of property, plant and equipment of ₱581 million.

Net cash flows used in investing activities were ₱1,518 million in 2009. This primarily reflected additions to noncurrent biological assets and other noncurrent assets of ₱883 million and acquisitions of property, plant and equipment of ₱651 million.

Net Cash Flows Provided by (Used in) Financing Activities

Net cash flows used in financing activities for the nine months ended September 30, 2012 were ₱939 million. The main components of these were (i) the payment of ₱599 million of cash dividends to holders of the Common Shares, (ii) the payment of ₱900 million of cash dividends to holders of the Preferred Shares, (iii) payment of ₱400 million of cash dividends to the shareholder of a non-controlling interest in a subsidiary and (iv) payment of long-term debt of ₱19 million, which were partially offset by incurrence of ₱979 million in short-term borrowings.

Net cash flows provided by financing activities were ₱13,072 million in 2011. The main component of this was net proceeds of ₱14,829 million received from the issuance of 15 million Preferred Shares in March 2011, which was partly reduced by the subsequent payment of cash dividends of ₱1,580 million to holders of the Common and the Preferred Shares.

Net cash flows provided by financing activities were ₱316 million in 2010. This reflected proceeds of ₱4,500 million received from long-term loans, offset in large part by the payment of short-term loans of ₱4,184 million during the period.

Net cash flows used in financing activities were ₱2,850 million in 2009, which reflected payment of short-term loans of ₱2,850 million during the period.

Working Capital and Indebtedness

In the nine months ended September 30, 2012, San Miguel Pure Foods' principal source of liquidity was cash from operations and, in 2011, cash from financing activities, primarily the issuance of 15 million cumulative, non-voting, non-participating and non-convertible Preferred Shares at an offer price of ₱1,000 per share. San Miguel Pure Foods expects to meet its working capital, capital expenditures, dividend payments and investment requirements for the remainder of 2012 primarily from cash flows from operating activities. San Miguel Pure Foods may seek other sources of funding for working capital, expansion programs and other business opportunities, which may include debt or equity financing, depending on its financing needs and market conditions.

Contractual Obligations

The following table summarizes the maturity profile of San Miguel Pure Foods' contractual obligations as of September 30, 2012:

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year — 2 Years	> 2 Years — 5 Years	Over 5 Years
			(in millions)			
Notes payable	₱ 5,929	₱ 5,962	₱ 5,962	₱ —	₱ —	₱—
Trade payables and other current liabilities (excluding derivative liabilities)	12,680	12,680	12,680	—	—	—
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	4	4	4	—	—	—
Long-term debt (including current maturities) – net of debt issue costs	4,658	5,319	227	360	4,732	—
Other noncurrent liabilities (excluding retirement liability)	0	0	—	0	—	—
Total	₱23,272	₱23,966	₱18,873	₱361	₱4,732	₱—

Capital Resources

As of September 30, 2012, San Miguel Pure Foods had cash and cash equivalents of ₱4,025 million and total notes payable of ₱5,929 million. As of the same date, the interest rate for San Miguel Pure Foods' Peso-denominated and foreign currency-denominated loans ranged from 3.9% to 4.5% and 4.7% to 17.0%, respectively. All of San Miguel Pure Foods' short-term loans are unsecured.

As of September 30, 2012, San Miguel Pure Foods had total long-term debt (net of current maturities and debt issue costs) of ₱4,633 million, of which (i) ₱3,678 million relates to San Miguel Food, Inc.'s ₱3,700 million floating rate notes due in 2015, (ii) ₱795 million relates to San Miguel Foods, Inc.'s ₱800 million fixed rate notes due in 2015 and (iii) ₱160 million relates to the ₱210 million unsecured loan facility extended by Bank of Commerce to Golden Food & Dairy Creamery Corporation, which matures in 2014.

The terms of both the ₱3,700 million floating rate notes and the ₱800 million fixed rate notes due in 2015 include covenants that, among other things: require San Miguel Foods, Inc. to maintain a "Total Debt" to "Net Worth" ratio of 3.5:1, calculated in the manner provided in the terms of the floating rate notes, or the fixed rate notes, as applicable; prohibit the making of certain restricted payments; and prohibit the disposal of assets except under specified conditions. The unsecured loan facility of ₱210 million includes covenants that, among other things, require Golden Food & Dairy Creamery Corporation to maintain a debt-to-equity ratio not exceeding 70:30 and a current ratio of at least 1:1.

As of the date of this Offering Circular, San Miguel Pure Foods is in compliance with the covenants in its long-term debt agreements.

The following table sets forth a summary of the maturity profile of the outstanding long-term borrowings of San Miguel Pure Foods as of September 30, 2012:

Payments Due by Period	Amount[1]
	(in millions)
Repayment within the fourth quarter of 2012	₱ 6.3
2013	25.0
2014	153.8
2015	4,500.0
Total	₱4,685.1

[1] Excludes total debt issuance costs of ₱39.9 million, of which ₱13.3 million was amortized as of September 30, 2012.

As of September 30, 2012, San Miguel Pure Foods had current assets of ₱34,135 million and current liabilities of ₱18,940 million. As of the same date, San Miguel Pure Foods' working capital (current assets minus current liabilities) was ₱15,195 million.

As of September 30, 2012, San Miguel Pure Foods had 15 million Preferred Shares issued and outstanding. The Preferred Shares, all of which were issued and sold in March 2011 for an aggregate issue price of ₱15,000 million, are non-voting, non-participating and non-convertible, with a par value of ₱10 per share. They have a cumulative fixed cash dividend of 8% of the issue price of ₱1,000 per annum payable at the discretion of the Board, subject to the existence of unrestricted retained earnings. The Preferred Shares are redeemable in whole or in part at the option of San Miguel Pure Foods at the end of five years from the issue date or on any dividend payment date thereafter at a per share price equal to the issue price of ₱1,000 plus any accumulated and unpaid cash dividends. In the event that the Preferred Shares are not redeemed by San Miguel Pure Foods at the end of five years from the issue date, there will be a step up in the dividend rate to the higher of (i) 8% or (ii) the ten-year Philippine Dealing System Treasury Fixing ("PDST-F") rate plus a spread of 3.33% per annum. For more information on the dividends declared and paid on the Preferred Shares, see "Dividends and Dividend Policy."

Capital Expenditures

San Miguel Pure Foods' capital expenditures were ₱651 million, ₱581 million and ₱598 million in 2009, 2010 and 2011, respectively. These were primarily attributable to the expansion of San Miguel Pure Foods' production and distribution facilities to increase production capacities and improve operational efficiencies.

In the nine months ended September 30, 2012, San Miguel Pure Foods' capital expenditures were ₱1,493 million, of which approximately ₱800 million was attributable to the construction of the Mabini grain terminal in its milling business that is expected to commence operations in the second half of 2013, and the remaining amounts were attributable to the expansion of production facilities for value-added meats and dairy, spreads and oils businesses, major repairs of existing facilities and operational improvements across San Miguel Pure Foods' businesses.

San Miguel Pure Foods is projected to have capital expenditures in the last quarter of 2012 and in 2013 of approximately ₱4,500 million, of which approximately ₱2,200 million is allocated for the completion of the Mabini grain terminal, and remaining amounts are allocated primarily for the acquisition of additional equipment for capacity expansion in its value-added meats and dairy, spreads and oils businesses, operational improvements as well as major repairs of existing facilities. San Miguel Pure Foods expects to fund its capital expenditures with internally generated cash flow and third-party debt and/or equity financing. San Miguel Pure Foods' anticipated capital expenditures are based on management's estimates and have not been appraised by an independent organization. In addition, San Miguel Pure Foods' capital expenditures may change and are subject to various factors, including market conditions, the general state of the Philippine economy, San Miguel Pure Foods' operating performance and cash flow and San Miguel Pure Foods' ability to obtain financing on terms satisfactory to management.

Off-Balance Sheet Arrangements

San Miguel Pure Foods does not have any material off-balance sheet arrangements, except for outstanding derivative transactions entered into by San Miguel Pure Foods, as of and for the period ended September 30, 2012. San Miguel Pure Foods uses derivative financial instruments to manage its exposures to currency exchange rates, interest rates and fluctuating commodity prices. See Note 9 to San Miguel Pure Foods' September 2012 consolidated interim financial statements included elsewhere in this Offering Circular for more detailed information.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial Risk Management Objectives and Policies

Objectives and Policies

San Miguel Pure Foods has significant exposure to the following market risks primarily from its use of financial instruments:

- interest rate risk;
- foreign currency risk;
- commodity price risk;

- liquidity risk; and
- credit risk.

Interest Rate Risk

San Miguel Pure Foods' exposure to changes in interest rates primarily relates to San Miguel Pure Foods' long-term borrowings. San Miguel Pure Foods manages its interest cost by using a combination of fixed rate and variable rate debt instruments. San Miguel Pure Foods monitors prevailing market-based interest rates and ensures that the interest rates charged on its borrowings are optimal and benchmarked against the interest rates charged by other banks. As of December 31, 2011 and September 30, 2012, San Miguel Pure Foods' fixed rate long-term borrowings accounted for 17.0% and 17.1%, respectively, of its total long-term indebtedness.

Foreign Currency Risk

San Miguel Pure Foods' exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of San Miguel Pure Foods. San Miguel Pure Foods' risk management objective, with respect to foreign currency risk, is to reduce or eliminate earnings volatility and any adverse impact on equity. San Miguel Pure Foods enters into foreign currency hedges using non-derivative instruments to manage its foreign currency risk exposure.

The following table sets forth San Miguel Pure Foods' foreign currency-denominated monetary assets and liabilities and their Peso equivalents as of the dates indicated:

	As of December 31,		As of September 30,			
	2011		2011		2012	
	US$[1]	Peso Equivalent[2]	US$[1]	Peso Equivalent[3]	US$[1]	Peso Equivalent[4]
			(in millions)			
Assets						
Cash and cash equivalents	7	307	3	131	3	135
Trade and other receivables	13	562	17	746	10	413
	20	869	20	877	13	548
Liabilities						
Notes payables	18	801	17	761	17	706
Trade payables and other current liabilities	16	690	18	775	14	567
Other noncurrent liabilities	1	36	1	36	1	35
	35	1,527	36	1,573	31	1,308
Net foreign currency-denominated monetary liabilities	(15)	(659)	(16)	(696)	(18)	(760)

[1] Amounts in currencies other than U.S. dollars have been translated into U.S. dollars at the relevant period-end exchange rate.

[2] U.S. dollar amounts have been translated into Pesos based on an exchange rate of US$1.00 = ₱43.84.

[3] U.S. dollar amounts have been translated into Pesos based on an exchange rate of US$1.00 = ₱43.72.

[4] U.S. dollar amounts have been translated into Pesos based on an exchange rate of US$1.00 = ₱41.70.

Commodity Price Risk

San Miguel Pure Foods' commodity price risk exposure results primarily from the use of commodities as raw materials in its production processes. San Miguel Pure Foods enters into various commodity derivative instruments, such as forward purchases, caps and collars for wheat and soybean meal, to manage its price risks on strategic commodities. For hedging transactions, if prices decrease, hedging positions may result in mark-to-market losses, which are, in turn, expected to be offset by lower raw material costs. As a policy, San Miguel Pure Foods endeavors to hedge up to 20% of its wheat and soybean meal requirements.

SMC has a risk management team that executes commodity derivative transactions on behalf of its subsidiaries and associates, including San Miguel Pure Foods, to reduce cost by optimizing purchasing synergies and managing inventory levels of common materials. Although SMC is the entity that executes these derivative

transactions and purchases, San Miguel Pure Foods negotiates and decides on the contracts to be entered into, and gains and losses on the derivative transactions are booked for the Company's, and not SMC's, account.

Liquidity Risk

San Miguel Pure Foods is exposed to the possibility that adverse changes in the business environment or its operations could result in substantially higher working capital requirements and consequently, a difficulty in financing additional working capital. San Miguel Pure Foods manages its liquidity risk by monitoring its cash position and maintaining credit lines from financial institutions that exceed projected financing requirements for working capital. For more information regarding the maturity of San Miguel Pure Foods' financial assets and liabilities, see Note 8 to the September 2012 consolidated interim financial statements and Note 32 to the 2011 audited consolidated financial statements included elsewhere in this Offering Circular.

Credit Risk

San Miguel Pure Foods' exposure to credit risk primarily relates to its trade and other receivables. Generally, San Miguel Pure Foods' maximum credit risk exposure in the event of customers' and counterparties' failure to perform their obligations is the total carrying amount of the financial assets as shown on the statement of financial position. San Miguel Pure Foods has no significant concentration of credit risk since it deals with a large number of trade customers. In order to minimize its credit risk, San Miguel Pure Foods measures, monitors and manages the risk for each customer and counterparty based on established credit policies, guidelines and credit verification procedures. For more information regarding San Miguel Pure Foods' credit risk exposure, see Note 8 to the September 2012 consolidated interim financial statements and Note 32 to the 2011 audited consolidated financial statements included elsewhere in this Offering Circular.

BUSINESS

OVERVIEW

San Miguel Pure Foods is a leading Philippine food company with market-leading positions in many key products and offers a broad range of high-quality food products and services to household, institutional and food service customers. San Miguel Pure Foods has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream and milk products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Coffee* for coffee and *B-Meg* for animal feeds.

San Miguel Pure Foods organizes its operations into four business segments: agro-industrial, value-added meats, milling, and others. The agro-industrial business segment includes the feeds, poultry and fresh meats businesses; the value-added meats business segment includes the production of refrigerated processed meats and canned meats; the milling business segment includes the production of flour, premixes and other flour-based products; and others includes the dairy, spreads and oils, coffee, food service and franchising businesses and international operations.

In 2011 and the nine months ended September 30, 2012, the contribution of each business segment to San Miguel Pure Foods' revenues was as follows:

	Year Ended December 31, 2011		Nine Months Ended September 30, 2012	
	Revenues	% of Revenues	Revenues	% of Revenues
	(in millions, except %)			
Agro-industrial	₱56,982	63.6	₱45,687	65.9
Value-added Meats	12,103	13.5	8,980	13.0
Milling	8,354	9.3	6,337	9.1
Others	12,152	13.6	8,350	12.0
Total	₱89,591	100.0	₱69,354	100.0

In addition to the Philippines, San Miguel Pure Foods also operates in Vietnam and Indonesia. The contribution of San Miguel Pure Foods' international operations to its total revenues was approximately 4% in 2011 and 3% for the nine months ended September 30, 2012.

The following table sets forth San Miguel Pure Foods' operating results by business segment for the periods indicated:[1]

	Year Ended December 31, 2011		Nine Months Ended September 30, 2012	
	Operating Results	% of Total Operating Results	Operating Results	% of Total Operating Results
	(in millions, except %)			
Agro-industrial	₱2,370	38.0	₱ 993	29.5
Value-added Meats	1,031	16.5	585	17.4
Milling	1,867	30.0	1,453	43.1
Others	923	14.8	301	8.9
Eliminations[2]	40	0.6	36	1.1
Total	₱6,231	100.0	₱3,368	100.0

[1] Includes operating results from intersegment sales and realized mark-to-market gains (losses) from derivatives that are presented as part of "Other income (charges) — net" in the consolidated financial statements. For information concerning the amount of intersegment revenue for each segment, see Note 2 to the September 2012 consolidated interim financial statements and Note 6 to the 2011 audited consolidated financial statements. Intersegment revenues represent primarily (i) sales of pollard from the milling segment to the agro-industrial segment, (ii) sales of poultry and fresh meat from the agro-industrial segment to the value-added meats segment and (iii) sales of dairy products, specifically cheese, oil and margarine, from the others segment to the value-added meats segment.

[2] Represents mainly the unrealized profit component of inventories remaining at the end of each period transferred from one San Miguel Pure Foods subsidiary to another subsidiary.

San Miguel Pure Foods also owns a 5.2% equity interest in Meralco, the biggest power distributor and private sector utility in the Philippines, which accounted for 55% of all Philippine electricity sales in 2011 according to the 2011 annual report of Meralco.

San Miguel Pure Foods was formed in 2001 through the operational integration of two leading Philippine food groups — the food businesses of SMC and PFC. As of the date of this Offering Circular, SMC owns 99.92% of San Miguel Pure Foods' Common Shares. Its revenues, gross profit, Adjusted EBITDA and net income were ₱89,591 million, ₱16,174 million, ₱8,106 million and ₱4,214 million, respectively, for 2011, and ₱69,354 million, ₱12,054 million, ₱6,031 million and ₱2,956 million, respectively, for the nine months ended September 30, 2012.

San Miguel Pure Foods is listed on the PSE, with its Common Shares listed under the symbol "PF" and its Preferred Shares listed under the symbol "PFP."

Competitive Strengths

San Miguel Pure Foods believes that it has the following competitive strengths:

Portfolio of well-recognized brands known for quality

San Miguel Pure Foods has successfully developed a strong portfolio of well-recognized brands known for quality in the Philippines, including *Magnolia* for chicken, ice cream and milk products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Coffee* for coffee and *B-Meg* for animal feeds. As a testament to the strength of its brands in the Philippines, San Miguel Pure Foods has established market-leading positions in several segments and product categories. Based on data from certain Philippine government agencies and internal assumptions and calculations made by the Company, San Miguel Pure Foods believes it had market shares of 41% for poultry, 41% for feeds, 17% for flour and 42% for fresh meats (based on volume for large commercial farms), in each case as of December 31, 2011. According to Nielsen, San Miguel Pure Foods had a market share of 64% for hotdogs sold in Philippine supermarkets and market shares of 38% for butter, 97% for refrigerated margarine and 97% for non-refrigerated margarine, in each case based on value as of August 2012. San Miguel Pure Foods also had a 79% market share based on value as of September 2012 in the chicken nugget product category according to Kantar Worldpanel.

San Miguel Pure Foods has continuously enhanced brand recognition and trust with consumers by consistently maintaining high product quality, as well as through active and targeted marketing and promotional campaigns. Through these efforts, San Miguel Pure Foods has not only developed leading brands for traditionally branded food segments, but has also established successful branding for traditionally commoditized product segments such as *Magnolia* for poultry, *Monterey* for fresh meats, *B-Meg* for feeds, and *King and Queen* for flour. San Miguel Pure Foods believes that its well-recognized brands have allowed it to develop strong customer loyalty resulting in repeat purchases that provide it with greater pricing power relative to its competitors. In addition, San Miguel Pure Foods' multi-brand strategy allows it to broaden its product reach to customers more easily than its competitors given its significant brand recognition and reputation for quality.

As a result of its brand equity and high-quality products and in recognition of its products' leadership in their respective segments, San Miguel Pure Foods and its products have won a number of industry and consumer awards. Most recently, the *Monterey* and *Magnolia* chicken brands were awarded the *Reader's Digest Philippines Trusted Brands* award for the second straight year in 2011, and San Miguel Pure Foods was awarded the 2011 *Asian Livestock Industry Award* by Asian Agribusiness Media Pte Ltd.

Broad and diverse product portfolio catering to different customer needs and preferences

San Miguel Pure Foods offers one of the widest arrays of food products in the Philippines. The Company produces food products for household, institutional and food service customers and derives its revenues from several different product segments, including poultry, fresh meats, refrigerated processed meats and canned meats, basic flour and flour premixes, dairy, spreads and oils, and coffee. San Miguel Pure Foods also produces animal and aquatic feeds.

San Miguel Pure Foods' product diversity reduces its dependence on any single product segment and makes the Company more resilient to changes in competitive dynamics or raw material price fluctuations that may impact one product segment more than another. Its diverse product portfolio also provides marketing and product synergies across segments, as products can complement each other and provide an integrated, one-stop solution for customers' everyday food needs. For example, *Monterey* meat shops also carry value-added meats, flour

premixes and dairy products, as well as other complementary products such as, vegetables, eggs and condiments, allowing San Miguel Pure Foods to leverage on its wide array of products and offer creative food solutions to its customers.

In addition, San Miguel Pure Foods believes that its presence in multiple segments provides different avenues for future growth, both within and across several product categories. San Miguel Pure Foods believes, as of December 31, 2011, it is only present in approximately 35% of the product categories in the packaged food industry (measured by value), presenting ample opportunity for San Miguel Pure Foods to expand into other packaged food categories that are adjacent and complementary to its existing categories.

Strong track record of innovation in products and selling formats

San Miguel Pure Foods has strong innovative capabilities, as shown by its consistent track record of launching new products and services to address changing consumer needs and preferences. San Miguel Pure Foods has typically experienced strong success in the market with its new products and services. Examples include:

- *Convenience — Purefoods Sizzling Delight* line, which are ready-to-eat canned viands, launched in 2008, *Purefoods Crisp'n Juicy Drummets* and *Purefoods Stuffed Nuggets* (part of the *Purefood*s *Chicken Nuggets* line) and *Purefoods Tender Cuts* line all launched in 2011;
- *New Tastes* — An Asian line of marinated meats launched in 2010, flavored refrigerated margarine launched in 2011, *Best of the Philippines* ice cream flavor line launched in 2010 in cooperation with the Philippine Department of Tourism and various local government units and flavored coffee launched in 2012;
- *New packaging* — Cooking oil in tubes launched in 2009, embedded label lid artwork for bulk ice cream launched in 2007 and *Cheezee Squeeze* cheese products in easy squeeze tubes launched in 2011; and
- *Health and Wellness — Magnolia No Sugar Added Ice Cream* launched in 2008, the *San Mig Coffee Pro-Health* line launched in 2009, *Magnolia Gold Lite Butter* and *Magnolia Free Range Chicken* launched in 2011.

In recognition of the importance of ongoing product innovation, San Miguel Pure Foods regularly conducts consumer surveys to monitor consumer preferences and market trends and, in 2010, it created a Corporate Innovations Group that spearheads a company-wide innovation program to foster the introduction of breakthrough products and services.

San Miguel Pure Foods has also been a pioneer in developing innovative formats to sell its products. For example, San Miguel Pure Foods introduced *Monterey* meat shops in 1993 and *Magnolia* chicken stations in 2004, both of which have demonstrated significant success in their respective markets. *Monterey* meat shops have grown to over 500 outlets while *Magnolia* chicken stations have grown to over 700 outlets, in each case as of September 2012. These branded formats not only improve the distribution reach of San Miguel Pure Foods products but also increase brand loyalty among consumers, enabling San Miguel Pure Foods to differentiate its poultry and fresh meats products. San Miguel Pure Foods believes that this branding provides it with greater pricing power relative to competitors. San Miguel Pure Foods has also developed other distribution outlets including *San Mig Food Ave*, *Hungry Juan* outlets, *Purefoods Tender Juicy* hotdog carts and *Smokey's* deli hotdog bars. As of September 2012, San Miguel Pure Foods had approximately 2,000 of these distribution outlets across the country.

Extensive market penetration through multi-channel distribution network

The Philippines is the second largest archipelago in the world, with a population widely distributed over 7,100 islands, presenting significant logistical challenges for food and beverage companies trying to reach consumers nationwide and a barrier to entry for new market entrants. San Miguel Pure Foods operates and manages one of the most extensive distribution networks across the Philippines, with its products available in every major city, and it believes that this provides a significant competitive advantage.

To maximize market penetration, San Miguel Pure Foods has a multi-channel distribution network that supplies its products to supermarkets and traditional retail outlets, trade, food service channels and franchised stores. For the value-added meats business, the Company centrally manages sales and distribution through San Miguel Integrated Sales, which is responsible for selling San Miguel Pure Foods value-added products to both

modern trades, such as major supermarket chains, hypermarkets, groceries, convenience stores, and general trades, market traders and "*sari-sari*" stores (small neighborhood stores). For its feeds, poultry, fresh meats and flour businesses, the Company maintains business-specific sales forces to service trade channels and manage its distributors and dealers. San Miguel Pure Foods' Great Food Solutions, on the other hand, manages sales to key food service customers, such as hotels, restaurants, bakeshops, fast-food and pizza chains. Meanwhile, the distribution advantage of the feeds business lies in the location of its production facilities, which are strategically located close to its primary markets or the major sources of its raw materials.

San Miguel Pure Foods believes that its multi-channel distribution platform has allowed it to maximize customer reach and has been one of the key factors to its success in building and developing its market-leading positions.

"Farm to plate" and "asset light" vertical integration allowing for higher efficiency, profitability and operational synergies

San Miguel Pure Foods has a vertically integrated business model across the entire food value chain from plantations and feed production to meat processing and distribution of branded products. For example, San Miguel Pure Foods works with farmers and consolidators to provide raw materials (such as cassava and corn) for its feeds business, which, in turn, provides feeds for its poultry and hog farms. Output from these farms is then processed and distributed to customers, including through San Miguel Pure Foods' own retail formats such as *Magnolia* chicken stations and *Monterey* meat shops.

San Miguel Pure Foods believes that its "farm to plate" integrated business model allows it to derive synergies and extract margins along the entire food value chain, which improves operating efficiency and profitability. San Miguel Pure Foods also believes that this integrated business model results in further benefits from economies of scale, as it is able to consolidate raw materials purchases, integrate production functions and share sales and distribution networks, brands and support functions. Moreover, San Miguel Pure Foods' integrated business model also provides it with enhanced operational flexibility and allows it to quickly adapt and augment its products in line with prevailing market and consumer tastes. Lastly, San Miguel Pure Foods believes that its integrated business model allows the Company to maintain its strict quality standards by ensuring that high quality inputs are used and best practices are implemented at each stage of the production process. For example, San Miguel Pure Foods applies its quality standards uniformly across all of its production facilities, whether company-owned or contracted, including through training that it provides to its third-party operators before they commence operations for the Company. San Miguel Pure Foods representatives oversee toll plant operations on a regular basis, providing technical support and working closely with the third-party operators' management. San Miguel Pure Foods' quality assurance personnel also conduct periodic operational audits.

Through its "asset light" business model, San Miguel Pure Foods outsources much of its more process-driven activities, including many growing and manufacturing functions, to third parties, while still maintaining direct control over the more critical stages of the production process. For example, while the majority of San Miguel Pure Foods' feeds are manufactured at facilities that are operated by third parties, the feed formulations to produce the feeds are provided by San Miguel Pure Foods to the third-party manufacturers. Further, once the feeds are manufactured, the branding, marketing and distribution of the products are undertaken by San Miguel Pure Foods directly, allowing it to utilize its capital more efficiently and focus on higher value-added and critical processes, such as raw material sourcing, product innovation, brand management, marketing and distribution, all of which are considered its core competencies.

Experienced management team and strong benefits from the "San Miguel" brand, reputation and ownership

San Miguel Pure Foods has a strong and deep management team with a proven track record and an average of more than 20 years of industry and management experience. The management team is well accustomed to the Philippine operating environment and has effectively managed San Miguel Pure Foods both in times of strong economic growth as well as through periods of economic downturn and political instability. The strength and depth of the experience of San Miguel Pure Foods' management team have been demonstrated by their successful implementation of a range of efficiency programs and product innovations, which has resulted in continued profitability and market leadership for San Miguel Pure Foods over the years.

San Miguel Pure Foods believes that members of its management team are highly regarded in the industry, and they hold a variety of leadership positions in food industry organizations, such as the Philippine Association of Feed Millers, the Philippine Association of Broilers Integrators, the Philippine Swine Producers Association and the Philippine Chamber of Flour Millers. The management team's industry leadership positions also create a valuable local business network for San Miguel Pure Foods. To further strengthen the skills and competencies of its employees and develop their leadership skills, San Miguel Pure Foods has launched an institution for higher learning to help its employees achieve professional excellence and equip them with skills to contribute to its future growth.

In addition to its highly experienced management team, San Miguel Pure Foods believes that it benefits from SMC's strong market position as one of the largest and strongest conglomerates in the Philippines, as well as its extensive range of product offerings in its other businesses such as beverages and fuel and oil, particularly with respect to consumers' and retailers' positive perception of the "San Miguel" name. San Miguel Pure Foods believes that SMC is highly regarded in the Philippine business community and believes that it benefits from SMC's strong business reputation. Operationally, San Miguel Pure Foods has realized synergies from its relationship with SMC, including increased market penetration of its *San Mig Food Ave* outlets by leveraging on Petron Corporation's current locations, the supply of products and customized food solutions to Philippine Airlines, an SMC affiliate, and the sourcing of raw materials such as brewer's spent grain and yeast from San Miguel Brewery Inc., an SMC subsidiary.

Business Strategies

San Miguel Pure Foods plans to maintain its market-leading position and expand its business operations by implementing the following three-pronged business strategy:

Enhance product offering and distribution

Focus on increasing stable-priced and value-added product offerings

San Miguel Pure Foods categorizes its product portfolio into three groups: (i) value-added products; (ii) stable-priced products; and (iii) commodity products. Value-added products include processed meats, dairy, breadspreads, oils, ice cream and coffee. These products are typically branded and command higher selling prices than stable-priced and commodity products. Stable-priced products include flour premixes and bakery ingredients and poultry and fresh meats products that are distributed through the Company's differentiated stable-priced sales channels. These products include (i) minimally processed branded products sold through *Magnolia* chicken stations and *Monterey* meat shops, (ii) branded products that have undergone further processing, such as marinated meats, ready-to-cook and ready-to-eat products sold through *Magnolia* chicken stations and *Monterey* meat shops and (iii) non-branded customized products sold to food service clients. Commodity products include (i) feeds, (ii) live chickens and hogs, (iii) fresh-chilled and frozen whole chicken, and chicken, pork and beef cuts sold through wet markets and supermarkets and (iv) basic flour products.

San Miguel Pure Foods has limited pricing power for its commodity products due to the lack of product differentiation, while it believes that its stable-priced and value-added products are able to command higher and more stable prices and margins due to (i) strong brand equity with customers, (ii) processing or customization to cater to specific needs or tastes and/or (iii) sale through its branded distribution outlets (such as *Monterey* meat shops and *Magnolia* chicken stations), where cleanliness, convenience and quality assurance allow for premium pricing and higher margins. San Miguel Pure Foods has made a concerted effort to improve its product mix by shifting away from commodity products, which generally have lower and more volatile margins, and into value-added and stable-priced products, which it believes have higher and more consistent margins.

San Miguel Pure Foods has successfully implemented several initiatives to improve its product mix towards a higher percentage of stable-priced and value-added products and it plans to continue with these and new initiatives to further improve its product mix in this respect. Some of these initiatives include (i) the introduction of new and more innovative products, such as chicken nuggets and ready-to-cook and ready-to-eat offerings to take advantage of consumers' growing need for convenience, (ii) increased focused on selling a larger proportion of its fresh meats and poultry products through its branded distribution outlets and (iii) expansion of its food service business by providing food solutions, which include menu analysis and planning, food safety training and recipe and product development.

Through these initiatives, San Miguel Pure Foods has significantly increased the proportion of value-added and stable-priced products in its product offerings over the past 10 years. In 2011, the contribution of value-added and stable-priced products already accounted for approximately half of San Miguel Pure Foods' total revenues as compared to approximately one quarter in 2000.

To increase profitability and address the ongoing trend of consumers increasingly demanding greater product variety and sophistication, convenience and quality, San Miguel Pure Foods intends to continue increasing the proportion of stable-priced and value-added products that it sells through the continuation of the initiatives discussed above and potentially expanding into fast growing markets and product categories, both in the Philippines and other countries in Southeast Asia. Product and selling format innovation continues to be a key strength and San Miguel Pure Foods will continue to leverage on this strength to develop new products and services to address changing consumer needs and preferences.

Continuous investment in brand equity

In 2009, 2010 and 2011, advertising and promotion costs accounted for more than 14% of San Miguel Pure Foods' selling and administrative expenses. The Company aims to continue building its brand equity through advertising and promotional activities.

San Miguel Pure Foods advertises on television, radio and billboards, as well as in print and the web. In 2011, San Miguel Pure Foods launched an advertising campaign featuring well-respected Philippine chef endorsers. San Miguel Pure Foods also regularly participates in major events throughout the country such as fiestas and food fairs. As part of its brand-building activities, the Company maintains a professional basketball team in the Philippine Basketball Association, the premiere basketball league in the country. In the past, the team carried the banners of *Purefoods Tender Juicy* and *B-Meg Llamados*, among others. Currently, the team is called *San Mig Coffee Mixers*. The Company also sponsors movie previews and has strategic alliances with institutions such as theme parks, event venues and schools. San Miguel Pure Foods aims to continue building its brand equity through similar types of advertising and promotional activities.

Improve profitability through cost leadership

San Miguel Pure Foods believes that it can increase its margins by adopting a multi-faceted approach of managing input costs with respect to its raw materials and optimizing its production efficiency.

Continue sourcing alternative raw materials

The use of alternative raw materials, from grains and by-products used as feeds ingredients, to alternative protein sources and flavors for processed meats, is critical to cost management given the volatile nature of global commodity supply and prices.

San Miguel Pure Foods expects to continue to expand its raw material supply base and identify alternative raw materials that are critical to cost management given the volatility of the global commodity market. One key breakthrough is the use of cassava as a substitute for corn, a key feed ingredient. San Miguel Pure Foods has implemented a program to encourage farmers to plant cassava and other crops that can be used as feeds ingredients. In 2011, San Miguel Pure Foods encouraged local farmers to develop approximately 50,000 hectares of cassava plantations, which satisfied about 50% of San Miguel Pure Foods' cassava requirements during the year. San Miguel Pure Foods will continue to focus on developing alternative raw materials to manage its cost base. Based on certain internal assumptions and calculations, San Miguel Pure Foods estimates that it realized cost avoidance of approximately ₱500 million in 2011, computed based on the cost differential between actual 2011 cassava costs and estimated 2011 corn costs, from the use of cassava as a substitute for corn. The Company is currently using and expects to increase usage of imported cassava by-product as a lower cost alternative to corn and cassava as a feeds ingredient.

San Miguel Pure Foods' strong research and development team is responsible for the continued effort in identifying cost improvements while maintaining product quality standards.

Focus on efficiency improvements

San Miguel Pure Foods has been focused on increasing efficiency of existing operations and implementing targeted initiatives in its businesses. For example, the adoption of climate controlled housing system for its poultry and hog farms has increased production cycles per farm per year, improved feeds-consumed-to-weight-

gained ratio and resulted in better harvest recovery. Additionally, upon the expected commencement of its operations in the second half of 2013, the Mabini bulk grain terminal is expected to enable San Miguel Pure Foods to ship grains through larger vessels, concurrently lowering freight costs and addressing grain handling requirements for the feeds and flour operations.

In addition, San Miguel Pure Foods intends to continuously review its product portfolio to rationalize unprofitable products from its portfolio. Consistent with this, San Miguel Pure Foods aims to enhance the price stability of its revenue streams and margins by increasing the percentage of sales of products that have historically performed well and which the Company believes will continue to do so.

Continue harvesting synergies through further integration of the businesses

San Miguel Pure Foods intends to continue to maximize vertical integration, simplify its organizational structure and standardize its business processes to achieve operational synergies and prepare for future growth. Recent improvements include the establishment of a shared service delivery center for finance, which is able to serve all of San Miguel Pure Foods' business segments and perform transaction processing activities, reducing administrative expenses. It also intends to further progress in the development of a world class supply chain that will result in reduced inventory days level and improved service levels.

Explore additional growth opportunities

San Miguel Pure Foods believes the Philippine market is still underserved in certain product categories and there are growth opportunities to improve its distribution network, particularly in remote areas in the Visayas and Mindanao. It also intends to enter into new product categories and expand its existing production capabilities to support its growing range of product offerings, which will help enable the Company to meet the changing consumer needs.

San Miguel Pure Foods expects to continue sourcing potential acquisition targets in food or food-related businesses, including strategic acquisitions in fast-growing emerging Asian countries, as part of its growth strategy. Such growth opportunities in food or food related businesses may also be pursued jointly with SMC, particularly in situations where the transactions might be too large for the Company to undertake by itself. San Miguel Pure Foods does not intend to make any future investments outside of its core food and food-related businesses.

CORPORATE HISTORY AND MILESTONES

San Miguel Pure Foods was formed in 2001 through the operational integration of two leading Philippine food groups — the food businesses of SMC and PFC.

The following timeline sets forth key events in the corporate history and business of San Miguel Pure Foods:

1925	SMC entered the food industry with the introduction of the *Magnolia* ice cream brand
1953	SMC began producing animal feeds using protein-rich by-products from beer brewing
1956	PFC was established
1960	SMC and Nestlé S.A. established Nestlé Philippines
1972	SMC launched its poultry operations through the acquisition of a breeding farm
1973	PFC listed its common shares on the Philippine Stock Exchange
1980s	SMC formalized its long-standing partnership with New Zealand Dairy Board (now known as Fonterra) in the bread spreads category and established a 70-30 joint venture, the Philippine Dairy Products Corporation
1981	The Ayala group acquired an equity interest in PFC
1983	PFC diversified into poultry operations
1990s	SMC acquired Monterey Farms and the *Star* and *Dari Crème* brands
1991	PFC diversified into the flour business
1993	SMC entered into a joint venture with Nestlé to produce and sell ice cream, frozen desserts and snacks, ready-to-drink milk and chocolate beverages, creams and other chilled foods
1995	PFC entered into a joint venture in Indonesia to produce and sell meat products

1996 . . . . . PFC diversified into the food service business

1998 . . . . . SMC divested its shares in Nestlé Philippines and agreed not to compete with Nestlé's milk and ice cream business for five years. Nestlé's license to use the *Magnolia* brand in the Philippines for ice cream, milk and chocolate beverages was extended until December 31, 2003

1999 . . . . . PFC spun off its meats division into a joint venture with Hormel

2001 . . . . . SMC acquired the Ayala group's controlling equity interest in PFC and operationally integrated its food businesses with PFC's operations. PFC was renamed San Miguel Pure Foods Company, Inc.

2002 . . . . . San Miguel Pure Foods acquired the 30% equity interest in the Philippine Dairy Products Corporation held by New Zealand Dairy Board and Philippine Dairy Products Corporation was renamed Magnolia Inc.

2003 . . . . . SMC acquired a hog farming and feeds business in Vietnam

2004 . . . . . San Miguel Pure Foods re-launched its milk and ice cream businesses under the *Magnolia* brand

2005 . . . . . San Miguel Pure Foods established a joint venture for its coffee business with Super Coffee Corporation Pte. Ltd., its Singaporean partner

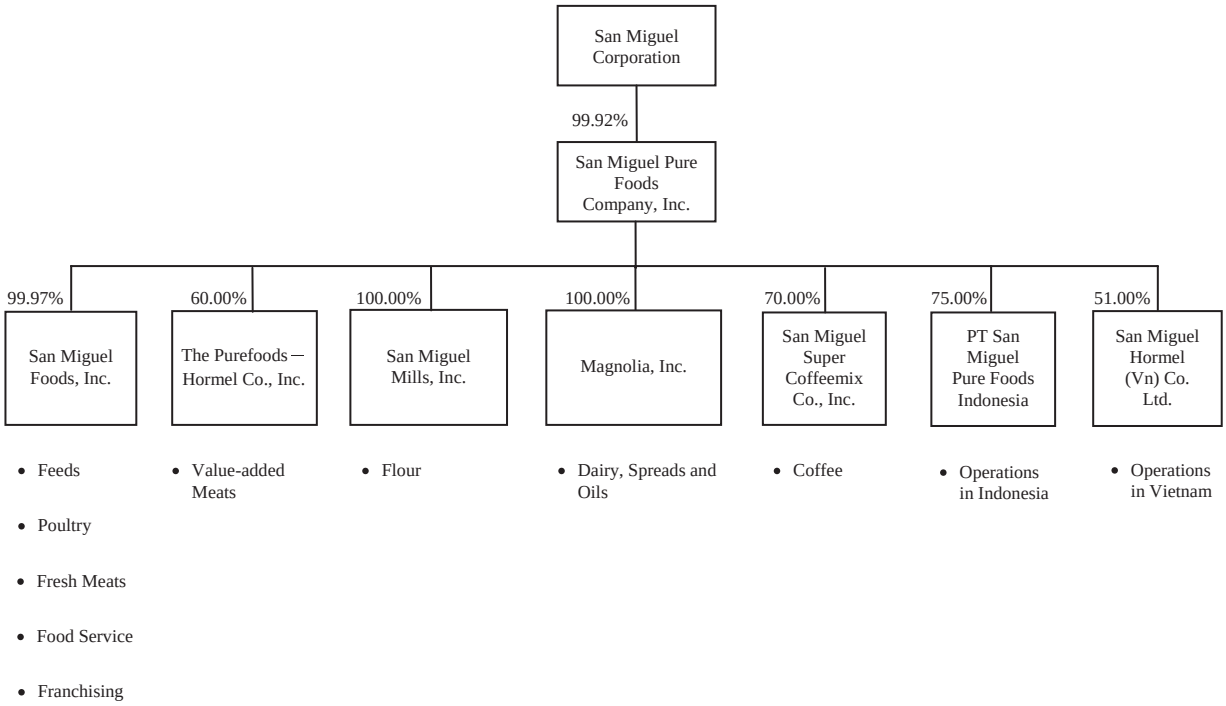
2006 . . . . . SMC and Hormel established a joint venture for their Vietnam business, which subsequently purchased a meat processing plant to enter into the processed meats market in Vietnam

2007 . . . . . SMC completed consolidation of all of its domestic food subsidiaries under San Miguel Pure Foods

2010 . . . . . San Miguel Pure Foods acquired intellectual property rights to its key brand names and a 51% equity interest in the Vietnam food business from SMC

CORPORATE AND OWNERSHIP STRUCTURE

The chart below provides an overview of San Miguel Pure Foods' corporate structure including its major operating subsidiaries, directly and indirectly held, and businesses as of the date of this Offering Circular.



The table below provides some details on San Miguel Pure Foods' major operating subsidiaries.

Name of Subsidiary	Place of Incorporation	Company's Interest	Principal Business
San Miguel Foods, Inc.	Philippines	99.97%	Operates the feeds, poultry and fresh meats and franchising businesses, the food service unit, the San Miguel Integrated Sales selling and distribution activities and Food Group Support Units.
The Purefoods-Hormel Company, Inc.	Philippines	60.00% (joint venture between San Miguel Pure Foods and Hormel Netherlands B.V.)	Produces and markets refrigerated processed meats (hotdogs, cold cuts, hams, bacons, nuggets and other ready-to-eat meat products) and canned meat products (corned beef, luncheon meat, sausages, meat spreads and canned viands).
San Miguel Mills, Inc.	Philippines	100.00%	Manufactures and distributes flour and premixes.
Magnolia, Inc.	Philippines	100.00%	Manufactures and markets butter, margarine, cheese, milk and ice cream. Also sells and markets jellies and specialty oils.
San Miguel Super Coffeemix Co., Inc.	Philippines	70.00% (30.00% owned by Super Coffee Corporation Pte. Ltd.)	Imports, packages, markets and distributes coffee and coffee-related products in the Philippines.

Name of Subsidiary	Place of Incorporation	Company's Interest	Principal Business
PT San Miguel Pure Foods Indonesia (formerly PT Pure Foods Suba Indah)	Indonesia	75.00% (25.00% owned by Penderyn Pte. Ltd.)	Manufactures and distributes halal-certified processed meats in Indonesia.
San Miguel Hormel (Vn) Co., Ltd.	Vietnam	51.00% (49.00% owned by Hormel Netherlands B.V.)	Operates hog farming, feed milling and processed meats businesses in Vietnam.

PRODUCTS

San Miguel Pure Foods produces a wide range of food products. It believes its brands include some of the most recognizable and well-regarded brands in the Philippines, such as *Magnolia*, *Monterey*, *Purefoods*, *Purefoods Tender Juicy, Star*, *Dari Crème*, *San Mig Coffee* and *B-Meg*. Its business is organized into the following segments: agro-industrial, value-added meats, milling and others.

The table below sets forth the major products of each business segment.

Business segment	Major Products and Services
Agro-industrial	
Feeds	Hog, poultry (layer/broiler), game fowl, duck, aquatic and other customized feeds are primarily sold under the *B-Meg* and *Pureblend* brands
Poultry	Branded products are sold under the *Magnolia Fresh Chicken* label and include fresh-chilled and frozen whole and cut-up chickens, easy to prepare chicken products, customized products for food service customers, supermarket house-brands and live chickens
Fresh Meats	Pork and beef carcasses and cuts, lamb products, marinated meats and live hogs. Branded fresh meats are sold under the *Monterey* brand
Value-added Meats	Refrigerated processed meats, including hotdogs, cold cuts, hams, bacon, nuggets and other ready-to-eat meal products, as well as canned meats, including corned beef and luncheon meats, sausages, spreads, sauces and viands are primarily sold under the *Purefoods*, *Purefoods Tender Juicy* and *Star* brands
Milling	A full range of basic, specialty and customized flour and flour premixes are primarily sold under the *King and Queen*, *Emperor* and *Prince* brands
Others	
Dairy, Spreads and Oils	Bread spreads, cheese, milk, ice cream, jelly-based snacks and cooking oils are primarily sold under the *Magnolia*, *Star* and *Dari Crème* brands
Coffee	Coffee sold under the *San Mig Coffee* brand
International Operations	Processed meats in Indonesia; hog farming, feed milling and processed meats in Vietnam
Other Businesses	Food service and franchising businesses

San Miguel Pure Foods' products are produced using both company-owned and tolled facilities. As of September 30, 2012, San Miguel Pure Foods owned 33 production facilities and had contracts with over 2,000 tolled facilities.

The following table sets forth San Miguel Pure Foods' revenues by business segment for the periods indicated:

	Years Ended December 31,						Nine Months Ended September 30,			
	2009		2010		2011		2011		2012	
	Revenues	% of Revenues	Revenues	% of Revenues	Revenues	% of Revenues	Revenues	% of Revenues	Revenues	% of Revenues
	(in millions, except %)						(in millions, except %)			
Agro-industrial	₱49,069	65.4	₱52,300	66.0	₱56,982	63.6	₱41,735	64.9	₱45,687	65.9
Value-added Meats	11,234	15.0	11,534	14.6	12,103	13.5	7,910	12.3	8,980	13.0
Milling	7,482	10.0	7,155	9.0	8,354	9.3	6,154	9.6	6,337	9.1
Others	7,258	9.7	8,281	10.4	12,152	13.6	8,486	13.2	8,350	12.0
Total	₱75,043	100.0	₱79,270	100.0	₱89,591	100.0	₱64,286	100.0	₱69,354	100.0

The following table sets forth San Miguel Pure Foods' operating results by business segment for the periods indicated:[1]

	Years Ended December 31,						Nine Months Ended September 30,			
	2009		2010		2011		2011		2012	
	Operating Results	% of Total Operating Results	Operating Results	% of Total Operating Results	Operating Results	% of Total Operating Results	Operating Results	% of Total Operating Results	Operating Results	% of Total Operating Results
	(in millions, except %)						(in millions, except %)			
Agro-industrial	₱3,085	67.9	₱3,299	54.9	₱2,370	38.0	₱1,792	41.2	₱ 993	29.5
Value-added Meats	489	10.8	772	12.8	1,031	16.5	489	11.2	585	17.4
Milling	752	16.6	1,574	26.2	1,867	30.0	1,399	32.1	1,453	43.1
Others	333	7.3	310	5.2	923	14.8	634	14.6	301	8.9
Eliminations[2]	(118)	(2.6)	55	0.9	40	0.6	39	0.9	36	1.1
Total	₱4,541	100.0	₱6,010	100.0	₱6,231	100.0	₱4,354	100.0	₱3,368	100.0

(1) Includes operating results from intersegment sales and realized mark-to-market gains (losses) from derivatives that are presented as part of "Other income (charges) — net" in the consolidated financial statements. For information concerning the amount of intersegment revenue for each segment, see Note 2 to the September 2012 consolidated interim financial statements and Note 6 to the 2011 audited consolidated financial statements. Intersegment revenues represent primarily (i) sales of pollard from the milling segment to the agro-industrial segment, (ii) sales of poultry and fresh meat from the agro-industrial segment to the value-added meats segment and (iii) sales of dairy products, specifically cheese, oil and margarine, from the others segment to the value-added meats segment.

(2) Represents mainly the unrealized profit component of inventories remaining at the end of each period transferred from one San Miguel Pure Foods subsidiary to another subsidiary.

No single customer has accounted for 5% or more of the total revenues of San Miguel Pure Foods for 2011 or the nine months ended September 30, 2012. San Miguel Pure Foods believes it is not dependent on any single customer.

Agro-industrial Business Segment

San Miguel Pure Foods' agro-industrial business segment includes its feeds, poultry and fresh meats businesses. The tables below set forth revenues of San Miguel Pure Foods' agro-industrial business segment by business, and as a percentage of total revenues of the agro-industrial business segment and of San Miguel Pure Foods for the periods indicated.

	Years Ended December 31,								
	2009			2010			2011		
	Revenues	% of Agro-industrial Revenues	% of Total Revenues	Revenues	% of Agro-industrial Revenues	% of Total Revenues	Revenues	% of Agro-industrial Revenues	% of Total Revenues
	(in millions, except %)								
Feeds	₱16,767	34.2	22.3	₱18,314	35.0	23.1	₱19,838	34.8	22.1
Poultry	25,522	52.0	34.0	27,814	53.2	35.1	30,558	53.6	34.1
Fresh Meats	6,779	13.8	9.0	6,172	11.8	7.8	6,585	11.6	7.4
Total	₱49,069	100.0	65.4	₱52,300	100.0	66.0	₱56,982	100.0	63.6

	Nine Months Ended September 30,					
	2011			2012		
	Revenues	% of Agro-industrial Revenues	% of Total Revenues	Revenues	% of Agro-industrial Revenues	% of Total Revenues
	(in millions, except%)					
Feeds	₱14,648	35.1	22.8	₱16,073	35.2	23.2
Poultry	22,025	52.8	34.3	24,282	53.1	35.0
Fresh Meats	5,062	12.1	7.9	5,332	11.7	7.7
Total	₱41,735	100.0	64.9	₱45,687	100.0	65.9

Feeds

San Miguel Pure Foods' commercial feed products include hog feeds, layer feeds, broiler feeds, game fowl feeds, aquatic feeds, branded feed concentrates and specialty and customized feeds. These feeds are sold and marketed under various brands including *B-Meg*, *Pureblend*, *Bonanza* and *Jumbo*.

The Philippine feeds industry comprises three segments of feed users: (i) the homemix segment, which comprises small to medium-scale farms producing their own feeds for self-use; (ii) the intra segment, which comprises large, integrated livestock and poultry farms producing their own feeds; and (iii) the commercial segment, which comprises small farms that purchase feeds from commercial feed manufacturers. The Philippine feeds industry derives its sales mainly from hog and broiler producers. Many of these feed millers have evolved from merely selling feeds products to offering total value service packages to customers, such as technical services and after-harvest payment schemes. The feeds milling industry is a commodity-based industry, with most of its major raw materials consisting of commodities such as corn, soybean meal and wheat. Since most feed millers use imported raw materials, the industry is affected by foreign exchange fluctuations.

Based on data from the Philippine Bureau of Agricultural Statistics Growth Forecast and certain internal assumptions and calculations, San Miguel Pure Foods believes the Philippines' feeds market was approximately ₱160 billion in 2011, of which the commercial feeds segment accounted for approximately ₱48 billion.

Production and Raw Materials

Compound feeds are manufactured at six San Miguel Pure Foods-owned facilities that are operated by third parties and 36 third-party owned and operated feeds plants, located throughout the Philippines. Most of these plants are capable of producing pelleted and crumble format feeds, and three plants have extrusion capabilities to produce aquatic floating feeds. San Miguel Pure Foods also maintains tolling arrangements for four rendering facilities that convert animal by-products used as raw materials in some feeds.

The largest single component of San Miguel Pure Foods' cost of sales for feeds is the cost of ingredients used to prepare nutritionally balanced feed, including: corn, soybean meal, cassava, imported cassava by-product, wheat, pollard, rice bran, fish meal and meat meal. It purchases corn locally from corn traders and occasionally from suppliers in the United States and Southeast Asia. Soybean meal is imported from Argentina, the United States and India, while other raw materials are purchased from various suppliers in North America, Asia, Europe and the Philippines. In 2011, San Miguel Pure Foods bought almost 80% of its total grain purchases in the domestic market and the rest from the United States, Southeast Asia and Argentina.

Raw materials used in San Miguel Pure Foods' feeds business are mostly acquired through San Miguel Pure Foods' business procurement group, while some local ingredients are sourced directly from suppliers and traders accredited by San Miguel Pure Foods and on the open market. San Miguel Pure Foods also uses as raw materials by-products, such as spent grain and yeast from its affiliate San Miguel Brewery Inc. and offal and feathers from San Miguel Pure Foods' poultry dressing plants.

The price of raw materials used in the feeds business is subject to significant volatility resulting from weather, size of harvests, transportation and storage costs, governmental agricultural policies, currency exchange rates and other factors. "See Risk Factors—Risks Relating to San Miguel Pure Foods—San Miguel Pure Foods' financial performance may be materially and adversely affected by price fluctuations in, or disruptions in the supply of, major raw materials" for a more detailed discussion. To minimize the adverse effects of unexpected price increases, San Miguel Pure Foods enters into hedging transactions to limit the effect of price fluctuations in

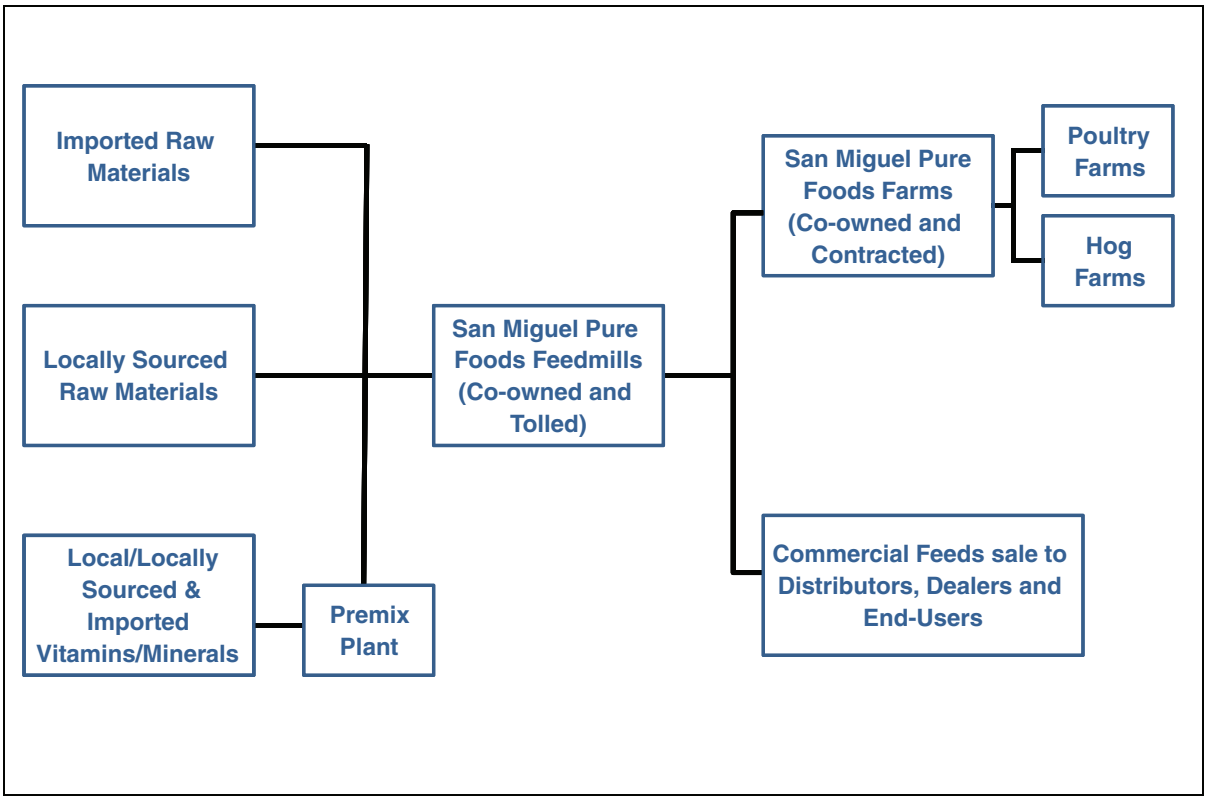
certain imported raw materials such as soybean meal and maintains strategic buying programs for corn. Further, to reduce the potential adverse effect of grain price fluctuations, San Miguel Pure Foods has developed domestically produced cassava as a strategic alternative ingredient to corn in animal feeds. San Miguel Pure Foods adjusts the proportion of cassava used in its animal feeds depending on the relative price of corn and other feeds ingredients. The price of cassava is typically lower than that of corn. To encourage the production of cassava to facilitate this substitution, San Miguel Pure Foods provides technical support to the cassava farmers. San Miguel Pure Foods also enters into production contracts with cassava consolidators that have purchase arrangements with cassava farmers. These cassava consolidators typically provide financing support to the cassava farmers. In 2011, San Miguel Pure Foods had contracts with various cassava consolidators for the production of approximately 200,000 metric tons of cassava per year.

Sales and Distribution

San Miguel Pure Foods produces feeds for (i) San Miguel Pure Foods' poultry business, (ii) San Miguel Pure Foods' fresh meats business and (iii) the commercial feeds market, which accounted for 42%, 11% and 47%, respectively, of San Miguel Pure Foods' feeds business production volumes in 2011. Feeds supplied to the poultry and fresh meats businesses are not included in the feeds business' revenue or volume sold.

San Miguel Pure Foods sells its commercial feeds products through several distribution channels, with 80% of products sold through authorized distributors within a defined territory and 20% sold directly to hog, poultry and aquatic farm operators. The commercial feeds business has 18 sales offices across the Philippines with dedicated sales teams supported by technical experts focused on growing existing markets and developing new ones.

The feeds production and distribution process is illustrated below.



Competition

Based on data from the Philippine Bureau of Agricultural Statistics and certain internal assumptions and calculations, San Miguel Pure Foods believes it is the largest producer of commercial feeds in the Philippines, with an estimated market share of approximately 41% of the commercial feeds market by volume as of December 31, 2011.

In its feeds business, San Miguel Pure Foods competes on quality, customer service, distribution network and price. San Miguel Pure Foods competes with major domestic producers such as Univet Nutrition and Animal Healthcare Co., Universal Robina Corporation ("URC"), as well as numerous regional and local feed mills. It also faces increasing competition from foreign feeds manufacturers, such as the Charoen Pokphand Group.

Poultry

In its poultry business, San Miguel Pure Foods breeds broilers and produces and markets chicken products, mostly for retail. San Miguel Pure Foods' broad range of chicken products is sold under the *Magnolia Fresh Chicken* brand. These products include fresh-chilled or frozen whole and cut-up products. Through its *Magnolia* chicken stations, San Miguel Pure Foods offers a wide variety of fresh and easy-to-cook products. San Miguel Pure Foods also sells customized products to food service clients and supplies supermarket house brands, and sells live chickens to dealers.

San Miguel Pure Foods' poultry business operates a vertically integrated poultry production process that spans from breeding broilers to producing chickens and related products.

Traditionally, the Philippine poultry industry was highly fragmented and primarily a backyard industry. However, several major producers, including San Miguel Pure Foods, have been successful in introducing modern technologies and processes to the industry, allowing them to consolidate market share and achieve economies of scale. Most of the major integrated producers employ contract-growing schemes for the production of live broilers, and also engage in contract breeding and toll dressing arrangements. The Philippine poultry industry has commodity characteristics and is subject to frequent changes in demand and supply. Based on data from the Philippine Bureau of Animal Industry and certain internal assumptions and calculations, San Miguel Pure Foods estimates the Philippine market for poultry was approximately ₱100 billion in 2011.

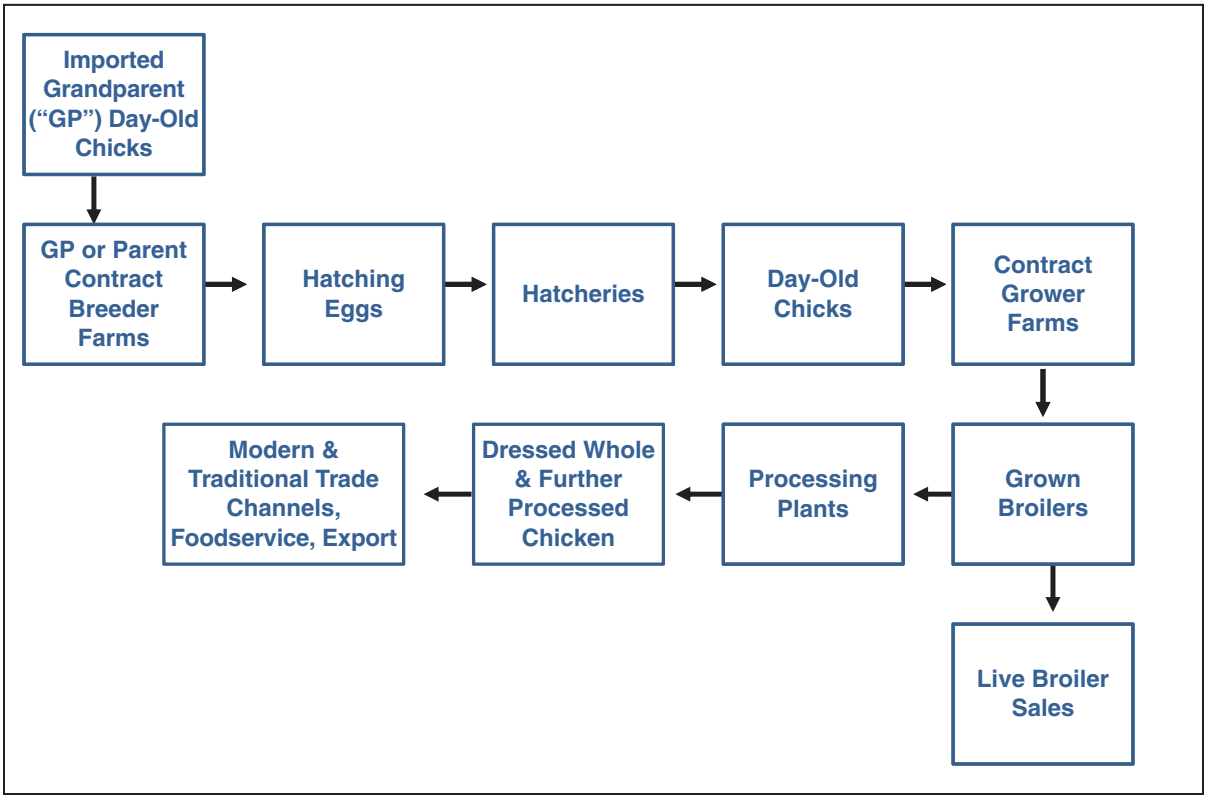
Production and Raw Materials

San Miguel Pure Foods primarily utilizes third-party owned facilities operated under tolling arrangements for its poultry production. Approximately 99% of its poultry growing output and 96% of its processing output come from tolled facilities, allowing San Miguel Pure Foods to outsource production at a lower cost and direct more resources toward improving its marketing, sales and distribution capabilities. Approximately 80% of these poultry growing facilities employ climate-controlled systems, which provide more comfortable and stable temperatures in growing facilities, thus increasing efficiency and reducing mortalities. As of September 30, 2012, San Miguel Pure Foods contracted with tolled growing farms with an aggregate estimated annual capacity of 300 million birds. San Miguel Pure Foods' vertically controlled poultry operations also include two owned and 36 processing plants operated under tolling arrangements and utilizes an extensive network of third-party cold storage warehouses and distribution facilities throughout the Philippines.

The primary raw materials used in San Miguel Pure Foods' chicken operations are live chickens raised primarily by independent contract growers. Breeder flocks (grandparents of birds that are ultimately sold) are raised to maturity in grandparent growing and laying farms where fertile eggs are produced. Fertile eggs are hatched at the grandparent hatchery and produce pullets (parents of birds that are ultimately sold). Pullets are then sent to breeder houses, and the eggs produced by such pullets are sent to the hatcheries. Once eggs are hatched, the chicks are sent to broiler farms. There, contract growers care for and raise the chicks according to San Miguel Pure Foods' standards, with feeds supplied by San Miguel Pure Foods and advice from San Miguel Pure Foods' technical service personnel, until the chicks reach marketable weight. Grown chickens are transported to processing plants, where they are dressed and further processed into finished products, which are then sent to distribution centers and sold to customers.

In 2011, feeds accounted for the majority of production costs for San Miguel Pure Foods' poultry business, representing approximately 65% of the cost of growing a live chicken. All of the feeds required by San Miguel Pure Foods' poultry business are supplied by San Miguel Pure Foods' feeds business.

The poultry production process is illustrated below.



Sales and Distribution

San Miguel Pure Foods sells its poultry products through a variety of channels, including supermarkets, *Magnolia* chicken stations, convenience stores, warehouse clubs, wet markets, commissaries, wholesalers, distributors, buyers of live birds and institutional accounts such as quick service restaurants and hotels.

San Miguel Pure Foods' poultry business distributes its products to two market segments through the different channels mentioned above in order to maximize market penetration throughout the Philippines:

- commodity segment (including wet markets and supermarkets), which accounted for 54% and 56% of the poultry business' total revenues in 2011 and the nine months ended September 30, 2012, respectively; and
- stable-priced segment (including *Magnolia* chicken stations in supermarkets, *Monterey* meat shops and food service clients), which accounted for 46% and 44% of the poultry business' total revenues in 2011 and the nine months ended September 30, 2012, respectively.

In 2004, San Miguel Pure Foods began its "bringing the wet market to the supermarket" strategy, by introducing *Magnolia* chicken stations in supermarkets. These stations offer more choices of cuts and better customer service. As of September 30, 2012, approximately 36% of these *Magnolia* chicken stations are franchisee-owned and the rest are company-owned and third-party operated, with over 700 *Magnolia* chicken stations in operation. While wet markets remain the most popular source of chicken for consumers in the Philippines, San Miguel Foods intends to focus on its *Magnolia* chicken station outlets in the coming years, as it looks to further build on its strong brand reputation, increase the contribution of the stable-priced product segment and further protect market share.

San Miguel Pure Foods distributes its products from processing plants located throughout the Philippines to cold-storage facilities and warehouses, which serve as a midpoint in distribution to wholesalers and local customers. From these cold-storage facilities, it services retailers and wholesalers (who in turn deliver to their customers) and transports certain products directly to supermarkets and food-service operations. For its distribution infrastructure, San Miguel Pure Foods' engages various third-party logistics providers for its distribution infrastructure, which includes cold-storage warehouses and facilities throughout the Philippines and a large fleet of vehicles.

Competition

Based on data from the Philippine Bureau of Animal Industry and certain internal assumptions and calculations, San Miguel Pure Foods believes that it held an approximately 41% market share in the Philippine broiler market in 2011 based on volume sold, ahead of two leading competitors, which had market shares of approximately 17% and 6%, respectively.

In its poultry business, San Miguel Pure Foods competes on quality, distribution network and customer service. San Miguel Pure Foods' poultry business faces competition from large integrated producers such as Bounty Agro Ventures, Inc., URC and the Charoen Pokphand Group, as well as numerous smaller independent broiler producers. San Miguel Pure Foods also faces competition from lower-priced imports from the United States, Canada and Brazil.

Fresh Meats

San Miguel Pure Foods' fresh meats business breeds, grows and processes hogs and cattle and produces and trades beef and pork products. Its operations include slaughtering live hogs and cattle and processing beef and pork carcasses into primal and sub-primal meat cuts, such as shoulder, leg, loin and belly, and case-ready products, such as steaks and chops. It sells a wide variety of products in the Philippines, including pork, beef and lamb retail cuts and marinated products, under the well-recognized *Monterey* brand name.

The Philippine fresh meats industry remains highly fragmented despite larger producers' attempts to modernize the industry. Consolidation of the fresh meats industry is expected to increase in the future as larger producers continue to invest in new technologies and processes.

Production and Raw Materials

San Miguel Pure Foods' fresh meats business raises its hogs using a three-site system, which separates breeding, nursery and growing into isolated facilities to minimize losses from disease.

San Miguel Pure Foods believes that it pioneered the use of the vertically controlled pork and beef production system in the Philippines, controlling the entire value chain including selection of genetic stocks, growing and processing of hogs and cattle and selling, mainly through its *Monterey* meat shop operations. Approximately 99% of its production facilities are third party-owned and operated under tolling arrangements. Approximately 18% of the Company's hog growing facilities employ climate controlled systems, which provide more comfortable and stable temperatures in growing facilities, thus increasing efficiencies and reducing mortalities.

The table below sets forth the production facilities utilized by San Miguel Pure Foods' as of September 30, 2012.

Type of Facility	Company-Owned and Third-Party Operated	Third-Party Owned and Operated
Hog Breeding, Nursery and Growing Facilities	2	439
Cattle Farms	3	–
Hog Processing Plants	1	10
Cattle Processing Plants	–	3

The primary raw materials for San Miguel Pure Foods' processing plants are live hogs and cattle. In 2011, San Miguel Pure Foods sourced all of its live hogs from its contract growing farms. With respect to sourcing beef supply in 2011, San Miguel Pure Foods imported all of its feeder cattle from Australia and its boxed beef from Australia, New Zealand and Brazil.

Another primary raw material of the fresh meats business is hog and cattle feed. All of the feeds required by San Miguel Pure Foods' fresh meats business are supplied by San Miguel Pure Foods' feeds business.

Sales and Distribution

San Miguel Pure Foods' fresh meats business distributes its products through a variety of channels, including supermarket-based meat shops, *Monterey* meat shops, neighborhood meat shops, wet markets, food service clients, membership shopping club outlets, and to the value-added meats business. Products supplied to the value-added meats business are not included in the fresh meats' business revenue. Live hogs and cattle are also sold to traders.

San Miguel Pure Foods adopted a strategy focusing on the supermarket-based modern trade market to accelerate pork sales by introducing a *Monty's* supermarket meat shop in 1990. In 1993, the fresh meats business introduced *Monterey* stand-alone neighborhood meat shops as part of the strategy to differentiate its products from those of its competitors by branding the selling outlets. Pork, beef and lamb retail cuts and marinated products are sold in *Monterey* meat shops through franchisees.

As of September 30, 2012, more than 500 *Monterey* meat shops selling San Miguel Pure Foods fresh meat products were in operation across the Philippines. As of the same date, approximately 97% of its meat shops were franchised operations and certain functions, such as inventory monitoring and staffing, were also undertaken by third party operators and franchisees. As part of its strategy to increase sales volumes and improve profitability and customer service in these shops, San Miguel Pure Foods' fresh meats business provides marketing support to franchisees and actively seeks entrepreneurs to become franchisees.

Competition

Based on data from the Philippine Swine Producers Association and certain internal assumptions and calculations, San Miguel Pure Foods believes that it holds the largest market share in the Philippine hogs industry among the large commercial farms in the Philippines.

In the fresh meats business, San Miguel Pure Foods competes on quality, distribution network and customer service. Its main competitors are Robina Farms and Foremost Farms. It also competes with several commercial-scale and numerous small-scale hog and cattle farms that supply live hogs and cattle to traders, who in turn supply hog and cattle carcasses to wet markets and supermarkets. While the majority of fresh meat sales in the Philippines continue to be made in the more traditional, outdoor wet markets, San Miguel Pure Foods considers supermarkets selling their own house-brand products as its main competition.

Value-added Meats Business Segment

San Miguel Pure Foods' value-added meats business produces both refrigerated processed meats and canned meats. Its refrigerated processed meats include hotdogs, bacon, hams, nuggets and a line of local Philippine products, which are sold under the *Purefoods, Purefoods Tender Juicy, Star, Vida, Purefoods Beefies, Purefoods Chick'n Tasty, Magnolia, Purefoods Tender Cuts, Purefoods Crisp'n Juicy* and *Monterey* brands. Canned meats, such as corned beef, luncheon meats, sausages, spreads and ready-to-eat viands, are sold under the *Purefoods, Star* and *Ulam King* brands.

Production and Raw Materials

San Miguel Pure Foods owns a value-added meats processing plant located in Cavite, Luzon. The Cavite plant manufactures hotdogs, hams, burgers, bacon, dry sausages, meat toppings, cold cuts and nuggets and has a processing capacity of 99 million kilos per annum. To augment its production capacity and meet periodic volume increases, the value-added meats business maintains toll-manufacturing agreements with various suppliers, one of which operates a halal-accredited manufacturing facility allowing San Miguel Pure Foods to export and sell halal corned beef products to the Middle East and predominantly Muslim countries. The combined aggregate capacities of the Cavite plant and the tolled facilities are approximately 146 million kilos per annum. For the nine months ended September 30, 2012, approximately 35% of the value-added business' production output came from tolled facilities.

The primary raw materials used in San Miguel Pure Foods' value-added meat business are commodity-based raw materials, including chicken, beef and pork primal cuts. San Miguel Pure Foods' value-added meats business sources most of its raw materials through San Miguel Pure Foods' business procurement group, which strives to secure prices lower than prevailing market or published rates. The procurement group maintains a pool of San Miguel Pure Foods accredited suppliers for local and imported raw materials, which are regularly audited for quality by a quality assurance team. In 2011, San Miguel Pure Foods' value-added meat business sourced approximately 14% of its raw materials from San Miguel Pure Foods' other businesses, 36% domestically and 50% from imports.

Sales and Distribution

San Miguel Pure Foods' value-added meats products are distributed by San Miguel Pure Foods' integrated sales operations and food service business. The sales operations group handles product distribution to supermarkets and traditional trade markets in the Philippines, such as groceries, convenience stores and *sari-sari* stores, as well as exports to Asia, North America and Europe, mainly to supply Filipino communities abroad. San Miguel Pure Foods' food service business distributes products to food service operators, such as hotels, restaurants, fast food chains, food kiosks and carts. The sales operations group is assisted by San Miguel Pure Foods' logistics group, which manages planning, technical logistics services, warehousing and transportation.

Competition

The combined shares of its hotdog brands have positioned San Miguel Pure Foods as a market leader in the hotdogs category, with a market share of 64% based on value sold in supermarkets as of August 2012 according to Nielsen. San Miguel Pure Foods had a 17% market share in the corned beef category and a 9% market share in the luncheon meat category, both based on value as of August 2012 according to Nielsen. For the nuggets category, San Miguel Pure Foods is the dominant leader with a market share of 79% based on value as of September 2012 according to Kantar Worldpanel.

In the value-added meats business, San Miguel Pure Foods competes on quality, product innovation, distribution network and customer service. In recent years, the value-added meats business of San Miguel Pure Foods has faced increased competition both from established local players, which are employing aggressive pricing and promotion schemes, and from new entrants to the market. Competitors and competing brands in the value-added or processed meats' business include Foodsphere, Inc. (*CDO*), Virginia Foods, Inc. (*Winner* and *Champion*), RFM (*Swift*), Mekeni Food Corporation (*Mekeni*), Pacific Meats Company, Inc. (*Argentina* and *555*) and the distributors of *Maling*. To maintain its leadership position, San Miguel Pure Foods has responded by maintaining high product quality, continuing innovation, increasing advertising and promotions, and by enhancing consumer experience through strategic alliances with institutions such as theme parks, events venues and schools.

Milling Business Segment

San Miguel Pure Foods offers a variety of flour products, including bread flour, noodle flour, biscuit and cracker flour, all-purpose flour, cake flour, whole wheat flour, customized flour and flour premixes, such as pancake mix. San Miguel Pure Foods believes that it started the trend in the Philippines of using customized flours for specific applications, such as noodles and *pandesal*, a soft bread commonly eaten in the Philippines during breakfast. The flour products are sold under 16 brand names, and San Miguel Pure Foods believes that it enjoys strong brand loyalty among its institutional clients and other intermediaries, such as bakeries.

San Miguel Pure Foods believes that while rice has traditionally been the primary source of carbohydrates in the Philippines, bread and noodles have become increasingly popular alternatives in recent years, which has helped drive growth in the Philippine flour industry. In addition, while the bread market is generally still dominated by traditional neighborhood bakeries, large bakery chains are expanding rapidly in the Philippines. San Miguel Pure Foods believes these larger chains often place greater emphasis on the quality of the flour they use, providing an opportunity for flour producers to sell customized, higher margin flour products.

Production and Raw Materials

San Miguel Pure Foods believes it owns and operates the largest flour milling facilities in the Philippines based on aggregate annual rated milling capacity. It owns two flour mills, located in Mabini and Tabangao in Batangas, Luzon. Its flour mills have a combined rated milling capacity of 1,660 tons per day. San Miguel Pure Foods' milling facilities include two flour blending facilities in Mabini, which allow San Miguel Pure Foods to produce customized flours. The flour business also operates a premix plant, which produces different premix products for both the retail and the institutional markets. San Miguel Pure Foods' production capabilities are augmented by its flour technology center, which it believes is the first of its kind in the Philippines. The center develops customized flour blends and new flour-based products and is staffed with trained research and development personnel. San Miguel Pure Foods owns and operates two deep water ports with a maximum unloading capacity of 7,500 metric tons per day in Mabini and Tabangao in Luzon next to its two flour milling facilities.

San Miguel Pure Foods believes that these ports provide it with a significant advantage in materials handling, as vessels can offload raw materials directly to the flour milling facilities and minimize intermediate handling, leakage and costs. San Miguel Pure Foods has commenced construction of the Mabini grain terminal that can accommodate Panamax vessels and is expected to have a discharge rate of at least 10,000 metric tons per day. San Miguel Pure Foods believes that the freight rates applicable to the larger vessels that will be able to use the new facility will be approximately US$6-8 per metric ton less than those of the smaller ships able to use its current facilities. The grain terminal will be adjacent to San Miguel Pure Foods' flour mill in Mabini and will also service the grains handling requirements of its feeds business and external customers such as commercial grains traders. The Mabini grain terminal is expected to commence commercial operations by the second half of 2013.

The principal raw material used by San Miguel Pure Foods' flour business is wheat. Historically, more than 90% of the wheat requirements of the flour business are sourced from the United States and Canada with the remaining 10% sourced from various other countries. San Miguel Pure Foods monitors worldwide wheat prices daily to determine its long-term and short-term buying strategies to control costs in its flour business.

Sales and Distribution

San Miguel Pure Foods' marketing strategy for its milling business focuses on offering the widest array of differentiated flour products in the Philippine market. The flour business' sales team, supported by baking technicians, determines the specific flour product requirements of its various customers. In addition, the baking technicians conduct field baking tests of the products and demonstrate its application. For customized products, the research and development team and the sales team work with the customers to develop individual formulations. San Miguel Pure Foods manages a nationwide distribution network that distributes flour and other bakery ingredients to major flour users, such as Gardenia Bakeries, the Jollibee group, KFC, Monde MY San and smaller users across the Philippines.

Competition

Based on data from the Philippine Association of Flour Millers and certain internal assumptions and calculations, San Miguel Pure Foods believes it is the largest producer, seller and distributor of flour in the Philippines, with a 17% market share based on volume sold in 2011.

San Miguel Pure Foods' flour business competes on price, quality, customer service and distribution. Its main competitors are Philippine Foremost Milling, Pilmico Foods Corporation and URC. Another large flour miller, Monde Nissin, produces flour exclusively for its internal requirements. Currently, most of the competitors only produce a limited number of flour types such as hard flour for bread products and soft flour for biscuits. San Miguel Pure Foods differentiates itself by focusing on the production of more specialized, higher quality and higher priced flours. San Miguel Pure Foods expects to face increased competition in the lower priced and lower quality segments and from international and regional flour producers in the future.

Others Business Segment

San Miguel Pure Foods' others business segment is divided into the following businesses: dairy, spreads and oils, coffee, international operations, food service and franchising.

The tables below sets forth the contribution of each operating division to the revenues of the others business segment and to San Miguel Pure Foods' revenues for the periods indicated.

	Years Ended December 31,								
	2009			2010			2011		
	Revenues	% of Other Revenues	% of Total Revenues	Revenues	% of Other Revenues	% of Total Revenues	Revenues	% of Other Revenues	% of Total Revenues
	(in millions, except %)								
Dairy, Spreads and Oils and Coffee	₱5,601	77.2	7.5	₱5,908	71.3	7.5	₱ 7,293	60.0	8.1
International Operations	690	9.5	0.9	1,764	21.3	2.2	3,852	31.7	4.3
Others	967	13.3	1.3	610	7.4	0.8	1,007	8.3	1.1
Total	₱7,258	100.0	9.7	₱8,281	100.0	10.4	₱12,152	100.0	13.6

	Nine Months Ended September 30,					
	2011			2012		
	Revenues	% of Other Revenues	% of Total Revenues	Revenues	% of Other Revenues	% of Total Revenues
	(in millions, except %)					
Dairy, Spreads and Oils and Coffee	₱5,074	59.8	7.9	₱5,184	62.1	7.5
International Operations	2,871	33.8	4.5	2,244	26.9	3.2
Others	542	6.4	0.8	922	11.0	1.3
Total	₱8,486	100.0	13.2	₱8,350	100.0	12.0

Dairy, Spreads and Oils

San Miguel Pure Foods' dairy, spreads and oils business manufactures and markets a variety of bread spreads, milk, ice cream, jelly-based snacks, salad aids and cooking oils, generating revenues of ₱6,564 million in 2011 and ₱4,525 million in the nine months ended September 30, 2012. Bread spreads make up the largest portion of the dairy, spreads and oils business and in the nine months ended September 30, 2012, accounted for approximately 73% of revenues from this business. San Miguel Pure Foods' bread spreads include butter, refrigerated and non-refrigerated margarines and cheeses sold primarily under its *Magnolia Gold*, *Dari Crème*, *Star* and *Cheezee* brands. San Miguel Pure Foods' dairy products include flavored and unflavored milks under the *Magnolia* and *Chocolait* brands, ice cream under the *Magnolia* brand and jelly snacks and fruit jams under the *JellyAce*, *Sugarland* and *Magnolia* brands. San Miguel Pure Foods' cooking oil products are sold under the *Magnolia Nutri-Oil* brand.

Production and Raw Materials

San Miguel Pure Foods produces bread spreads products at its own facilities in Cavite, Luzon, through a process that includes pasteurization, blending, chilling and packing for bread spreads and cooking, filling, pre-packing and end-packing for cheeses. Ice cream is manufactured at San Miguel Pure Foods' facility in Santa Rosa, Laguna in Luzon. All of San Miguel Pure Foods' milk, jelly-based snacks and cooking oil products are manufactured in third party plants under tolling arrangements (four tollers for milk, one toller for jelly-based snacks, one toller for salad aids, and three tollers for cooking oil), each of which is required to meet San Miguel Pure Foods' quality standards. San Miguel Pure Foods manages a variety of support activities for its dairy, spreads and oils business, including logistics, research and development, marketing, quality assurance, planning, information management and finance.

All of the raw materials required by the dairy, spreads and oils business are sourced from third parties, with approximately 60% of dairy materials, such as cheese curds, rennet-casein and milk powders, imported from various suppliers in Oceania. Vegetable oils are sourced from various suppliers in Malaysia and in the Philippines.

Sales and Distribution

Supermarkets are the largest distribution channel for the dairy, spreads and oils business, and other channels include groceries, *sari-sari* stores, market stalls, bakeries, wholesale outlets and convenience stores. San Miguel Pure Foods' Integrated Sales Group serves as the distribution arm of the dairy, spreads and oils business for both modern and general trade channels. Food chain and other institutional distribution channels for San Miguel Pure Foods' dairy, spreads and oils business include bakeshops, food manufacturing companies, quick service restaurants and hotels. The majority of the dairy, spreads and oils business' distribution channels are in the greater Manila and Luzon areas, which have seen substantial growth in consumption of these products. San Miguel Pure Foods' dairy, spreads and oils business is further developing regional distribution channels through exports primarily to Asia, the United States and the Middle East.

Competition

According to Nielsen, as of August 2012, San Miguel Pure Foods' dairy, spreads and oils products had market shares of 38% of the butter segment, 97% of the refrigerated margarine segment, 97% of the non-refrigerated margarine segment and 22% of the cheese segment, in each case in terms of value sold. As of June 2012, according to Nielsen, San Miguel Pure Foods had a 12% market share of the ice cream segment based on value sold. San Miguel Pure Foods' dairy, spreads and oils business faces intense competition in many of its product segments, particularly milk and cheese, from both multinational and domestic companies. In recent years, many of San Miguel Pure Foods' competitors have increased advertising and promotional spending.

Coffee

San Miguel Pure Foods' coffee business is a joint venture with a Singaporean partner, Super Coffee Corporation Pte. Ltd., and is 70% owned by San Miguel Pure Foods. The joint venture commenced operations in 2005 and sells coffee products under the *San Mig Coffee* brand. According to Nielsen, San Miguel Pure Foods' coffee business had an estimated market share of 3% based on volume sold in the Philippine coffeemix market in 2011. All of the coffee business' raw materials procurement, manufacturing and pre-packing are handled by San Miguel Pure Foods' partner in Singapore and Thailand, and San Miguel Pure Foods manages re-packing, marketing, selling and distribution in the Philippines.

International Operations

Vietnam

The Vietnam food business is a joint venture between San Miguel Pure Foods, which holds a 51% interest, and Hormel, which holds a 49% interest. San Miguel Pure Foods acquired its 51% equity interest in the Vietnam business from SMC in July 2010. The Vietnam food business primarily engages in live hog farming, feeds milling and sale of processed meats.

Indonesia

San Miguel Pure Foods' business in Indonesia is a joint venture with Penderyn formed in 1995 that produces a variety of halal-certified processed meats for the Indonesian market. The joint venture is 75%-owned by San Miguel Pure Foods. Its share of the Indonesian chilled processed meats market was approximately 29% by retail value in 2011, according to Euromonitor.

Other Businesses

Food Service

San Miguel Pure Foods' food services business was established in 2002 and is the largest food services provider in the Philippines. It distributes and markets San Miguel Pure Foods' non-branded and customized food service products, including value-added meats, fresh meats, poultry, dairy, oil, flour and coffee. The food service business receives a development fee from San Miguel Pure Foods' subsidiaries for selling their products to food service clients. The business' key strategies include selling customized solutions, direct marketing to its food service customers and focused relationship management.

Franchising

San Miguel Pure Foods has developed franchise models to serve as contact points with consumers, a trial venue for new product ideas and a channel to introduce product applications for San Miguel Pure Foods' products. These franchise models include roast chicken and rice toppings outlets under the *Hungry Juan* franchise, convenience store outlets under the *San Mig Food Ave* franchise and hotdog carts under the *Smokey's* franchise.

OTHER INVESTMENTS

Manila Electric Company

In August 2011, San Miguel Pure Foods acquired a 5.2% equity interest in Meralco from SMC for ₱13.0 billion. Meralco is the biggest power distributor and private sector utility in the Philippines, which accounted for 55% of Philippine electricity sales in 2011 according to the 2011 annual report of Meralco. Equity in the net earnings of Meralco contributed ₱270 million to San Miguel Pure Foods' income in 2011. For the nine months ended September 30, 2012, equity in the net earnings of Meralco contributed ₱710 million to San Miguel Pure Foods' income.

EMPLOYEES

As of September 30, 2012, San Miguel Pure Foods had 3,664 full-time employees. As of September 30, 2012, the number of San Miguel Pure Foods employees in each of its business segments is set forth below.

	No. of Employees
Agro-industrial	1,342
Value-added Meats	449
Milling	147
Others[1]	1,726
Total	3,664

[1] "Others" also includes employees of corporate service units such as finance, human resources, legal, planning and management services, information technology, audit and purchasing.

The table below sets forth a breakdown of the number of employees by geographical area as of September 30, 2012.

Country	No. of Employees
Philippines	2,828
Vietnam	664
Indonesia	172
Total	3,664

As of September 30, 2012, approximately 10.6% of San Miguel Pure Foods' domestic employees were parties to various collective bargaining agreements between San Miguel Pure Foods and a total of four labor unions representing employees of San Miguel Pure Foods' businesses. The two international businesses have one union each. Since 2005, San Miguel Pure Foods has not experienced any strikes or work stoppages. San Miguel Pure Foods considers its relationship with its employees to be good.

In addition to the statutory benefits, San Miguel Pure Foods provides insurance, vacation, sick and emergency leaves, transportation and communication allowances, and loan facilities to employees.

SMC has an Employee Stock Purchase Plan and a Long-Term Incentive Plan for Stock Options to provide incentives and rewards to eligible employees who contribute to the success of the SMC group, which includes San Miguel Pure Foods. All permanent Philippine-based employees in certain companies in the SMC group, including San Miguel Pure Foods, who have been employed for a continuous period of one year prior to the subscription period, are allowed to subscribe to the shares covered by the Employee Stock Purchase Plan at a 15.0% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee could acquire at least 100 shares of stock through payroll deductions. SMC group executives are granted options to subscribe for SMC common shares reserved for issuance under the Long-Term Incentive Plan, which is administered by the Executive Compensation Committee of the SMC board. A total of 54,244,905 common shares are reserved for issuance under the plan at a price equivalent to the fair market value of the common shares as of the date of the grant, with adjustments depending on the average stock prices of the prior three months.

San Miguel Pure Foods has funded, noncontributory, defined-benefit retirement plans covering all of its permanent employees. Retirement costs of San Miguel Pure Foods amounted to ₱238.6 million, ₱91.8 million and ₱40.6 million in 2009, 2010 and 2011, respectively.

HEDGING TRANSACTIONS

San Miguel Pure Foods' enters into various hedging transactions to manage its price risks on strategic commodities, such as wheat and soybean meal. San Miguel Pure Foods' policy is to endeavor to hedge up to 20% of its wheat and soybean requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risk—Commodity Price Risk."

INSURANCE

San Miguel Pure Foods has an all-risk policy that covers its facilities and inventories, other than livestock, against a variety of risks, including fire, lightning, catastrophic perils (such as typhoons, floods, earthquakes and volcanic eruptions), machinery breakdown, explosion, civil commotion, riot or strikes, malicious damage, and others. San Miguel Pure Foods has no business interruption insurance for its domestic production facilities, but it is covered by an "Increased Cost of Working" provision that compensates San Miguel Pure Foods for certain additional expenses incurred in continuing its operations following covered events. San Miguel Pure Foods' facilities and inventories are insured with Prudential Guarantee and Assurance Inc. with a total insured value of approximately US$350 million and a maximum recovery for any single loss amounting to US$250 million for each and every occurrence applied collectively to the SMC group.

San Miguel Pure Foods also has a marine cargo insurance policy covering its domestic and international shipments of goods and equipment, a commercial general liability insurance policy that covers for damages resulting from sudden and accidental pollution and a directors and officers liability insurance policy. San Miguel Pure Foods' insurance policies are secured from leading Philippine insurance companies that are generally reinsured with a panel of A-rated reinsurers.

QUALITY CONTROL, HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

San Miguel Pure Foods is subject to a number of laws and regulations relating to the protection of the environment and human health and safety, including those governing food safety, air emissions, water and wastewater discharges, and odor emissions and the management and disposal of hazardous materials.

San Miguel Pure Foods applies its quality standards uniformly across all of its production facilities, whether company-owned or contracted, including through training it provides to its third-party operators before they commence operations for the Company. San Miguel Pure Foods representatives oversee toll plant operations on a regular basis, providing technical support and working closely with the third-party operators' management. San Miguel Pure Foods' quality assurance personnel conducts periodic operational audits.

San Miguel Pure Foods seeks to reduce the risk of contamination of its products through strict sanitation procedures and constant monitoring and response. Consistent with the HACCP (Hazard Analysis and Critical Control Points) model, it has identified specific stages of processing where preventative measures such as equipment sterilization, hygiene, temperature control and regular equipment testing will greatly reduce risks and have designed its operations to reduce these risks. San Miguel Pure Foods follows GMP (Good Manufacturing Practice), which is a key factor to produce good quality, safe, and affordable products. San Miguel Pure Foods' GMP is based on international hygiene standards, and promotes a quality approach to manufacturing.

San Miguel Pure Foods intends to continue to strengthen its commitment to food safety standards, including HACCP, GMP, ISO 22000 and ISO 9001. ISO 22000 is the global standard for food safety management systems. Effective GMP and HACCP implementation are prerequisites to successful implementation of ISO 22000. ISO 9001 institutionalizes the principles of quality management to ensure quality standards are consistently met.

San Miguel Pure Foods believes it is in material compliance with applicable health, safety and environmental laws. See "Regulation" and "Environmental Matters" for a more detailed discussion of applicable health, safety and environmental laws.

INTELLECTUAL PROPERTY

Brands, trademarks, patents and other related intellectual property rights relating to San Miguel Pure Foods' principal products are either registered or pending registration in the Philippines and the foreign countries in which San Miguel Pure Foods sells, or intends to sell, its products.

San Miguel Pure Foods owns various brand names, related trademarks and other intellectual property rights to prepare, package, advertise, distribute and sell its products in the Philippines. These include trademarks such as *Magnolia*, *Star*, *Dari Crème*, *Purefoods*, *B-Meg* and *Monterey*. These trademarks and other intellectual property rights are important in the aggregate because brand name recognition is a key factor in the success of many of San Miguel Pure Foods' product lines. San Miguel Pure Foods regularly renews the registrations for the trademarks and other intellectual property rights that it uses or intends to use upon expiry of their respective terms.

San Miguel Pure Foods has not had any significant disputes with respect to any of its trademarks.

RESEARCH AND DEVELOPMENT

To enhance productivity, efficiency, reduce costs and strengthen its competitiveness, San Miguel Pure Foods engages in research and development to identify cost improvements and improvements that can be made to its production processes. Among others, cost reductions have been achieved through the use of alternative raw materials, from grains and by-products used in San Miguel Pure Foods' feeds products to alternative protein sources and flavors in processed meats.

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

San Miguel Pure Foods also engages in the development, reformulation and testing of new products. It believes that its continued success will be affected in part by its ability to be innovative and attentive to consumer preferences and local market conditions. In recognition of the importance of ongoing product innovation, San Miguel Pure Foods regularly conducts consumer surveys and, in 2010, it created a Corporate Innovations Group that spearheads a company-wide innovation program to foster the introduction of breakthrough products and services.

LEGAL PROCEEDINGS

San Miguel Pure Foods and its subsidiaries are parties to a variety of legal proceedings arising out of the ordinary course of business, including legal proceedings with respect to labor and other matters. San Miguel Pure Foods and its subsidiaries are vigorously defending all litigation pending against them. While the results of litigation cannot be predicted with certainty, San Miguel Pure Foods believes that the final outcome of these proceedings will not have a material adverse effect on its financial condition and results of operations.

REGULATION

RETAIL TRADE LIBERALIZATION ACT

Philippine Republic Act No. 8762, otherwise known as the Retail Trade Liberalization Act of 2000 ("R.A. 8762"), was enacted into law on March 7, 2000. R.A. 8762 liberalized the Philippine retail industry to encourage Filipino and foreign investors to forge an efficient and competitive retail trade sector in the interest of empowering the Filipino consumer through lower prices, high quality goods, better services, and wider choices. Prior to the passage of R.A. 8762, retail trade was limited to Filipino citizens or corporations that are 100% Filipino-owned.

"Retail Trade" is defined by R.A. 8762 to cover any act, occupation, or calling of habitually selling direct to the general public any merchandise, commodities or goods for consumption. The law provides that foreign-owned partnerships, associations and corporations formed and organized under the laws of the Philippines may, upon registration with the Philippine SEC and the Philippine Department of Trade and Industry ("DTI") or, in the case of foreign-owned single proprietorships, with the DTI, engage or invest in the retail trade business, in accordance with the following categories:

- Category A — Enterprises with paid-up capital of the equivalent in Pesos of less than US$2.5 million shall be reserved exclusively for Filipino citizens and corporations wholly-owned by Filipino citizens;
- Category B — Enterprises with a minimum paid-up capital of the equivalent in Pesos of US$2.5 million may be wholly-owned by foreigners except for the first two years after the effectiveness of R.A. 8762 during which period foreign participation was limited to not more than 60% of total equity;
- Category C — Enterprises with a paid-up capital of the equivalent in Pesos of US$7.5 million or more may be wholly-owned by foreigners, provided, that in no case shall the investments for establishing a store in Categories B and C be less than the equivalent in Pesos of US$830,000; and
- Category D — Enterprises specializing in high-end or luxury products with a paid-up capital of the equivalent in Pesos of US$250,000 per store may be wholly-owned by foreigners.

No foreign retailer is allowed to engage in retail trade in the Philippines unless all the following qualifications are met:

- A minimum of US$200 million net worth in its parent corporation for Categories B and C, and US$50 million net worth in its parent corporation for Category D;
- Five retail branches or franchises in operation anywhere around the world unless such retailer has at least one store capitalized at a minimum of US$25 million;
- Five-year track record in retail; and
- Only nationals from, or judicial entities formed or incorporated in, countries which allow the entry of Filipino retailers shall be allowed to engage in retail trade in the Philippines.

The implementing rules of R.A. 8762 define a foreign retailer as an individual who is not a Filipino citizen, or a corporation, partnership, association, or entity that is not wholly-owned by Filipinos, engaged in retail trade. The DTI is authorized to pre-qualify all foreign retailers, subject to the provisions of R.A. 8762, before they are allowed to conduct business in the Philippines.

THE CONSUMER ACT

The Consumer Act of the Philippines (the "Consumer Act") seeks to: (i) protect consumers against hazards to health and safety; (ii) protect against deceptive, unfair and unconscionable sales acts and practices; (iii) provide information and education to facilitate sound choice and the proper exercise of rights by the consumer; (iv) provide adequate rights and means of redress; and (v) involve consumer representatives in the formulation of social and economic policies.

The provisions of the Consumer Act are principally enforced by the DTI. However, with respect to food products, the DOH is the government agency responsible for the implementation of the Consumer Act.

The Consumer Act regulates such matters as (i) consumer product safety; (ii) the production, sale, distribution and advertisement of food, drugs, cosmetics and devices as well as substances hazardous to the

consumer's health and safety; (iii) fair, honest consumer transactions and consumer protection against deceptive, unfair and unconscionable sales acts or practices; (iv) practices relative to the use of weights and measures; (v) consumer product and service warranties; (vi) compulsory labeling and fair packaging; (vii) liabilities for defective products and services; (viii) consumer protection against misleading advertisements and fraudulent sales promotion practices; and (ix) consumer credit transactions.

The Consumer Act establishes quality and safety standards with respect to the composition, contents, packaging, labeling and advertisement of products and prohibits the manufacture for sale, offer for sale, distribution or importation of products that are not in conformity with applicable consumer product quality or safety standards promulgated thereunder. The Consumer Act also prohibits any false, deceptive or misleading advertisement for the purpose of inducing the purchase of consumer products. An advertisement is considered false, deceptive or misleading if it does not conform to the law or is misleading in a material respect. Specific advertising requirements are prescribed for food.

Any person found to be in violation of the provisions of the Consumer Act shall be subject to administrative penalties or imprisonment or both. As part of its authority under the Consumer Act, the DOH has the authority to order the recall, ban or seizure from public sale or distribution of food products found to be injurious, unsafe or dangerous to the general public.

As a producer of various food products, San Miguel Pure Foods is subject to regulation by the Food and Drug Administration of the Philippines ("FDA") and the DOH under the Food, Drugs and Devices, and Cosmetics Act, as amended by the FDA Act 2009 (the "FDDC Act") and the Consumer Act. In addition, San Miguel Pure Foods is subject to the laws discussed below.

THE LIVESTOCK AND POULTRY FEEDS ACT

The Livestock and Poultry Feeds Act and its implementing rules and regulations (the "Livestock and Poultry Feeds Act") regulates and controls the manufacture, importation, labeling, advertising and sale of livestock and poultry feeds. The Bureau of Animal Industry is the governmental office under the Department of Agriculture (the "DA") tasked to implement and enforce the Livestock and Poultry Feeds Act.

Under the Livestock and Poultry Feeds Act, any entity engaging in the manufacture, importation, exportation, sale, trading or distribution of feeds or other feed products must register with the Bureau of Animal Industry. There must be a separate registration for each type and location of feed establishment. Furthermore, the Livestock and Poultry Feeds Act provides that no feeds or feed products may be manufactured, imported, exported, traded, advertised, distributed, sold or offered for sale, or held in possession for sale in the Philippines, unless the same has been registered with the Bureau of Animal Industry. There must also be a separate registration for each type, kind and form of feed or feed product. Feeds and feed products produced through toll manufacturing shall be registered with the company that owns the same. All commercial feeds must comply with the nutrient standards prescribed by the DA. Registration of feed and feed products and feed establishments must be renewed on a yearly basis.

The Livestock and Poultry Feeds Act also provides branding, labeling and advertising requirements for feeds and feed products and the establishment of in-house quality control laboratories by manufacturers and traders of feed and feed products. Any person found in violation of the provisions of the Livestock and Poultry Feeds Act shall be subject to administrative penalties or imprisonment or both.

THE MEAT INSPECTION CODE

The Meat Inspection Code of the Philippines (the "Meat Inspection Code") establishes quality and safety standards for the slaughter of food animals and the processing, inspection, labeling, packaging, branding and importation of meat (including, but not limited to, pork, beef and chicken meat) and meat products. The National Meat Inspection Service ("NMIS"), a specialized regulatory service attached to the DA, serves as the national controlling authority on all matters pertaining to meat and meat product inspection and meat hygiene to ensure meat safety and quality from farm to table. It has the power to accredit meat establishments and exporters, importers, brokers, traders and handlers of meat and meat products. In addition, the different local government units, in accordance with existing laws, policies, rules and regulations and quality and safety standards of the DA, have the authority to regulate the construction, management and operation of slaughterhouses, meat inspection and meat transport and post-abattoir control within their respective jurisdictions, and to collect fees and charges in connection therewith.

The Meat Inspection Code covers all meat establishments (including, but not limited to, slaughterhouses, poultry dressing plants, meat processing plants and meat shops) where food animals are slaughtered, prepared, processed, handled, packed, stored or sold. It requires the inspection of food animals before they are allowed for slaughter in licensed private slaughterhouses in which meat or meat products are to be sold. A post-mortem examination is also required for carcasses and parts thereof of all food animals prepared as articles of commerce which are capable of use as human food. Only meat or meat products from meat establishments that have passed inspection and have been so marked may be sold or offered for sale to the public.

The Meat Inspection Code provides for labeling, branding and packaging requirements for meat and meat products to enable consumers to obtain accurate information and ensure product traceability. It also requires all meat establishments to: (i) comply with the Animal Welfare Act of 1998 for the adequate protection of food animals awaiting slaughter and all pollution control and environmental laws and regulations relating to the disposal of carcasses and parts thereof; and (ii) adopt good manufacturing practices and sanitation standard operating procedures for the production, storage and distribution of its meat products. Any person found in violation of the provisions of the Meat Inspection Code shall be subject to administrative penalties or imprisonment or both. Furthermore, any carcasses, parts of carcasses or products of carcasses found to have been prepared, handled, packed, stored, transported or offered for sale as human food not in accordance with the provisions of the Meat Inspection Code shall be confiscated and disposed of at the expense of the person found to be in violation thereof.

THE PRICE ACT

The Price Act covers basic necessities, such as fresh pork, beef and poultry meat, milk, coffee and cooking oil, and prime commodities, such as flour, dried, processed and canned pork, beef and poultry meat, other dairy products and swine and poultry feeds. The Price Act is primarily enforced and implemented by the DA and the DTI in relation to such products.

Under the Price Act, the prices of basic commodities may be automatically frozen or placed under price control in areas declared as disaster areas, under emergency or martial law, or in a state of rebellion or war. Unless such price freeze is lifted earlier by the President of the Philippines, prices shall remain frozen for a maximum of 60 days. The President of the Philippines may likewise impose a price ceiling on basic necessities and prime commodities in cases of calamities, emergencies, illegal price manipulation or when the prevailing prices have risen to unreasonable levels. The implementing government agencies of the Price Act are given the authority to issue suggested retail prices, whenever necessary, for certain basic necessities and/or prime commodities for the information and guidance of the applicable trade, industry and consumer sectors. The Price Act prohibits and penalizes illegal price manipulation through cartels, hoarding or profiteering. Any person found in violation of the provisions of the Price Act shall be subject to administrative penalties or imprisonment or both.

THE PHILIPPINE FOOD FORTIFICATION ACT

The Philippine Food Fortification Act of 2000 (the "PFF Act") requires the mandatory fortification of wheat flour, cooking oil and other staple foods and provides for the voluntary fortification of processed food products by the manufacturers, importers and processors thereof. The FDA is the government agency responsible for the implementation of the PFF Act with the assistance of the different local government units. The FDA monitors foods mandated to be fortified that are available in public markets, retail stores and food service establishments and to check if the labels of fortified products contain nutrition facts stating the nutrient added and its quantity. Any person in violation of the PFF Act shall be subject to administrative penalties. Furthermore, the FDA may refuse or cancel the registration or order the recall of food products in violation of the PFF Act.

REGISTRATION UNDER THE BOARD OF INVESTMENTS

Under the Omnibus Investments Code, an enterprise registered with the Board of Investments may enjoy certain incentives provided such enterprise invests in preferred areas of investment enumerated in the Investment Priorities Plan annually prepared by the Government. However, prior to registration with the BOI, the enterprise must first satisfy the minimum equity required to finance the project equivalent to 25% of the estimated project cost, or as may be prescribed by the Board of Investments.

Such incentives may include: (i) income tax holiday; (ii) additional deduction for labor expenses; (iii) tax exemption on imported capital equipment; (iv) tax credit on domestic capital equipment; (v) exemption from contractor's tax; (vi) simplification of customs procedure; (vii) unrestricted use of consigned equipment; (viii) employment of foreign nationals; (ix) tax exemption on imported spare parts; and (x) exemption from wharfage dues and export duties and fees.

INTELLECTUAL PROPERTY

Under the Intellectual Property Code of the Philippines (the "Intellectual Property Code"), the rights to a trademark are acquired through registration with the Bureau of Trademarks of the Intellectual Property Office of the Philippines, which is the principal government agency involved in the registration of brand names, trademarks, patents and other registrable intellectual property materials. Once the mark has been duly registered, the Intellectual Property Office issues a certificate of registration to the owner of the mark, which shall serve as prima facie evidence of: (i) the validity of registration; (ii) the registrant's ownership of the mark; and (iii) the registrant's exclusive right to use the mark in connection with the goods or services and those that are related thereto as specified in the certificate.

Registration of a trademark is valid for an initial period of ten years; thereafter, it may be renewed for ten-year periods by the registrant upon payment of the prescribed fee and upon the filing of a request with the Intellectual Property Office within six months prior to the date of expiration of registration.

ADVERTISING REGULATIONS

The Consumer Act protects consumers from misleading advertisement and fraudulent sales and promotion practices. Any false, deceptive or misleading advertisement for the purpose of inducing or which is likely to induce, directly or indirectly, the purchase of consumer products or services is prohibited.

In addition, any advertisement involving signs or signboard structures is covered by the national building code of the Philippines and requires securing a prior permit for the installation or attachment of any sign to the structure.

The Advertising Board of the Philippines (the "AdBoard"), a non-stock, non-profit corporation, is an umbrella of organizations involved in the advertising industry that has the power to impose sanctions on its members who broadcast advertisements without prior clearance of the AdBoard. Further, it has adopted a code of ethics and is guided by the Advertising Content Regulation Manual of Procedures and the Standards of Trade Practices and Conduct Manual.

ENVIRONMENTAL MATTERS

San Miguel Pure Foods is subject to various laws, rules and regulations that have been promulgated for the protection of the environment.

EISS LAW

The Philippine Environmental Impact Statement System (the "EISS Law"), which is implemented by the DENR, is the general regulatory framework for any project or undertaking that is either (i) classified as environmentally critical or (ii) situated in an environmentally critical area. It requires an entity that will undertake any such declared environmentally critical project or operate in any such declared environmentally critical area to submit an Environmental Impact Statement ("EIS") which is a comprehensive study of the significant impacts of a project on the environment. The EIS serves as an application for the issuance of an Environmental Compliance Certificate ("ECC"), if the proposed project is environmentally critical or situated in an environmentally critical area, otherwise, for the issuance of a Certificate of Non-Coverage. An ECC is a Philippine government certification that, among others: (i) the proposed project or undertaking will not cause significant negative environmental impact; (ii) the proponent has complied with all the requirements of the EISS in connection with the project; and (iii) the proponent is committed to implement its approved Environmental Management Plan in the EIS. In general, only projects that pose potential significant impact on the environment shall be required to secure an ECC. The proponent of a project for which an ECC is issued and determined by the DENR to pose a significant public risk or necessitate rehabilitation or restoration shall be required to establish an environmental guarantee fund. Such fund is intended to meet any damage caused by, as well as any rehabilitation and restoration measures in connection with, the said project.

THE CLEAN WATER ACT

The Clean Water Act and its implementing rules and regulations provide for water quality standards and regulations for the prevention, control and abatement of pollution of the country's water resources. The Clean Water Act requires owners or operators of facilities that discharge regulated effluents (such as wastewater from manufacturing plants or other commercial facilities) to secure a discharge permit from the DENR that authorizes the owners and operators to discharge waste and/or pollutants of specified concentration and volumes from their facilities into a body of water or land resource for a specified period of time. The DENR, together with other government agencies and the different local government units, is tasked to implement the Clean Water Act and to identify existing sources of water pollutants, as well as strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law.

THE CLEAN AIR ACT

The Clean Air Act requires enterprises that operate or utilize air pollution sources to obtain an Authority to Construct or a Permit to Operate from the DENR with respect to the construction or the use of air pollutants. The issuance of the said permits seek to ensure that regulations of the DENR with respect to air quality standards and the prevention of air pollution are achieved and complied with by such enterprises.

OTHER ENVIRONMENTAL LAWS

Other regulatory environmental laws and regulations applicable to San Miguel Pure Foods include the following:

- The Ecological Solid Waste Management Act of 2000, which provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. The said law prohibits, among others, the transporting and dumping of collected solid wastes in areas other than prescribed centers and facilities. The National Solid Waste Management Commission, together with other government agencies and the different local government units, are responsible for the implementation and enforcement of the said law.
- The Code on Sanitation of the Philippines (the "Sanitation Code"), which provides for sanitary and structural requirements in connection with the operation of certain establishments such as food establishments which include such places where food or drinks are manufactured, processed, stored, sold or served. Under the Sanitation Code, which is implemented by the DOH, food establishments are required to secure sanitary permits prior to operation which shall be renewable on a yearly basis.

PHILIPPINE FOREIGN EXCHANGE REGULATIONS

Under current BSP regulations, an investment in listed Philippine securities (such as the Common Shares) must be registered with the BSP if the foreign exchange needed to service capital repatriation and dividend or interest remittance will be purchased from the Philippine banking system. The application for registration may be made directly with the BSP or through an investor's designated custodian bank. A custodian bank may be a commercial bank or an offshore banking unit registered with the BSP to act as such and appointed by the investor to register the investment, hold shares for the investor and represent the investor in all necessary actions in connection with such investor's investments in the Philippines. Under relevant BSP regulations, applications for registration must be accompanied by: (i) purchase invoice, subscription agreement and proof of listing on the PSE (either or both); (ii) credit advice or bank certificate showing the amount of foreign currency remitted and its conversion to Pesos; and (iii) transfer instructions from the stock broker or dealer, as the case may be.

Upon registration of the investment, proceeds of divestments or dividends of registered investments are repatriable or remittable immediately and in full through the Philippine banking system, net of applicable tax, without need of BSP approval. Capital repatriation of investments in listed securities is permitted upon presentation of the BSP registration document and the broker's sales invoice, at the exchange rate prevailing at the time of purchase of the foreign exchange from the banking system. Remittance of dividends is permitted upon presentation of: (i) the BSP registration document; (ii) the cash dividends notice from the PSE and the Philippine Central Depository printout of cash dividend payment or computation of interest earned; (iii) copy of secretary's sworn statement on the board resolution covering the dividend declaration; and (iv) detailed computation of the amount applied for in the format prescribed by the BSP. Pending reinvestment or repatriation, divestment proceeds, as well as dividends of registered investments, may be lodged temporarily in interest-bearing deposit accounts. Interest earned thereon, net of taxes, may also be remitted in full. Remittance of divestment proceeds or dividends of registered investments may be reinvested in the Philippines if the investments are registered with the BSP or the investor's custodian bank.

BOARD AND SENIOR MANAGEMENT

BOARD

The table below sets forth each member of the Board as of the date of this Offering Circular.

Name[1]	Position
Eduardo M. Cojuangco, Jr.	Chairman
Ramon S. Ang	Vice Chairman
Francisco S. Alejo III	President
Menardo R. Jimenez	Director
Mario C. Garcia	Director
Cancio C. Garcia	Independent Director
Carmelo L. Santiago	Independent Director

(1) Each member of the Board is a Filipino citizen.

Eduardo M. Cojuangco, Jr., Filipino, 77, is the Chairman and a non-executive director of San Miguel Pure Foods, a position he has held since May 22, 2001 and is Chairman of San Miguel Pure Foods' Executive Committee. He also holds, among others, the following positions: Chairman and Chief Executive Officer of San Miguel Corporation and Ginebra San Miguel, Inc.; Chairman of ECJ and Sons Agricultural Enterprises, Inc. and the Eduardo Cojuangco, Jr. Foundation, Inc.; and a director of Cainaman Farms, Inc., Petron Corporation and Manila Electric Company.

Ramon S. Ang, Filipino, 58, is the Vice Chairman of San Miguel Pure Foods, a position he has held since May 13, 2011. He has been a director of San Miguel Pure Foods since May 22, 2001 and is a member of San Miguel Pure Foods' Executive Committee. He also holds, among others, the following positions: Vice Chairman, President and Chief Operating Officer of San Miguel Corporation; Chairman of San Miguel Brewery Inc., San Miguel Properties, Inc., San Miguel Yamamura Packaging Corporation, San Miguel Foods, Inc., San Miguel Mills, Inc., Magnolia Inc., The Purefoods-Hormel Company, Inc., San Miguel Super Coffeemix Co., Inc., Anchor Insurance Brokerage Corporation, San Miguel Brewery Hong Kong Limited and San Miguel Energy Corporation; director of Ginebra San Miguel, Inc. and Top Frontier Investment Holdings Inc.; Chairman and Chief Executive Officer of Petron Corporation and SMC Global Power Holdings Corp.; Chairman of Liberty Telecoms Holdings Inc., Philippine Diamond Hotel & Resort, Inc., Philippine Oriental Realty Development, Inc., Atea Tierra Corporation and Cyber Bay Corporation; Vice Chairman of Manila Electric Company; and an independent director of Philweb Corporation.

Francisco S. Alejo III, Filipino, 64, is the President of San Miguel Pure Foods, a position he has held since May 20, 2005. He has been a director of San Miguel Pure Foods since May 22, 2001 and is a member of San Miguel Pure Foods' Executive Committee and Nominations and Hearing Committee. He also holds, among others, the following positions: Vice Chairman of San Miguel Foods, Inc. and San Miguel Mills, Inc.; President of Magnolia Inc. and San Miguel Super Coffeemix Co., Inc.; Chairman and President of Sugarland Corporation and Golden Food & Dairy Creamery Corporation; Chairman of San Miguel Hormel (Vn) Co., Ltd., Golden Bay Grain Terminal Corporation and Philippine Prime Meat Marketing Corporation; director of The Purefoods-Hormel Company, Inc., San Miguel Foods & Beverage International Limited (BVI), San Miguel Pure Foods Investment (BVI) Ltd. and San Miguel Pure Foods International, Limited (BVI); and President Commissioner of PT San Miguel Pure Foods Indonesia.

Menardo R. Jimenez, Filipino, 79, has been a director of San Miguel Pure Foods since April 25, 2002 and is Chairman of San Miguel Pure Foods' Executive Compensation Committee and a member of its Audit Committee. He is also a director of San Miguel Corporation and Magnolia Inc. He also holds, among others, the following positions: Chairman and President of Majent Management and Development Corporation, Majent Agro Industrial Corporation, M. A. Jimenez Enterprises, Inc., Pac Rim Realty Development Corporation, Television International Corporation, Alta Tierra Resources, Inc. and Fibers Trading, Inc.; Chairman of United Coconut Planters Bank, Cable Entertainment Corporation, Majent Foundation, Inc., Marathon Building Technologies, Inc. and Meedson Properties Corporation; President and Chief Executive Officer of Albay-Agro Industrial Development Corporation; and a director of First Metro Investment Corporation, Cunickel Mining Corporation, Electronic Realty Associates, Inc., Mabuhay Philippines Satellite Corporation, Franchise One Corporation, CBTL Holdings, Inc., CCC Insurance Corporation and Pan-Phil Aqua Culture Corporation.

Mario C. Garcia, Filipino, 61, has been a director of San Miguel Pure Foods since November 4, 2009. He is also a director of San Miguel Properties, Inc. and Clark Development Corporation; Member of the Board of Advisers of Freeport Service Corporation, International Reporters and Editors Association, USA; and Consultant of Radio Affairs, *Pulis Ng Bayan*. He was a former TV Host of *Kapihan Ng Bayan*, NBN-4 and *Comentaryo*, NBN-4, a Radio Host/Anchorman of *Uno Por Dos*, PBS *Radyo Ng Bayan*, Interim National President of KBP Society of Broadcast Journalists; and director of the Subic Bay Metropolitan Authority. He was previously a director and Vice Chairman of Quezon City Red Cross, Vice President for Programming and Operations and Station Manager of Radio Veritas.

Cancio C. Garcia, Filipino, 74, has been an independent director of San Miguel Pure Foods since June 27, 2008 and is Chairman of San Miguel Pure Foods' Audit Committee and member of its Executive Committee, Executive Compensation Committee and Nominations and Hearing Committee. He is also an independent director of San Miguel Properties, Inc. and Union Bank of the Philippines. Justice Garcia is a former Associate Justice of the Supreme Court of the Philippines. He was also Presiding Justice of the Court of Appeals.

Carmelo L. Santiago, Filipino, 69, has been an independent director of San Miguel Pure Foods since August 12, 2010 and is the Chairman of the Nominations and Hearing Committee and a member of the Audit and Executive Compensation Committees. He is an independent director of San Miguel Corporation, San Miguel Brewery, Inc. and Liberty Telecoms Holdings, Inc.; and director of Terbo Concept, Inc. He is also an independent director of San Miguel Brewery Hong Kong Limited. He was previously independent director of Ginebra San Miguel Inc., Anchor Insurance Brokerage Corporation and San Miguel Properties, Inc.

SENIOR MANAGEMENT

The table below sets forth each member of the senior management as of the date of this Offering Circular.

Name[1]	Position
Francisco S. Alejo III	President
Zenaida M. Postrado	Vice President and Chief Finance Officer
Ma. Soledad E. Olives	Compliance Officer, Vice President and Corporate Planning & Management Group Services Manager
Alexandra Bengson Trillana	Corporate Secretary, Assistant Vice President and General Counsel
Florentino C. Policarpio	President, San Miguel Mills, Inc.
Rita Imelda B. Palabyab	President, San Miguel Foods, Inc.
Raul B. Nazareno	President, The Purefoods-Hormel Company, Inc.
Eliezer O. Capacio	Vice President and Human Resources Head
Oscar R. Sañez	Vice President, International Cluster

[1] Each member of the senior management is a Filipino citizen.

Zenaida M. Postrado, Filipino, 57, has been the Vice President and Chief Finance Officer of San Miguel Pure Foods since May 2005. She also holds the following positions: Director and Treasurer of Magnolia Inc., The Purefoods-Hormel Company, Inc., San Miguel Mills, Inc., Golden Bay Grain Terminal Corporation, Sugarland Corporation, Golden Food & Dairy Creamery Corporation and Philippine Prime Meat Marketing Corporation; Treasurer of San Miguel Foods, Inc. and San Miguel Super Coffeemix Co., Inc.; and Commissioner of PT San Miguel Pure Foods Indonesia. She was a former General Manager of The Purefoods-Hormel Company, Inc.

Ma. Soledad E. Olives, Filipino, 52, has been the Compliance Officer of San Miguel Pure Foods since September 15, 2010. She is also Vice President and Corporate Planning & Management Group Services Manager of San Miguel Pure Foods; director of The Purefoods-Hormel Company, Inc., Golden Food & Dairy Creamery Corporation and Philippine Prime Meat Marketing Corporation; and Commissioner of PT San Miguel Pure Foods Indonesia. She was a former director of PT San Miguel Pure Foods Indonesia (from November 4, 2008 to November 19, 2009); and was previously Assistant Vice President and Planning, Projects & Management Group Services Manager of San Miguel Pure Foods (from May 16, 2005 to March 29, 2010).

Alexandra Bengson Trillana, Filipino, 39, has been the Corporate Secretary of San Miguel Pure Foods since September 15, 2010. She is also Assistant Vice President and General Counsel of San Miguel Pure Foods;

and Corporate Secretary of San Miguel Foods, Inc., San Miguel Mills, Inc., Magnolia, Inc., Sugarland Corporation, Golden Food & Dairy Creamery Corporation, Golden Bay Grain Terminal Corporation, The Purefoods-Hormel Company, Inc., San Miguel Super Coffeemix Co., Inc., San Miguel Hormel (Vn) Co., Ltd, and Philippine Prime Meat Marketing Corporation. She was previously Assistant Corporate Secretary of San Miguel Pure Foods (from April 26, 2004 to September 14, 2010); and Senior Manager — Commercial Transactions of San Miguel Corporation's Office of the General Counsel (from August 2005 to December 2009).

Florentino C. Policarpio, Filipino, 62, is the President of San Miguel Mills, Inc. He is also the President of Golden Bay Grain Terminal Corporation. He was previously General Manager of San Miguel Foods, Inc.'s flour business (2002 to 2005) and Group Manager of the Purchasing Department of San Miguel Pure Foods.

Rita Imelda B. Palabyab, Filipino, 53, is the President of San Miguel Foods, Inc. and Head of the agro-industrial and franchising business of San Miguel Foods, Inc. She was previously General Manager of San Miguel Foods, Inc.'s poultry business (April 2004 to January 2010).

Raul B. Nazareno, Filipino, 57, is the President of The Purefoods-Hormel Company, Inc. He is also director of PT San Miguel Pure Foods Indonesia. He was previously General Manager of The Purefoods-Hormel Company, Inc. (May 2010 to July 2012) and the President of the Philippine operations of Burger King.

Eliezer O. Capacio, Filipino, 57, is a Vice President and the Human Resources Head of San Miguel Pure Foods. He was a former director of PT San Miguel Pure Foods Indonesia. He was previously Vice President and Account Manager of the Food Group Human Resources of San Miguel Corporation's Corporate Human Resources Group (April 2004 to June 2007).

Oscar R. Sañez, Filipino, 55, is a Vice President and heads the foreign operations of San Miguel Pure Foods. He is director of PT San Miguel Pure Foods Indonesia and San Miguel Hormel (Vn) Co., Ltd. He was previously President and Chief Executive Officer of the Business Process Association of the Philippines (February 2007 to February 2011), Project Director — GILAS of Ayala Foundation Inc. (May 2006 to January 2007), and Managing Director/Country Manager — P&G Australia/NZ (Sydney) of The Procter & Gamble Company (July 2001 to October 2005).

BOARD COMMITTEES

Executive Committee

The Executive Committee acts within the power and authority granted to it by the Board and is called upon when the Board is not in session to exercise the powers of the Board in the management of San Miguel Pure Foods, with the exception of certain powers reserved to the Board, such as the power to appoint any entity as general managers or management or technical consultants, to guarantee obligations of other corporations in which San Miguel Pure Foods has lawful interest, to appoint trustees who, for the benefit of San Miguel Pure Foods, may receive and retain such properties of San Miguel Pure Foods or entities in which it has interests, and to perform such acts as may be necessary to transfer ownership of such properties to trustees of San Miguel Pure Foods, and such other powers as may be specifically limited by the Board or by law.

As of the date of this Offering Circular, the Executive Committee is currently composed of four directors that include the Chairman of the Board and the President, as well as an independent director. Mr. Eduardo M. Cojuangco, Jr. is the Chairman of the Committee.

Nominations and Hearing Committee

The Nominations and Hearing Committee is responsible for making recommendations to the Board on matters relating to the appointment, election and succession of directors. It screens and shortlists candidates for Board directorship in accordance with the qualifications and disqualifications for directors defined in San Miguel Pure Foods' Manual on Corporate Governance, the amended articles of incorporation and amended by-laws of San Miguel Pure Foods and applicable laws, rules, and regulations.

As of the date of this Offering Circular, the Nominations and Hearing Committee is composed of three voting directors, two of whom are independent directors, Mr. Carmelo L. Santiago and Justice Cancio C. Garcia, and one non-voting member, Ms. Maria Cristina M. Menorca. Mr. Carmelo L. Santiago is the Chairman of the Committee.

Executive Compensation Committee

The Executive Compensation Committee advises the Board in the establishment of procedures relating to executive remuneration of San Miguel Pure Foods' officers and directors and provides oversight on matters relating to remuneration of senior management and other key personnel, ensuring that compensation is consistent with San Miguel Pure Foods' culture, strategy and control environment.

As of the date of this Offering Circular, the Executive Compensation Committee is composed of four members, two of whom are independent directors, Justice Cancio C. Garcia and Mr. Carmelo L. Santiago. Mr. Menardo R. Jimenez is the Chairman of the Committee.

Audit Committee

The Audit Committee is responsible for assisting the Board in the performance of its oversight responsibility on financial reports and financial reporting process, internal control system, audit process and plans, directly interfacing with internal and external auditors, and in monitoring and facilitating compliance with both San Miguel Pure Foods' internal financial management manual and pertinent accounting standards and regulatory requirements. It performs financial oversight management functions, specifically in the areas of credit management, markets liquidity, operational, legal and other risks, as well as crisis management.

As of the date of this Offering Circular, the Audit Committee is composed of five members, two of whom are independent directors, Justice Cancio C. Garcia and Mr. Carmelo L. Santiago. Justice Cancio C. Garcia is the Chairman of the Committee.

RELATED PARTY TRANSACTIONS

San Miguel Pure Foods, in the ordinary course of its business, has entered into transactions with affiliates and other related parties, principally consisting of advances and sale and purchase of services and/or products. Transactions with related parties are entered into on an arm's length basis. See Note 5 to the September 2012 consolidated interim financial statements and Note 29 to the 2011 audited consolidated financial statements included elsewhere in this Offering Circular for more detailed information.

DESCRIPTION OF THE SHARES

The following is general information relating to San Miguel Pure Foods' capital stock. It does not purport to be complete or to give full effect to the applicable provisions of law and is in all respects qualified by reference to the applicable provisions of San Miguel Pure Foods' Amended Articles of Incorporation and Amended By-laws.

SHARE CAPITAL

As of the date of this Offering Circular, San Miguel Pure Foods has an authorized capital stock of ₱2,460 million, composed of 206 million Common Shares and 40 million Preferred Shares, all with a par value of ₱10 per share.

In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of San Miguel Pure Foods, the holders of the Preferred Shares shall enjoy preference in the payment, in full or, if its remaining assets are insufficient, on a pro-rata basis as among all holders of outstanding Preferred Shares, of the issue price of their shares plus any previously declared and unpaid dividends, before any asset of San Miguel Pure Foods is paid or distributed to the holders of the Common Shares.

Common Shares

As of September 30, 2012, there were 166,667,096 Common Shares, issued and outstanding.

Preferred Shares

As of September 30, 2012, San Miguel Pure Foods had 15,000,000 Preferred Shares issued and outstanding.

The Preferred Shares are non-voting, non-participating and non-convertible, with cumulative fixed cash dividend of 8% of the issue price of ₱1,000 per annum payable at the discretion of the Board, subject to the existence of unrestricted retained earnings. The Preferred Shares have a par value of ₱10 per share. They are redeemable in whole or in part at the option of San Miguel Pure Foods at the end of five years from the issue date or on any dividend payment date thereafter at a per share price equal to the issue price of ₱1,000 plus any accumulated and unpaid cash dividends. In the event that the Preferred Shares are not redeemed by San Miguel Pure Foods at the end of five years from the issue date, there will be a step up in the dividend rate to the higher of (i) 8% or (ii) the ten-year PDST-F rate plus a spread of 3.33% per annum.

VOTING RIGHTS OF COMMON SHARES

Each Common Share entitles the holder to one vote.

At each meeting of the shareholders, every shareholder entitled to vote on a particular resolution or matter is entitled to one vote for each share of stock standing in such shareholders' name in the books of San Miguel Pure Foods at the time of the closing of the transfer books for such meeting.

In accordance with Section 24 of the Corporation Code, at each election of directors, every shareholder entitled to vote at such election shall have the right to vote, in person or by proxy, the number of shares owned by such shareholder as of the relevant record date for as many persons as there are directors to be elected and for whose election such shareholder has a right to vote, or to cumulate such shareholder's votes by giving one candidate the number of votes equal to the number of directors to be elected multiplied by the number of shares or by distributing such votes on the same principle among any number of candidates as the shareholder shall see fit.

DIVIDEND RIGHTS OF COMMON SHARES

San Miguel Pure Foods is allowed to declare dividends on its Common Shares out of its unrestricted retained earnings at such times and in such amounts as may be determined by the Board. Such determination may take into consideration factors including, among others, the implementation of business plans, budgets, funding for new investments, operating expenses, working capital, debt service requirements and appropriate reserves.

The Board is authorized to declare dividends. A cash dividend declaration does not require any further approval from the shareholders. A stock dividend declaration requires the further approval of shareholders holding or representing not less than two-thirds of San Miguel Pure Foods' outstanding capital stock. The Corporation Code defines "outstanding capital stock" as the "total shares of stock issued to subscribers or

shareholders, whether or not fully or partially paid (as long as there is a binding subscription agreement), except treasury shares." Such shareholders' approval may be given at a general or special meeting duly called for such purpose. Holders of the Preferred Shares do not vote on a stock dividend declaration.

PRE-EMPTIVE RIGHTS

The Corporation Code confers pre-emptive rights on shareholders of a Philippine corporation, which entitle them to subscribe to all issues or other disposition of shares of any class by the corporation in proportion to their respective shareholdings, subject to certain exceptions. A Philippine corporation may provide for the denial of these pre-emptive rights in its articles of incorporation.

Under San Miguel Pure Foods' Amended Articles of Incorporation, preferred shareholders shall have no pre-emptive rights to any issuance or disposition of any class of shares, and common shareholders shall have no pre-emptive rights over Preferred Shares and to any issuance out of the current unissued Common Shares.

APPRAISAL RIGHTS

Under Philippine law, shareholders dissenting from the following corporate actions may demand payment of the fair value of their shares in certain circumstances:

- in case any amendment to the corporation's articles of incorporation has the effect of changing and restricting the rights of any shareholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class;
- in case of any sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property or assets;
- in case of merger or consolidation;
- in case the corporation decides to invest its funds in another corporation or business or for any purpose other than the primary purpose; and
- in case of extension or shortening of the term of corporate existence.

RESTRICTION ON FOREIGN OWNERSHIP

San Miguel Pure Foods and certain of its subsidiaries own land or are engaged in activities reserved to Philippine nationals. The term "Philippine national" as defined under Republic Act No. 7042, as amended, shall mean (i) a citizen of the Philippines, or (ii) a domestic partnership or association wholly owned by citizens of the Philippines, or a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled vote is owned and held by citizens of the Philippines, or (iii) a corporation organized abroad and registered to do business in the Philippines under the Philippine Corporation Code, of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos, or (iv) trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine national and at least 60% of the fund will accrue to the benefit of Philippine nationals. Accordingly, non-Philippine nationals cannot own more than 40% of the outstanding shares of San Miguel Pure Foods entitled to vote and any sale or transfer of Common Shares in excess of this threshold shall not be recorded in its stock and transfer book.

STOCK TRANSFER AGENT

San Miguel Pure Foods' share register is maintained by its stock transfer agent, SMC Stock Transfer Service Corporation, a corporation organized under the laws of the Republic of the Philippines, which has its office at the SMC Head Office, 40 San Miguel Avenue, Mandaluyong City.

SHAREHOLDING STRUCTURE

The following table shows the shareholding structure for San Miguel Pure Foods' Common and Preferred Shares as of September 30, 2012.

	Percentage Ownership of Common Shares	Number of Common Shares	Percentage Ownership of Preferred Shares	Number of Preferred Shares
SMC	99.92%	166,526,487	—	—
Others	0.08	140,609	100.00%	15,000,000
Total	100.00%	166,667,096	100.00%	15,000,000

PHILIPPINE TAXATION

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Offer Shares. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Offer Shares, and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Offer Shares under applicable tax laws of other applicable jurisdictions or regarding the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Shares in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Offering Circular. The tax treatment applicable to a holder of the Offer Shares may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a holder of the Offer Shares. Prospective investors of the Offer Shares are urged to consult their own tax advisors as to the particular tax consequences of the ownership and disposition of the Offer Shares, including the applicability and effect of any local or foreign tax laws.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen of the Philippines and a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines." A non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a foreign corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines. The term "dividends" under this section refers to cash or property dividends. "Tax Code" means the Philippine National Internal Revenue of 1997, as amended.

TAXES ON DIVIDENDS ON THE OFFER SHARES

Individual Philippine citizens and resident aliens are subject to a final tax on dividends derived from the Offer Shares at the rate of 10%, which tax shall be withheld by San Miguel Pure Foods.

Non-resident alien individuals engaged in a trade or business in the Philippines are subject to a final withholding tax on dividends derived from the Offer Shares at the rate of 20% on the gross amount thereof, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile or residence of such non-resident alien individual. A non-resident alien individual not engaged in trade or business in the Philippines is subject to a final withholding tax on dividends derived from the Offer Shares at the rate of 25% of the gross amount, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile or residence of such non-resident alien individuals.

The term "non-resident holder" means a holder of the Offer Shares:

- who is an individual who is neither a citizen nor a resident of the Philippines or an entity which is a foreign corporation not engaged in trade or business in the Philippines; and
- should a tax treaty be applicable, whose ownership of the Offer Shares is not effectively connected with a fixed base or a permanent establishment in the Philippines.

The withholding tax rate may likewise be reduced under an applicable tax treaty between the Philippines and the country of residence or domicile of such non-resident foreign corporation.

The dividends received by domestic corporations and resident foreign corporations from the Offer Shares shall not be subject to tax. Domestic corporations are corporations created or organized in the Philippines under Philippine law. Resident foreign corporations are corporations created or organized under foreign laws and engaged in trade or business within the Philippines.

Dividends received from a domestic corporation by a non-resident foreign corporation are generally subject to final withholding tax at the rate of 30%, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident foreign corporation. The 30% rate for dividends paid to non-resident foreign corporations may be reduced to a special 15% rate if:

- the country in which the non-resident foreign corporation is domiciled imposes no taxes on foreign sourced dividends; or

- the country in which the non-resident foreign corporation is domiciled allows a credit against the tax due from the non-resident corporation for taxes deemed to have been paid in the Philippines equivalent to 15%.

The BIR has prescribed, through an administrative issuance, procedures for the availment of tax treaty relief. The application for tax treaty relief has to be filed with the BIR by the non-resident holder of the Offer Shares prior to the payment of the dividend, but subject always to the BIR's ruling on the application. The investee domestic corporation may withhold taxes at a reduced rate on dividends paid to a non-resident holder of the Offer Shares if such non-resident holder submits to the domestic corporation proof of the filing of the tax treaty relief application prior to the date of payment of the dividend.

The requirements for a tax treaty relief application in respect of dividends are set out in the applicable tax treaty and BIR Form No. 0901-D. These include proof of residence in the country that is a party to the tax treaty. Proof of residence consists of a consularized certification from the tax authority of the country of residence of the non-resident holder of Offer Shares which states that the non-resident holder is a resident of such country under the applicable tax treaty. If the non-resident holder of Offer Shares is a juridical entity, authenticated certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence.

If tax at the regular rate is withheld by the corporation instead of the reduced rates applicable under a treaty, the non-resident holder of the Offer Shares may file a claim for refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue obtaining such a refund. Moreover, in view of the requirement of the BIR that an application for tax treaty relief be filed prior to the deadline for the filing by the investee domestic corporation of the final withholding tax return on dividend income, the non-resident holder of Offer Shares may not be able to successfully pursue a claim for refund if such an application is not filed before the deadline for the filing of the withholding tax return.

TAXES ON THE SALE OR OTHER DISPOSITION OF THE OFFER SHARES

Sales, exchanges or other dispositions of the Offer Shares which are effected through the PSE by persons other than a dealer in securities are subject to a stock transaction tax at the rate of 0.5% based on the gross selling price or gross value in money of the Offer Shares. This tax is required to be collected by and paid to the Philippine government by the selling stockbroker on behalf of his client.

Under the terms of some tax treaties, an exemption may be specifically available for stock transaction tax; under other treaties, an exemption may be available for taxes substantially similar to and in place of taxes covered by the treaty when it took effect. The stock transaction tax is classified as a percentage tax and not as an income tax under the Tax Code. Notwithstanding its classification as a percentage tax, an exemption from the stock transaction tax may be available under the terms of some tax treaties. However, the BIR's current position on this matter is that the stock transaction tax is not identical or substantially similar to the income tax/capital gains tax on a sale of shares in a domestic corporation, and, hence, not covered by the treaty exemption for capital gains tax. Thus, the treaty must specifically provide for an exemption from stock transaction tax, for such an exemption to apply. If such an exemption were available, an application for tax treaty relief would also have to be filed.

Subject to applicable exemptions under various tax treaties, a capital gains tax of 5% on the net capital gains realized during the taxable year, not in excess of ₱100,000, and 10% on the net capital gains realized during the taxable year, in excess of ₱100,000, is imposed on sales, exchanges or other dispositions of shares of stock not traded through a local stock exchange. The BIR requires that an application for tax treaty relief for capital gains tax on the sale of shares be filed before the deadline for the filing of the documentary stamp tax return or capital gains tax return (whichever is earlier) — otherwise the tax treaty exemption cannot be availed of.

The BIR appears to intend to expand the application of the 5%/10% capital gains tax by extending it even to trades through the stock exchange of shares of listed companies which will not maintain their public ownership requirement.

The BIR, in a letter dated December 28, 2010 addressed to the Philippine SEC, stated that it intended to "strictly impose the 5%/10% capital gains tax" for trades in listed companies "who will not maintain their public ownership requirement," said public ownership requirement being the 10% to 33% public ownership levels (based on the listed company's market capitalization) required for an initial public offering. This BIR letter was referred to the PSE by the Philippine SEC on January 3, 2011.

The PSE subsequently issued a memorandum dated January 20, 2011 in response to the Philippine SEC on the BIR's statements. The PSE noted that the Tax Code imposes a stock transaction tax of 1/2 of 1% of the gross selling price or gross value in money of shares of stock listed and traded on the PSE, without qualification and that the powers of the Secretary of Finance to promulgate rules and regulations implementing the Tax Code should be confined to the details for implementing the law as it has been enacted and such powers cannot be extended to amend or expand the statutory requirement of the Tax Code. Discussions are still ongoing between the PSE and the BIR and there is as yet no formal BIR issuance on the matter.

TAX TREATIES

The following table lists some of the countries with which the Philippines has tax treaties and the tax rates currently applicable to non-resident holders who are residents of those countries:

Country	Dividends (In Percentage (%))	Capital Gains Tax Due on Disposition of Shares Outside the PSE (In Percentage (%))
Canada	25[1]	Exempt[9]
France	15[2]	Exempt[9]
Germany	15[3]	5/10[10]
Japan	15[4]	Exempt[9]
Malaysia	25[5]	Exempt[9]
Singapore	25[6]	Exempt[9]
United Kingdom	25[7]	Exempt[11]
United States	25[8]	Exempt[9]

Notes:

(1) 15% if the recipient company controls at least 10% of the voting power of the company paying the dividends.

(2) 10% if the recipient company (excluding a partnership) holds directly at least 10% of the voting shares of the company paying the dividends.

(3) 10% if the recipient company (excluding a partnership) owns directly at least 25% of the capital of the company paying the dividends.

(4) 10% if the recipient company holds directly at least 10% of either the voting shares of the company paying the dividends or of the total shares issued by that company during the period of six months immediately preceding the date of payment of the dividends.

(5) 15% if the recipient is a company.

(6) 15% if during the part of the paying company's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year at least 15% of the outstanding shares of the voting stock of the paying company were owned by the recipient company.

(7) 15% if the recipient company is a company which controls directly or indirectly at least 10% of the voting power of the company paying the dividends.

(8) 20% if during the part of the paying corporation's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year, at least 10% of the outstanding shares of the voting stock of the paying corporation were owned by the recipient corporation. Notwithstanding the rates provided under the Republic of the Philippines-United States Treaty, residents of the United States may avail of the 15% withholding tax rate under the tax-sparing clause of the Tax Code provided certain conditions are met.

(9) Capital gains are taxable only in the country where the seller is a resident, provided the shares are not those of a corporation, the assets of which consist principally of real property situated in the Philippines, in which case the sale is subject to Philippine taxes.

(10) Under the tax treaty between the Philippines and Germany, capital gains from the alienation of shares of a Philippine corporation may be taxed in the Philippines irrespective of the nature of the assets of the Philippine corporation. Tax rates are 5% on the net capital gains realized during the taxable year not in excess of ₱100,000 and 10% on the net capital gains realized during the taxable year in excess of ₱100,000.

(11) Under the tax treaty between the Philippines and the United Kingdom, capital gains on the sale of the stock of Philippine corporations are subject to tax only in the country where the seller is a resident, irrespective of the nature of the assets of the Philippine corporation.

In order for an exemption under a tax treaty to be recognized, an application for tax treaty relief on capital gains tax on the sale of shares must be filed by the income recipient before the deadline for the filing of the documentary stamp tax return and approved by the BIR.

The requirements for a tax treaty relief application in respect of capital gains tax on the sale of shares are set out in the applicable tax treaty and BIR Form No. 0901-C. These include proof of residence in the country that is a party to the tax treaty. Proof of residence consists of a consularized certification from the tax authority of the country of residence of the seller of shares which provides that the seller is a resident of such country under the applicable tax treaty. If the seller is a juridical entity, authenticated certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence.

DOCUMENTARY STAMP TAXES ON OFFER SHARES

The sale, barter or exchange of Offer Shares listed and traded through the PSE are exempt from documentary stamp tax.

If the Offer Shares are not traded through the PSE, the Philippines imposes a documentary stamp tax upon transfers of the Offer Shares at a rate of ₱0.75 on each ₱200, or fractional part thereof, of the par value of the Offer Shares. The documentary stamp tax is imposed on the person making, signing, issuing, accepting or transferring the document and is thus payable either by the vendor or the purchaser of the Offer Shares.

ESTATE AND GIFT TAXES

The transfer of the Offer Shares upon the death of a registered holder to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at progressive rates ranging from 5% to 20% if the net estate is over ₱200,000.

Individual registered holders, whether or not citizens or residents of the Philippines, who transfer shares by way of gift or donation will be liable for Philippine donor's tax on such transfers at progressive rates ranging from 2% to 15% if the total net gifts made during the calendar year exceed ₱100,000. The rate of tax with respect to net gifts made to a stranger (one who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity within the fourth degree of relationship) is a flat rate of 30%. Corporate registered holders are also liable for Philippine donor's tax on such transfers, but the rate of tax with respect to net gifts made by corporate registered holders is always at a flat rate of 30%.

Estate and gift taxes will not be collected in respect of intangible personal property, such as shares of stock, (a) if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (b) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

PLAN OF DISTRIBUTION

The Selling Shareholder, through its appointment of Maybank ATR Kim Eng Capital Partners, Inc., Standard Chartered Securities (Singapore) Pte. Limited and UBS AG, Hong Kong Branch as the Joint Bookrunners, is offering up to 22,500,000 Offer Shares (excluding the Common Shares subject of the Over-allotment Option described below) outside the United States in reliance on Regulation S under the U.S. Securities Act.

The Selling Shareholder, through affiliates of Maybank ATR Kim Eng Capital Partners, Inc., Standard Chartered Securities (Singapore) Pte. Limited and UBS AG, Hong Kong Branch may offer the Offer Shares (excluding the Common Shares subject of the Over-allotment Option described below) within the Philippines.

The names of each of the Joint Bookrunners and the principal amount and number of Offer Shares subscribed by each are as set out below:

Joint Bookrunner	Number of Offer Shares	%
Maybank ATR Kim Eng Capital Partners, Inc.	9,000,000	40.0
Standard Chartered Securities (Singapore) Pte. Limited	6,750,000	30.0
UBS AG, Hong Kong Branch	6,750,000	30.0
TOTAL	22,500,000	100.0

The underwriting agreement dated November 19, 2012 and entered into between the Company, the Selling Shareholder and the Joint Bookrunners (the "Underwriting Agreement") is subject to certain conditions and may be subject to termination by the Joint Bookrunners if certain circumstances, including force majeure, occur on or before the Closing Date. Under the terms and conditions of the Underwriting Agreement, the Joint Bookrunners will procure purchasers for or, failing which, the Joint Bookrunners will purchase the Offer Shares.

The Offer Price to investors excludes a brokerage fee of up to 1.0% of the Offer Price and transaction fee of 0.021% of the Offer Price, which together amount up to 1.021% of the Offer Price and is payable by investors to the Joint Bookrunners.

INDEMNITY

The Underwriting Agreement provides that the Company and the Selling Shareholder will indemnify the Joint Bookrunners against certain liabilities.

OVER-ALLOTMENT OPTION

In connection with the Offer, the Selling Shareholder has granted the Stabilizing Agent an Over-allotment Option, which is exercisable in whole or in part beginning on or after the Closing Date and ending on the date 30 days from and including the Closing Date, to purchase up to 2,500,000 additional Common Shares (approximately 11% of the total number of Offer Shares) on the same terms and conditions as the Offer Shares as set forth herein. In connection therewith, the Stabilizing Agent has entered into a greenshoe agreement with the Selling Shareholder for up to an additional 2,500,000 Common Shares (approximately 11% of the total number of Offer Shares) to cover over-allocations under the Offer. Any Shares of the Selling Shareholder that may be delivered to the Stabilizing Agent under the greenshoe agreement will be re-delivered to the Selling Shareholder either through the purchase of Common Shares in the open market by the Stabilizing Agent in the conduct of stabilization activities or through the exercise of the Over-allotment Option by the Stabilizing Agent.

Up to approximately 11% of the total number of Offer Shares may be over-allotted and the Stabilizing Agent may affect price stabilization transactions for a period beginning on or after the Closing Date but extending no later than 30 days from the Closing Date. Such over-allotment is subject to approval by the Philippine SEC. The Stabilizing Agent may purchase Common Shares in the open market only if the market price of the Common Shares falls below the Offer Price. Such activities may stabilize, maintain or otherwise affect the market price of the Common Shares which may have the effect of preventing a decline in the market price of the Common Shares and may also cause the price of the Common Shares to be higher than the price that otherwise would exist in the open market in the absence of these transactions. If the Stabilizing Agent commences any of these transactions, it may discontinue them at any time. Once the Over-allotment Option has been exercised by the Stabilizing Agent, it will no longer be allowed to purchase Common Shares in the open market for the conduct of stabilization activities.

LOCK-UP

Each of the Company and the Selling Shareholder has agreed with the Joint Bookrunners that neither the Company, the Selling Shareholder nor any of their respective affiliates over which they exercise management or voting control will, for a period of 180 days from the Closing Date, without the prior written consent of the Joint Bookrunners, issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal of) any Common Shares or any shares of the Company or securities convertible or exchangeable into or exercisable for shares of the Company or warrants or other rights to purchase shares of the Company or any security or financial product whose value is determined directly or indirectly by reference to the price of the Common Shares, including equity swaps, forward sales and options, except for (i) the sale of the Offer Shares as contemplated by this Offering Circular; or (ii) the sale of Common Shares pursuant to any exercise of the Over-allotment Option.

OTHER RELATIONSHIPS

The Joint Bookrunners and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the Joint Bookrunners and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for San Miguel Pure Foods or the Selling Shareholder or their affiliates, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Joint Bookrunners and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities or instruments of San Miguel Pure Foods. The Joint Bookrunners and their affiliates may also make investment recommendations or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire or sell such securities or instruments. The Joint Bookrunners or certain of their affiliates may purchase the Offer Shares for their own account at the same time as the Offer or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Offer Shares to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Offer Shares).

The Joint Bookrunners or certain of their affiliates may purchase the Offer Shares and be allocated Offer Shares for asset management or proprietary purposes and not with a view to distribution.

The Joint Bookrunners and their respective affiliates have engaged in transactions with and provided various investment banking, commercial banking and other services to San Miguel Pure Foods, the Selling Shareholder and their respective subsidiaries and affiliates in the past and may provide such services in the future.

SELLING RESTRICTIONS

The distribution of this Offering Circular or any offering material and the offer, sale or delivery of the Offer Shares is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorized.

United States

The Offer Shares have not been and will not be registered under the U.S. Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Joint Bookrunners will sell the Offer Shares only outside of the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

United Kingdom

The Joint Bookrunners have represented, warranted and agreed that:

(1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of any Offer shares in circumstances in which section 21(1) of FSMA does not apply to the Company; and

(2) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Offer Shares in, from or otherwise involving the United Kingdom.

This Offering Circular is directed only at (i) persons outside the United Kingdom; (ii) persons having professional experience in matters relating to investments falling within Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the "Order"); (iii) high net worth bodies corporate, unincorporated associations and partnerships and trustees of high value trusts as described in Article 49(2)(a) to (d) of the Order; or (iv) to persons to whom it may otherwise be lawfully communicated (all such persons referred to in (i) to (iv) above together being referred to as "Relevant Persons").

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Joint Bookrunner has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Securities which are the subject of the offering contemplated by this Offering Circular to the public in that Relevant Member State other than:

(i) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(ii) to fewer than 100, or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Bookrunner; or

(iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Securities shall require the Issuer or any Joint Bookrunner to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Securities to the public" in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Securities to be offered so as to enable an investor to decide to purchase or subscribe the Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Japan

The Offer Shares have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended; the "FIEL"). Each of the Joint Bookrunners has represented and agreed that the Offer Shares which its purchases will be purchased by it as principal and that in connection with the Offer, it will not, directly or indirectly, offer or sell any Offer Shares in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements under the FIEL and otherwise in compliance with such law and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

The Offering Circular has not been nor will be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "Securities and Futures Act"). The Joint Bookrunners represent, warrant and agree that the Offer Shares may not be offered or sold or made the subject of an invitation for subscription or purchase nor may the Preliminary Offering Circular, the Offering Circular or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Offer Shares be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor or other person falling within Section 274 of the Securities and Futures Act, (b) to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise than pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following relevant persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased Offer Shares, is a person who is:

(i) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Offer Shares under Section 275 of the Securities and Futures Act except:

(a) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act;

(b) where no consideration is given for the transfer;

(c) by operation of law; or

(d) pursuant to Section 276(7) of the Securities and Futures Act.

Hong Kong

The contents of this Offering Circular have not been reviewed by any regulatory authority in Hong Kong. Investors are advised to exercise caution in relation to the offer. If investors are in any doubt about any of the contents of this document, investors should obtain independent professional advice. Please note that (1) shares may not be offered or sold in Hong Kong by means of this Offering Circular or any other document other than to professional investors within the meaning of Part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571) ("SFO") and any rules made thereunder, or in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance of Hong Kong (Cap. 32) ("CO") or which does not constitute an offer or invitation to the public for the purposes of the CO or the SFO, and (2) no person shall issue, or possess for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to shares which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to such professional investors.

Australia

This Offering Circular has not been, and will not be, lodged with the Australian Securities and Investments Commission as a disclosure document for the purposes of the Corporations Act 2001. This document does not purport to include the information required of a disclosure document under Chapter 6D of the Corporations Act of 2001.

The Offer Shares may not be directly or indirectly offered for subscription or purchased or sold, and no invitations to subscribe for or buy the Offer Shares may be issued, and no draft or definitive offering

memorandum, advertisement or other offering material relating to any Offer Shares may be distributed in Australia, except where disclosure to investors is not required under Chapter 6D of the Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations.

Any shares in the Company issued upon acceptance of the offer may not be offered for sale (or transferred, assigned or otherwise alienated) to investors in Australia for at least 12 months after their issue, except in circumstances where disclosure to investors is not required under Chapter 6D of the Corporations Act 2001 or unless a disclosure document that complies with the Corporations Act 2001 is lodged with the Australian Securities and Investments Commission.

Each investor acknowledges the above and, by applying for securities under this Offering Circular, gives an undertaking not to sell those Offer Shares (except in the circumstances referred to above) for 12 months after their issue.

Malaysia

This Offering Circular has not been and will not be registered as a prospectus with the Securities Commission Malaysia ("SC") under the Malaysian Capital Markets and Services Act 2007 ("CMSA"), but will be deposited as an information memorandum with the SC in accordance with the CMSA. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or the invitation for subscription or purchase of the Offer Shares may not be circulated or distributed, nor will any invitation or offer, directly or indirectly, be made in Malaysia with respect to offer or sale of the Offer Shares, other than to a person falling within any of paragraphs 7, 8, 9, 11, 12, 13 or 14 of Schedules 6 or 7 of the CMSA or any other person as may be specified by the SC in any guidelines issued under Section 377 of the CMSA.

The distribution in Malaysia of this Offering Circular is subject to Malaysian laws. Save as aforementioned, no action has been taken in Malaysia under its securities laws in respect of this Offering Circular. This document does not constitute and may not be used for the purpose of a public offering or an issue, offer for subscription or purchase, invitation to subscribe for or purchase any securities requiring the registration of a prospectus with the SC under the CMSA.

Philippines

The Company, the Selling Shareholder, and the Joint Bookrunners represent and agree that they have not offered or sold and will not offer or sell the Offer Shares to any person within the Philippines, except in compliance with applicable filing, disclosure and other requirements under the Securities Regulation Code ("SRC") and the rules and regulations issued by the Philippine SEC to implement the SRC. Investors who acquire beneficial ownership over more than 5% of any class of outstanding capital stock of the Company must disclose such acquisition to the Philippine SEC and the PSE (through the Company) on Philippine SEC Form 18-A within five business days from such acquisition. Investors who acquire beneficial ownership over at least 10% of any class of outstanding capital stock of the Company must disclose such acquisition to the Philippine SEC and the PSE (through the Company) on Philippine SEC Form 23-A within 10 days from such acquisition and any change in such beneficial ownership must be disclosed on Philippine SEC Form 23-B within the first 10 days of the month following such change.

Qatar

This Offering Circular is not intended to constitute an offer, sale or delivery of shares or other securities under the laws of the State of Qatar including the rules and regulations of Qatar Financial Centre Authority ("QFCA") or the Qatar Financial Centre Regulatory Authority ("QFCRA"). The Offer Shares have not been and will not be listed on the Qatar Exchange and are not subject to the rules and regulations of the DSM Internal Regulations applying to the Qatar Exchange, the Qatar Financial Markets Authority ("QFMA"), the Qatar Central Bank ("QCB"), the QFCA or the QFCRA, or any laws of the State of Qatar.

This Offering Circular has not been and will not be:

(i) lodged or registered with, or reviewed or approved by the QFCA, the QFCRA, the QCB or the QFMA; or authorized or licensed for distribution in the State of Qatar,

(ii) and the information contained in this International Offering Circular does not, and is not intended to, constitute a public or general offer or other invitation in respect of shares or other securities in the State of Qatar or the QFC.

The offer of the Offer Shares and interests therein do not constitute a public offer of securities in the State of Qatar under the Commercial Companies Law No. (5) of 2002 (as amended) or otherwise under any laws of the State of Qatar, including the rules and regulations of the QFCA or QFCRA.

The Offer Shares are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Offer Shares. No transaction will be concluded in the jurisdiction of the State of Qatar (including the jurisdiction of the Qatar Financial Centre). The Company is not regulated by the QCB, QFMA, QFC Authority, QFC Regulatory Authority or any other government authority in State of Qatar. The Company does not, by virtue of this Offering Circular, conduct any business in the State of Qatar. Our Company is an entity regulated under laws outside the State of Qatar.

State of Kuwait

The Offer Shares have not been authorized or licensed for offering, marketing or sale in the State of Kuwait by the Ministry of Commerce and Industry or the Central Bank of Kuwait or other equivalent Kuwaiti governmental agency. The distribution of this Offering Circular and the offering and sale of the Offer Shares in the State of Kuwait is restricted by law unless a license is obtained from the Kuwaiti Ministry of Commerce and Industry in accordance with Law 31 of 1990 as amended, and Ministerial Order No. 113 of 1992, as amended. Persons into whose possession this Offering Circular comes are required by the Company and the Joint Bookrunners to inform themselves about and to observe such restrictions. Investors in Kuwait who approach the Company or any of the Joint Bookrunners to obtain copies of this Offering Circular are required by the Company and the Joint Bookrunners to keep such Offering Circular confidential and not to make copies thereof or distribute the same to any other person and are also required to observe the restrictions provided for in all jurisdictions with respect to the offering, marketing and the sale of the Offer Shares.

Switzerland

The Offer Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange Ltd. ("SIX Swiss Exchange") or any other stock exchange or other regulated trading facility in Switzerland. The Offer Shares will be offered or sold only to a selected number of individual investors in Switzerland, under circumstances which will not result in a public offering within the meaning of the relevant Swiss legal provisions. This document has been prepared without regard to the disclosure standards for issue prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or disclosure standards for listing prospectuses under art. 27 ff. of the SIX Swiss Exchange Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Offer Shares or the Offer may be publicly distributed or otherwise made publicly available in Switzerland. Each copy of this document is addressed to a specifically named recipient and shall not be passed to a third party.

Neither this document nor any other offering or marketing material relating to the Offer, the Company or the Offer Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of the Offer Shares will not be supervised by, the Swiss Financial Market Supervisory Authority, and the offer of the Offer Shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Scheme ("CISA"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of the Offer Shares.

United Arab Emirates

The Offer Shares have not been, and are not being, publicly offered, sold, promoted or advertised in the United Arab Emirates (including the Dubai International Financial Centre) other than in compliance with the laws of the United Arab Emirates (and the Dubai International Financial Centre) governing the issue, offering and sale of securities. Further, this Offering Circular does not constitute a public offer of securities in the United Arab Emirates (including the Dubai International Financial Centre) and is not intended to be a public offer. This Offering Circular has not been approved by or filed with the Central Bank of the United Arab Emirates, the Securities and Commodities Authority or the Dubai Financial Services Authority.

TRANSFER RESTRICTIONS

As a result of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Offer Shares offered hereby.

The Offer is being made in accordance with and in reliance upon Regulation S under the U.S. Securities Act. The Offer Shares have not been registered under the U.S. Securities Act or with any U.S. state or federal securities regulatory authority of any state or other jurisdiction outside the Philippines and, accordingly, may not be offered, sold, pledged or otherwise transferred or delivered within the United States in accordance with Regulation S.

Terms used in these "Transfer Restrictions" that are defined in Regulation S under the U.S. Securities Act are used herein as defined therein.

Each purchaser of the Offer Shares offered outside the United States pursuant to Regulation S under the U.S. Securities Act will be deemed to have represented, agreed and acknowledged that the purchaser is acquiring such Offer Shares in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S.

THE PHILIPPINE STOCK MARKET

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by San Miguel Pure Foods, the Selling Shareholder, the Joint Bookrunners or any of their respective subsidiaries, affiliates or advisors in connection with sale of the Offer Shares.

BRIEF HISTORY

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulating, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Philippine government have resulted in the unification of the two bourses into the PSE. The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. While the PSE maintains two trading floors, one in Makati City and the other in Pasig City, these floors are linked by an automated trading system which integrates all bid and ask quotations from the bourses.

In June 1998, the Philippine SEC granted the Self-Regulatory Organization status to the PSE, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, the PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the Philippine Securities Regulation Code. The PSE has an authorized capital stock of 97.8 million shares of which 61.2 million shares are subscribed and fully paid-up. Each of the 184 member-brokers was granted 50,000 common shares of the new PSE at a par value of ₱1 per share. In addition, a trading right evidenced by a "Trading Participant Certificate" was immediately conferred on each member broker allowing the use of the PSE's trading facilities. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President.

On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry.

Classified into financial, industrial, holding firms, property, services, and mining and oil sectors, companies are listed either on the PSE's First Board, Second Board or the Small and Medium Enterprises Board. Each index represents the numerical average of the prices of component stocks. The PSE has an index, referred to as the PHISIX, which as at the date thereof reflects the price movements of selected stocks listed on the PSE, based on traded prices of stocks from the various sectors. The PSE shifted from full market capitalization to free float market capitalization effective April 3, 2006 simultaneous with the migration to the free float index and the renaming of the PHISIX to PSEi. The PSEi includes 30 stocks listed on the PSE.

With the increasing calls for good corporate governance, the PSE has adopted an online daily disclosure system to improve the transparency of listed companies and to protect the investing public.

The table below sets out movements in the composite index as of the last trading day of each calendar year from 2007 to 2011 and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

Year	Composite Index at Closing	Number of Listed Companies	Aggregate Market Capitalization (in billions)	Combined Value of Turnover (in billions)
2007	3,621.6	244	₱ 7,976.8	₱1,338.3
2008	1,872.9	246	4,072.2	763.9
2009	3,052.7	248	6,032.2	994.2
2010	4,201.1	253	8,866.1	1,207.4
2011	4,372.0	253	8,697.0	1,422.6
2012 (through November 9)	5,468.8	255	10,591.2	1,512.4

Source: PSE

TRADING

The PSE is a double auction market. Buyers and sellers are each represented by stockbrokers. To trade, bids or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Payment of purchases of listed securities must be made by the buyer on or before the third trading day (the settlement date) after the trade.

Trading on the PSE starts at 9:30 a.m. until 12:00 p.m. Trading resumes at 1:30 p.m. and ends at 3:30 p.m., with a 10-minute extension during which transactions may be conducted, provided that they are executed at the last traded price and are only for the purpose of completing unfinished orders. Trading days are Monday to Friday, except legal holidays and days when the BSP clearing house is closed.

Minimum trading lots range from 10 to 1,000,000 shares depending on the price range and nature of the security traded. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Whenever an order will result in a breach of the trading threshold of a security within a trading day, the trading of a security will be frozen. Orders cannot be posted, modified or cancelled for a security that is frozen. In cases where an order has been partially matched, only the portion of the order that will result in a breach of the trading threshold will be frozen. Where the order results in a breach of the trading threshold, the following procedures shall apply:

(i) In case the static threshold is breached, the PSE will accept the order, provided the price is within the allowable percentage price difference under the implementing guidelines of the revised trading rules (i.e., 50% of the previous day's reference or closing price, or the last adjusted closing price); otherwise, such order will be rejected. In a case where the order is accepted, the PSE will adjust the static threshold to 60%. All orders breaching the 60% static threshold will be rejected by the PSE.

(ii) In case the dynamic threshold is breached, the PSE will accept the order if the price is within the allowable percentage price difference under the existing regulations (i.e., 20% for Security Cluster A and newly-listed securities; 15% for Security Cluster B; and 10% for Security Cluster C); otherwise, such order will be rejected by the PSE.

NON-RESIDENT TRANSACTIONS

When the purchase/sale of Philippine shares of stock involves a non-resident, whether the transaction is effected in the domestic or foreign market, it will be the responsibility of the securities dealer/broker to register the transaction with the BSP. The local securities dealer/broker shall file with the BSP, within three business days from the transaction date, an application in the prescribed registration form. After compliance with other required undertakings, the BSP shall issue a Certificate of Registration. Under BSP rules, all registered foreign investments in Philippine securities including profits and dividends, net of taxes and charges, may be repatriated.

SETTLEMENT

The Securities Clearing Corporation of the Philippines ("SCCP") is a wholly-owned subsidiary of the PSE and was organized primarily as a clearance and settlement agency for SCCP-eligible trades in the facilities of the PSE. SCCP received its permanent license to operate on January 17, 2002. It is responsible for:

- synchronizing the settlement of funds and the transfer of securities through Delivery versus Payment clearing and settlement of transactions of Clearing Members, who are also Trading Participants of the PSE;
- guaranteeing the settlement of trades in the event of a Trading Participant's default through the implementation of its Fails Management System and administration of the Clearing and Trade Guaranty Fund; and
- performance of Risk Management and Monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place three trading days after transaction date ("T+3"). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under the book-entry system of the PDTC. Each Trading Participant maintains a Cash Settlement Account with one of the four existing Settlement Banks of

SCCP, which are Banco de Oro Unibank, Inc., Deutsche Bank AG (Manila Branch), Metropolitan Bank & Trust Company and Rizal Commercial Banking Corporation. Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its Central Clearing and Central Settlement system on May 29, 2006, which employs multilateral netting whereby the system automatically offsets "buy" and "sell" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each Clearing Member. All cash debits and credits are also netted into a single net cash position for each Clearing Member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-eligible trade cleared through it.

SCRIPLESS TRADING

In 1995, the PDTC was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the Philippine SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks, Banco de Oro Unibank, Inc., Deutsche Bank AG (Manila Branch), Metropolitan Bank & Trust Company and Rizal Commercial Banking Corporation.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares of stock in favor of the PCD Nominee Corporation ("PCD Nominee"), a corporation wholly-owned by the PDTC whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged in the PDTC. "Immobilization" is the process by which the warrant or share certificates of lodging holders are canceled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares in the account of the PCD Nominee through the PDTC participant will be recorded in the issuing corporation's registry. This trust arrangement between the participants and PDTC through the PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No consideration is paid for the transfer of legal title to the PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g., brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares, through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP, and into the PDTC system. Once it is determined on the settlement date (T+3) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the SCCP Central Clearing and Central Settlement system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a shareholder wishes to withdraw his stockholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged.

The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under the PCD Nominee. The expenses for upliftment are for the account of the uplifting shareholder. See "— Issuance of Certificated Shares" for a more detailed discussion.

The difference between the depository and the registry would be on the recording of ownership of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are canceled and a confirmation advice is issued in the name of PCD Nominee to confirm new balances of the shares lodged with the PDTC. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of the PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the PCD Nominee's name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current "de facto" custodianship role.

AMENDED RULE ON LODGMENT OF SECURITIES

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the Philippine SEC, without any jumbo or mother certificate in compliance with the requirements of Section 43 of the Philippine Securities Regulation Code. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in the amended rule on Lodgment of Securities of the PSE.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

- For a new company to be listed at the PSE as of July 1, 2009, the usual procedure will be observed but the transfer agent of the company shall no longer issue a certificate to PCD Nominee but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the depository participants on listing date.
- On the other hand, for an existing listed company, the PDTC shall wait for the advice of the transfer agent that it is ready to accept surrender of PCD Nominee jumbo certificates and upon such advice the PDTC shall surrender all PCD Nominee jumbo certificates to the transfer agent for cancellation. The transfer agent shall issue a Registry Confirmation Advice to PDTC evidencing the total number of shares registered in the name of PCD Nominee in the listed company's registry as of confirmation date.

ISSUANCE OF CERTIFICATED SHARES

Any beneficial owner of the shares may apply with PDTC through his broker or custodian-participant for a withdrawal from the book-entry system and return to the conventional paper-based settlement. If a shareholder wishes to withdraw his stockholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are on the account of the uplifting shareholder.

Upon the issuance of the stock certificates for the shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of the shares into certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until the relevant stock certificates in the name of the person applying for upliftment shall have been issued by the relevant company's transfer agent.

LEGAL MATTERS

Certain matters of Philippine law relating to the Offer will be passed upon for the Company by Picazo Buyco Tan Fider & Santos and for the Joint Bookrunners by SyCip Salazar Hernandez & Gatmaitan. Certain matters of U.S. federal law and English law relating to the Offer will be passed upon for the Company by Cleary Gottlieb Steen & Hamilton LLP and for the Joint Bookrunners by Allen & Overy.

INDEPENDENT AUDITOR

The consolidated financial statements as of and for the years ended December 31, 2009, 2010 and 2011 were audited by Manabat Sanagustin & Co., a member firm of KPMG, and prepared in compliance with PFRS, and the consolidated interim financial statements as of and for the nine months ended September 30, 2011 and 2012 were reviewed by Manabat Sanagustin & Co.

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SAN MIGUEL PURE FOODS COMPANY, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
As at and for the Nine Months Ended September 30, 2012 and 2011

Manabat Sanagustin & Co., CPAs
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REPORT OF INDEPENDENT AUDITORS ON REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Board of Directors and Stockholders
San Miguel Pure Foods Company, Inc.
JMT Corporate Condominium
ADB Ave., Ortigas Center, Pasig City

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of San Miguel Pure Foods Company, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as at September 30, 2012, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the nine months ended September 30, 2012 and 2011, and selected notes. The 2011 consolidated financial statements (not presented herein) from which the accompanying consolidated statement of financial position as at December 31, 2011 was derived, were audited by us, for which we expressed an unqualified opinion in our report dated March 7, 2012. Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Manabat Sanagustin & Co., CPAs, a Philippine partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

PRC-BOA Registration No. 0003, Group A, valid until December 31, 2013
SEC Accreditation No. 0004-FR-3, Group A, valid until November 22, 2014
IC Accreditation No. F-0040-R, Group A, valid until September 11, 2014
BSP Accredited, Group A, valid until December 17, 2014

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, the financial position of San Miguel Pure Foods Company, Inc. and Subsidiaries as at September 30, 2012, and its financial performance and its cash flows for the nine months ended September 30, 2012 and 2011, in accordance with PAS 34, *Interim Financial Reporting*.

MANABAT SANAGUSTIN & CO., CPAs

/s/ WILFREDO Z. PALAD
WILFREDO Z. PALAD
Partner
CPA License No. 0045177
SEC Accreditation No. 0027-AR-3, Group A, valid until January 4, 2015
Tax Identification No. 106-197-186
BIR Accreditation No. 08-001987-6-2010
Issued June 30, 2010; valid until June 29, 2013
PTR No. 3174023MA
Issued January 2, 2012 at Makati City

November 5, 2012
Makati City, Metro Manila

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	Unaudited September 30, 2012	Audited December 31, 2011
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 8 and 9)	**₱ 4,025,029**	₱ 4,932,718
Trade and other receivables — net (Notes 5, 8 and 9)	**7,861,565**	8,700,217
Inventories	**15,555,254**	12,068,381
Biological assets	**4,406,336**	4,123,777
Derivative assets (Notes 8 and 9)	**101,434**	31,869
Prepaid expenses and other current assets	**2,185,566**	1,968,552
Total Current Assets	**34,135,184**	31,825,514
Noncurrent Assets		
Investments	**13,165,956**	13,177,979
Investment properties — net	**191,640**	134,927
Property, plant and equipment — net (Note 4)	**9,848,507**	8,744,321
Biological assets — net of current portion	**1,813,129**	1,811,570
Other intangible assets — net	**3,816,598**	3,657,384
Goodwill — net	**410,562**	422,547
Deferred tax assets	**483,675**	502,677
Other noncurrent assets (Notes 8 and 9)	**699,728**	676,051
Total Noncurrent Assets	**30,429,795**	29,127,456
	₱64,564,979	₱60,952,970
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Notes 8 and 9)	**₱ 5,928,645**	₱ 4,987,929
Trade payables and other current liabilities (Notes 5, 8 and 9)	**12,684,302**	11,018,877
Current maturities of long-term debt (Notes 8 and 9)	**25,000**	25,000
Income tax payable	**302,306**	305,012
Total Current Liabilities	**18,940,253**	16,336,818
Noncurrent Liabilities		
Long-term debt — net of current maturities and debt issue costs (Notes 8 and 9)	**4,633,367**	4,646,449
Deferred tax liabilities	**193,155**	166,572
Other noncurrent liabilities (Notes 8 and 9)	**204,241**	116,050
Total Noncurrent Liabilities	**5,030,763**	4,929,071
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock	**1,858,748**	1,858,748
Additional paid-in capital	**20,500,284**	20,500,284
Revaluation surplus	**18,219**	18,219
Cumulative translation adjustments	**(231,156)**	(84,934)
Retained earnings	**15,932,609**	14,475,689
Treasury stock	**(182,094)**	(182,094)
	37,896,610	36,585,912
Non-controlling Interests	**2,697,353**	3,101,169
Total Equity	**40,593,963**	39,687,081
	₱64,564,979	₱60,952,970

Note: See Selected Notes to Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(Amounts in Thousands, Except Per Share Data)

	For the Nine Months Ended		For the Three Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
REVENUES (Note 5)	**₱69,353,874**	₱64,285,779	**₱24,004,279**	₱21,975,919
COST OF SALES (Note 5)	**57,300,171**	52,538,560	**19,361,828**	18,253,342
GROSS PROFIT	**12,053,703**	11,747,219	**4,642,451**	3,722,577
SELLING AND ADMINISTRATIVE EXPENSES (Note 5)	**(8,779,694)**	(7,493,468)	**(3,230,677)**	(2,466,501)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	**(425,670)**	(385,018)	**(138,402)**	(139,237)
INTEREST INCOME	**121,918**	360,739	**35,726**	119,790
EQUITY IN NET EARNINGS OF AN ASSOCIATE	**709,592**	100,126	**202,488**	100,126
GAIN (LOSS) ON SALE OF PROPERTY AND EQUIPMENT	**28,418**	(73)	**598**	135
OTHER INCOME (CHARGES) — Net	**253,063**	(109,691)	**158,950**	(601)
INCOME BEFORE INCOME TAX	**3,961,330**	4,219,834	**1,671,134**	1,336,289
INCOME TAX EXPENSE	**1,004,861**	1,164,901	**443,369**	374,272
NET INCOME	**₱ 2,956,469**	₱ 3,054,933	**₱ 1,227,765**	₱ 962,017
Attributable to:				
Equity holders of the Parent Company	**₱ 2,956,921**	₱ 2,944,593	**₱ 1,231,608**	₱ 934,246
Non-controlling Interests	**(452)**	110,340	**(3,843)**	27,771
	₱ 2,956,469	₱ 3,054,933	**₱ 1,227,765**	₱ 962,017
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 7)	**₱ 12.34**	₱ 13.53	**₱ 5.59**	₱ 3.81

Note: See Selected Notes to Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(Amounts in Thousands)

	For the Nine Months Ended		For the Three Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
NET INCOME	**₱2,956,469**	₱3,054,933	**₱1,227,765**	₱962,017
NET GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	**(149,824)**	8,545	**(10,932)**	9,046
SHARE IN COMPREHENSIVE INCOME OF AN ASSOCIATE	**156**	—	**156**	—
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	**91**	(3,247)	**—**	—
INCOME TAX BENEFIT (EXPENSE)	**(9)**	325	**—**	—
OTHER COMPREHENSIVE INCOME (LOSS) — NET OF TAX	**(149,586)**	5,623	**(10,776)**	9,046
TOTAL COMPREHENSIVE INCOME — NET OF TAX	**₱2,806,883**	₱3,060,556	**₱1,216,989**	₱971,063
Comprehensive Income Attributable to:				
Equity holders of the Parent Company	**₱2,810,699**	₱2,950,222	**₱1,221,668**	₱944,206
Non-controlling Interests	**(3,816)**	110,334	**(4,679)**	26,857
	₱2,806,883	₱3,060,556	**₱1,216,989**	₱971,063

Note: See Selected Notes to Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company									
				Cumulative Translation Adjustments						
	Capital Stock	Additional Paid-In Capital	Revaluation Surplus	Translation Reserve	Fair Value Reserve	Retained Earnings	Treasury Stock	Total	Non-controlling Interests	Total Equity
At December 31, 2011 (Audited)	**₱1,858,748**	**₱20,500,284**	**₱18,219**	**₱(86,675)**	**₱ 1,741**	**₱14,475,689**	**₱(182,094)**	**₱36,585,912**	**₱3,101,169**	**₱39,687,081**
Net loss on exchange differences on translation of foreign operations	—	—	—	(146,460)	—	—	—	(146,460)	(3,364)	(149,824)
Net gain on available-for-sale financial assets, net of tax	—	—	—	—	82	—	—	82	—	82
Share in comprehensive income of an associate	—	—	—	—	156	—	—	156	—	156
Other comprehensive income (loss)	—	—	—	(146,460)	238	—	—	(146,222)	(3,364)	(149,586)
Net income (loss) for the period	—	—	—	—	—	2,956,921	—	2,956,921	(452)	2,956,469
Total comprehensive income (loss) for the period	**—**	**—**	**—**	**(146,460)**	**238**	**2,956,921**	**—**	**2,810,699**	**(3,816)**	**2,806,883**
Cash dividends (Note 6)	**—**	**—**	**—**	**—**	**—**	**(1,500,001)**	**—**	**(1,500,001)**	**(400,000)**	**(1,900,001)**
At September 30, 2012 (Unaudited)	**₱1,858,748**	**₱20,500,284**	**₱18,219**	**₱(233,135)**	**₱ 1,979**	**₱15,932,609**	**₱(182,094)**	**₱37,896,610**	**₱2,697,353**	**₱40,593,963**
At December 31, 2010 (Audited)	₱1,708,748	₱ 5,821,288	₱18,219	₱ (96,102)	₱ 3,610	₱11,773,185	₱ (182,094)	₱19,046,854	₱3,171,144	₱22,217,998
Net gain (loss) on exchange differences on translation of foreign operations	—	—	—	8,551	—	—	—	8,551	(6)	8,545
Net loss on available-for-sale financial assets, net of tax	—	—	—	—	(2,922)	—	—	(2,922)	—	(2,922)
Other comprehensive income (loss)	—	—	—	8,551	(2,922)	—	—	5,629	(6)	5,623
Net income for the period	—	—	—	—	—	2,944,593	—	2,944,593	110,340	3,054,933
Total comprehensive income (loss) for the period	—	—	—	8,551	(2,922)	2,944,593	—	2,950,222	110,334	3,060,556
Issuance of preferred shares	150,000	14,677,662	—	—	—	—	—	14,827,662	—	14,827,662
Cash dividends (Note 6)	—	—	—	—	—	(1,100,001)	—	(1,100,001)	(205)	(1,100,206)
At September 30, 2011 (Unaudited)	₱1,858,748	₱20,498,950	₱18,219	₱ (87,551)	₱ 688	₱13,617,777	₱ (182,094)	₱35,724,737	₱3,281,273	₱39,006,010

Note: See Selected Notes to Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Amounts in Thousands)

	For the Nine Months Ended	
	September 30, 2012	**September 30, 2011**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱ 3,961,330**	₱ 4,219,834
Adjustments for:		
Depreciation and amortization	**1,718,224**	1,531,004
Allowance for impairment losses on receivables and inventories	**55,384**	129,757
Equity in net earnings of an associate	**(709,592)**	(100,126)
Impairment loss on property and equipment	**—**	5,800
Interest expense and other financing charges	**425,670**	385,018
Interest income	**(121,918)**	(360,739)
Other charges (income) net of loss (gain) on derivatives	**(170,410)**	136,205
Gain on sale of investment in stocks	**(89,550)**	—
Loss (gain) on sale of property and equipment	**(28,418)**	73
Operating income before working capital changes	**5,040,720**	5,946,826
Decrease (increase) in:		
Trade and other receivables	**857,580**	1,101,955
Inventories	**(3,485,638)**	(999,148)
Biological assets	**(256,743)**	(1,034,752)
Prepaid expenses and other current assets	**(221,127)**	75,365
Increase (decrease) in trade payables and other current liabilities	**1,891,514**	(1,589,514)
Cash generated from operations	**3,826,306**	3,500,732
Interest paid	**(519,487)**	(357,730)
Income taxes paid (including final tax)	**(964,740)**	(1,034,181)
Interest received	**94,104**	286,759
Net cash flows provided by operating activities	**2,436,183**	2,395,580
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property, plant and equipment	**(1,492,676)**	(499,238)
Acquisition of a subsidiary net of cash received	**(357,705)**	(97,878)
Acquisitions of intangible assets	**(198,428)**	(2,883,842)
Increase in:		
Biological assets	**(1,010,306)**	(1,156,008)
Other noncurrent assets	**(289,022)**	(44,673)
Investment in subsidiary and associate	**—**	(13,070,300)
Additional investment in subsidiary	**—**	(720,605)
Proceeds from sale of investment in stocks	**332,685**	—
Proceeds from sale of property and equipment	**34,767**	403
Dividend received from associate	**478,636**	—
Increase in retirement liability	**89,446**	139,857
Net cash flows used in investing activities	**(2,412,603)**	(18,332,284)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net availments (payments) of notes payable	**978,684**	(699,245)
Payments of long-term debt	**(18,750)**	—
Proceeds from the issuance of preferred shares — net	**—**	14,827,662
Dividends paid	**(1,899,127)**	(1,279,812)
Net cash flows provided by (used in) financing activities	**(939,193)**	12,848,605
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**7,924**	(188)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(907,689)**	(3,088,287)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,932,718**	7,041,345
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**₱ 4,025,029**	₱ 3,953,058

Note: See Selected Notes to Consolidated Financial Statements.

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its consolidated financial statements as at and for the period ended September 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 thousand (₱000), except when otherwise indicated.

The principal accounting policies and methods adopted in preparing the 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 a number 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 Standards 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)* requires 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 periods beginning on or after July 1, 2011.
- *Deferred Tax: Recovery of Underlying Assets (Amendments to PAS 12, Income Taxes),* introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with PAS 40, *Investment Property*. The exception also applies to investment properties acquired in a business combination accounted for in accordance with PFRS 3 provided the acquirer subsequently measure these assets applying the fair value model. The amendments integrated the guidance of Philippine Interpretation Standards Interpretation Committee (SIC) — 21, *Income Taxes — Recovery of Revalued Non-Depreciable Assets,* into PAS 12, and as a result Philippine Interpretation SIC — 21 has been withdrawn. The effective date of the amendments is for periods beginning on or after January 1, 2012 and is applied retrospectively.

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 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 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 the 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 amendments 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 (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, *Interest in Joint Ventures* 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* 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 (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.

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

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 has three reportable segments, namely, Agro-Industrial, Value-Added Meats and Milling. Management identified and grouped the operating units in its operating segments with the objective of transforming the Group into a more rationalized and focused organization. The structure aims to boost efficiencies across the Group and raise effectiveness in defining and meeting the needs of consumers in innovative ways.

The Agro-Industrial segment includes the integrated Feeds, Poultry and Fresh Meats operations. These businesses are involved in feeds production and in poultry and livestock farming, processing and selling of poultry and meat products.

The Value-Added Meats segment is engaged in the processing and marketing of refrigerated and canned meat products.

The Milling segment is into manufacturing and marketing of flour products, premixes, and flour-based products.

The non-reportable operating segments of the Group include dairy-based products, breadfill, desserts, cooking oils, importation and marketing of coffee and coffee-related products, and foreign operations which include hog farming, feeds production and sale of fresh and processed meats by foreign subsidiaries.

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.

The Group does not have a single external customer, sales revenue generated from which amounted to 10% or more of the total revenues of the Group.

Financial information about reportable segments follows:

	For the Nine Months Ended September 30, 2012						
	Agro-Industrial	Value-Added Meats	Milling	Total Reportable Segments	Others	Eliminations	Consolidated
REVENUES							
External	₱45,687,009	₱8,979,903	₱6,336,658	₱61,003,570	₱8,350,304	₱ —	₱69,353,874
Inter-segment	679,320	5,019	588,091	1,272,430	250,438	(1,522,868)	—
Total revenues	46,366,329	8,984,922	6,924,749	62,276,000	8,600,742	(1,522,868)	69,353,874
Segment operating results*	993,007	585,361	1,452,567	3,030,935	300,966	36,360	3,368,261
Interest expense and other financing charges	(240,002)	(59,425)	(3,181)	(302,608)	(123,062)	—	(425,670)
Interest income	38,549	18,098	17,579	74,226	47,692	—	121,918
Equity in net earnings of an associate	—	—	—	—	709,592	—	709,592
Gain on sale of property and equipment	27,078	—	—	27,078	1,340	—	28,418
Other income (charges) — net	(13,630)	(3,275)	120,219	103,314	55,497	—	158,811
Income tax expense	(282,945)	(162,473)	(474,561)	(919,979)	(91,307)	6,425	(1,004,861)
Net income	₱ 522,057	₱ 378,286	₱1,112,623	₱ 2,012,966	₱ 900,718	₱ 42,785	₱ 2,956,469

	For the Nine Months Ended September 30, 2011						
	Agro-Industrial	Value-Added Meats	Milling	Total Reportable Segments	Others	Eliminations	Consolidated
REVENUES							
External	₱41,734,852	₱7,910,364	₱6,154,416	₱55,799,632	₱8,486,147	₱ —	₱64,285,779
Inter-segment	401,856	590	449,451	851,897	281,324	(1,133,221)	—
Total revenues	42,136,708	7,910,954	6,603,867	56,651,529	8,767,471	(1,133,221)	64,285,779
Segment operating results*	1,792,134	489,375	1,399,117	3,680,626	633,987	39,044	4,353,657
Interest expense and other financing charges	(273,888)	(9,625)	(3,836)	(287,349)	(97,669)	—	(385,018)
Interest income	101,588	3,040	8,897	113,525	247,214	—	360,739
Gain (loss) on sale of property and equipment	187	—	—	187	(260)	—	(73)
Equity in net earnings of an associate	—	—	—	—	100,126	—	100,126
Other charges — net	(107,996)	(18,497)	(69,125)	(195,618)	(13,979)	—	(209,597)
Income tax expense	(444,260)	(124,817)	(398,633)	(967,710)	(196,889)	(302)	(1,164,901)
Net income	₱ 1,067,765	₱ 339,476	₱ 936,420	₱ 2,343,661	₱ 672,530	₱ 38,742	₱ 3,054,933

* Including realized mark-to-market gains (losses) on commodity derivatives.

3. Investment in a Subsidiary

In June 2012, following the approval of its Board of Directors (BOD), San Miguel Mills, Inc. (SMMI), a wholly-owned subsidiary of San Miguel Pure Foods Company, Inc. (SMPFC), acquired Cobertson Realty Corporation's (CRC) subscribed capital stock equivalent to 25,000 shares with a par value of ₱1,000.00 per share from CRC's individual stockholders. SMMI paid ₱357.7 million as consideration. As such, CRC became a subsidiary of SMMI and was consolidated into SMPFC through SMMI. CRC is a Philippine company engaged in the purchase, acquisition, development or use for investment, among others, of real and personal property, to the extent permitted by law.

4. Property, Plant and Equipment

This account consists of:

September 30, 2012	**Land and Land Improvements**	**Buildings and Improvements**	**Machinery Equipment, Furniture and Others**	**Transportation Equipment**	**Construction in Progress**	**Total**
Cost:						
December 31, 2011	**₱1,943,751**	**₱6,008,481**	**₱9,367,314**	**₱458,474**	**₱ 131,523**	**₱17,909,543**
Cobertson Realty Corporation balance as at June 30, 2012	**399,990**	**—**	**—**	**—**	**—**	**399,990**
Additions	**1,582**	**9,135**	**110,665**	**8,632**	**1,362,662**	**1,492,676**
Disposals	**(28,928)**	**(371,714)**	**(743,748)**	**(27,457)**	**—**	**(1,171,847)**
Transfers/reclassifications	**(6,784)**	**(91,716)**	**77,294**	**(11,664)**	**(164,659)**	**(197,529)**
Currency translation adjustments	**(2,527)**	**(69,866)**	**(43,596)**	**(3,581)**	**(606)**	**(120,176)**
September 30, 2012	**2,307,084**	**5,484,320**	**8,767,929**	**424,404**	**1,328,920**	**18,312,657**
Accumulated depreciation:						
December 31, 2011	**325,210**	**2,465,511**	**5,938,393**	**436,108**	**—**	**9,165,222**
Additions	**19,957**	**164,254**	**438,713**	**6,831**	**—**	**629,755**
Disposals	**(27,469)**	**(369,167)**	**(742,020)**	**(26,842)**	**—**	**(1,165,498)**
Transfers/reclassifications	**(8,376)**	**(50,384)**	**(31,676)**	**(2,877)**	**—**	**(93,313)**
Currency translation adjustments	**—**	**(33,334)**	**(35,134)**	**(3,548)**	**—**	**(72,016)**
September 30, 2012	**309,322**	**2,176,880**	**5,568,276**	**409,672**	**—**	**8,464,150**
Net book value at September 30, 2012	**₱1,997,762**	**₱3,307,440**	**₱3,199,653**	**₱ 14,732**	**₱1,328,920**	**₱ 9,848,507**

September 30, 2011	**Land and Land Improvements**	**Buildings and Improvements**	**Machinery Equipment, Furniture and Others**	**Transportation Equipment**	**Construction in Progress**	**Total**
Cost:						
December 31, 2010	₱2,378,554	₱5,872,457	₱8,587,104	₱474,296	₱ 183,197	₱17,495,608
Golden Food & Dairy Creamery Corporation balance as at August 31, 2011	—	113,101	215,740	—	1,800	330,641
Additions	—	15,201	354,198	1,030	128,809	499,238
Disposals	—	(573)	(33,655)	(21,730)	—	(55,958)
Transfers/reclassifications	2,443	9,274	174,498	3,433	(211,142)	(21,494)
Currency translation adjustments	—	(3,575)	(1,765)	43	(36)	(5,333)
September 30, 2011	2,380,997	6,005,885	9,296,120	457,072	102,628	18,242,702
Accumulated depreciation:						
December 31, 2010	291,869	2,254,800	5,395,902	446,954	—	8,389,525
Golden Food & Dairy Creamery Corporation balance as at August 31, 2011	—	2,180	20,182	—	—	22,362
Additions	25,038	164,483	412,707	10,367	—	612,595
Disposals	—	(573)	(33,180)	(21,730)	—	(55,483)
Transfers/reclassifications	—	—	(258)	—	—	(258)
Impairment loss	—	5,800	—	—	—	5,800
Currency translation adjustments	—	(889)	(1,163)	(84)	—	(2,136)
September 30, 2011	316,907	2,425,801	5,794,190	435,507	—	8,972,405
Net book value at September 30, 2011	₱2,064,090	₱3,580,084	₱3,501,930	₱ 21,565	₱ 102,628	₱ 9,270,297

* Depreciation charged to operations amounted to ₱629.8 million and ₱612.6 million for the nine months period ended September 30, 2012 and 2011, respectively.

5. Related Party Disclosures

Transactions with related parties were made at normal market prices and terms.

Transactions with related parties and the related balances include the following:

	Relationship with Related Parties*	Period	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties
SMC	Ultimate Parent Company	**September 30, 2012**	**₱ 174**	**₱ 121,594**	**₱ 16,242**	**₱ 496,875**
		December 31, 2011	13,907	670,729	43,062	545,723
SMC Shipping and Lighterage Corporation	Affiliate	**September 30, 2012**	**20**	**779,758**	**768**	**312,506**
		December 31, 2011	—	1,248,044	174	231,853
San Miguel Yamamura Packaging Corporation	Affiliate	**September 30, 2012**	**—**	**45,377**	**212**	**34,743**
		December 31, 2011	—	127,771	7,068	51,560
Ginebra San Miguel, Inc. and subsidiaries	Affiliate	**September 30, 2012**	**—**	**599**	**2,599**	**1,296**
		December 31, 2011	45	34,777	36,820	31,197
SMITS, Inc. and a subsidiary	Affiliate	**September 30, 2012**	**—**	**165,059**	**139**	**166,628**
		December 31, 2011	—	131,369	1,349	138,649
ArchEn Technologies Inc.	Affiliate	**September 30, 2012**	**—**	**1,893**	**—**	**13,235**
		December 31, 2011	—	15,933	294	6,824
San Miguel Yamamura Asia Corporation	Affiliate	**September 30, 2012**	**—**	**30,140**	**—**	**6,306**
		December 31, 2011	—	27,240	—	6,241
San Miguel Brewery Inc.	Affiliate	**September 30, 2012**	**765**	**13,749**	**10,837**	**20,619**
		December 31, 2011	6,519	57,681	24,492	24,551
Mindanao Corrugated Fibreboard, Inc.	Affiliate	**September 30, 2012**	**—**	**15,012**	**—**	**4,720**
		December 31, 2011	—	8,929	—	61
Petron Corporation	Affiliate	**September 30, 2012**	**1,657**	**302,092**	**565**	**72,307**
		December 31, 2011	17,736	544,872	11,782	97,406
SMC Global Power Holdings Corp. and subsidiaries	Affiliate	**September 30, 2012**	**—**	**25,604**	**30**	**5,486**
		December 31, 2011	3,887	—	4,923	5,490
Manila Electric Company	Associate	**September 30, 2012**	**—**	**66,460**	**641**	**9,157**
		December 31, 2011	—	85,761	32,209	9,400
Hormel Netherlands, B.V.	Shareholder in a Subsidiary	**September 30, 2012**	**—**	**—**	**52,959**	**—**
		December 31, 2011	—	—	18,838	—
Super Coffee Corporation Pte. Ltd.	Shareholder in a Subsidiary	**September 30, 2012**	**—**	**—**	**—**	**76,333**
		December 31, 2011	—	—	—	60,621
Others	Affiliate	**September 30, 2012**	**—**	**221**	**2,931**	**6,637**
		December 31, 2011	—	1,999	2,644	2,034
		September 30, 2012	**₱ 2,616**	**₱1,567,558**	**₱ 87,923**	**₱1,226,848**
		December 31, 2011	₱42,094	₱2,955,105	₱183,655	₱1,211,610

* *Affiliate refers to a company owned by SMC.*

6. Cash Dividends

Cash dividends declared by the Company's BOD during the period ending September 30, 2012 amounted to ₱60.00 and ₱3.60 per share to holders of preferred and common shares, respectively.

Cash dividends declared by the Company's BOD during the period ending September 30, 2011 amounted to ₱40.00 and ₱3.00 per share to holders of preferred and common shares, respectively.

7. Basic and Diluted Earnings Per Share (EPS)

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

Basic EPS is computed as follows:

	For the Nine Months Ended	
	September 30, 2012	**September 30, 2011**
Net income attributable to equity holders of the Parent Company	**₱ 2,956,921**	₱ 2,944,593
Less dividends on preferred shares for the period	**900,000**	690,000
Net income attributable to common shareholders of the Parent Company (a)	**₱ 2,056,921**	₱ 2,254,593
Common shares issued and outstanding	**141,243,350**	141,243,350
Stock dividends declared in 2010 including retroactive adjustments	**25,423,746**	25,423,746
Weighted average number of common shares (b)	**166,667,096**	166,667,096
Basic earnings per common share attributable to equity holders of the Parent Company (a/b)	**₱ 12.34**	₱ 13.53

As at September 30, 2012 and 2011, the Group has no dilutive equity instruments.

8. 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, short-term and long-term loans, and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The Group's trade-related financial assets and financial liabilities such as trade and other receivables, trade payables and other current 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 options and swaps are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to commodity price risks arising from the Group's operations.

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

The Group's accounting policies in relation to derivatives are set out in Note 9 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. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, 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.

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 ₱38.9 million and ₱39.0 million for the period ending September 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 September 30, 2012 and December 31, 2011, the terms and maturity profile of the interest-bearing financial instruments, together with the gross amounts, are shown in the following tables:

September 30, 2012	**<1 Year**	**1-<2 Years**	**>2-<3 Years**	**>3-<4 Years**	**Total**
Fixed rate					
Philippine peso-denominated	**₱—**	**₱—**	**₱—**	**₱800,000**	**₱ 800,000**
Interest rate				5.4885%	
Floating rate					
Philippine peso-denominated	**25,000**	**25,000**	**135,000**	**3,700,000**	**3,885,000**
Interest rate	3-month PDST-R1 plus margin or BSP overnight rate plus margin, whichever is higher	3-month PDST-R1 plus margin or BSP overnight rate plus margin, whichever is higher	3-month PDST-R1 plus margin or BSP overnight rate plus margin, whichever is higher	3-month PDST-F plus margin	
	₱25,000	**₱25,000**	**₱135,000**	**₱4,500,000**	**₱4,685,000**

December 31, 2011	**<1 Year**	**1-<2 Years**	**>2-<3 Years**	**>3-<4 Years**	**Total**
Fixed rate					
Philippine peso-denominated	₱—	₱—	₱—	₱800,000	₱ 800,000
Interest rate				5.4885%	
Floating rate					
Philippine peso-denominated	25,000	25,000	153,750	3,700,000	3,903,750
Interest rate	3-month PDST-R1 plus margin or BSP overnight rate plus margin, whichever is higher	3-month PDST-R1 plus margin or BSP overnight rate plus margin, whichever is higher	3-month PDST-R1 plus margin or BSP overnight rate plus margin, whichever is higher	3-month PDST-F plus margin	
	₱25,000	₱25,000	₱153,750	₱4,500,000	₱4,703,750

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 non-derivative instruments to manage its foreign currency risk exposure.

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

	September 30, 2012		December 31, 2011	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$ 3,228**	**₱ 134,608**	US$ 7,006	₱ 307,143
Trade and other receivables	**9,906**	**413,080**	12,810	561,590
	13,134	**547,688**	19,816	868,733
Liabilities				
Notes payable	**16,926**	**705,814**	18,269	800,929
Trade payables and other current liabilities	**13,602**	**567,204**	15,743	690,173
Other noncurrent liabilities	**842**	**35,111**	830	36,387
	31,370	**1,308,129**	34,842	1,527,489
Net foreign currency-denominated monetary liabilities	**US$(18,236)**	**₱ (760,441)**	US$(15,026)	₱ (658,756)

The Group reported net foreign exchange losses of ₱35.1 million and ₱19.9 million for the period ended September 30, 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:

	Peso to US Dollar
September 30, 2012	41.70
December 31, 2011	43.84
September 30, 2011	43.72
December 31, 2010	43.84

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

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

The following tables demonstrate 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 income 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 at September 30, 2012 and December 31, 2011.

	September 30, 2012			
	₱1 Decrease in the US dollar Exchange Rate		₱1 Increase in the US dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity (Net of Tax)	Effect on Income before Income Tax	Effect on Equity (Net of Tax)
Cash and cash equivalents	**₱(1,538)**	**₱ (2,766)**	**₱ 1,538**	**₱ 2,766**
Trade and other receivables	**(3,004)**	**(9,005)**	**3,004**	**9,005**
	(4,542)	**(11,771)**	**4,542**	**11,771**
Notes payable	**—**	**16,926**	**—**	**(16,926)**
Trade payables and other current liabilities	**2,697**	**12,793**	**(2,697)**	**(12,793)**
Other noncurrent liabilities	**—**	**842**	**—**	**(842)**
	2,697	**30,561**	**(2,697)**	**(30,561)**
	₱(1,845)	**₱ 18,790**	**₱ 1,845**	**₱(18,790)**

	December 31, 2011			
	₱1 Decrease in the US dollar Exchange Rate		₱1 Increase in the US dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity (Net of Tax)	Effect on Income before Income Tax	Effect on Equity (Net of Tax)
Cash and cash equivalents	₱(1,344)	₱ (6,602)	₱ 1,344	₱ 6,602
Trade and other receivables	(3,873)	(11,648)	3,873	11,648
	(5,217)	(18,250)	5,217	18,250
Notes payable	—	18,269	—	(18,269)
Trade payables and other current liabilities	1,830	15,193	(1,830)	(15,193)
Other noncurrent liabilities	—	830	—	(830)
	1,830	34,292	(1,830)	(34,292)
	₱(3,387)	₱ 16,042	₱ 3,387	₱(16,042)

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, through SMC, 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 mark-to-market losses; however, any loss in the mark-to-market position is offset by the resulting lower physical raw material cost.

SMC enters into commodity derivative transactions on behalf of the Group to reduce cost by optimizing purchasing synergies within the SMC Group of Companies and managing inventory levels of common materials.

The Group uses commodity futures, swaps and options to manage the Group's exposures to volatility in prices of certain commodities such as soybean meal and wheat.

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 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 at September 30, 2012 and December 31, 2011:

	September 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	₱ 4,025,029	₱ 4,025,029	₱ 4,025,029	₱ —	₱ —	₱ —
Trade and other receivables — net	7,861,565	7,861,565	7,861,565	—	—	—
Derivative assets	101,434	101,434	101,434	—	—	—
AFS financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	8,023	8,023	—	—	—	8,023
Financial Liabilities						
Notes payable	5,928,645	5,962,380	5,962,380	—	—	—
Trade payables and other current liabilities (excluding derivative liabilities)	12,679,984	12,679,984	12,679,984	—	—	—
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	4,318	4,318	4,318	—	—	—
Long-term debt (including current maturities) — net of debt issue costs	4,658,367	5,319,468	226,650	360,396	4,732,422	—
Other noncurrent liabilities (excluding retirement liability)	212	212	—	212	—	—

	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	₱ 4,932,718	₱ 4,932,718	₱ 4,932,718	₱ —	₱ —	₱ —
Trade and other receivables — net	8,700,217	8,700,217	8,700,217	—	—	—
Derivative assets	31,869	31,869	31,869	—	—	—
AFS financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	8,906	8,906	—	—	—	8,906
Financial Liabilities						
Notes payable	4,987,929	5,030,267	5,030,267	—	—	—
Trade payables and other current liabilities (excluding derivative liabilities)	10,990,164	10,990,164	10,990,164	—	—	—
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	28,713	28,713	28,713	—	—	—
Long-term debt (including current maturities) — net of debt issue costs	4,671,449	5,457,980	32,860	189,789	5,235,331	—
Other noncurrent liabilities (excluding retirement liability)	1,466	1,466	—	1,466	—	—

Credit Risk

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

Trade and Other Receivables

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

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

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

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

Investments

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

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

	September 30, 2012	December 31, 2011
Cash and cash equivalents	**₱ 4,025,029**	₱ 4,932,718
Trade and other receivables — net	**7,861,565**	8,700,217
Derivative assets	**101,434**	31,869
AFS financial assets	**8,023**	8,906
	₱11,996,051	₱13,673,710

The credit risk for cash and cash equivalents, derivative assets 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, hogs and cattle in all dressing and meat 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 (AFS financial assets). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

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

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

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

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

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

There were no changes in the Group's approach to capital management during the period.

9. 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 used 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 in the consolidated statements of changes in equity. Any interest earned is recognized as part of "Interest income" in the consolidated statements of income. Any dividend income from equity securities classified as at FVPL is recognized in profit or loss when the right to receive payment has been established.

The Group's derivative assets are classified under this category.

The carrying amounts of financial assets under this category amounted to ₱101.4 million, ₱109.4 million and ₱31.9 million as at September 30, 2012, June 30, 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 is 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 which are subject to an insignificant risk of change in value.

The Group's cash and cash equivalents and trade and other receivables are included in this category.

The combined carrying amounts of financial assets under this category amounted to ₱11,886.6 million, ₱11,943.6 million and ₱13,632.9 million as at September 30, 2012, June 30, 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 is 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 at September 30, 2012, June 30, 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 are 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 "Cumulative translation adjustments (CTA) — Fair value reserve" account 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 shares of stock included under "Other noncurrent assets" account are classified under this category.

The carrying amounts of financial assets under this category amounted to ₱8.0 million, ₱251.2 million and ₱8.9 million as at September 30, 2012, June 30, 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 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 ₱4.3 million, ₱0.6 million and ₱28.7 million as at September 30, 2012, June 30, 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 notes payable, trade payables and other current liabilities, long-term debt and other noncurrent liabilities.

The combined carrying amounts of financial liabilities under this category amounted to ₱23,267.2 million, ₱21,527.5 million and ₱20,651.0 million as at September 30, 2012, June 30, 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 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 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 at 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 at September 30, 2012 and December 31, 2011:

	September 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**₱ 4,025,029**	**₱ 4,025,029**	₱ 4,932,718	₱ 4,932,718
Trade and other receivables — net	**7,861,565**	**7,861,565**	8,700,217	8,700,217
Derivative assets	**101,434**	**101,434**	31,869	31,869
AFS financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**8,023**	**8,023**	8,906	8,906
Financial Liabilities				
Notes payable	**5,928,645**	**5,928,645**	4,987,929	4,987,929
Trade payables and other current liabilities (excluding derivative liabilities)	**12,679,984**	**12,679,984**	10,990,164	10,990,164
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	**4,318**	**4,318**	28,713	28,713
Long-term debt (including current maturities) — net of debt issue costs	**4,658,367**	**4,699,850**	4,671,449	4,703,740
Other noncurrent liabilities (excluding retirement liability)	**212**	**212**	1,466	1,466

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

Cash and Cash Equivalents and Trade and Other Receivables. The carrying amounts of cash and cash equivalents and receivables approximate fair values primarily due to the relatively short-term maturities of these financial instruments.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding 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.

AFS Financial Assets. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. Unquoted equity securities are carried at cost less impairment.

Notes Payable and Trade Payables and Other Current Liabilities. The carrying amounts of notes payable and trade payables and other current liabilities approximate fair values due to the relatively short-term maturities of these financial instruments.

Long-term Debt 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 at reporting date. As at September 30, 2012 and December 31, 2011, discount rates used range from 0.92% to 4.04% and 1.74% to 4.79%, 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, through SMC, enters into various commodity derivative contracts to manage its exposure on commodity price risk. The portfolio is a mixture of instruments including 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 expires, is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

As at September 30, 2012, June 30, 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 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 at September 30, 2012, June 30, 2012 and December 31, 2011, the Group has no outstanding derivatives accounted for as cash flow hedges.

Net Investment Hedge. As at September 30, 2012, June 30, 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 various commodity derivatives entered into by SMC on behalf of the Group.

Commodity Options

The Group had outstanding bought and sold options covering its wheat requirements with notional quantities as at September 30, 2012, June 30, 2012 and December 31, 2011 of 47,627, 103,963 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 at September 30, 2012, June 30, 2012 and December 31, 2011, the net positive (negative) fair value of these options amounted to ₱65.0 million, ₱58.6 million and ₱(5.2 million), respectively.

As at December 31, 2011, the Group has outstanding bought and sold options covering its soybean meal requirements with notional quantity of 7,439 metric tons. These options can be exercised at various dates in 2012 with specified quantities on each calculation date. As at December 31, 2011, the negative fair value of these options amounted to ₱5.5 million. The Group has no outstanding options on the purchase of soybean meal as at September 30, 2012 and June 30, 2012.

Commodity Swap

As at September 30, 2012, the Group has outstanding swap agreements covering its wheat 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 wheat and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps is 2,177 metric tons and with a positive fair value of ₱1.9 million as at September 30, 2012. The Group has no outstanding commodity swap as at June 30, 2012 and December 31, 2011.

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 forwards embedded in non-financial contracts. As at September 30, 2012, June 30, 2012 and December 31, 2011, the total outstanding notional amount of such

embedded currency forwards amounted to US$65.9 million, US$46.8 million and US$59.9 million, 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 at September 30, 2012, June 30, 2012 and December 31, 2011, the net positive fair value of these embedded currency forwards amounted to ₱30.1 million, ₱50.1 million and ₱13.7 million, respectively.

For the periods ended September 30, 2012 and 2011 and June 30, 2012 and 2011, the Group recognized mark-to-market gains (losses) from freestanding and embedded derivatives amounting to ₱242.6 million, ₱(40.3 million), ₱146.1 million and ₱(70.3 million), 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 at September 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.

September 30, 2012	**Level 1**	**Level 2**	**Total**
Financial Assets			
Derivative assets	**₱ —**	**₱101,434**	**₱101,434**
AFS financial assets	**6,123**	**1,900**	**8,023**
Financial Liabilities			
Derivative liabilities	**—**	**4,318**	**4,318**

December 31, 2011	**Level 1**	**Level 2**	**Total**
Financial Assets			
Derivative assets	₱ 2,107	₱ 29,762	₱ 31,869
AFS financial assets	6,530	2,376	8,906
Financial Liabilities			
Derivative liabilities	10,309	18,404	28,713

As at September 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.

10. Other Matters

a. On November 5, 2012, the Company's BOD declared cash dividends to all preferred and common shareholders of record as at November 19, 2012 amounting to ₱20.00 and ₱1.20 per share, respectively, payable on December 3, 2012.

b. There were 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.

c. 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.

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 operations.

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 consolidated statements of financial position date, except for Note 35 (b) of the 2011 Audited Consolidated Financial Statements that remain outstanding as at September 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 at and for the period ended September 30, 2012.

h. Except for the Processed Meats, Dairy, Poultry and Fresh Meats businesses which consistently generate higher revenues during the Christmas holiday season, the effects of seasonality or cyclicality on the interim operations of the Company's other 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 at end of September 30, 2012. These consist mainly of construction, fixed asset acquisitions and expansion-related projects. Also included is the upgrade or major repair of fixed assets needed for normal operations of the businesses. These projects will be carried forward to the next quarter until completion. The fund to be used for these projects will come from available cash and short-term loans.

SAN MIGUEL PURE FOODS COMPANY, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011, 2010 and 2009

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
San Miguel Pure Foods Company, Inc.
JMT Corporate Condominium
ADB Ave., Ortigas Center, Pasig City

We have audited the accompanying consolidated financial statements of San Miguel Pure Foods Company, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Manabat Sanagustin & Co., CPAs, a Philippine partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

PRC-BOA Registration No. 0003, Group A, valid until December 31, 2013
SEC Accreditation No. 0004-FR-3, Group A, valid until November 22, 2014
IC Accreditation No. F-0040-R, Group A, valid until September 11, 2014
BSP Accredited, Group A, valid until December 17, 2014

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of San Miguel Pure Foods Company, Inc. and Subsidiaries as at December 31, 2011 and 2010, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

MANABAT SANAGUSTIN & CO., CPAs

/s/ WILFREDO Z. PALAD
WILFREDO Z. PALAD
Partner
CPA License No. 0045177
SEC Accreditation No. 0027-AR-3, Group A, valid until January 4, 2015
Tax Identification No. 106-197-186
BIR Accreditation No. 08-001987-6-2010
Issued June 30, 2010; valid until June 29, 2013
PTR No. 3174023MA
Issued January 2, 2012 at Makati City

March 7, 2012
Makati City, Metro Manila

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	Note	December 31 2011	December 31 2010
ASSETS			
Current Assets			
Cash and cash equivalents	*7, 32, 33*	**₱ 4,932,718**	₱ 7,041,345
Trade and other receivables — net	*4, 8, 29, 32, 33*	**8,700,217**	7,760,271
Inventories	*4, 9*	**12,068,381**	12,123,435
Biological assets	*10*	**4,123,777**	3,266,564
Derivative assets	*32, 33*	**31,869**	107,633
Prepaid expenses and other current assets	*11*	**1,968,552**	1,765,748
Total Current Assets		**31,825,514**	32,064,996
Noncurrent Assets			
Investments	*4, 12*	**13,177,979**	—
Investment properties — net	*4, 13*	**134,927**	113,018
Property, plant and equipment — net	*4, 14*	**8,744,321**	9,106,083
Biological assets — net of current portion	*4, 10*	**1,811,570**	1,479,251
Other intangible assets — net	*4, 15*	**3,657,384**	3,425,510
Goodwill — net	*4, 16*	**422,547**	416,310
Deferred tax assets	*4, 27*	**502,677**	599,891
Other noncurrent assets	*4, 14, 32, 33*	**676,051**	313,030
Total Noncurrent Assets		**29,127,456**	15,453,093
		₱60,952,970	₱47,518,089
LIABILITIES AND EQUITY			
Current Liabilities			
Notes payable	*17, 32, 33*	**₱ 4,987,929**	₱ 5,172,538
Trade payables and other current liabilities	*18, 29, 32, 33*	**11,018,877**	15,145,969
Current maturities of long-term debt	*19, 32, 33*	**25,000**	—
Income tax payable		**305,012**	162,159
Total Current Liabilities		**16,336,818**	20,480,666
Noncurrent Liabilities			
Long-term debt — net of current maturities and debt issue costs	*19, 32, 33*	**4,646,449**	4,460,807
Deferred tax liabilities	*27*	**166,572**	271,074
Other noncurrent liabilities	*28, 32, 33*	**116,050**	87,544
Total Noncurrent Liabilities		**4,929,071**	4,819,425
Equity	*20*		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock		**1,858,748**	1,708,748
Additional paid-in capital		**20,500,284**	5,821,288
Revaluation surplus		**18,219**	18,219
Cumulative translation adjustments		**(84,934)**	(92,492)
Retained earnings		**14,475,689**	11,773,185
Treasury stock		**(182,094)**	(182,094)
		36,585,912	19,046,854
Non-controlling Interests		**3,101,169**	3,171,144
Total Equity		**39,687,081**	22,217,998
		₱60,952,970	₱47,518,089

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Thousands, Except Per Share Data)

	Note	2011	2010	2009
REVENUES	*21, 29*	**₱ 89,591,080**	₱ 79,269,760	₱75,042,967
COST OF SALES	*22, 29, 35*	**73,417,057**	63,291,086	61,447,996
GROSS PROFIT		**16,174,023**	15,978,674	13,594,971
SELLING AND ADMINISTRATIVE EXPENSES	*23, 29*	**(10,032,129)**	(10,076,905)	(8,957,347)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*17, 19, 26*	**(530,972)**	(359,415)	(751,042)
INTEREST INCOME	*7, 26*	**393,572**	105,488	69,141
EQUITY IN NET EARNINGS OF AN ASSOCIATE	*12*	**270,478**	—	—
GAIN (LOSS) ON SALE OF PROPERTY AND EQUIPMENT		**6,708**	(32,612)	(24,663)
OTHER INCOME (CHARGES) — Net	*26*	**(323,696)**	97,866	(88,968)
INCOME BEFORE INCOME TAX		**5,957,984**	5,713,096	3,842,092
INCOME TAX EXPENSE	*27*	**1,744,378**	1,654,207	1,183,625
NET INCOME		**₱ 4,213,606**	₱ 4,058,889	₱ 2,658,467
Attributable to:				
Equity holders of the Parent Company		**₱ 4,102,505**	₱ 3,846,145	₱ 2,596,963
Non-controlling interests		**111,101**	212,744	61,504
		₱ 4,213,606	₱ 4,058,889	₱ 2,658,467
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company	*30*	**₱ 18.65**	₱ 23.08	₱ 15.58

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Thousands)

	Note	2011	2010	2009
NET INCOME		**₱4,213,606**	₱4,058,889	₱2,658,467
NET GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS		**8,508**	(41,603)	16,147
NET GAIN ON CASH FLOW HEDGES		**—**	—	11,196
INCOME TAX EXPENSE		**—**	—	(3,359)
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS		**(2,250)**	(2,954)	2,434
INCOME TAX BENEFIT (EXPENSE)		**225**	295	(243)
SHARE IN COMPREHENSIVE INCOME OF AN ASSOCIATE	*12*	**156**	—	—
OTHER COMPREHENSIVE INCOME (LOSS) — NET OF TAX		**6,639**	(44,262)	26,175
TOTAL COMPREHENSIVE INCOME — NET OF TAX		**₱4,220,245**	₱4,014,627	₱2,684,642
Comprehensive Income Attributable to:				
Equity holders of the Parent Company		**₱4,110,063**	₱3,801,931	₱2,619,101
Non-controlling interests		**110,182**	212,696	65,541
		₱4,220,245	₱4,014,627	₱2,684,642

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Thousands)

		Attributable to Equity Holders of the Parent Company										
					Cumulative Translation Adjustments							
	Note	Capital Stock (Note 20)	Additional Paid-in Capital (Note 20)	Revaluation Surplus	Translation Reserve	Hedging Reserve	Fair Value Reserve	Retained Earnings (Note 20)	Treasury Stock (Note 20)	Total	Non-controlling Interests	Total Equity
As at January 1, 2011		**₱1,708,748**	**₱ 5,821,288**	**₱18,219**	**₱(96,102)**	**₱—**	**₱ 3,610**	**₱11,773,185**	**₱(182,094)**	**₱19,046,854**	**₱3,171,144**	**₱22,217,998**
Net gain (loss) on exchange differences on translation of foreign operations		**—**	**—**	**—**	**9,427**	**—**	**—**	**—**	**—**	**9,427**	**(919)**	**8,508**
Net loss on available-for-sale financial assets, net of tax		**—**	**—**	**—**	**—**	**—**	**(2,025)**	**—**	**—**	**(2,025)**	**—**	**(2,025)**
Share in comprehensive income of an associate	*12*	**—**	**—**	**—**	**—**	**—**	**156**	**—**	**—**	**156**	**—**	**156**
Other comprehensive income (loss)		**—**	**—**	**—**	**9,427**	**—**	**(1,869)**	**—**	**—**	**7,558**	**(919)**	**6,639**
Net income for the year		**—**	**—**	**—**	**—**	**—**	**—**	**4,102,505**	**—**	**4,102,505**	**111,101**	**4,213,606**
Total comprehensive income (loss) for the year		**—**	**—**	**—**	**9,427**	**—**	**(1,869)**	**4,102,505**	**—**	**4,110,063**	**110,182**	**4,220,245**
Issuance of preferred shares		**150,000**	**14,678,996**	**—**	**—**	**—**	**—**	**—**	**—**	**14,828,996**	**—**	**14,828,996**
Cash dividends		**—**	**—**	**—**	**—**	**—**	**—**	**(1,400,001)**	**—**	**(1,400,001)**	**(180,157)**	**(1,580,158)**
As at December 31, 2011		**₱1,858,748**	**₱20,500,284**	**₱18,219**	**₱(86,675)**	**₱—**	**₱ 1,741**	**₱14,475,689**	**₱(182,094)**	**₱36,585,912**	**₱3,101,169**	**₱39,687,081**
As at January 1, 2010		₱1,454,510	₱ 5,821,288	₱18,219	₱(54,547)	₱—	₱ 6,269	₱ 8,181,278	₱(182,094)	₱15,244,923	₱2,400,327	₱17,645,250
Net loss on exchange differences on translation of foreign operations		—	—	—	(41,555)	—	—	—	—	(41,555)	(48)	(41,603)
Net loss on available-for-sale financial assets, net of tax		—	—	—	—	—	(2,659)	—	—	(2,659)	—	(2,659)
Other comprehensive loss		—	—	—	(41,555)	—	(2,659)	—	—	(44,214)	(48)	(44,262)
Net income for the year		—	—	—	—	—	—	3,846,145	—	3,846,145	212,744	4,058,889
Total comprehensive income (loss) for the year		—	—	—	(41,555)	—	(2,659)	3,846,145	—	3,801,931	212,696	4,014,627
Addition to non-controlling interests		—	—	—	—	—	—	—	—	—	738,121	738,121
Cash dividends		—	—	—	—	—	—	—	—	—	(180,000)	(180,000)
Stock dividends		254,238	—	—	—	—	—	(254,238)	—	—	—	—
As at December 31, 2010		₱1,708,748	₱ 5,821,288	₱18,219	₱(96,102)	₱—	₱ 3,610	₱11,773,185	₱(182,094)	₱19,046,854	₱3,171,144	₱22,217,998

Forward

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company										
				Cumulative Translation Adjustments							
	Capital Stock (Note 20)	Additional Paid-in Capital (Note 20)	Revaluation Surplus	Translation Reserve	Hedging Reserve	Fair Value Reserve	Retained Earnings (Note 20)	Treasury Stock (Note 20)	Total	Non-controlling Interests	Total Equity
As at January 1, 2009	₱1,454,510	₱5,821,288	₱18,219	₱(66,657)	₱(7,837)	₱4,078	₱5,584,315	₱(182,094)	₱12,625,822	₱2,334,786	₱14,960,608
Net gain on exchange differences on translation of foreign operations	—	—	—	12,110	—	—	—	—	12,110	4,037	16,147
Net gain on cash flow hedges, net of tax	—	—	—	—	7,837	—	—	—	7,837	—	7,837
Net gain on available-for-sale financial assets, net of tax	—	—	—	—	—	2,191	—	—	2,191	—	2,191
Other comprehensive income	—	—	—	12,110	7,837	2,191	—	—	22,138	4,037	26,175
Net income for the year	—	—	—	—	—	—	2,596,963	—	2,596,963	61,504	2,658,467
Total comprehensive income for the year	—	—	—	12,110	7,837	2,191	2,596,963	—	2,619,101	65,541	2,684,642
As at December 31, 2009	₱1,454,510	₱5,821,288	₱18,219	₱(54,547)	₱ —	₱6,269	₱8,181,278	₱(182,094)	₱15,244,923	₱2,400,327	₱17,645,250

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Thousands)

	Note	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱ 5,957,984**	₱ 5,713,096	₱ 3,842,092
Adjustments for:				
Depreciation and amortization	*24*	**2,120,433**	1,926,403	1,704,508
Allowance for impairment losses on receivables and inventory losses		**177,005**	150,043	193,192
Interest expense and other financing charges	*26*	**530,972**	359,415	751,042
Other charges net of loss (gain) on derivative transactions		**69,986**	(245,624)	114,935
Interest income	*26*	**(393,572)**	(105,488)	(69,141)
Equity in net earnings of an associate	*12*	**(270,478)**	—	—
Impairment loss on property and equipment and idle assets	*26*	**5,800**	5,426	53,873
Impairment loss on investment properties		**—**	—	3,114
Loss (gain) on sale of property, plant and equipment, investment properties and idle assets		**(6,708)**	32,612	24,663
Operating income before working capital changes		**8,191,422**	7,835,883	6,618,278
Decrease (increase) in:				
Trade and other receivables		**(891,484)**	1,417,967	(1,349,470)
Inventories		**(117,118)**	(161,056)	(26,575)
Biological assets		**(857,731)**	(284,278)	407,911
Prepaid expenses and other current assets		**(174,466)**	(453,178)	(430,237)
Increase (decrease) in trade payables and other current liabilities		**(643,149)**	(1,798,537)	1,706,284
Cash generated from operations		**5,507,474**	6,556,801	6,926,191
Interest paid		**(468,266)**	(337,871)	(569,452)
Income taxes paid (including final tax)		**(1,594,143)**	(1,488,791)	(872,252)
Interest received		**310,665**	85,732	51,720
Net cash flows provided by operating activities		**3,755,730**	4,815,871	5,536,207
CASH FLOWS FROM INVESTING ACTIVITIES				
Net additions to investments	*12*	**(12,907,345)**	—	—
Acquisitions of intangible assets	*15*	**(3,128,805)**	(338,278)	(23,132)
Additional investment in subsidiary	*5*	**(720,605)**	—	—
Acquisitions of property, plant and equipment	*14*	**(597,806)**	(581,073)	(651,422)
Acquisition of a subsidiary net of cash received	*5*	**(97,878)**	(38,615)	458
Increase in biological assets and other noncurrent assets		**(1,490,611)**	(1,188,333)	(882,808)
Proceeds from sale of property and equipment		**7,905**	107,942	39,127
Net cash flows used in investing activities		**(18,935,145)**	(2,038,357)	(1,517,777)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of preferred shares	*20*	**14,828,996**	—	—
Cash dividends paid		**(1,580,015)**	—	—
Net payments of notes payable		**(170,848)**	(4,183,986)	(2,850,290)
Proceeds from (payments of) long-term debt		**(6,591)**	4,500,000	—
Net cash flows provided by (used in) financing activities		**13,071,542**	316,014	(2,850,290)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(754)**	(2,529)	**—**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(2,108,627)**	3,090,999	1,168,140
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**7,041,345**	3,950,346	2,782,206
CASH AND CASH EQUIVALENTS AT END OF YEAR		**₱ 4,932,718**	₱ 7,041,345	₱ 3,950,346

See Notes to the Consolidated Financial Statements.

1. Reporting Entity

San Miguel Pure Foods Company, Inc. ("SMPFC" or the "Company") was incorporated in the Philippines. The accompanying consolidated financial statements comprise the financial statements of the Company and its Subsidiaries (collectively referred to as the "Group"). The Company is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed in the Philippine Stock Exchange (PSE). The Group is involved in poultry operations, livestock farming and processing and selling of meat products, processing and marketing of refrigerated and canned meat products, manufacturing and marketing of feeds and flour products, cooking oils, breadfill, desserts and dairy-based products, and importation and marketing of coffee and coffee-related products. The registered office address of the Company is JMT Corporate Condominium, ADB Ave., Ortigas Center, Pasig City.

San Miguel Corporation (SMC) is the ultimate parent company of the Group.

2. Basis of Preparation

Statement of Compliance

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

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 7, 2012.

Basis of Measurement

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

- derivative financial instruments are measured at fair value;
- available-for-sale (AFS) financial assets are measured at fair value;
- defined benefit liability is measured as the aggregate of the present value of the defined benefit obligation and unrecognized net actuarial gain or loss less any unrecognized past service costs and the fair value of plan assets; and
- agricultural produce are measured at fair value less estimated costs to sell at the point of harvest.

Functional and Presentation Currency

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

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and the following subsidiaries:

	Country of Incorporation	Percentage of Ownership	
		2011	2010
San Miguel Mills, Inc. and subsidiary (SMMI)[a]	Philippines	**100.00**	100.00
Magnolia, Inc. and subsidiaries (Magnolia)[b]	Philippines	**100.00**	100.00
San Miguel Foods, Inc. (SMFI)	Philippines	**99.97**	99.97
PT San Miguel Pure Foods Indonesia (PTSMPFI)	Indonesia	**75.00**	75.00
San Miguel Super Coffeemix Co., Inc. (SMSCCI)	Philippines	**70.00**	70.00
The Purefoods-Hormel Company, Inc. (PF-Hormel)	Philippines	**60.00**	60.00
RealSnacks Mfg. Corp. (RealSnacks)[c]	Philippines	**100.00**	100.00
San Miguel Pure Foods International, Limited (SMPFIL) [including San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited) and subsidiary, San Miguel Hormel (Vn) Co., Ltd. (SMHVN, formerly San Miguel Pure Foods (Vn) Co., Ltd. (SMPFVN))[d]]	British Virgin Islands	**100.00**	100.00
SMPFC Capital Investments, Limited (SCIL)[e]	Cayman Islands	**—**	100.00

[a] Golden Bay Grain Terminal Corporation (GBGTC) was incorporated as a wholly-owned subsidiary of SMMI in November 2011 and has not yet started commercial operations (Note 5).

[b] Magnolia acquired 100% equity interest in Golden Food & Dairy Creamery Corporation (GFDCC) in September 2011 (Note 5).

[c] Incorporated in April 2004 and has not yet started commercial operations.

[d] Consolidated with SMPFC through SMPFIL starting August 1, 2010 (Note 5).

[e] Incorporated in November 2010 and was dissolved in September 2011 (Note 5).

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

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

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

Non-controlling interests represent the interests not held by the Group in SMFI, PTSMPFI, SMSCCI, PF-Hormel and SMPFI Limited in 2011 and 2010.

3. Significant Accounting Policies

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

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

The FRSC approved the adoption of a number of new or revised standards, amendments to standards, and interpretations (based on IFRIC Interpretations) as part of PFRS.

Adopted Effective 2011

The Group has adopted the following PFRS starting January 1, 2011 and accordingly, changed its accounting policies in the following areas:

- Amendment to PAS 32, *Financial Instruments: Presentation — Classification of Rights Issues*, permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after February 1, 2010.
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement* paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010.
- Revised PAS 24, *Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011.
- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC 14: PAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)*. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011.
- *Improvements to PFRS 2010* contain 11 amendments to 6 standards and 1 interpretation, of which only the following are applicable to the Group:
  - PFRS 3, *Business Combinations*. The amendments: (a) clarify that contingent consideration arising in a business combination previously accounted for in accordance with PFRS 3 (2004) that remains outstanding at the adoption date of PFRS 3 (2008) continues to be accounted for in accordance with PFRS 3 (2004); (b) limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and (c) expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. The amendments are effective for annual periods beginning on or after July 1, 2010.
  - PAS 27*, Consolidated and Separate Financial Statements*. The amendments clarify that the consequential amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures,* resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010.
  - PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the International Accounting Standards Board (IASB) amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011.

- PAS 1, *Presentation of Financial Statements*. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011.
- PAS 34, *Interim Financial Reporting*. The amendments add examples to the list of events or transactions that require disclosure under PAS 34 and remove references to materiality in PAS 34 that describes other minimum disclosures. The amendments are effective for annual periods beginning on or after January 1, 2011.
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*. The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendments are effective for annual periods beginning on or after January 1, 2011.

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

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

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, 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 9, *Financial Instruments*, which becomes mandatory for the Group's 2015 consolidated financial statement and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

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

- *Disclosures — Transfers of Financial Assets (Amendments to PFRS 7)* requires 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 derecognized financial assets. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011.
- *Deferred Tax: Recovery of Underlying Assets (Amendments to PAS 12, Income Taxes)* introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with PAS 40, *Investment Property*. The exception also applies to investment properties acquired in a business combination accounted for in accordance with PFRS 3 provided the acquirer subsequently measure these assets applying the fair value model. The amendments integrated the guidance of Philippine Interpretation Standards Interpretation Committee (SIC) — 21, *Income Taxes — Recovery of Revalued Non-Depreciable Assets* into PAS 12, and as a result Philippine Interpretation SIC — 21 has been withdrawn. The effective date of the amendments is for periods beginning on or after January 1, 2012 and is applied retrospectively.
- *Presentation of Items of Other Comprehensive Income (Amendments to PAS 1)*. 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 the 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 amendments is for periods beginning on or after January 1, 2013.

- PFRS 10, *Consolidated Financial Statements*. PFRS 10 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 (2008). The new standard is effective for annual periods beginning on or after January 1, 2013.
- PFRS 11, *Joint Arrangements.* PFRS 11 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, *Interest in Joint Ventures* 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.* PFRS 12 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*. PFRS 13 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 is required to be disclosed.
- PAS 19, *Employee Benefits* (amended 2011). The amended PAS 19 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 amendment is required for annual periods beginning on or after January 1, 2013.
- PAS 27, *Separate Financial Statements* (2011). PAS 27 (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). PAS 28 (2011) supersedes PAS 28 (2008). PAS 28 (2011) makes the following amendments: (a) PFRS 5, *Noncurrent Assets Held for Sale* 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 amendment is required for annual periods beginning on or after January 1, 2013.
- PFRS 9, *Financial Instruments*. PFRS 9 (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 amendment is required for annual periods beginning on or after January 1, 2015.

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

Financial Assets and Financial Liabilities

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

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

The Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS financial assets, financial assets at FVPL, and loans and receivables. The Group classifies its financial liabilities as either financial liabilities at FVPL or other 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 used 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 "Cumulative translation adjustments (CTA) — Hedging reserve" account in equity. Any interest earned is recognized as part of "Interest income" in the consolidated statements of income. Any dividend income from equity securities classified as FVPL is recognized in profit or loss when the right to receive payment has been established.

The Group's derivative assets are classified under this category.

The carrying amounts of derivative assets amounted to ₱31.9 million and ₱107.6 million as at December 31, 2011 and 2010, respectively (Note 33).

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 is recognized as part of "Interest income" in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the

effective interest rate. The periodic amortization is also included as part of "Interest income" in the consolidated statements of income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

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

The Group's cash and cash equivalents and trade and other receivables are included in this category (Notes 7 and 8).

The combined carrying amounts of financial assets under this category amounted to ₱13,632.9 million and ₱14,801.6 million as at December 31, 2011 and 2010, respectively (Note 33).

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 is 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 the HTM investments are derecognized or impaired, as well as through the amortization process.

As at December 31, 2011 and 2010, 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 are 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 "CTA — Fair value reserve" in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right to receive payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

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

The Group's investments in shares of stock included under "Other noncurrent assets" are classified under this category.

The carrying amounts of financial assets under this category amounted to ₱8.9 million and ₱11.2 million as at December 31, 2011 and 2010, respectively (Note 33).

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 "CTA — Hedging reserve" account 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 (Note 18).

The carrying amounts of financial liabilities under this category amounted to ₱28.7 million and ₱3.1 million as at December 31, 2011 and 2010, respectively (Note 33).

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 notes payable, trade payables and other current liabilities, long-term debt and other noncurrent liabilities (Notes 17, 18, 19 and 33).

The combined carrying amounts of financial liabilities under this category amounted to ₱20,651.0 million and ₱24,779.1 million as at December 31, 2011 and 2010, respectively (Note 33).

Debt Issue Costs

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

Derivative Financial Instruments and Hedging

Freestanding Derivatives

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

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

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

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

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

As at December 31, 2011 and 2010, 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 "CTA — Hedging reserve" account in equity. The ineffective portion is immediately recognized in profit or loss.

If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly in equity are transferred from equity and included in the initial measurement of the cost or carrying amount of the asset or liability. Otherwise, for all other cash flow hedges, gains or losses initially recognized in equity are transferred from equity to profit or loss in the same period or periods during which the hedged forecasted transaction or recognized asset or liability 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 at December 31, 2011 and 2010, the Group has no outstanding derivatives accounted for as cash flow hedges.

Net Investment Hedge. As at December 31, 2011 and 2010, the Group has no hedge of a net investment in a foreign operation.

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

Embedded Derivatives

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

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

Derecognition of Financial Assets and Financial Liabilities

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

- the rights to receive cash flows from the asset 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 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 at gross in the consolidated statements of financial position.

Inventories

Inventories are valued at the lower of cost and net realizable value.

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

Finished goods and goods in process	—	at cost using the moving average method; includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; finished goods also include unrealized gain (loss) on fair valuation of agricultural produce;
Raw materials, feeds, feed ingredients, factory supplies and others	—	at cost using the moving average method

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

Net realizable value of raw materials, feeds, feed ingredients, factory supplies and others is the current replacement cost.

Biological Assets and Agricultural Produce

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

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

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

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

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

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

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

Business Combination

Acquisitions on or After January 1, 2010

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

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

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

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

- *Goodwill in a Business Combination*

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

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

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

- *Intangible Assets Acquired in a Business Combination*

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

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

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

- *Loss of Control*

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

Acquisitions Prior to January 1, 2010

In comparison to the foregoing requirements, the following differences applied:

- Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs.
- The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.
- Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.
- Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

Transactions under Common Control

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

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

Non-controlling Interests

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

Investment in an Associate

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

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

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

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

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

a. goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

b. any excess of the Group's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share in the associate's profit or loss in the period in which the investment is acquired.

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

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

Property, Plant and Equipment

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

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

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

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

	Number of Years
Land improvements	5 - 10
Buildings and improvements	5 - 50
Machinery and equipment	5 - 20
Office furniture and equipment	3 - 5
Transportation equipment	5
Factory furniture, equipment and others	3 - 5

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

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

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

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

Investment Properties

Investment properties consist of properties held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment properties, except for land, are measured at cost, including transaction costs, less accumulated depreciation and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Depreciation of buildings and improvements is computed using the straight-line method over 20 to 40 years.

The residual values, useful lives and method of depreciation of the assets are reviewed and adjusted if appropriate, at each reporting date.

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

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

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

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in profit or loss in the year in which the related expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

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

Amortization of computer software and licenses is computed using the straight-line method over the estimated useful life of 2 to 8 years.

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

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

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

Impairment of Non-financial Assets

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

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

Provisions

Provisions are recognized when the Group has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and where appropriate, those risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Share Capital

Common Shares

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

Preferred Shares

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

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

Treasury Shares

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

Revenue Recognition

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

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

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

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

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

Rent. Revenue from investment properties is recognized on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rent income, over the term of the lease. Rent income is included as part of other income.

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

Cost and Expense Recognition

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

Share-based Payment Transactions

Under SMC's Employee Stock Purchase Plan (ESPP), employees of the Group receive remuneration in the form of share-based payment transactions, whereby the employees render services as consideration for equity instruments of SMC. Such transactions are handled centrally by SMC.

Share-based payment transactions in which SMC grants option rights to its equity instruments directly to the Group's employees are accounted for as equity-settled transactions. SMC charges the Group for the costs related to such transactions with its employees. The amount is recognized in profit or loss by the Group.

The cost of ESPP is measured by reference to the market price at the time of the grant less subscription price. The cumulative expense recognized for share-based payment transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and SMC's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Leases

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

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset;

(d) there is a substantial change to the asset.

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

Operating Lease

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

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

Borrowing Costs

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

Research and Development Costs

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

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

Retirement Costs

The Company and majority of its subsidiaries have separate funded, noncontributory retirement plans, administered by their respective trustees, covering their respective permanent employees. Retirement costs are

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

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

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

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

Foreign Currency

Foreign Currency Translations

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

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

Foreign Operations

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

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

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Trade payables and other current liabilities" in the consolidated statements of financial position.

Related Parties

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

Basic and Diluted Earnings Per Common Share (EPS)

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

Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 6 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

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

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

Contingencies

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

Events After the Reporting Date

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

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

Operating Lease Commitments — Group as Lessee. The Group has entered into various lease agreements as a lessee. The Group has determined that the lessor retains all significant risks and rewards of ownership of these properties which are leased out under operating lease arrangements.

Rent expense charged to profit or loss amounted to ₱824.1 million, ₱771.1 million and ₱669.1 million in 2011, 2010 and 2009, respectively (Notes 22, 23 and 31).

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

Contingencies. The Group currently has several tax assessments and legal claims. The Group's estimate of the probable costs for resolution of these assessments and claims has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments and legal claims

will have a material adverse effect on its consolidated financial position and consolidated financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (Note 35).

Estimates

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

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

The allowance for impairment losses amounted to ₱522.4 million and ₱682.4 million as at December 31, 2011 and 2010, respectively. The carrying amounts of trade and other receivables amounted to ₱8,700.2 million and ₱7,760.3 million as at December 31, 2011 and 2010, respectively (Note 8).

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

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

The carrying amounts of inventories as at December 31, 2011 and 2010 amounted to ₱12,068.4 million and ₱12,123.4 million, respectively (Note 9). The allowance for inventory losses amounted to ₱270.8 million and ₱187.9 million as at December 31, 2011 and 2010, respectively.

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

Unrealized gain on fair valuation of agricultural produce included in the cost of inventories as at December 31, 2011 and 2010 amounted to ₱69.1 million and ₱40.7 million, respectively (Note 9).

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

The fair values of financial assets and financial liabilities are discussed in Note 33.

Estimated Useful Lives of Investment Properties and Property, Plant and Equipment. The Group estimates the useful lives of investment properties and property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties and property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

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

Investment properties and property, plant and equipment, net of accumulated depreciation and impairment losses, amounted to ₱8,879.2 million and ₱9,219.1 million as at December 31, 2011 and 2010, respectively. Accumulated depreciation and impairment losses of investment properties and property, plant and equipment amounted to ₱9,175.6 million and ₱8,399.7 million as at December 31, 2011 and 2010, respectively (Notes 13 and 14).

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

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

Estimated fair values of investment properties amounted to ₱336.3 million and ₱288.7 million as at December 31, 2011 and 2010, respectively (Note 13).

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

Intangible assets with finite useful life amounted to ₱299.9 million and ₱69.6 million as at December 31, 2011 and 2010, respectively (Note 15).

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

The carrying amounts of goodwill as at December 31, 2011 and 2010 amounted to ₱422.5 million and ₱416.3 million, respectively (Note 16).

The carrying amounts of trademarks and brand names, and formulas and recipes amounted to ₱3,357.5 million and ₱3,355.9 million as at December 31, 2011 and 2010, respectively (Note 15).

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

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

The Group's acquisitions resulted in the recognition of goodwill and other intangible assets with finite lives. Total carrying amounts of goodwill and other intangible assets with finite lives arising from business combinations amounted to ₱488.3 million and ₱482.1 million as at December 31, 2011 and 2010, respectively (Notes 15 and 16).

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

Deferred tax assets amounted to ₱502.7 million and ₱599.9 million as at December 31, 2011 and 2010, respectively (Note 27).

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

Accumulated impairment losses on property, plant and equipment, investment properties, and idle assets amounted to ₱73.3 million and ₱67.5 million as at December 31, 2011 and 2010, respectively. The aggregate amount of noncurrent biological assets, investments, investment properties, property, plant and equipment, goodwill and other intangible assets, and idle assets amounted to ₱28,501.9 million and ₱14,658.3 million as at December 31, 2011 and 2010, respectively (Notes 10, 12, 13, 14, 15 and 16).

Present Value of Defined Benefit Obligation. The present value of the retirement obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 28 to the consolidated financial statements and include discount rate, expected return on plan assets and salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

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

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

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

The Group has a net cumulative unrecognized actuarial gain (loss) amounting to (₱326.1 million) and ₱229.4 million as at December 31, 2011 and 2010, respectively (Note 28).

Asset Retirement Obligation. Determining ARO requires estimation of the cost of dismantling property, plant and equipment and other costs of restoring the leased properties to their original condition. The Group determined that there are no significant asset retirement obligations as at December 31, 2011 and 2010.

5. Investments in Subsidiaries

The following are the developments relating to the Company's investments in subsidiaries in 2011 and 2010:

a) Magnolia

In September 2011, Magnolia, a wholly-owned subsidiary of SMPFC, acquired the subscription rights of certain individuals in GFDCC, a Philippine company engaged in the toll manufacturing of ice cream products. As such, GFDCC became a subsidiary of Magnolia and was consolidated into SMPFC through Magnolia.

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

	Note	
Assets		
Cash and cash equivalents		**₱ 6,997**
Trade and other receivables and other current assets		**61,679**
Property, plant and equipment — net and other noncurrent assets	*14*	**308,611**
Liabilities		
Trade payables and other current liabilities		**(22,367)**
Current maturities of long-term debt	*19*	**(25,000)**
Long-term debt — net of current maturities and other noncurrent liabilities	*19*	**(231,282)**
Total identifiable net assets at fair value		**98,638**
Goodwill arising on acquisition	*16*	**6,237**
Total cash consideration transferred		**₱ 104,875**

b) SMMI

i. In September 2011, SMMI formed GBGTC, a wholly-owned subsidiary with an authorized capital stock of ₱2,000.0 million. GBGTC is a Philippine company with the primary purpose of providing and rendering general services connected with and incidental to the operation and management of port terminals engaged in handling and/or trading of grains, among others. In November 2011, following the approval by the Securities and Exchange Commission (SEC) of the incorporation of GBGTC, SMMI subscribed to 5,000,000 GBGTC shares for a total subscription value of ₱500.0 million and paid an initial consideration amounting to ₱125.0 million. As at December 31, 2011, GBGTC has not yet started commercial operations.

ii. In October 2010, the BOD and stockholders of SMMI authorized SMMI to raise funds of up to ₱5,000.0 million to fund any expansion or any investment in new businesses by SMMI and for other general corporate purposes.

c) SCIL

In November 2010, SMPFC formed SCIL, a Cayman Islands company, as a wholly-owned subsidiary of SMPFC with an authorized capital stock of US$50,000.00 divided into 50,000 shares with par value of US$1.00 per share. SCIL did not engage in commercial operations until its dissolution on September 30, 2011 by virtue of the Certificate of Dissolution issued to SCIL by the Registrar of Companies of the Cayman Islands on August 3, 2011.

d) SMFI and Monterey

i. In August 2010, the SEC approved the merger of Monterey into SMFI, with SMFI as the surviving corporation, following the approvals of the merger by the respective BOD and stockholders of Monterey and SMFI in June 2010 and July 2010, respectively. The merger became effective on September 1, 2010. SMFI's request for confirmation of the tax-free merger, filed in September 2010, is still pending with the Bureau of Internal Revenue (BIR) as at March 7, 2012.

ii. In July 2010, the SEC approved the application of Monterey for the increase in its authorized capital stock. Following SEC's approval, 22,500,000 Monterey shares of stock were issued to SMPFC in exchange for the Company's deposit for future stock subscription of ₱450.0 million in 2008.

iii. In January 2008, SMFI executed a Deed of Assignment assigning its 16,457,310 shares in SMMI, then a 100%-owned subsidiary of SMFI, to SMPFC effective December 28, 2007. The assignment is in accordance with SMFI's property dividend declaration of its SMMI shares in favor of the Company, as approved by SMFI's BOD in June 2007, subject to the necessary regulatory approvals. In December 2010, the SEC approved the declaration of SMFI's 16,457,310 shares in SMMI as property dividend in favor of the Company.

e) SMPFIL

In July 2010, the Company, through its wholly-owned subsidiary, SMPFIL, acquired SMC's 51% interest (through San Miguel Foods and Beverage International Limited [SMFBIL]) in SMPFI Limited for US$18.6 million. SMPFI Limited owns 100% of San Miguel Pure Foods (Vn) Co. Ltd. (SMPFVN). Pursuant to the Sale and Purchase Agreement between SMFBIL and SMPFIL, 10% of the purchase price was paid in July 2010 and the balance of US$16.8 million (₱734.3 million as at December 31, 2010) shall be payable (i) upon change in controlling interest of SMPFIL to any third person other than an affiliate or (ii) two years from July 30, 2010, subject to floating interest rate based on one-year LIBOR plus an agreed margin after one year, whichever comes first. The balance was recognized as part of the Company's payable to related parties in 2010 (Note 18).

In May 2011, SMPFC increased its investment in SMPFIL by an amount equivalent to the 90% balance of the purchase price of SMPFVN acquired by SMPFIL from SMFBIL. Subsequently, SMPFIL paid the remaining balance of the purchase price of the Vietnam food business amounting to US$16.8 million.

As approved by the State Securities Commission of Vietnam on September 30, 2011, SMPFVN was renamed to San Miguel Hormel (Vn) Co., Ltd.

The unaudited financial information relative to the acquisition of the 51% interest in SMPFI Limited as at July 30, 2010 were as follows:

	Note	
Assets		
Cash and cash equivalents		**₱ 46,645**
Trade and other receivables — net		**279,154**
Inventories		**352,406**
Property, plant and equipment — net	*14*	**954,349**
Other noncurrent assets		**719,278**
Liabilities		
Trade payables and other current liabilities		**(939,636)**
Other noncurrent liabilities		**(3,026)**
Non-controlling interests		**(813,121)**
Total identifiable net assets		**596,049**
Goodwill arising on acquisition	*16*	**256,550**
Total cash consideration transferred		**₱ 852,599**

6. 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 has three reportable segments, namely, Agro-industrial, Value-added Meats and Milling. Management identified and grouped the operating units in its operating segments with the objective of transforming the Group into a more rationalized and focused organization. The structure aims to boost efficiencies across the Group and raise effectiveness in defining and meeting the needs of consumers in innovative ways.

The Agro-industrial segment includes the integrated Feeds, Poultry and Basic Meats operations. These businesses are involved in feeds production and in poultry and livestock farming, processing and selling of poultry and meat products.

The Value-added Meats segment is engaged in the processing and marketing of refrigerated and canned meat products.

The Milling segment is into manufacturing and marketing of flour products, premixes, and flour-based products.

The non-reportable operating segments of the Group include dairy-based products, breadfill, desserts, cooking oil, importation and marketing of coffee and coffee-related products, and foreign operations which include hog farming, feeds production and sale of fresh and processed meats by foreign subsidiaries.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories, biological assets and property, plant and equipment, net of allowances and impairment. Segment liabilities include all operating liabilities and consist principally of wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred income taxes.

Inter-segment Transactions

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

Major Customer

The Group does not have a single external customer, sales revenue generated from which amounted to 10% or more of the total revenues of the Group.

Operating Segments

Financial information about reportable segments follows:

	Agro-Industrial			Value-Added Meats			Milling			Total Reportable Segments			Others			Eliminations			Consolidated		
	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009
	(In millions)																				
Revenue																					
External	**₱56,982**	₱52,300	₱49,069	**₱12,103**	₱11,534	₱11,234	**₱8,354**	₱7,155	₱7,482	**₱77,439**	₱70,989	₱67,785	**₱12,152**	₱ 8,281	₱ 7,258	**₱ —**	₱ —	₱ —	**₱89,591**	₱79,270	₱75,043
Inter-segment	**870**	258	711	**9**	3	47	**641**	505	447	**1,520**	766	1,205	**155**	169	233	**(1,675)**	(935)	(1,438)	**—**	—	—
Total revenue	**₱57,852**	₱52,558	₱49,780	**₱12,112**	₱11,537	₱11,281	**₱8,995**	₱7,660	₱7,929	**₱78,959**	₱71,755	₱68,990	**₱12,307**	₱ 8,450	₱ 7,491	**₱(1,675)**	₱ (935)	₱(1,438)	**₱89,591**	₱79,270	₱75,043
Result																					
Segment operating result*	**₱ 2,370**	₱ 3,299	₱ 3,085	**₱ 1,031**	₱ 772	₱ 489	**₱1,867**	₱1,574	₱ 752	**₱ 5,268**	₱ 5,645	₱ 4,326	**₱ 923**	₱ 310	₱ 333	**₱ 40**	₱ 55	₱ (118)	**₱ 6,231**	₱ 6,010	₱ 4,541
Interest expense and other financing charges	**(364)**	(248)	(428)	**(21)**	(66)	(188)	**(4)**	(1)	(88)	**(389)**	(315)	(704)	**(142)**	(44)	(47)	**—**	—	—	**(531)**	(359)	(751)
Interest income	**118**	51	37	**7**	5	5	**11**	13	6	**136**	69	48	**258**	36	21	**—**	—	—	**394**	105	69
Equity in net earnings of an associate	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**270**	—	—	**—**	—	—	**270**	—	—
Gain (loss) on sale of property and equipment	**7**	20	4	**—**	(50)	7	**—**	(1)	(19)	**7**	(31)	(8)	**—**	(2)	(10)	**—**	—	(7)	**7**	(33)	(25)
Other income (charges) — net	**(119)**	(96)	2	**(13)**	108	(93)	**(60)**	2	83	**(192)**	14	(8)	**(221)**	(24)	16	**—**	—	—	**(413)**	(10)	8
Income tax expense	**(601)**	(896)	(720)	**(286)**	(189)	(74)	**(543)**	(477)	(220)	**(1,430)**	(1,562)	(1,014)	**(314)**	(89)	(166)	**—**	(3)	(4)	**(1,744)**	(1,654)	(1,184)
Net income	**₱ 1,411**	₱ 2,130	₱ 1,980	**₱ 718**	₱ 580	₱ 146	**₱1,271**	₱1,110	₱ 514	**₱ 3,400**	₱ 3,820	₱ 2,640	**₱ 774**	₱ 187	₱ 147	**₱ 40**	₱ 52	₱ (129)	**₱ 4,214**	₱ 4,059	₱ 2,658
Attributable to:																					
Equity holders of the Parent Company																			**₱ 4,103**	₱ 3,846	₱ 2,597
Non- controlling interests																			**111**	213	61
Net income																			**₱ 4,214**	₱ 4,059	₱ 2,658
Other Information																					
Segment assets	**₱22,046**	₱23,017	₱21,588	**₱ 8,434**	₱ 7,786	₱ 9,376	**₱4,219**	₱4,124	₱3,505	**₱34,699**	₱34,927	₱34,469	**₱14,224**	₱13,228	₱10,053	**₱(5,730)**	₱(5,079)	₱(5,904)	**₱43,193**	₱43,076	₱38,618
Investments	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**13,178**	—	—	**—**	—	—	**13,178**	—	—
Goodwill	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**1,618**	1,612	1,367	**(1,196)**	(1,196)	(1,196)	**422**	416	171
Intangible assets	**254**	10	4	**257**	272	285	**—**	—	—	**511**	282	289	**3,268**	3,266	—	**(122)**	(122)	(122)	**3,657**	3,426	167
Deferred tax assets	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**503**	600	1,220
Consolidated total assets																			**₱60,953**	₱47,518	₱40,176
Segment liabilities	**₱ 6,229**	₱ 6,796	₱ 9,075	**₱ 1,689**	₱ 1,868	₱ 1,339	**₱ 802**	₱1,011	₱ 785	**₱ 8,720**	₱ 9,675	₱11,199	**₱ 8,155**	₱10,608	₱ 7,470	**₱(5,740)**	₱(5,050)	₱(5,820)	**₱11,135**	₱15,233	₱12,849
Notes payable	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**4,988**	5,173	8,816
Income tax payable	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**305**	162	467
Deferred tax liabilities	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**167**	271	399
Long-term debt (including current maturities) — net of debt issue costs	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**4,671**	4,461	—
Consolidated total liabilities																			**₱21,266**	₱25,300	₱22,531
Capital expenditures	**₱ 79**	₱ 312	₱ 266	**₱ 172**	₱ 151	₱ 210	**₱ 78**	₱ 13	₱ 57	**₱ 329**	₱ 476	₱ 533	**₱ 269**	₱ 105	₱ 118	**₱ —**	₱ —	₱ —	**₱ 598**	₱ 581	₱ 651
Depreciation and amortization	**1,413**	1,357	1,124	**280**	255	286	**111**	118	143	**1,804**	1,730	1,553	**316**	196	152	**—**	—	—	**2,120**	1,926	1,705
Impairment loss (reversal)	**6**	—	—	**—**	(46)	46	**—**	51	8	**6**	5	54	**—**	—	3	**—**	—	—	**6**	5	57

* Including realized mark-to-market gains (losses) on commodity derivatives presented as part of "Other income (charges) — net" in the consolidated statements of income.

7. Cash and Cash Equivalents

This account consists of:

	2011	2010
Cash on hand and in banks	**₱2,138,658**	₱1,865,181
Short-term investments	**2,794,060**	5,176,164
	₱4,932,718	₱7,041,345

Cash in banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates.

8. Trade and Other Receivables

This account consists of:

	Note	2011	2010
Trade receivables		**₱7,797,318**	₱7,309,630
Amounts owed by related parties	*29*	**151,446**	177,529
Insurance claims		**231,333**	76,149
Tax certificates receivables		**68,770**	68,028
Others		**973,717**	811,380
		9,222,584	8,442,716
Less allowance for impairment losses		**522,367**	682,445
		₱8,700,217	₱7,760,271

Trade receivables are non-interest bearing and are generally on 30-day term.

Insurance claims pertain to the value of certain inventories and property, plant and equipment damaged by typhoons.

"Others" consist of the following: advances to suppliers, contract growers and breeders, receivables from employees, truckers and toll partners and deposits.

The movements in the allowance for impairment losses follow:

	2011	2010
Balance at beginning of year	**₱ 682,445**	₱633,902
Charge for the year	**32,260**	63,051
Amounts written off	**(192,338)**	(14,508)
Balance at end of year	**₱ 522,367**	₱682,445

As at December 31, the aging of receivables is as follows:

	Gross Amount	
	2011	2010
Current	**₱5,758,562**	₱5,197,755
Past due 1-30 days	**1,476,458**	1,227,642
Past due 31-60 days	**287,773**	228,923
Past due 61-90 days	**108,589**	104,826
Past due over 90 days	**1,591,202**	1,683,570
	₱9,222,584	₱8,442,716

Various collaterals for trade receivables such as bank guarantees, time deposits and real estate mortgages are held by the Group for certain credit limits.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on historic payment behavior and extensive analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

9. Inventories

This account consists of:

	2011	2010
Finished goods and goods in process — at net realizable value	**₱ 3,959,781**	₱ 3,425,034
Raw materials, feeds and feed ingredients — at net realizable value	**7,710,755**	7,603,604
Factory supplies and others — at cost	**97,912**	119,984
Materials in transit — at cost	**299,933**	974,813
Total inventories at lower of cost and net realizable value	**₱12,068,381**	₱12,123,435

The cost of finished goods and goods in process amounted to ₱4,182.6 million and ₱3,557.4 million as at December 31, 2011 and 2010, respectively. The cost of raw materials, feeds and feed ingredients amounted to ₱7,758.7 million and ₱7,659.2 million as at December 31, 2011 and 2010, respectively.

Finished goods and goods in process include net unrealized gain of ₱69.1 million and ₱40.7 million on fair valuation of agricultural produce as at December 31, 2011 and 2010, respectively. The fair value of agricultural produce less costs to sell, which formed part of finished goods inventory, amounted to ₱752.8 million and ₱416.2 million as at December 31, 2011 and 2010, respectively, with corresponding costs at point of harvest amounting to ₱683.7 million and ₱375.5 million, respectively.

10. Biological Assets

This account consists of:

	2011	2010
Current:		
Growing stocks	**₱3,227,758**	₱2,558,947
Goods in process	**896,019**	707,617
	4,123,777	3,266,564
Noncurrent:		
Breeding stocks — net	**1,811,570**	1,479,251
	₱5,935,347	₱4,745,815

The amortization of breeding stocks recognized in profit or loss amounted to ₱1,186.4 million, ₱1,048.3 million and ₱854.1 million in 2011, 2010, and 2009, respectively (Note 24).

Growing stocks pertain to growing broilers, hogs and cattle and goods in process pertain to hatching eggs and carcass.

The movements in biological assets, including the effects of foreign exchange adjustments are as follows:

	Note	2011	2010
Cost:			
Balance at beginning of year		**₱ 5,010,242**	₱ 3,953,076
SMPFIL balance as at July 31, 2010		**—**	680,972
Increase (decrease) due to:			
Purchases		**11,687,069**	13,100,490
Production		**17,159,174**	10,754,056
Mortality		**(476,886)**	(413,768)
Sales		**(6,087,325)**	(4,694,298)
Harvest		**(19,989,363)**	(17,407,999)
Reclassifications		**(1,010,125)**	(933,003)
Currency translation adjustments		**1,992**	(29,284)
Balance at end of year		**6,294,778**	5,010,242
Accumulated Amortization:			
Balance at beginning of year		**264,427**	143,441
SMPFIL balance as at July 31, 2010		**—**	44,816
Additions	*24*	**1,186,384**	1,048,343
Disposals		**(81,518)**	(37,198)
Reclassifications		**(1,010,125)**	(933,003)
Currency translation adjustments		**263**	(1,972)
Balance at end of year		**359,431**	264,427
Net Book Value		**₱ 5,935,347**	₱ 4,745,815

The Group harvested approximately 420.9 million and 392.2 million kilograms of grown broilers in 2011 and 2010, respectively, and 0.88 million and 0.35 million heads of marketable hogs and cattle in 2011 and 2010, respectively.

11. Prepaid Expenses and Other Current Assets

This account consists of:

	2011	2010
Prepaid income tax	**₱ 568,281**	₱ 650,227
Input tax	**1,101,327**	868,234
Others	**298,944**	247,287
	₱1,968,552	₱1,765,748

"Others" include prepaid insurance, advance payments and deposits, and prepayments for various operating expenses.

12. Investments

Investment in an Associate

This account consists of:

	December 31 2011
Investment in an associate — at equity:	
Acquisition cost	**₱13,007,800**
Accumulated equity in net earnings:	
Equity in net earnings during the year	**270,478**
Dividends	**(100,455)**
Share in comprehensive income	**156**
	₱13,177,979

In August 2011, SMPFC entered into a Share Purchase Agreement with SMC covering the sale by the latter of its 5.2% shareholdings in Manila Electric Company (Meralco) comprising of 59,090,909 common shares for a total consideration of ₱13,000.0 million. Capitalized transaction costs related to the acquisition of Meralco shares by SMPFC amounted to ₱7.8 million.

The Company has determined that it has obtained significant influence over the financial and operating policies of Meralco in conjunction with SMC and subsidiaries' ownership of 33.19% interest in Meralco. Accordingly, the Company applied the equity method of accounting on its investment in shares of stock of Meralco.

The fair value of the Company's investment in Meralco amounted to ₱14,477.3 million as at December 31, 2011.

Investment in a Joint Venture

The Company's application with the SEC for the dissolution of Philippine Nutrition Technologies, Inc. (PNTI), a joint venture between the Company and the Great Wall Group of Taiwan, was approved on May 27, 2010. As a result of the said dissolution, the Company's investment in PNTI amounting to ₱12.0 million was written off against its allowance for decline in value of investment.

13. Investment Properties

The movements in investment properties follow:

	Land and Land Improvements	Buildings and Improvements	Total
Cost:			
December 31, 2009	₱115,281	₱2,865	₱118,146
Additions	8,027	—	8,027
Disposals	(2,933)	—	(2,933)
December 31, 2010	120,375	2,865	123,240
Additions	23,068	—	23,068
Reclassifications	(1,018)	—	(1,018)
December 31, 2011	142,425	2,865	145,290
Accumulated Depreciation:			
December 31, 2009	—	1,608	1,608
Additions	—	141	141
December 31, 2010	—	1,749	1,749
Additions	—	141	141
December 31, 2011	—	1,890	1,890
Accumulated Impairment Losses:			
December 31, 2010 and 2011	8,473	—	8,473
Net Book Value:			
December 31, 2010	₱111,902	₱1,116	₱113,018
December 31, 2011	**₱133,952**	**₱ 975**	**₱134,927**

The fair value of investment properties as at December 31, 2011 and 2010 amounted to ₱336.3 million and ₱288.7 million, respectively, determined based on valuations performed either by independent appraisers or by the credit management group of the Company.

14. Property, Plant and Equipment

This account consists of:

	Note	Land and Land Improvements	Buildings and Improvements	Machinery Equipment, Furniture and Others	Transportation Equipment	Construction in Progress	Total
Cost:							
December 31, 2009		₱2,340,923	₱4,391,727	₱8,117,005	₱473,597	₱ 644,665	₱15,967,917
SMPFIL balance as at July 31, 2010	*5*	—	1,364,516	603,920	35,051	13,362	2,016,849
Additions		—	11,744	323,425	3,381	242,523	581,073
Disposals		(24,023)	(357,630)	(745,984)	(18,197)	—	(1,145,834)
Transfers, reclassifications and others		61,654	520,779	314,709	(18,029)	(716,779)	162,334
Currency translation adjustments		—	(58,679)	(25,971)	(1,507)	(574)	(86,731)
December 31, 2010		2,378,554	5,872,457	8,587,104	474,296	183,197	17,495,608
GFDCC balance as at August 31, 2011	*5*	—	113,101	215,740	—	1,800	330,641
Additions		—	19,705	492,552	4,030	81,519	597,806
Disposals		—	(30,190)	(43,367)	(22,131)	—	(95,688)
Transfers, reclassifications and others		(434,171)	33,360	117,651	2,670	(134,936)	(415,426)
Currency translation adjustments		(632)	48	(2,366)	(391)	(57)	(3,398)
December 31, 2011		1,943,751	6,008,481	9,367,314	458,474	131,523	17,909,543
Accumulated Depreciation and Impairment Losses:							
December 31, 2009		328,767	1,761,563	5,153,422	429,572	—	7,673,324
SMPFIL balance as at July 31, 2010	*5*	—	545,325	483,974	33,201	—	1,062,500
Additions	*24*	32,830	241,364	498,225	18,761	—	791,180
Disposals		(22,677)	(257,852)	(706,859)	(18,014)	—	(1,005,402)
Reversal of impairment loss	*26*	(45,863)	—	—	—	—	(45,863)
Transfers, reclassifications and others		(1,188)	(11,868)	(11,645)	(15,130)	—	(39,831)
Currency translation adjustments		—	(23,732)	(21,215)	(1,436)	—	(46,383)
December 31, 2010		291,869	2,254,800	5,395,902	446,954	—	8,389,525
GFDCC balance as at August 31, 2011	*5*	—	2,180	20,182	—	—	22,362
Additions	*24*	33,341	232,373	567,392	13,675	—	846,781
Disposals		—	(29,588)	(42,773)	(22,131)	—	(94,492)
Transfers, reclassifications and others		—	—	(223)	(1,832)	—	(2,055)
Impairment loss		—	5,800	—	—	—	5,800
Currency translation adjustments		—	(54)	(2,087)	(558)	—	(2,699)
December 31, 2011		325,210	2,465,511	5,938,393	436,108	—	9,165,222
Net Book Value:							
December 31, 2010		₱2,086,685	₱3,617,657	₱3,191,202	₱ 27,342	₱ 183,197	₱ 9,106,083
December 31, 2011		**₱1,618,541**	**₱3,542,970**	**₱3,428,921**	**₱ 22,366**	**₱ 131,523**	**₱ 8,744,321**

Depreciation recognized in profit or loss amounted to ₱846.8 million in 2011, ₱791.2 million in 2010 and ₱774.5 million in 2009 (Note 24). These amounts include annual amortizations of capitalized interest amounting to ₱1.1 million in 2011 and ₱2.6 million in 2010 and 2009. Unamortized balance of capitalized interest as at December 31, 2011, 2010 and 2009 amounted to ₱23.3 million, ₱24.4 million, and ₱27.0 million, respectively. No interest was capitalized in 2011 and 2010.

Certain parcels of land with net book value of ₱436.6 million, which are considered as idle assets, were reclassified to "Other noncurrent assets" in 2011 following the change in management's intention on these assets.

As at December 31, 2011, the net book value of the idle assets amounted to ₱553.2 million and ₱118.1 million, respectively.

Land and land improvements include a 144-hectare property in Sumilao, Bukidnon, acquired by SMFI in 2002, which later became the subject of a petition for revocation of conversion order filed by MAPALAD, a group of Sumilao farmers, with the Department of Agrarian Reform (DAR), and appealed to the Office of the President (OP). Total acquisition and development costs amounted to ₱37.4 million.

To settle the land dispute, a Memorandum of Agreement (MOA) was executed among SMFI, MAPALAD, OP and DAR on March 29, 2008. The MOA provided for the release of a 50-hectare portion of the property to qualified farmer-beneficiaries, and the transfer of additional 94 hectares outside of the property to be negotiated with other Sumilao landowners. Under the MOA, SMFI shall retain ownership and title to the remaining portion of the property for the completion and pursuit of the hog farm expansion.

SMFI fully complied with all the provisions of the MOA in the last quarter of 2010. To formally close the pending cases filed by MAPALAD with the Supreme Court (SC) and OP, SMFI forwarded in November 2010 to the Sumilao farmers' counsels the draft of the Joint Manifestation and Motion for Dismissal of the cases pending with the SC and the OP for their concurrence. Pursuant to the Joint Manifestation and Motion for Dismissal dated March 3, 2011 filed by SMFI and NQSR Management and Development Corporation, the original owner of the Sumilao property, the SC and the OP, in a Resolution dated March 15, 2011 and in an Order dated April 6, 2011, respectively, dismissed the appeal of MAPALAD on the DAR's denial of their petition for the revocation of the conversion order.

The cost of farm improvements, buildings, machinery and equipment and construction in progress incurred for SMFI's (formerly Monterey) hog farm expansion project situated in Sumilao amounted to ₱906.2 million and ₱888.6 million in 2011 and 2010, respectively.

15. Other Intangible Assets

This account consists of:

	2011	2010
Trademarks and brand names	**₱3,299,938**	₱3,298,353
Formulas and recipes	**57,591**	57,591
Computer software and licenses — net	**299,855**	69,566
	₱3,657,384	₱3,425,510

The movements in other intangible assets, including the effects of currency translation adjustments, are as follows:

	Trademarks and Brand Names	Others	Total
Cost:			
December 31, 2009	₱ 32,558	₱218,767	₱ 251,325
SMPFIL as at July 31, 2010	65,795	—	65,795
Additions	3,200,000	18,278	3,218,278
Disposals	—	(1,404)	(1,404)
Reclassifications	—	3,326	3,326
December 31, 2010	3,298,353	238,967	3,537,320
Additions	—	248,805	248,805
Reclassifications	1,585	—	1,585
December 31, 2011	3,299,938	487,772	3,787,710
Accumulated Depreciation:			
December 31, 2009	—	83,763	83,763
Additions	—	26,125	26,125
Disposals	—	(1,404)	(1,404)
Reclassifications	—	3,326	3,326
December 31, 2010	—	111,810	111,810
Additions	—	18,516	18,516
December 31, 2011	—	130,326	130,326
Net Book Value:			
December 31, 2010	₱3,298,353	₱127,157	₱3,425,510
December 31, 2011	**₱3,299,938**	**₱357,446**	**₱3,657,384**

In July 2010, SMC and SMPFC entered into an Intellectual Property Rights Transfer Agreement (Agreement) for the transfer to SMPFC of SMC's food-related brands and intellectual property rights at a purchase price of ₱3,200.0 million. Pursuant to the Agreement, 10% of the purchase price was paid in July 2010 and the balance shall be payable (i) upon change in controlling interest of SMPFC to any third person other than an affiliate or (ii) two years from July 30, 2010, subject to floating interest rate based on one-year PDST-F plus an agreed margin after one year, whichever comes first. The balance was recognized as part of the Company's payable to related parties (Note 18) as at December 31, 2010. On March 8, 2011, the Company paid SMC the amount of ₱2,880.0 million representing the 90% balance of the purchase price of the food-related brands and intellectual property rights.

SMC and SMPFC engaged the services of Fortman Cline Capital Markets Limited (FCCM) as financial adviser to perform a third party valuation of the food-related brands. The purchase price was arrived at after taking into account the result of the independent valuation study and analysis of FCCM.

The recoverable amount of the trademarks and brand names was determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management and a discount rate applied to after tax cash flow projections of 12%. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount of trademarks and brand names is based would not cause its carrying amount to exceed its recoverable amount.

The Company used the weighted average cost of capital as the discount rate, which reflected management's estimate of the risk. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

Management assessed that there is no impairment loss in the value of trademarks and brand names in 2011 and 2010.

16. Goodwill

The movements in goodwill, including effects of currency translation adjustments, are as follows:

	Note	2011	2010
Balance at beginning of year		**₱416,310**	₱170,792
Additions	*5*	**6,237**	256,550
Currency translation adjustments		**—**	(11,032)
Balance at end of year		**₱422,547**	₱416,310

The recoverable amount of goodwill has been determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash-flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections ranged from 12% to 14% for 2011 and 2010, respectively. The discount rates also impute the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium.

Management assessed that there is no impairment loss in the value of goodwill in 2011 and 2010.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the following assumptions:

Gross Margins. Gross margins are based on average values achieved in the period immediately before the budget period. These are increased over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.

Discount Rates. The Group uses the weighted average cost of capital as the discount rates, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investments proposals.

Raw Material Price Inflation. Forecast consumer price is obtained from indices during the budget period from which raw materials are purchased. Value assigned to key assumption is consistent with external sources of information.

17. Notes Payable

This account consists of:

	Note	2011	2010
Peso-denominated		**₱4,187,000**	₱4,591,000
Foreign currency-denominated		**800,929**	581,538
	32, 33	**₱4,987,929**	₱5,172,538

Notes payable mainly represent unsecured peso and foreign currency-denominated amounts payable to local and foreign banks. Interest rates for peso-denominated loans range from 3.80% to 4.75% and 3.10% to 4.50% in 2011 and 2010, respectively. Interest rates for foreign currency-denominated loans range from 3.56% to 20.00% and 3.56% to 16.50% in 2011 and 2010, respectively.

Notes payable of the Group are not subject to covenants and warranties.

18. Trade Payables and Other Current Liabilities

This account consists of:

	Note	2011	2010
Trade payables		**₱ 4,106,595**	₱ 4,011,362
Amounts owed to related parties	*5, 15, 29*	**1,202,210**	4,979,160
Non-trade payables		**4,195,943**	4,818,343
Others		**1,514,129**	1,337,104
		₱11,018,877	₱15,145,969

Non-trade payables consist of freight payable, contract growers/breeders' fees, tolling fees, guarantee deposits, gift certificates payable and expenses payable.

"Others" include tax-related and payroll-related accruals, accrued interest payable, dividends payable and derivative liabilities.

Derivative liabilities included under "Others" amounted to ₱28.7 million and ₱3.1 million as at December 31, 2011 and 2010, respectively (Notes 32 and 33).

19. Long-term Debt

This account consists of the following unsecured peso-denominated term notes:

	2011	2010
Floating interest rate based on 3-month PDST-F plus margin maturing in 2015[a]	**₱3,673,464**	₱3,667,776
Fixed interest rate of 5.4885% maturing in 2015[a]	**794,235**	793,031
Floating interest rate based on 3-month PDST-R1 plus margin or BSP overnight rate plus margin, whichever is higher, maturing in 2014[b]	**203,750**	—
	4,671,449	4,460,807
Less current maturities	**25,000**	—
	₱4,646,449	₱4,460,807

a. In December 2010, SMFI offered for sale and subscription to the public Philippine peso-denominated fixed rate and floating rate notes with principal amount of ₱800.0 million and ₱3,700.0 million, respectively. Both types of notes have a term of five years and one day beginning on December 10, 2010 and ending on December 11, 2015. The fixed rate note has a fixed interest rate of 5.4885% per annum while the floating rate note has a floating interest rate based on three-month PDST-F plus an agreed margin. Proceeds from the issuance of the notes are intended to fund any expansion or any investment in new businesses by SMFI and for other general corporate purposes.

The movements in debt issue costs relative to the issuance of the unsecured peso-denominated floating and fixed term notes by SMFI are as follows:

	Note	2011	2010
Balance at beginning of year		**₱39,193**	₱ —
Additions		**341**	39,597
Amortizations	*26*	**(7,233)**	(404)
Balance at end of year		**₱32,301**	₱39,193

b. The amount represents an unsecured loan facility entered into by GFDCC with Bank of Commerce amounting to ₱210.0 million. Proceeds of the loan were used to finance the construction of an ice cream plant manufacturing facility.

Repayment Schedule

As at December 31, 2011, the annual maturities of GFDCC's long-term debt are as follows:

Year	Gross Amount
2012	₱ 25,000
2013	25,000
2014	153,750
	₱203,750

The debt agreements contain, among others, covenants relating to the maintenance of certain financial ratios, usage of proceeds, significant change in the nature of the business, restrictions on loans and guarantees, disposal of a substantial portion of assets, merger and consolidation, and payment of interests.

As at December 31, 2011 and 2010, the Group is in compliance with the covenants of the debt agreements.

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 32.

20. Equity

The Parent Company's capital stock, at ₱10 par value, consists of the following number of shares as at December 31, 2011 and 2010:

	2011	2010
Authorized shares:		
Common	**206,000,000**	206,000,000
Preferred	**40,000,000**	40,000,000
	246,000,000	246,000,000
Issued shares:		
Common	**170,874,854**	170,874,854
Preferred	**15,000,000**	—
	185,874,854	170,874,854

The movements in the number of authorized common and preferred shares and issued and outstanding common and preferred shares are as follows:

	2011		2010	
	Common	Preferred	Common	Preferred
Authorized shares:				
Balance at beginning of year	**206,000,000**	**40,000,000**	146,000,000	—
Increase in authorized capital stock	**—**	**—**	100,000,000	—
Reclassification to preferred shares	**—**	**—**	(40,000,000)	40,000,000
Balance at end of year	**206,000,000**	**40,000,000**	206,000,000	40,000,000
Issued and outstanding shares:				
Issued shares at beginning of year	**170,874,854**	**—**	145,451,108	—
Issuances during the year	**—**	**15,000,000**	25,423,746	—
Issued shares at end of year	**170,874,854**	**15,000,000**	170,874,854	—
Less treasury shares	**4,207,758**	**—**	4,207,758	—
Issued and outstanding shares at end of year	**166,667,096**	**15,000,000**	166,667,096	—

On February 2, 2010 and March 12, 2010, the Company's BOD and stockholders, respectively, approved the (i) de-classification of SMPFC's common shares and increase in SMPFC's authorized capital stock by ₱1,000.0 million or 100,000,000 shares at ₱10.00 par value, and (ii) declaration of 18% stock dividend based on the issued and outstanding shares to be taken out of the proposed increase in authorized capital stock.

On April 12, 2010, the SEC approved SMPFC's amendment to its Articles of Incorporation for the de-classification of common shares.

On May 21, 2010, the SEC issued to SMPFC the Certificate for the Approval of Increase of Capital Stock from 146,000,000 common shares to 246,000,000 common shares with par value of ₱10.00 per share and the Certificate of Filing of Amended Articles of Incorporation.

On July 6, 2010, the PSE approved the application of SMPFC to list additional 25,423,746 common shares, with a par value of ₱10.00 per share, to cover the 18% stock dividend declaration to stockholders of record as at June 30, 2010. Stock dividend distribution was made on July 26, 2010.

On September 15, 2010, Company's BOD approved, among others, the: (i) reclassification of up to 75,000,000 authorized and unissued common shares into cumulative, non-participating, non-voting and non-convertible preferred shares with par value of ₱10.00 per share; (ii) issuance of preferred shares with total issue size of up to ₱50,000.0 million, part of the proceeds of which will be used to settle the Company's remaining 90% balance relating to the brands and SMHVN acquisitions from SMC; (iii) listing of such preferred shares at the appropriate exchanges; and (iv) amendment of the Company's Articles of Incorporation to reflect the reclassification of such common shares to preferred shares and the denial of pre-emptive rights of shareholders for the proposed issuance of said preferred shares.

On November 3, 2010, the Company's stockholders approved, among others, the: (i) reclassification of the Company's 40,000,000 authorized and unissued common shares into non-voting, cumulative and non-participating preferred shares with par value of ₱10.00 per share; (ii) issuance of such preferred shares and the listing thereof at the appropriate exchanges; and (iii) amendment of the Company's Articles of Incorporation to reflect the reclassification of 40,000,000 common shares to preferred shares and the denial of pre-emptive rights of shareholders for the proposed issuance of said preferred shares (Amendment).

On December 23, 2010, the SEC approved the foregoing Amendment to the Articles of Incorporation of the Company.

On January 20, 2011, the SEC favorably considered the Company's Registration Statement covering the registration of 15,000,000 preferred shares with a par value of ₱10.00 per share.

On January 26, 2011, the PSE approved, subject to certain conditions, the application of the Company to list up to 15,000,000 preferred shares with a par value of ₱10.00 per share to cover the Company's follow-on preferred shares offering at an offer price of ₱1,000.00 per share and with a dividend rate determined by management on the dividend rate setting date.

On February 10, 2011, the SEC issued the order for the registration of the Company's 15,000,000 preferred shares with a par value of ₱10.00 per share and released the Certificate of Permit to Offer Securities for Sale.

On February 11, 2011, the Company's BOD approved the terms of the preferred shares offer (Terms of the Offer) and the amendment of the Articles of Incorporation of the Company to reflect the additional optional redemption features of the preferred shares, to align with the Terms of the Offer. The stockholders of the Company approved the said amendment during its annual meeting on May 13, 2011.

A summary of the Terms of the Offer is set out below.

SMPFC, through the underwriters and selling agents, offered 15,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares at an offer price of ₱1,000.00 per share during the period February 14 to 25, 2011. The dividend rate was set at 8% per annum with dividend payment dates on March 3, June 3, September 3 and December 3 of each year calculated on a 30/360-day basis, as and if declared by the BOD. The preferred shares are redeemable in whole or in part, in cash, at the sole option of the Company, at the end of the 5th year from issuance date or on any dividend payment date thereafter, at the price equal to the issue price plus any accumulated and unpaid cash dividends. Optional redemption of the preferred shares prior to 5th year from issuance date was provided under certain conditions (i.e., accounting, tax or change of control events). Unless the preferred shares are redeemed by the Company on its 5th year anniversary, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 8% or the ten-year PDST-F rate prevailing on the optional redemption date plus 3.33% per annum.

On March 3, 2011, the Company's 15,000,000 preferred shares with par value of ₱10.00 per share were listed with the PSE.

On June 2, 2011, the SEC issued the Certificate of Filing of Amended Articles of Incorporation approving the additional redemption features of the preferred shares of the Company.

On June 13, 2011, cash dividend of ₱3.00 per share was paid to all common shareholders of record as of May 23, 2011.

On June 3, September 3, and December 3, 2011, cash dividends of ₱20.00 per share were paid to all preferred shareholders of record as of May 23, August 26, and November 23, 2011, respectively.

Treasury shares, totaling 4,207,758 common shares in 2011 and 2010, are carried at cost.

As at December 31, 2011, the Company has a total of 122 and 204 common and preferred stockholders, respectively.

The Parent Company's retained earnings as at December 31, 2011 and 2010 is restricted in the amount of ₱182.1 million representing the cost of shares held in treasury.

The Group's unappropriated retained earnings include the Company's accumulated equity in net earnings of subsidiaries amounting to ₱6,704.2 million, ₱5,408.0 million, and ₱5,001.1 million in 2011, 2010 and 2009, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

21. Revenues

Revenue account consists of sales of goods and fair valuation adjustments on agricultural produce. Total sales of goods amounted to ₱89,522.0 million, ₱79,229.1 million and ₱74,979.9 million for the years ended December 31, 2011, 2010 and 2009, respectively. The aggregate fair value less estimated costs to sell of agricultural produce harvested during the year, determined at the point of harvest, amounted to ₱31,719.0 million, ₱23,700.8 million and ₱25,826.8 million for the years ended December 31, 2011, 2010 and 2009, respectively.

22. Cost of Sales

This account consists of:

	Note	2011	2010	2009
Inventories used	*35*	**₱65,416,641**	₱56,704,734	₱55,100,325
Freight, trucking and handling		**2,521,354**	1,736,814	1,709,489
Depreciation and amortization	*24*	**1,896,970**	1,655,135	1,482,653
Communication, light and water		**1,090,978**	939,074	866,722
Personnel expenses	*25*	**759,079**	686,949	862,438
Repairs and maintenance		**400,274**	362,319	336,721
Rentals	*31*	**184,537**	194,037	171,108
Others		**1,147,224**	1,012,024	918,540
		₱73,417,057	₱63,291,086	₱61,447,996

23. Selling and Administrative Expenses

This account consists of:

	Note	2011	2010	2009
Freight, trucking and handling		**₱ 2,603,459**	₱ 2,357,347	₱1,894,268
Personnel expenses	*25*	**2,254,591**	2,318,960	2,151,367
Advertising and promotions		**1,479,563**	1,535,375	1,287,044
Contracted services		**1,224,360**	1,158,748	1,269,644
Rentals	*31*	**639,538**	577,100	497,992
Professional fees		**306,577**	428,190	238,219
Taxes and licenses		**256,173**	253,028	243,129
Supplies		**243,248**	252,987	245,808
Depreciation and amortization	*24*	**223,463**	271,268	221,855
Travel and transportation		**179,978**	170,817	173,107
Communication, light and water		**170,155**	171,586	202,428
Repairs and maintenance		**102,132**	119,855	125,392
Others		**348,892**	461,644	407,094
		₱10,032,129	₱10,076,905	₱8,957,347

24. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	Note	2011	2010	2009
Cost of sales:				
Property, plant and equipment	*14*	**₱ 691,678**	₱ 590,261	₱ 607,857
Biological assets	*10*	**1,186,384**	1,048,343	854,130
Others		**18,908**	16,531	20,666
		1,896,970	1,655,135	1,482,653
Selling and administrative expenses:				
Property, plant and equipment	*14*	**155,103**	200,919	166,668
Others		**68,360**	70,349	55,187
		223,463	271,268	221,855
		₱2,120,433	₱1,926,403	₱1,704,508

Others include amortization of containers, computer software and licenses, small tools and equipment and investment properties amounting to ₱87.3 million, ₱86.9 million and ₱75.9 million in 2011, 2010 and 2009, respectively.

25. Personnel Expenses

This account consists of:

	Note	2011	2010	2009
Salaries and allowances		**₱1,742,824**	₱1,623,063	₱1,576,024
Retirement costs	*28*	**40,578**	91,816	238,627
Other employee benefits		**1,230,268**	1,291,030	1,199,154
		₱3,013,670	₱3,005,909	₱3,013,805

Personnel expenses are distributed as follows:

	Note	2011	2010	2009
Cost of sales	*22*	**₱ 759,079**	₱ 686,949	₱ 862,438
Selling and administrative expenses	*23*	**2,254,591**	2,318,960	2,151,367
		₱3,013,670	₱3,005,909	₱3,013,805

26. Interest Expense and Other Financing Charges, Interest Income and Other Income (Charges)

These accounts consist of:

a. Interest Expense and Other Financing Charges

	2011	2010	2009
Interest expense	**₱494,491**	₱322,057	₱701,726
Other financing charges	**36,481**	37,358	49,316
	₱530,972	₱359,415	₱751,042

Amortization of debt issue costs in 2011 and 2010 included in other financing charges amounted to ₱7.2 million and ₱0.4 million, respectively (Note 19).

Interest expense on notes payable and long-term debt are as follows:

	Note	2011	2010	2009
Notes payable	*17*	**₱289,637**	₱310,862	₱701,726
Long-term debt	*19*	**204,854**	11,195	—
		₱494,491	₱322,057	₱701,726

b. Interest Income

	2011	2010	2009
Short-term investments	**₱328,878**	₱ 47,847	₱35,017
Cash in banks	**64,694**	57,641	34,124
	₱393,572	₱105,488	₱69,141

c. Other Income (Charges)

	Note	2011	2010	2009
Gain (loss) on derivatives	*33*	**₱(28,137)**	₱167,021	₱ 54,477
Dividend income		**55**	156	118
Foreign exchange losses — net	*32*	**(59,803)**	(24,924)	(978)
Impairment loss — net		**(5,800)**	(5,426)	(53,873)
Others — net		**(230,011)**	(38,961)	(88,712)
		₱(323,696)	₱ 97,866	₱(88,968)

In 2009, the Group recognized provisions for impairment loss on land and idle assets amounting to ₱45.9 million and ₱8.0 million, respectively.

Impairment loss — net in 2010 includes provision for impairment loss on idle assets (shown under "Other noncurrent assets") amounting to ₱51.3 million and the reversal of the Group's 2009 provision for impairment loss on land amounting to ₱45.9 million, computed as the difference between the carrying amount of the assets and their fair value based on reports by qualified property appraisers, less costs to sell.

27. Income Taxes

a. The components of the Group's deferred tax assets and liabilities as at December 31 are as follows:

	2011	2010
Deferred tax assets:		
Allowance for impairment losses on receivables and inventories	**₱221,386**	₱253,282
Unamortized past service cost	**76,228**	105,570
Unrealized mark-to-market loss	**46,353**	25,756
NOLCO	**1,617**	—
Others	**157,093**	215,283
	₱502,677	₱599,891
Deferred tax liabilities:		
Unrealized mark-to-market gain	**₱ 46,198**	₱ 61,345
Accelerated depreciation	**40,078**	44,541
Others	**80,296**	165,188
	₱166,572	₱271,074

b. The components of the income tax expense consist of:

	2011	2010	2009
Current:			
Corporate income tax	**₱1,616,155**	₱1,141,096	₱1,112,770
Final tax withheld on interest and royalty income	**120,842**	42,216	17,542
	1,736,997	1,183,312	1,130,312
Deferred	**7,381**	470,895	53,313
	₱1,744,378	₱1,654,207	₱1,183,625

c. The reconciliations between the statutory income tax rates on income before income tax and the Group's effective income tax rates follow:

	2011	2010	2009
Statutory income tax rate	**30.00%**	30.00%	30.00%
Additions to (reductions in) income tax resulting from the tax effects of:			
Interest income subjected to final tax	**(0.37)**	(0.08)	(0.13)
Equity in net earnings of an associate	**(1.36)**	—	—
Unused NOLCO and MCIT	**—**	—	1.10
Others — net	**1.01**	(0.97)	(0.16)
Effective income tax rates	**29.28%**	28.95%	30.81%

28. Retirement Plans

The Company and majority of its subsidiaries have funded, noncontributory retirement plans covering all of their permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2011. Valuations are obtained on a periodic basis.

Retirement costs (benefit) recognized in profit or loss by the Company amounted to (₱0.27 million), ₱1.0 million and ₱4.2 million in 2011, 2010 and 2009, respectively, while those charged by the subsidiaries amounted to ₱40.8 million, ₱90.8 million and ₱234.4 million in 2011, 2010 and 2009, respectively. The Group's annual contribution to the retirement plans consists of payments covering the current service cost and amortization of past service liability.

The components of retirement costs recognized in profit or loss in 2011, 2010 and 2009 and the amounts recognized in the consolidated statements of financial position as at December 31, 2011 and 2010 are as follows:

	2011	2010	2009
Current service cost	**₱ 110,860**	₱ 108,060	₱ 131,158
Interest cost	**175,558**	201,428	262,237
Expected return on plan assets	**(242,217)**	(220,007)	(197,554)
Net actuarial gain	**(722)**	(1,101)	(2,695)
Past service cost	**205**	206	192
Effect of curtailment	**(3,106)**	3,230	(19,806)
Amortization of transitional liability	**—**	—	65,095
Net retirement costs	**₱ 40,578**	₱ 91,816	₱ 238,627
Actual return on plan assets	**₱ 180,820**	₱ 318,479	₱ 329,582

The retirement costs are recognized in the following line items in the consolidated statements of income:

	Note	2011	2010	2009
Cost of sales		**₱23,412**	₱32,764	₱ 16,724
Selling and administrative expenses		**17,166**	59,052	221,903
	25	**₱40,578**	₱91,816	₱238,627

The reconciliation of the assets and liabilities recognized in the consolidated statements of financial position is as follows:

	Note	2011	2010
Present value of defined benefit obligation		**₱2,977,220**	₱2,344,856
Fair value of plan assets		**2,536,179**	2,488,970
		441,041	(144,114)
Unrecognized past service costs		**(350)**	(594)
Unrecognized net actuarial gain (loss)	*4*	**(326,107)**	229,369
Net retirement liabilities		**₱ 114,584**	₱ 84,661

The movements in the present value of the defined benefit obligation are as follows:

	2011	2010
Balance at beginning of year	**₱2,344,856**	₱2,380,288
Interest cost	**175,558**	201,428
Current service cost	**110,860**	108,060
Transfer from other plans	**7,485**	127,550
Benefits paid	**(133,714)**	(372,172)
Actuarial loss (gain)	**489,381**	(59,019)
Transfer to other plans	**(17,206)**	(131,746)
Effect of curtailment	**—**	90,467
Balance at end of year	**₱2,977,220**	₱2,344,856

The movements in the fair value of plan assets are as follows:

	2011	2010
Balance at beginning of year	**₱2,488,970**	₱2,323,703
Expected return	**242,217**	220,007
Contributions by employer	**7,687**	180,580
Transfer from other plans	**7,485**	127,550
Benefits paid	**(131,577)**	(370,437)
Transfer to other plans	**(17,206)**	(131,746)
Actuarial gain (loss)	**(61,397)**	98,472
Effect of curtailment	**—**	40,841
Balance at end of year	**₱2,536,179**	₱2,488,970

Plan assets consist of the following:

	In Percentages	
	2011	2010
Stock trading portfolio	**33.8**	25.1
Fixed income portfolio	**66.2**	74.9

The overall expected rate of return is determined based on historical performance of investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2011	2010
Discount rate	**5.5 to 6.5**	6.8 to 8.5
Salary increase rate	**8.0**	8.0
Expected return on plan assets	**9.0**	10.0

The historical information for the current and previous four annual periods are as follows:

	2011	2010	2009	2008	2007
Present value of defined benefit obligation	**₱2,977,220**	₱2,344,856	₱2,380,288	₱2,759,339	₱1,810,951
Fair value of plan assets	**2,536,179**	2,488,970	2,323,703	2,396,143	1,649,977
Deficit (excess) in the plan	**441,041**	(144,114)	56,585	363,196	160,974
Experience adjustments on plan liabilities	**489,381**	(59,019)	(228,625)	9,888	173,538
Experience adjustments on plan assets	**(61,397)**	98,472	132,028	(265,664)	39,413

The Group expects to contribute about ₱100.7 million to its defined benefit plans in 2012.

29. Related Party Disclosures

Transactions with related parties are made at normal market prices. For the years ended December 31, 2011, 2010 and 2009 the Group did not provide any allowance for impairment losses relating to amounts owed by related parties. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

Transactions with related parties and the related balances include the following:

	Relationship with Related Parties	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties
SMC	Ultimate Parent Company	**2011**	**₱ 13,907**	**₱ 670,729**	**₱43,062**	**₱ 545,723**
		2010	2,833	335,135	63,686	3,561,031
		2009	2,187,330	292,327	88,122	1,778,448
SMC Shipping and Lighterage Corporation	Affiliate	**2011**	**—**	**1,248,044**	**174**	**231,853**
		2010	—	1,439,092	9,902	382,368
		2009	135	240,927	14,380	409,074
San Miguel Paper Packaging Corporation (formerly San Miguel Rengo Packaging Corporation)	Affiliate	**2011**	**—**	**—**	**—**	**21**
		2010	—	611	24	1,845
		2009	—	81,651	245	16,650
San Miguel Yamamura Packaging Corporation	Affiliate	**2011**	**—**	**127,771**	**7,068**	**51,560**
		2010	61	135,119	6,472	57,983
		2009	2,083	102,095	8,117	61,730
San Miguel International, Ltd. and subsidiaries	Affiliate	**2011**	**—**	**—**	**—**	**1,509**
		2010	—	—	25	735,614
		2009	—	—	41,186	9
Anchor Insurance Brokerage Corporation	Affiliate	**2011**	**—**	**974**	**191**	**320**
		2010	—	4,471	116	144
		2009	—	49	585	241
Ginebra San Miguel, Inc. and subsidiaries	Affiliate	**2011**	**45**	**34,777**	**36,820**	**31,197**
		2010	—	120,127	50,151	49,558
		2009	1,314	472,815	68,739	62,612
San Miguel Properties, Inc.	Affiliate	**2011**	**—**	**390**	**195**	**—**
		2010	—	120	165	33
		2009	51	—	230	395
SMITS, Inc. and a subsidiary	Affiliate	**2011**	**—**	**131,369**	**1,349**	**138,649**
		2010	—	51,712	1,523	97,261
		2009	116	18,347	854	121,126
Star Dari, Inc.	Affiliate	2009	—	12,533	530	—
ArchEn Technologies, Inc.	Affiliate	**2011**	**—**	**15,933**	**294**	**6,824**
		2010	—	6,336	183	4,245
		2009	28	1,005	94	7,806
San Miguel Yamamura Asia Corporation	Affiliate	**2011**	**—**	**27,240**	**—**	**6,241**
		2010	—	30,064	—	5,106
		2009	—	32,962	—	5,534
San Miguel Brewery, Inc.	Affiliate	**2011**	**6,519**	**57,681**	**24,492**	**24,551**
		2010	16	26,870	24,406	25,090
		2009	2,748	716,471	23,943	250,097
San Miguel Beverages, Inc.	Affiliate	**2011**	**—**	**—**	**1,466**	**—**
		2010	—	—	1,349	569
		2009	4,755	83,213	7,145	5,492

	Relationship with Related Parties	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties
San Miguel Distribution Co., Inc.	Affiliate	2010	₱ —	₱ 67	₱ 520	₱ 94
		2009	7	4,349	28	20
Mindanao Corrugated Fibreboard, Inc.	Affiliate	**2011**	**—**	**8,929**	**—**	**61**
		2010	—	38,335	—	1,613
		2009	—	16,146	—	11,523
Philippine Breweries Corporation	Affiliate	**2011**	**—**	**—**	**394**	**—**
		2010	—	—	—	997
		2009	—	—	—	839
Petron Corporation**	Affiliate	**2011**	**17,736**	**544,872**	**11,782**	**97,406**
		2010	—	17,304	7,854	36,988
SMC Global Power Holdings Corporation and subsidiaries	Affiliate	**2011**	**3,887**	**—**	**4,923**	**5,490**
		2010	11	—	376	—
Surewealth Realty Corporation	Affiliate	**2011**	**—**	**635**	**—**	**—**
Hormel Netherlands, BV	Shareholder in a Subsidiary	**2011**	**—**	**—**	**18,838**	**—**
		2010	—	—	10,734	—
		2009	—	—	5,703	—
Super Coffee Corporation Pte. Ltd.	Shareholder in a Subsidiary	**2011**	**—**	**—**	**—**	**60,621**
		2010	—	—	—	18,506
		2009	—	—	—	18,950
Others	Affiliate	**2011**	**—**	**—**	**398**	**184**
		2010	39	—	43	115
		2009	54	—	178	611
		2011	**₱ 42,094**	**₱2,869,344**	**₱151,446**	**₱1,202,210**
		2010	₱ 2,960	₱2,205,363	₱177,529	₱4,979,160
		2009	₱2,198,621	₱2,074,890	₱260,079	₱2,751,157

* Affiliate refers to a company owned by SMC.

** New affiliate in 2010.

Certain related party transactions were discussed in Notes 12, 15, 19 and 34. The following are the other significant related party transactions entered into by the Company:

On December 28, 2004, SMC and Monterey executed a Trademark Licensing Agreement (Agreement) with PF-Hormel to license the Monterey trademark for a period of 20 years renewable for the same period for a royalty based on net sales revenue. The royalty fee will apply only for as long as SMC and any of its subsidiaries own at least 51% of PF-Hormel. In the event that the ownership of SMC and any of its subsidiaries is less than 51%, the parties will negotiate and agree on the royalty fee on the license of the Monterey trademark. As a result of the merger of Monterey into SMFI, with SMFI as the surviving corporation (Note 5), all rights and obligations of Monterey under the Agreement are automatically transferred to and vested in SMFI per applicable law and following the provision in the Plan of Merger.

The compensation of the key management personnel of the Group, by benefit type, follows:

	2011	2010	2009
Short-term employee benefits	**₱83,439**	₱76,003	₱52,878
Retirement costs	**3,403**	7,663	22,417
	₱86,842	₱83,666	₱75,295

The compensation of key management personnel, which were paid and charged by SMC to the Group as management fee, amounted to ₱3.2 million, ₱2.7 million and ₱6.4 million in 2011, 2010 and 2009, respectively.

30. Basic and Diluted Earnings Per Common Share

Basic EPS is computed as follows:

	2011	2010	2009
Net income attributable to equity holders of the Parent Company	**₱ 4,102,505**	₱ 3,846,145	₱ 2,596,963
Dividends on preferred shares for the year	**993,333**	—	—
Net income attributable to common shareholders of the Parent Company (a)	**₱ 3,109,172**	₱ 3,846,145	₱ 2,596,963
Common shares issued and outstanding	**166,667,096**	141,243,350	141,243,350
Stock dividends declared in 2010 including retroactive adjustments	**—**	25,423,746	25,423,746
Weighted average number of common shares (b)	**166,667,096**	166,667,096	166,667,096
Basic earnings per common share attributable to equity holders of Parent Company (a/b)	**₱ 18.65**	₱ 23.08	₱ 15.58

As at December 31, 2011, 2010 and 2009, the Group has no dilutive equity instruments.

31. Operating Lease Agreements

The Group entered into various operating lease agreements. These non-cancellable leases will expire in various years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions. The minimum future rental payables under these operating leases as at December 31 are as follows:

	2011	2010	2009
Within one year	**₱ 227,747**	₱237,203	₱ 39,502
After one year but not more than five years	**126,799**	160,431	109,122
After five years	**756,133**	406,787	409,280
	₱1,110,679	₱804,421	₱557,904

Rent expense recognized in profit or loss amounted to ₱824.1 million, ₱771.1 million and ₱669.1 million in 2011, 2010, and 2009, respectively (Notes 22 and 23).

32. Financial Risk Management Objectives and Policies

Objectives and Policies

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

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

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

The Group's principal non-trade related financial instruments include cash and cash equivalents, AFS financial assets, short-term and long-term loans, and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The Group's trade-related financial assets and financial liabilities such as trade and other receivables, trade payables and other current 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 options are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to commodity price risks arising from the Group's operations.

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

The Group's accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

Interest Rate Risk

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

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 ₱39.0 million and ₱37.0 million in 2011 and 2010, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

As at December 31, 2011 and 2010, the terms and maturity profile of the interest-bearing financial instruments, together with the gross amounts, are shown in the following tables:

December 31, 2011	<1 Year	1-<2 Years	>2-<3 Years	>3-<4 Years	>4-<5 Years	Total
Fixed rate						
Philippine peso-denominated	₱—	₱—	₱—	₱800,000	₱—	₱800,000
Interest rate				5.4885%		
Floating rate						
Philippine peso-denominated	25,000	25,000	153,750	3,700,000	—	3,903,750
Interest rate	3-month PDST-R1 plus margin or BSP overnight rate plus margin, whichever is higher	3-month PDST-R1 plus margin or BSP overnight rate plus margin, whichever is higher	3-month PDST-R1 plus margin or BSP overnight rate plus margin, whichever is higher	3-month PDST-F +margin		
	₱25,000	**₱25,000**	**₱153,750**	**₱4,500,000**	**₱—**	**₱4,703,750**

December 31, 2010	<1 Year	1-<2 Years	>2-<3 Years	>3-<4 Years	>4-<5 Years	Total
Fixed rate						
Philippine peso-denominated	₱—	₱—	₱—	₱—	₱800,000	₱800,000
Interest rate					5.4885%	
Floating rate						
Philippine peso-denominated	—	—	—	—	3,700,000	3,700,000
Interest rate					3-month PDST-F +margin	
	₱—	₱—	₱—	₱—	₱4,500,000	₱4,500,000

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 non-derivative instruments to manage its foreign currency risk exposure.

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

	2011		2010	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$ 7,006**	**₱ 307,143**	US$ 1,641	₱ 71,941
Trade and other receivables	**12,810**	**561,590**	11,478	503,196
	19,816	**868,733**	13,119	575,137
Liabilities				
Notes payable	**18,269**	**800,929**	13,265	581,538
Trade payables and other current liabilities	**15,743**	**690,173**	26,902	1,179,383
Other noncurrent liabilities	**830**	**36,387**	790	34,634
	34,842	**1,527,489**	40,957	1,795,555
Net foreign currency-denominated monetary liabilities	**US$(15,026)**	**₱ (658,756)**	US$(27,838)	₱(1,220,418)

The Group reported net foreign exchange losses amounting to ₱59.8 million, ₱24.9 million and ₱1.0 million in 2011, 2010 and 2009, 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 during the year. Shown in the following table are the foreign exchange rates as at statement of financial position dates.

	Peso to US Dollar
December 31, 2009	46.20
December 31, 2010	43.84
December 31, 2011	43.84

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

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

The following tables demonstrate 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 at December 31, 2011 and 2010.

	₱1 Decrease in the US Dollar Exchange Rate		₱1 Increase in the US Dollar Exchange Rate	
2011	**Effect on Income before Income Tax**	**Effect on Equity (Net of Tax)**	**Effect on Income before Income Tax**	**Effect on Equity (Net of Tax)**
Cash and cash equivalents	**₱(1,344)**	**₱ (6,602)**	**₱ 1,344**	**₱ 6,602**
Trade and other receivables	**(3,873)**	**(11,648)**	**3,873**	**11,648**
	(5,217)	**(18,250)**	**5,217**	**18,250**
Notes payable	**—**	**18,269**	**—**	**(18,269)**
Trade payables and other current liabilities	**1,830**	**15,193**	**(1,830)**	**(15,193)**
Other noncurrent liabilities	**—**	**830**	**—**	**(830)**
	1,830	**34,292**	**(1,830)**	**(34,292)**
	₱(3,387)	**₱ 16,042**	**₱ 3,387**	**₱(16,042)**

	₱1 Decrease in the US Dollar Exchange Rate		₱1 Increase in the US Dollar Exchange Rate	
2010	**Effect on Income before Income Tax**	**Effect on Equity (Net of Tax)**	**Effect on Income before Income Tax**	**Effect on Equity (Net of Tax)**
Cash and cash equivalents	₱ (158)	₱ (1,594)	₱ 158	₱ 1,594
Trade and other receivables	(2,753)	(10,652)	2,753	10,652
	(2,911)	(12,246)	2,911	12,246
Notes payable	1,208	26,540	(1,208)	(26,540)
Trade payables and other current liabilities	—	13,265	—	(13,265)
Other noncurrent liabilities	—	790	—	(790)
	1,208	40,595	(1,208)	(40,595)
	₱(1,703)	₱ 28,349	₱ 1,703	₱(28,349)

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

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices. The Group, through SMC, 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 mark-to-market losses; however, any loss in the mark-to-market position is offset by the resulting lower physical raw material cost.

SMC enters into commodity derivative transactions on behalf of the Group to reduce cost by optimizing purchasing synergies within the SMC Group of Companies and managing inventory levels of common materials.

The Group uses commodity futures and options to manage the Group's exposures to volatility in prices of certain commodities such as fuel oil, soybean meal and wheat.

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 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 at December 31, 2011 and 2010.

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	₱ 4,932,718	₱ 4,932,718	₱ 4,932,718	₱ —	₱ —	₱ —
Trade and other receivables — net	8,700,217	8,700,217	8,700,217	—	—	—
Derivative assets	31,869	31,869	31,869	—	—	—
AFS financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	8,906	8,906	—	—	—	8,906
Financial Liabilities						
Notes payable	4,987,929	5,030,267	5,030,267	—	—	—
Trade payables and other current liabilities (excluding derivative liabilities)	10,990,164	10,990,164	10,990,164	—	—	—
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	28,713	28,713	28,713	—	—	—
Long-term debt (including current maturities) — net of debt issue costs	4,671,449	5,457,980	32,860	189,789	5,235,331	—
Other noncurrent liabilities (excluding retirement liability)	1,466	1,466	—	1,466	—	—

2010	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	₱ 7,041,345	₱ 7,041,345	₱ 7,041,345	₱ —	₱ —	₱ —
Trade and other receivables — net	7,760,271	7,760,271	7,760,271	—	—	—
Derivative assets	107,633	107,633	107,633	—	—	—
AFS financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	11,232	11,232	—	—	—	11,232
Financial Liabilities						
Notes payable	5,172,538	5,250,284	5,250,284	—	—	—
Trade payables and other current liabilities (excluding derivative liabilities)	15,142,853	15,142,853	15,142,853	—	—	—
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	3,116	3,116	3,116	—	—	—
Long-term debt — net of debt issue costs	4,460,807	5,423,012	—	—	5,423,012	—
Other noncurrent liabilities (excluding retirement liability)	2,883	2,883	—	2,883	—	—

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. The Group has no significant concentration of the credit risk with any counterparty.

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

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

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

Investments

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

Financial information on the Group's maximum exposure to credit risk as at December 31, 2011 and 2010, without considering the effects of collaterals and other risk mitigation techniques, is presented below:

	Note	2011	2010
Cash and cash equivalents	*7*	**₱ 4,932,718**	₱ 7,041,345
Trade and other receivables — net	*8*	**8,700,217**	7,760,271
Derivative assets	*33*	**31,869**	107,633
AFS financial assets	*33*	**8,906**	11,232
		₱13,673,710	₱14,920,481

The credit risk for cash and cash equivalents, derivative assets 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, hogs and cattle in all dressing and meat 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 (AFS financial assets). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

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

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

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

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

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

There were no changes in the Group's approach to capital management during the year.

33. Financial Assets and Financial Liabilities

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as at December 31, 2011 and 2010:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**₱ 4,932,718**	**₱ 4,932,718**	₱ 7,041,345	₱ 7,041,345
Trade and other receivables — net	**8,700,217**	**8,700,217**	7,760,271	7,760,271
Derivative assets	**31,869**	**31,869**	107,633	107,633
AFS financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**8,906**	**8,906**	11,232	11,232
Financial Liabilities				
Notes payable	**4,987,929**	**4,987,929**	5,172,538	5,172,538
Trade payables and other current liabilities (excluding derivative liabilities)	**10,990,164**	**10,990,164**	15,142,853	15,142,853
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	**28,713**	**28,713**	3,116	3,116
Long-term debt (including current maturities) — net of debt issue costs	**4,671,449**	**4,703,740**	4,460,807	4,489,490
Other noncurrent liabilities (excluding retirement liability)	**1,466**	**1,466**	2,883	2,883

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

Cash and Cash Equivalents and Trade and Other Receivables. The carrying amounts of cash and cash equivalents and trade and other receivables approximate fair values primarily due to the relatively short-term maturities of these financial instruments.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding 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.

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.

Notes Payable and Trade Payables and Other Current Liabilities. The carrying amounts of notes payable and trade payables and other current liabilities approximate fair values due to the relatively short-term maturities of these financial instruments.

Long-term Debt 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 at reporting date. As at December 31, 2011 and 2010, discount rates used range from 1.74% to 4.79% and 1.32% to 5.03%, 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, through SMC, enters into various commodity derivative contracts to manage its exposure on commodity price risk. The portfolio is a mixture of instruments including futures and options.

Derivative Instruments Not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding commodity options and embedded currency forwards 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 various commodity options entered into by SMC on behalf of the Group.

The Group had outstanding bought and sold options covering its wheat requirements with notional quantities as at December 31, 2011 and 2010 of 47,083 and 49,532 metric tons, respectively. These options can be exercised at various calculation dates in 2011 and 2012 with specified quantities on each calculation date. As at December 31, 2011 and 2010, the net positive (negative) fair value of these options amounted to (₱5.2 million) and ₱53.9 million, respectively.

As at December 31, 2011, the Group has outstanding bought and sold options covering its soybean meal requirements with notional quantity of 7,439 metric tons. These options can be exercised at various dates in 2012 with specified quantities on each calculation date. As at December 31, 2011, the negative fair value of these options amounted to ₱5.5 million. There were no outstanding options on the purchase of soybean meal as at December 31, 2010.

Embedded Derivatives

The Group's embedded derivatives include currency forwards embedded in non-financial contracts. As at December 31, 2011 and 2010, the total outstanding notional amount of such embedded currency forwards amounted to US$59.9 million and US$34.4 million, 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 at December 31, 2011 and 2010, the net positive fair value of these embedded currency forwards amounted to ₱13.7 million and ₱50.6 million, respectively.

For the years ended December 31, 2011, 2010 and 2009, the Group recognized mark-to-market gains (losses) from freestanding and embedded derivatives amounting to (₱28.1 million), ₱167.0 million and ₱54.5 million, respectively (Note 26).

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Balance at beginning of year	**₱104,517**	₱ 33,708
Net changes in fair value of derivatives:		
Not designated as accounting hedges	(28,137)	167,021
	76,380	200,729
Less fair value of settled instruments	**73,224**	96,212
Balance at end of year	**₱ 3,156**	₱104,517

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 at December 31, 2011 and 2010. 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.

2011	Level 1	Level 2	Total
Financial Assets			
Derivative assets	**₱ 2,107**	**₱29,762**	**₱ 31,869**
AFS financial assets	**6,530**	**2,376**	**8,906**
Financial Liabilities			
Derivative liabilities	**10,309**	**18,404**	**28,713**

2010	Level 1	Level 2	Total
Financial Assets			
Derivative assets	₱53,907	₱53,726	₱107,633
AFS financial assets	1,557	9,675	11,232
Financial Liabilities			
Derivative liabilities	—	3,116	3,116

As at December 31, 2011 and 2010, the Group has no financial instruments valued based on Level 3. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

34. Employee Stock Purchase Plan

SMC offers shares of stocks to employees of SMC and those of its subsidiaries under the ESPP. Under the ESPP, all permanent Philippine-based employees of SMC and its subsidiaries who have been employed for a continuous period of one year prior to the subscription period will be allowed to subscribe at a price equal to the weighted average of the daily closing market prices for three months prior to the offer period less 15% discount. A participating employee may acquire at least 100 shares of stocks, subject to certain conditions, through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to SMC until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from exercise date.

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions.

Expenses billed by SMC for share-based payments recognized by the Group in profit or loss and included in "Selling and Administrative Expenses" amounted to ₱34.6 million, ₱17.6 million and ₱6.3 million in 2011, 2010 and 2009, respectively.

35. Other Matters

a. Toll Agreements

The significant subsidiaries are into toll processing with various contract growers, breeders, contractors and processing plant operators (collectively referred to as "the Parties"). The terms of the agreements include the following, among others:

- The Parties have the qualifications to provide the contracted services and have the necessary manpower, facilities and equipment to perform the services contracted.
- Tolling fees paid to the Parties are based on the agreed rate per acceptable output or processed product. The fees are normally subject to review in cases of changes in costs, volume and other factors.
- The periods of the agreement vary. Negotiations for the renewal of any agreement generally commence six months before expiry date.

Total tolling expenses in 2011, 2010 and 2009 amounted to ₱4,709.2 million, ₱3,971.0 million and ₱3,137.9 million, respectively.

b. Contingencies

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

c. Commitments

The outstanding capital and purchase commitments as at December 31, 2011 and 2010 amounted to ₱9,158.6 million and ₱10,094.1 million, respectively.

d. Registration with the Board of Investments (BOI)

Certain operations of consolidated subsidiaries are registered with the BOI as pioneer and non-pioneer activities. As registered enterprises, these consolidated subsidiaries are subject to some requirements and are entitled to certain tax and non-tax incentives which are considered in the computation of the provision for income tax.

SMFI

SMFI was registered with the BOI on a non-pioneer status as a New Producer of Animal Feeds for its Mariveles, Bataan plant and as a New Producer of Chicken (Dressed) for its Orion, Bataan farm in August 2006 and July 2007, respectively.

Under the terms of SMFI's BOI registration and subject to certain requirements as provided in the Omnibus Code of 1987, SMFI is entitled to incentives which included, among others, ITH for a period of four (4) years from January 2007 for Animal Feeds and from October 2007 for Dressed Chicken (can be extended to maximum of 8 years provided certain conditions are met).

SMFI's (formerly Monterey) Sumilao Hog Project (Sumilao Project) was registered with the BOI under Registration No. 2008-192, in accordance with the provisions of the Omnibus Investment Code of 1987 on a pioneer status as New Producer of Hogs on July 30, 2008. As a BOI-registrant, the Sumilao Project is entitled to incentives which included, among others, income tax holiday (ITH) for a period of six (6) years, extendable under certain conditions to eight (8) years, from February 2009 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

PF-Hormel

The existing registration of PF-Hormel with the BOI was made on May 18, 2006 in accordance with the provisions of the Omnibus Investments Code of 1987 as a new producer of processed meat products on a non-pioneer status. Under the terms of this new registration, PF-Hormel is entitled to certain tax incentives, including income tax holiday (ITH) for four years from July 2007, or from the actual start of commercial operations, whichever comes first, but in no case earlier than the date of registration.

PF-Hormel's new registered activity with the BOI commenced commercial operations in July 2007 and began to avail tax incentives since then.

e. Certain changes in prior year's amounts were due to reclassifications for consistency with the current period presentation. These reclassifications had no effect on the reported results of operation for any period.

36. Events After the Reporting Date

On February 7, 2012, the Company's BOD declared cash dividends to all preferred and common shareholders of record as of February 21, 2012 amounting to ₱20.00 and ₱1.20 per share, respectively, payable on March 3, 2012.

SAN MIGUEL PURE FOODS COMPANY, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010, 2009 and 2008

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SEC Accreditation No. 0004-FR-2
BSP Accredited

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
San Miguel Pure Foods Company, Inc.
JMT Corporate Condominium
ADB Ave., Ortigas Center, Pasig City

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Manabat Sanagustin & Co., CPAs, a Philippine partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Opinion

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

MANABAT SANAGUSTIN & CO., CPAs

/s/ WILFREDO Z. PALAD
WILFREDO Z. PALAD
Partner
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BIR Accreditation No. 08-001987-6-2010
Issued June 30, 2010; Valid until June 29, 2013
PTR No. 2639627MB
Issued January 3, 2011 at Makati City

March 9, 2011
Makati City, Metro Manila

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	Note	December 31 2010	December 31 2009
ASSETS			
Current Assets			
Cash and cash equivalents	*6, 31, 32*	**₱ 7,041,345**	₱ 3,950,346
Trade and other receivables — net	*4, 7, 28, 31, 32*	**7,760,271**	9,023,953
Inventories — net	*4, 8, 28*	**12,123,435**	11,804,099
Biological assets	*9*	**3,266,564**	2,524,510
Derivative assets	*31, 32*	**107,633**	47,070
Prepaid expenses and other current assets	*10*	**1,765,748**	1,245,674
Total Current Assets		**32,064,996**	28,595,652
Noncurrent Assets			
Investment properties — net	*4, 12*	**113,018**	108,065
Property, plant and equipment — net	*4, 13, 28*	**9,106,083**	8,294,593
Biological assets — net	*4, 9*	**1,479,251**	1,285,125
Intangible assets	*4,14*	**3,425,510**	167,562
Goodwill — net	*4, 15*	**416,310**	170,792
Deferred tax assets	*4, 26*	**599,891**	1,219,676
Other noncurrent assets	*4, 13, 27, 31, 32*	**313,030**	334,408
Total Noncurrent Assets		**15,453,093**	11,580,221
		₱47,518,089	₱40,175,873
LIABILITIES AND EQUITY			
Current Liabilities			
Notes payable	*16, 31, 32*	**₱ 5,172,538**	₱ 8,816,090
Trade payables and other current liabilities	*17, 31, 32*	**15,145,969**	12,667,086
Income tax payable		**162,159**	466,920
Total Current Liabilities		**20,480,666**	21,950,096
Noncurrent Liabilities			
Long-term debt — net of debt issue costs	*18, 31, 32*	**4,460,807**	—
Deferred tax liabilities	*26*	**271,074**	399,040
Other noncurrent liabilities	*27, 31, 32*	**87,544**	181,487
Total Noncurrent Liabilities		**4,819,425**	580,527
Equity	*19*		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock		**1,708,748**	1,454,510
Additional paid-in capital		**5,821,288**	5,821,288
Revaluation surplus		**18,219**	18,219
Cumulative translation adjustments		**(92,492)**	(48,278)
Retained earnings		**11,773,185**	8,181,278
Treasury stock		**(182,094)**	(182,094)
		19,046,854	15,244,923
Non-controlling Interests		**3,171,144**	2,400,327
Total Equity		**22,217,998**	17,645,250
		₱47,518,089	₱40,175,873

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Thousands, Except Per Share Data)

	Note	2010	2009	2008
REVENUES	*20, 28*	**₱ 79,269,760**	₱75,042,967	₱71,075,925
COST OF SALES	*21, 28, 34*	**63,291,086**	61,447,996	60,609,663
GROSS PROFIT		**15,978,674**	13,594,971	10,466,262
SELLING AND ADMINISTRATIVE EXPENSES	*22, 28*	**(10,076,905)**	(8,957,347)	(8,623,651)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*16, 18, 25*	**(359,415)**	(751,042)	(830,914)
INTEREST INCOME	*6, 25*	**105,488**	69,141	54,323
GAIN (LOSS) ON SALE OF PROPERTY AND EQUIPMENT		**(32,612)**	(24,663)	2,815
OTHER INCOME (CHARGES) — Net	*25*	**97,866**	(88,968)	(451,279)
INCOME BEFORE INCOME TAX		**5,713,096**	3,842,092	617,556
INCOME TAX EXPENSE	*26*	**1,654,207**	1,183,625	468,870
NET INCOME		**₱ 4,058,889**	₱ 2,658,467	₱ 148,686
Attributable to:				
Equity holders of the Parent Company		**₱ 3,846,145**	₱ 2,596,963	₱ 77,194
Non-controlling interests		**212,744**	61,504	71,492
		₱ 4,058,889	₱ 2,658,467	₱ 148,686
Basic and Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	*29*	**₱ 23.08**	₱ 15.58	₱ 0.46

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Thousands)

	Note	2010	2009	2008
NET INCOME		**₱4,058,889**	₱2,658,467	₱148,686
NET GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS		**(41,603)**	16,147	1,544
NET GAIN (LOSS) ON CASH FLOW HEDGES	*32*	**—**	11,196	(11,196)
INCOME TAX BENEFIT (EXPENSE)	*32*	**—**	(3,359)	3,359
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS		**(2,954)**	2,434	502
INCOME TAX BENEFIT (EXPENSE)		**295**	(243)	(50)
OTHER COMPREHENSIVE INCOME (LOSS) — NET OF TAX		**(44,262)**	26,175	(5,841)
TOTAL COMPREHENSIVE INCOME — NET OF TAX		**₱4,014,627**	₱2,684,642	₱142,845
Comprehensive Income Attributable to:				
Equity holders of the Parent Company		**₱3,801,931**	₱2,619,101	₱ 70,967
Non-controlling interests		**212,696**	65,541	71,878
		₱4,014,627	₱2,684,642	₱142,845

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company										
				Cumulative Translation Adjustments							
	Capital Stock (Note 19)	Additional Paid-in Capital (Note 19)	Revaluation Surplus	Translation Reserve	Hedging Reserve	Fair Value Reserve	Retained Earnings (Note 19)	Treasury Stock (Note 19)	Total	Non-controlling Interests	Total Equity
At January 1, 2010	**₱1,454,510**	**₱5,821,288**	**₱18,219**	**₱(54,547)**	**₱ —**	**₱ 6,269**	**₱ 8,181,278**	**₱(182,094)**	**₱15,244,923**	**₱2,400,327**	**₱17,645,250**
Net loss on exchange differences on translation of foreign operations	**—**	**—**	**—**	**(41,555)**	**—**	**—**	**—**	**—**	**(41,555)**	**(48)**	**(41,603)**
Net loss on available-for-sale financial assets, net of tax	**—**	**—**	**—**	**—**	**—**	**(2,659)**	**—**	**—**	**(2,659)**	**—**	**(2,659)**
Other comprehensive loss	**—**	**—**	**—**	**(41,555)**	**—**	**(2,659)**	**—**	**—**	**(44,214)**	**(48)**	**(44,262)**
Net income for the year	**—**	**—**	**—**	**—**	**—**	**—**	**3,846,145**	**—**	**3,846,145**	**212,744**	**4,058,889**
Total comprehensive income (loss) for the year	**—**	**—**	**—**	**(41,555)**	**—**	**(2,659)**	**3,846,145**	**—**	**3,801,931**	**212,696**	**4,014,627**
Addition to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**738,121**	**738,121**
Cash dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(180,000)**	**(180,000)**
Stock dividends	**254,238**	**—**	**—**	**—**	**—**	**—**	**(254,238)**	**—**	**—**	**—**	**—**
At December 31, 2010	**₱1,708,748**	**₱5,821,288**	**₱18,219**	**₱(96,102)**	**₱ —**	**₱ 3,610**	**₱11,773,185**	**₱(182,094)**	**₱19,046,854**	**₱3,171,144**	**₱22,217,998**
At January 1, 2009	₱1,454,510	₱5,821,288	₱18,219	₱(66,657)	₱(7,837)	₱ 4,078	₱ 5,584,315	₱(182,094)	₱12,625,822	₱2,334,786	₱14,960,608
Net gain on exchange differences on translation of foreign operations	—	—	—	12,110	—	—	—	—	12,110	4,037	16,147
Net gain on cash flow hedges, net of tax	—	—	—	—	7,837	—	—	—	7,837	—	7,837
Net gain on available-for-sale financial assets, net of tax	—	—	—	—	—	2,191	—	—	2,191	—	2,191
Other comprehensive income	—	—	—	12,110	7,837	2,191	—	—	22,138	4,037	26,175
Net income for the year	—	—	—	—	—	—	2,596,963	—	2,596,963	61,504	2,658,467
Total comprehensive income for the year	—	—	—	12,110	7,837	2,191	2,596,963	—	2,619,101	65,541	2,684,642
At December 31, 2009	₱1,454,510	₱5,821,288	₱18,219	₱(54,547)	₱ —	₱ 6,269	₱ 8,181,278	₱(182,094)	₱15,244,923	₱2,400,327	₱17,645,250

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company										
				Cumulative Translation Adjustments							
	Capital Stock (Note 19)	Additional Paid-in Capital (Note 19)	Revaluation Surplus	Translation Reserve	Hedging Reserve	Fair Value Reserve	Retained Earnings (Note 19)	Treasury Stock (Note 19)	Total	Non-controlling Interests	Total Equity
At January 1, 2008	₱1,454,510	₱5,821,288	₱18,219	₱(67,815)	₱ —	₱3,626	₱5,507,121	₱(182,094)	₱12,554,855	₱2,255,287	₱14,810,142
Net gain on exchange differences on translation of foreign operations	—	—	—	1,158	—	—	—	—	1,158	386	1,544
Net loss on cash flow hedges, net of tax	—	—	—	—	(7,837)	—	—	—	(7,837)	—	(7,837)
Net gain on available-for-sale financial assets, net of tax	—	—	—	—	—	452	—	—	452	—	452
Other comprehensive income (loss)	—	—	—	1,158	(7,837)	452	—	—	(6,227)	386	(5,841)
Net income for the year	—	—	—	—	—	—	77,194	—	77,194	71,492	148,686
Total comprehensive income (loss) for the year	—	—	—	1,158	(7,837)	452	77,194	—	70,967	71,878	142,845
Addition in non-controlling interests	—	—	—	—	—	—	—	—	—	7,621	7,621
At December 31, 2008	₱1,454,510	₱5,821,288	₱18,219	₱(66,657)	₱(7,837)	₱4,078	₱5,584,315	₱(182,094)	₱12,625,822	₱2,334,786	₱14,960,608

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Thousands)

	Note	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱ 5,713,096**	₱ 3,842,092	₱ 617,556
Adjustments for:				
Depreciation and amortization	*23*	**1,926,403**	1,704,508	1,553,510
Interest expense and other financing charges	*25*	**359,415**	751,042	830,914
Other charges net of loss (gain) on derivative transactions	*25*	**(245,624)**	114,935	733,126
Interest income	*25*	**(105,488)**	(69,141)	(54,323)
Impairment loss on land and other noncurrent assets — net	*25*	**5,426**	53,873	—
Impairment loss on investment properties	*12*	**—**	3,114	5,359
Decline in value of investments		**—**	—	16,783
Loss (gain) on sale of property and equipment, investment properties and idle assets		**32,612**	24,663	(2,815)
Operating income before working capital changes		**7,685,840**	6,425,086	3,700,110
Allowance for impairment losses on receivables and inventory losses		**150,043**	193,192	115,039
Decrease (increase) in:				
Trade and other receivables		**1,417,967**	(1,349,470)	(114,304)
Inventories		**(161,056)**	(26,575)	(1,996,485)
Biological assets		**(284,278)**	407,911	(608,156)
Prepaid expenses and other current assets		**(453,178)**	(430,237)	108,713
Increase (decrease) in trade payables and other current liabilities		**(1,798,537)**	1,706,284	179,884
Cash generated from operations		**6,556,801**	6,926,191	1,384,801
Interest paid		**(337,871)**	(569,452)	(629,043)
Income taxes paid (including final tax)		**(1,488,791)**	(872,252)	(878,758)
Interest received		**85,732**	51,720	45,639
Net cash flows provided by (used in) operating activities		**4,815,871**	5,536,207	(77,361)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property, plant and equipment	*13*	**₱ (581,073)**	₱ (651,422)	₱ (593,908)
Acquisitions of intangible assets	*14*	**(338,278)**	(23,132)	(33,528)
Acquisition of a subsidiary net of cash received	*11*	**(38,615)**	458	—
Decrease (increase) in:				
Biological assets		**(1,090,640)**	(1,023,292)	(972,614)
Other noncurrent assets		**(97,693)**	140,484	78,935
Proceeds from sale of property and equipment		**107,942**	39,127	11,330
Net cash flows used in investing activities		**(2,038,357)**	(1,517,777)	(1,509,785)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net availments (payments) of notes payable		**(4,183,986)**	(2,850,290)	3,026,709
Proceeds from availments of long-term debt		**4,500,000**	—	—
Net cash flows provided by (used in) financing activities		**316,014**	(2,850,290)	3,026,709
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(2,529)**	**—**	**—**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,090,999**	**1,168,140**	**1,439,563**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**3,950,346**	**2,782,206**	**1,342,643**
CASH AND CASH EQUIVALENTS AT END OF YEAR		**₱ 7,041,345**	**₱ 3,950,346**	**₱ 2,782,206**

See Notes to the Consolidated Financial Statements.

1. Reporting Entity

San Miguel Pure Foods Company, Inc. ("SMPFC" or the "Company") was incorporated in the Philippines. The accompanying consolidated financial statements comprise the financial statements of the Company and its Subsidiaries (collectively referred to as the "Group"). The Company is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed in the Philippine Stock Exchange (PSE). The Group is involved in poultry operations, livestock farming and processing and selling of meat products, processing and marketing of refrigerated and canned meat products, manufacturing and marketing of feeds and flour products, cooking oils, breadfill, desserts and dairy-based products, and importation and marketing of coffee and coffee-related products. The registered office address of the Company is JMT Corporate Condominium, ADB Ave., Ortigas Center, Pasig City.

San Miguel Corporation (SMC) is the ultimate parent company of the Group.

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 9, 2011.

2. Basis of Preparation

Basis of Measurement

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

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

Functional and Presentation Currency

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

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and the following subsidiaries:

	Country of Incorporation	Percentage of Ownership	
		2010	2009
San Miguel Mills, Inc. (SMMI)	Philippines	**100.00**	100.00
Magnolia, Inc. and subsidiary (Magnolia)	Philippines	**100.00**	100.00
San Miguel Foods, Inc. (SMFI)	Philippines	**99.97**	100.00
PT San Miguel Pure Foods Indonesia (PTSMPFI)	Indonesia	**75.00**	75.00
San Miguel Super Coffeemix Co., Inc. (SMSCCI)	Philippines	**70.00**	70.00
The Purefoods-Hormel Company, Inc. (PF-Hormel)	Philippines	**60.00**	60.00
Monterey Foods Corporation (Monterey)[a]	Philippines	**—**	97.68
RealSnacks Mfg. Corp. (RealSnacks)[b]	Philippines	**100.00**	100.00
San Miguel Pure Foods International, Limited (SMPFIL)[c] [including San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited) and subsidiary, San Miguel Pure Foods (Vn) Co., Ltd. (SMPFVN)[d]]	British Virgin Islands	**100.00**	100.00
SMPFC Capital Investments, Limited (SCIL)[e]	Cayman Islands	**100.00**	—

[a] Merged with SMFI starting September 1, 2010 (Note 11).

[b] Incorporated in April 2004 and has not yet started commercial operations.

[c] Incorporated in February 2007.

[d] Consolidated with SMPFC through SMPFIL starting August 1, 2010 (Note 11).

[e] Incorporated in November 2010 and has not yet started commercial operations.

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

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

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

Non-controlling interests represent the interests not held by the Group in SMFI, PTSMPFI, SMSCCI, PF-Hormel and SMPFI Limited (Note 11) in 2010 and in Monterey, PTSMPFI, SMSCCI and PF-Hormel in 2009.

3. Significant Accounting Policies

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

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

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

Adopted Effective 2010

The Group has adopted the following PFRS starting January 1, 2010 and accordingly, changed its accounting policies to conform with these PFRS:

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

  The Group applied Revised PFRS 3 (2008) in the acquisition of SMPFI Limited, through SMPFIL (Note 11).
- Revised PAS 27, *Consolidated and Separate Financial Statements* (2008), effective for annual periods beginning on or after July 1, 2009, requires accounting for changes in ownership interests by the Company in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Company loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss.
- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement — Eligible Hedged Items,* provide for the following: a) new application guidance to clarify the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedge relationship; and b) additional application guidance on qualifying items; assessing hedge effectiveness; and designation of financial items as hedged items. The amendments are effective for annual periods beginning on or after July 1, 2009.
- Philippine Interpretation IFRIC 17*, Distributions of Non-cash Assets to Owners,* provides guidance on the accounting for non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. It also applies to distributions in which the owners may elect to receive either the non-cash asset or a cash alternative. The liability for the dividend payable is measured at the fair value of the assets to be distributed. The interpretation is effective for annual periods beginning on or after July 1, 2009.
- *Improvements to PFRSs 2008* — Amendments to PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria

in paragraphs 6 to 8 of PFRS 5 are met. This applies regardless of the entity retaining an interest (other than control) in the subsidiary. Disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. The amendments are effective for annual periods beginning on or after July 1, 2009.

- Amendments to PFRS 2, *Share-based Payment: Group Cash-settled Share-based Payment Transactions,* clarify the scope of PFRS 2, that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and regardless of whether the transaction is equity-settled or cash-settled; and the interaction of PFRS 2 and other standards, that in PFRS 2, a "group" has the same meaning as in PAS 27, *Consolidated and Separate Financial Statements,* that is, it includes only a parent and its subsidiaries. The amendments are effective for annual periods beginning on or after January 1, 2010.
- *Improvements to PFRSs 2009,* contain 15 amendments to 12 standards. The improvements are generally effective for annual periods beginning on or after January 1, 2010. The following are the said improvements or amendments to PFRS:
  - PFRS 2, *Share-based Payment: Group Cash-settled Share-based Payment Transactions* and PFRS 3, *Business Combinations* (2008). The amendments clarify that business combinations as defined in PFRS 3 (2008) are outside the scope of PFRS 2, notwithstanding that they may be outside the scope of PFRS 3 (2008). Therefore business combinations among entities under common control and the contribution of a business upon the formation of a joint venture will not be accounted for under PFRS 2.
  - PAS 38, *Intangible Assets*. The amendments clarify that: (i) an intangible asset that is separable only together with a related contract, identifiable asset or liability is recognized separately from goodwill together with the related item; and (ii) complementary intangible assets with similar useful lives may be recognized as a single asset. The amendments also describe valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination for which no active market exists.
  - Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*. The International Accounting Standards Board (IASB) amended the scope of IFRIC 9 so that embedded derivatives in contracts acquired in business combinations as defined in PFRS 3 (2008), joint venture formations and common control transactions remain outside the scope of IFRIC 9.
  - Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*. The amendments remove the restriction that prevented a hedging instrument from being held by a foreign operation that itself is being hedged.
  - PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*. The amendments clarify that the required disclosures for noncurrent assets (or disposal groups) classified as held for sale or discontinued operations are specified in PFRS 5.
  - PFRS 8, *Operating Segments*. The amendments clarify that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker.
  - PAS 1, *Presentation of Financial Statements*. The amendments clarify that the classification of the liability component of a convertible instrument as current or noncurrent is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments.
  - PAS 7, *Statement of Cash Flows*. The amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities.
  - PAS 17, *Leases*. The IASB deleted guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to

pass to the lessee. The amendments clarify that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraphs 7 — 13 of PAS 17, taking account of the fact that land normally has an indefinite economic life.

- PAS 36, *Impairment of Assets*. The amendments clarify that the largest unit to which goodwill should be allocated is the operating segment level as defined in PFRS 8 before applying the aggregation criteria of PFRS 8.
- PAS 39, *Financial Instruments: Recognition and Measurement*. The amendments provide: (i) additional guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be separated; (ii) clarify that the scope exemption in PAS 39 paragraph 2(g) is restricted to forward contracts, i.e. not options, between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date within a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and (iii) clarify that the gains or losses on a cash flow hedge should be reclassified from other comprehensive income to profit or loss during the period that the hedged forecast cash flows impact profit or loss.

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

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

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

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2010, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 9, *Financial Instruments*, which becomes mandatory for the Group's 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

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

- Amendment to PAS 32, *Financial Instruments: Presentation — Classification of Rights Issues*, permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after February 1, 2010.
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments,* addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39 paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010.
- Revised PAS 24, *Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011.
- *Prepayments of a Minimum Funding Requirement (*Amendments to Philippine Interpretation IFRIC 14: PAS 19 — *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction).* These amendments remove unintended consequences arising from the treatment of prepayments where

there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011.

- Improvements to PFRSs 2010 contain 11 amendments to 6 standards and 1 interpretation, of which only the following are applicable to the Group.
  - PFRS 3, *Business Combinations* (2008). The amendments: (i) clarify that contingent consideration arising in a business combination previously accounted for in accordance with PFRS 3 (2004) that remains outstanding at the adoption date of PFRS 3 (2008) continues to be accounted for in accordance with PFRS 3 (2004); (ii) limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and (iii) expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. These amendments are effective for annual periods beginning on or after July 1, 2010. Early application is permitted and is required to be disclosed.
  - PAS 27, *Consolidated and Separate Financial Statements*. The amendments clarify that the consequential amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures,* resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010. Early application is permitted.
  - PFRS 1, *First -time Adoption of PFRS*. The amendments: (i) clarify that PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* is not applicable to changes in accounting policies occurring during the period covered by an entity's first PFRS financial statements; (ii) introduce guidance for entities that publish interim financial information under PAS 34, *Interim Financial Reporting* and change either their accounting policies or use of the PFRS 1 exemptions during the period covered by their first PFRS financial statements; (iii) extend the scope of paragraph D8 of PFRS 1 so that an entity is permitted to use an event-driven fair value measurement as deemed cost for some or all of its assets when such revaluation occurred during the reporting periods covered by its first PFRS financial statements; and (iv) introduce an additional optional deemed cost exemption for entities to use the carrying amounts under previous GAAP as deemed cost at the date of transition to PFRS for items of property, plant and equipment or intangible assets used in certain rate-regulated activities. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.
  - PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.
  - PAS 1, *Presentation of Financial Statements.* The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted.

- PAS 34, *Interim Financial Reporting*. The amendments add examples to the list of events or transactions that require disclosure under PAS 34 and remove references to materiality in PAS 34 that describes other minimum disclosures. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programs*. The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.

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

- *Disclosures — Transfers of Financial Assets (Amendments to PFRS 7)*, require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011.
- PFRS 9, *Financial Instruments* (2009) was issued as the first phase of the PAS 39 replacement project. The chapters of the standard released in 2009 only related to the classification and measurement of financial assets. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial asset. In October 2010, a new version of PFRS 9 *Financial Instruments* (2010) was issued which now includes all the requirements of PFRS 9 (2009) without amendment. The new version of PFRS 9 also incorporates requirements with respect to the classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard is effective for annual periods beginning on or after January 1, 2013. PFRS 9 (2010) supersedes PFRS 9 (2009). However, for annual periods beginning before January 1, 2013, an entity may elect to apply PFRS 9 (2009) rather than PFRS 9 (2010).

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

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

Financial Assets and Financial Liabilities

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

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

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

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

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

'Day 1' Profit. Where the transaction price in a non-active market is different from the fair value of the other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where use is made of data which are not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of income 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 or reclassified under this category through the fair value option, 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 "Cumulative translation adjustments (CTA) — Hedging reserve" account in equity. Any interest earned shall be recognized as part of "Interest income" in the consolidated statements of income. Any dividend income from equity securities classified as FVPL shall be recognized in profit or loss when the right to receive payment has been established.

The Group's derivative assets are classified under this category.

The carrying amounts of derivative assets amounted to ₱107.6 million and ₱47.1 million as at December 31, 2010 and 2009, respectively (Note 32).

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

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

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of change in value.

The Group's cash and cash equivalents and trade and other receivables are included in this category (Notes 6 and 7).

The combined carrying amounts of financial assets under this category amounted to ₱14,801.6 million and ₱12,974.3 million as at December 31, 2010 and 2009, respectively (Note 32).

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

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or are 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 "CTA — Fair value reserve" in equity. The effective yield component of AFS debt securities is reported as

part of "Interest income" in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right to receive payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

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

The Group's investments in shares of stock included under "Other noncurrent assets" are classified under this category.

The carrying amounts of financial assets under this category amounted to ₱11.2 million and ₱13.8 million as at December 31, 2010 and 2009, respectively (Note 32).

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 "CTA — Hedging reserve" account in equity. Any interest expense incurred shall be recognized as part of "Interest expense" in the consolidated statements of income.

The Group's derivative liabilities are classified under this category (Note 17).

The carrying amounts of financial liabilities under this category amounted to ₱3.1 million and ₱13.4 million as at December 31, 2010 and 2009, respectively (Note 32).

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 notes payable, trade payables and other current liabilities, long-term debt and other noncurrent liabilities (Notes 16, 17, 18 and 32).

The combined carrying amounts of financial liabilities under this category amounted to ₱24,779.1 million and ₱21,469.8 million as at December 31, 2010 and 2009, respectively (Note 32).

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 charged against current operations.

Derivative Financial Instruments and Hedging

Freestanding Derivatives

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

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

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

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

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

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

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

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

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

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

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

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

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

Embedded Derivatives

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

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

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

Classification of Financial Instruments Between Debt and Equity

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

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

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized

amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross in the consolidated statements of financial position.

Inventories

Inventories are valued at the lower of cost and net realizable value.

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

Finished goods and goods in process	—	at cost using the moving average method; includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; finished goods also include unrealized gain (loss) on fair valuation of agricultural produce;
Raw materials, feeds, feed ingredients, factory supplies and others	—	at cost using the moving average method

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

Net realizable value of raw materials, feeds, feed ingredients, factory supplies and others is the current replacement cost.

Biological Assets and Agricultural Produce

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

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

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

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

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

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

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

Business Combination

Acquisitions on or after January 1, 2010

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

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

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

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

- *Goodwill in a Business Combination*

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

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within

that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

- *Intangible Assets Acquired in a Business Combination*

The cost of intangible assets acquired in a business combination at the date of acquisition is its fair value determined using discounted cash flows expected to be derived from the use of the assets.

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

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

- *Loss of control*

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

Acquisitions Prior to January 1, 2010

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

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

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

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

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

Transactions under Common Control

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

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

Non-controlling Interests

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

Property, Plant and Equipment

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

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

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

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

	Number of Years
Land improvements	5 - 10
Buildings and improvements	5 - 50
Machinery and equipment	5 - 20
Office furniture and equipment	3 - 5
Transportation equipment	5
Factory furniture, equipment and others	3 - 5

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

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is credited or charged to current operations.

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

Investment Properties

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

Depreciation of buildings and improvements is computed using the straight-line method over 20 to 40 years.

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

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

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

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

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in profit or loss in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

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

Amortization of computer software and licenses is computed using the straight-line method over the estimated useful life of 2 to 8 years.

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

Trademarks, brand names, and formulas and recipes with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful

life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

Impairment of Non-financial Assets

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

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

Provisions

Provisions are recognized when the Group has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Share Capital

Common Shares

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

Preferred Shares

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

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

Treasury Shares

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

Revenue Recognition

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

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

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

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

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

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

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

Cost and Expense Recognition

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

Share-based Payment Transactions

Under SMC's Employee Stock Purchase Plan (ESPP), employees of the Group receive remuneration in the form of share-based payment transactions, whereby the employees render services as consideration for equity instruments of SMC. Such transactions are handled centrally by SMC.

Share-based payment transactions in which SMC grants option rights to its equity instruments directly to the Group's employees are accounted for as equity-settled transactions. SMC charges the Group for the costs related to such transactions with its employees. The amount is charged to operations by the Group.

The cost of ESPP is measured by reference to the market price at the time of the grant less subscription price. The cumulative expense recognized for share-based payment transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and SMC's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as Lessee. Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased property, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss.

Leased asset is depreciated over its estimated useful life. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

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

Borrowing Costs

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

Research and Development Costs

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

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

Retirement Costs

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

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

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

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

Foreign Currency

Foreign Currency Translations

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

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

Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Philippine peso at exchange rates for the period.

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

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

Taxes

Current Tax. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at reporting date.

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

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

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

Related Parties

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

Basic and Diluted Earnings Per Share (EPS)

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

Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 5 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

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

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

Contingencies

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

Events After the Reporting Date

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

Operating Leases. The Group has entered into various lease agreements as a lessee. The Group has determined that the lessor retains all significant risks and rewards of ownership of these properties which are leased out under operating lease arrangements.

Rent expense charged to operations amounted to ₱771.1 million, ₱669.1 million and ₱662.5 million in 2010, 2009 and 2008, respectively (Notes 21 and 22).

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

Contingencies. The Group currently has several tax assessments and legal claims. The Group's estimate of the probable costs for resolution of these assessments and claims has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments and legal claims will have a material adverse effect on its consolidated financial position and consolidated financial performance.

It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (Note 34).

Estimates

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

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

The allowance for impairment losses amounted to ₱682.4 million and ₱633.9 million as at December 31, 2010 and 2009, respectively. The carrying amounts of trade and other receivables amounted to ₱7,760.3 million and ₱9,024.0 million as at December 31, 2010 and 2009, respectively (Note 7).

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

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

The allowance for inventory losses amounted to ₱188.0 million and ₱150.0 million as at December 31, 2010 and 2009, respectively. The carrying amounts of inventories as at December 31, 2010 and 2009 amounted to ₱12,123.4 million and ₱11,804.1 million, respectively (Note 8).

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

Unrealized gain on fair valuation of agricultural produce included in the cost of inventories as at December 31, 2010 and 2009 amounted to ₱40.7 million and ₱62.7 million, respectively (Note 8).

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

The fair values of financial assets and liabilities are presented in Note 32.

Estimated Useful Lives of Investment Properties and Property, Plant and Equipment. The Group estimates the useful lives of investment properties and property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties and property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

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

Accumulated depreciation and impairment losses of investment properties and property, plant and equipment amounted to ₱8,399.7 million and ₱7,683.4 million as at December 31, 2010 and 2009, respectively. Investment properties and property, plant and equipment, net of accumulated depreciation and impairment losses, amounted to ₱9,219.1 million and ₱8,402.7 million as at December 31, 2010 and 2009, respectively (Notes 12 and 13).

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

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

Estimated fair values of investment properties amounted to ₱288.7 million and ₱280.9 million as at December 31, 2010 and 2009, respectively (Note 12).

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

Intangible assets with finite useful life amounted to ₱69.6 million and ₱77.4 million as at December 31, 2010 and 2009, respectively (Note 14).

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

The carrying amounts of goodwill as at December 31, 2010 and 2009 amounted to ₱416.3 million and ₱170.8 million, respectively (Note 15).

The carrying amounts of trademarks and brand names, and formulas and recipes amounted to ₱3,355.9 million and ₱90.1 million as at December 31, 2010 and 2009, respectively (Note 14).

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

Deferred tax assets amounted to ₱599.9 million and ₱1,219.7 million as at December 31, 2010 and 2009, respectively (Note 26).

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

Accumulated impairment losses on property, plant and equipment and idle assets amounted to ₱59.0 million and ₱53.9 million as at December 31, 2010 and 2009, respectively. The aggregate amount of noncurrent biological assets, investment properties, property, plant and equipment, goodwill and other intangible assets, and idle assets amounted to ₱14,658.3 million and ₱10,207.2 million as at December 31, 2010 and 2009, respectively (Notes 9, 12, 13, 14 and 15).

Present Value of Defined Benefit Obligation. The present value of the retirement obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 27 to the consolidated financial statements and include discount rate, expected return on plan assets and salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

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

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

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

The Group has a net cumulative unrecognized actuarial gain amounting to ₱229.4 million and ₱119.5 million as at December 31, 2010 and 2009, respectively (Note 27).

Asset Retirement Obligation. Determining asset retirement obligation requires estimation of the cost of dismantling property and equipment and other costs of restoring the leased properties to their original condition. The Group determined that there are no significant asset retirement obligations as at December 31, 2010 and 2009.

5. 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 has three reportable segments, namely, Agro-industrial, Value-added Meats and Milling. Management identified and grouped the operating units in its operating segments with the objective of transforming the Group into a more rationalized and focused organization. The structure aims to boost efficiencies across the Group and raise effectiveness in defining and meeting the needs of consumers in innovative ways.

The Agro-industrial segment includes the integrated Feeds, Poultry and Basic Meats operations. These businesses are involved in feeds production and in poultry and livestock farming, processing and selling of poultry and meat products.

The Value-added Meats segment is engaged in the processing and marketing of refrigerated and canned meat products.

The Milling segment is into manufacturing and marketing of flour products, premixes, and flour-based products.

The non-reportable operating segments of the Group include dairy-based products, breadfill, desserts, cooking oil, importation and marketing of coffee and coffee-related products, and foreign operations which include hog farming, feeds production and sale of fresh and processed meats by foreign subsidiaries.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories, biological assets and property, plant and equipment, net of allowances and impairment. Segment liabilities include all operating liabilities and consist principally of wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred income taxes.

Inter-segment Transactions

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

Major Customer

The Group does not have a single external customer, sales revenue generated from which amounted to 10% or more of the total revenues of the Group.

Operating Segments

Financial information about reportable segments follows:

	Agro-Industrial			Value-Added Meats			Milling			Total Reportable Segments			Others			Eliminations			Consolidated		
	2010	2009	2008	2010	2009	2008	2010	2009	2008	2010	2009	2008	2010	2009	2008	2010	2009	2008	2010	2009	2008
	(In millions)																				
Revenue																					
External	**₱52,300**	₱49,069	₱44,981	**₱11,534**	₱11,234	₱11,566	**₱7,155**	₱7,482	₱8,199	**₱70,989**	₱67,785	₱64,746	**₱ 8,281**	₱ 7,258	₱6,330	**₱ —**	₱ —	₱ —	**₱79,270**	₱75,043	₱71,076
Inter-segment	**258**	711	379	**3**	47	1	**505**	447	485	**766**	1,205	865	**169**	233	370	**(935)**	(1,438)	(1,235)	**—**	—	—
Total revenue	**₱52,558**	₱49,780	₱45,360	**₱11,537**	₱11,281	₱11,567	**₱7,660**	₱7,929	₱8,684	**₱71,755**	₱68,990	₱65,611	**₱ 8,450**	₱ 7,491	₱6,700	**₱ (935)**	₱(1,438)	₱(1,235)	**₱79,270**	₱75,043	₱71,076
Result																					
Segment operating result*	**₱ 3,299**	₱ 3,085	₱ 1,601	**₱ 772**	₱ 489	₱ 626	**₱1,574**	₱ 752	₱ (36)	**₱ 5,645**	₱ 4,326	₱ 2,191	**₱ 310**	₱ 333	₱ (266)	**₱ 55**	₱ (118)	₱ (1)	**₱ 6,010**	₱ 4,541	₱ 1,924
Interest expense and other financing charges	**(248)**	(428)	(492)	**(66)**	(188)	(142)	**(1)**	(88)	(113)	**(315)**	(704)	(747)	**(44)**	(47)	(84)	**—**	—	—	**(359)**	(751)	(831)
Interest income	**51**	37	26	**5**	5	5	**13**	6	4	**69**	48	35	**36**	21	19	**—**	—	—	**105**	69	54
Gain (loss) on sale of property and equipment	**20**	4	6	**(50)**	7	2	**(1)**	(19)	—	**(31)**	(8)	8	**(2)**	(10)	3	**—**	(7)	(8)	**(33)**	(25)	3
Other income (charges) — net	**(96)**	2	(86)	**108**	(93)	(183)	**2**	83	(166)	**14**	(8)	(435)	**(24)**	16	(89)	**—**	—	(8)	**(10)**	8	(532)
Income tax benefit (expense)	**(896)**	(720)	(525)	**(189)**	(74)	(85)	**(477)**	(220)	111	**(1,562)**	(1,014)	(499)	**(89)**	(166)	20	**(3)**	(4)	10	**(1,654)**	(1,184)	(469)
Net income	**₱ 2,130**	₱ 1,980	₱ 530	**₱ 580**	₱ 146	₱ 223	**₱1,110**	₱ 514	₱ (200)	**₱ 3,820**	₱ 2,640	₱ 553	**₱ 187**	₱ 147	₱ (397)	**₱ 52**	₱ (129)	₱ (7)	**₱ 4,059**	₱ 2,658	₱ 149
Other Information																					
Segment assets	**₱23,017**	₱21,588	₱18,493	**₱ 7,786**	₱ 9,376	₱ 9,277	**₱4,124**	₱3,505	₱4,658	**₱34,927**	₱34,469	₱32,428	**₱13,228**	₱10,053	₱4,760	**₱(5,079)**	₱(5,904)	₱(1,609)	**₱43,076**	₱38,618	₱35,579
Goodwill	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**1,612**	1,367	1,367	**(1,196)**	(1,196)	(1,196)	**416**	171	171
Intangible assets	**10**	4	3	**272**	285	153	**—**	—	—	**282**	289	156	**3,266**	—	—	**(122)**	(122)	—	**3,426**	167	156
Deferred tax assets	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**600**	1,220	1,096
Consolidated total assets																			**₱47,518**	₱40,176	₱37,002
Segment liabilities	**₱ 6,796**	₱ 9,075	₱ 6,746	**₱ 1,868**	₱ 1,339	₱ 1,535	**₱1,011**	₱ 785	₱ 845	**₱ 9,675**	₱11,199	₱ 9,126	**₱10,608**	₱ 7,470	₱2,331	**₱(5,050)**	₱(5,820)	₱(1,529)	**₱15,233**	₱12,849	₱ 9,928
Notes payable	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**5,173**	8,816	11,666
Income tax payable	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**162**	467	209
Deferred tax liabilities	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**271**	399	238
Long-term debt	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**4,461**	—	—
Consolidated total liabilities																			**₱25,300**	₱22,531	₱22,041
Capital expenditures	**₱ 312**	₱ 266	₱ 259	**₱ 151**	₱ 210	₱ 170	**₱ 13**	₱ 57	₱ 87	**₱ 476**	₱ 533	₱ 516	**₱ 105**	₱ 118	₱ 78	**₱ —**	₱ —	₱ —	**₱ 581**	₱ 651	₱ 594
Depreciation and amortization	**1,357**	1,124	1,034	**255**	286	241	**118**	143	133	**1,730**	1,553	1,408	**196**	152	146	—	—	—	**1,926**	1,705	1,554
Impairment losses	**—**	—	—	**—**	46	—	**51**	8	—	**51**	54	—	**—**	3	5	—	—	—	**51**	57	5

* Including realized mark-to-market gains (losses) on commodity derivatives presented as part of "Other Charges — Net" in the consolidated statements of income.

6. Cash and Cash Equivalents

This account consists of:

	2010	2009
Cash on hand and in banks	**₱1,865,181**	₱3,240,212
Short-term placements	**5,176,164**	710,134
	₱7,041,345	₱3,950,346

Cash in banks earn interest at the respective bank deposit rates. Short-term placements are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term placement rates.

7. Trade and Other Receivables

This account consists of:

	Note	2010	2009
Trade receivables	*28*	**₱7,309,630**	₱7,323,462
Amounts owed by related parties	*28*	**166,795**	254,376
Insurance claims		**76,149**	1,037,546
Tax certificates receivable		**68,028**	101,189
Others		**822,114**	941,282
		8,442,716	9,657,855
Less allowance for impairment losses		**682,445**	633,902
		₱7,760,271	₱9,023,953

Trade receivables are non-interest bearing and are generally on 30-day term.

Insurance claims include the value of certain inventories and property, plant and equipment damaged by a typhoon in 2009.

"Others" consist of the following: advances to suppliers, contract growers and breeders, receivables from employees, truckers and toll partners and deposits.

The movements in the allowance for impairment losses follow:

	2010	2009
Balance at beginning of year	**₱633,902**	₱610,887
Charge for the year	**63,051**	113,762
Write off of amounts	**(14,508)**	(84,771)
Reversal of unused amounts	**—**	(5,976)
Balance at end of year	**₱682,445**	₱633,902

As at December 31, the aging of receivables are as follows:

	Gross Amount	
	2010	2009
Current	**₱5,197,755**	₱6,211,094
Past due 1-30 days	**1,227,642**	1,058,538
Past due 31-60 days	**228,923**	100,653
Past due 61-90 days	**104,826**	545,023
Past due over 90 days	**1,683,570**	1,742,547
	₱8,442,716	₱9,657,855

Various collaterals for trade receivables such as bank guarantees, time deposits and real estate mortgages are held by the Group for certain credit limits.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on historic payment behavior and extensive analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

8. Inventories

This account consists of:

	2010	2009
Finished goods and goods in process — at net realizable value	**₱ 3,425,034**	₱ 3,081,429
Raw materials, feeds and feed ingredients — at net realizable value	**7,603,604**	8,572,674
Factory supplies and others — at cost	**119,984**	72,450
Materials in transit — at cost	**974,813**	77,546
Total inventories at lower of cost and net realizable value	**₱12,123,435**	₱11,804,099

The cost of finished goods and goods in process amounted to ₱3,557.4 million and ₱3,168.3 million as at December 31, 2010 and 2009, respectively. The cost of raw materials, feeds and feed ingredients amounted to ₱7,659.2 million and ₱8,635.8 million as at December 31, 2010 and 2009, respectively.

Finished goods and goods in process include net unrealized gain of ₱40.7 million and ₱62.7 million on fair valuation of agricultural produce as at December 31, 2010 and 2009, respectively. The fair value of agricultural produce less costs to sell, which formed part of finished goods inventory, amounted to ₱416.2 million and ₱287.0 million as at December 31, 2010 and 2009, respectively, with corresponding costs at point of harvest amounting to ₱375.5 million and ₱224.3 million, respectively.

9. Biological Assets

This account consists of:

	2010	2009
Current:		
Growing stocks	**₱2,558,947**	₱2,309,139
Goods in process	**707,617**	215,371
	3,266,564	2,524,510
Noncurrent:		
Breeding stocks - net	**1,479,251**	1,285,125
	₱4,745,815	₱3,809,635

The amortization of breeding stocks charged to operations amounted to ₱1,048.3 million, ₱854.1 million, and ₱736.9 million in 2010, 2009, and 2008, respectively (Note 23).

Growing stocks pertain to growing broilers, hogs and cattle and goods in process pertain to hatching eggs and carcass.

The movements in biological assets, including the effects of foreign exchange adjustments are as follows:

	2010	2009
Cost:		
Balance at beginning of year	**₱ 3,953,076**	₱ 6,039,451
SMPFIL balance as at July 31, 2010	**680,972**	—
Increase (decrease) due to:		
Purchases	**13,100,490**	13,390,866
Production	**10,754,056**	9,061,227
Mortality	**(413,768)**	(533,373)
Sales	**(4,694,298)**	(5,345,293)
Harvest	**(17,407,999)**	(15,957,185)
Reclassifications	**(933,003)**	(2,702,617)
Currency translation adjustments	**(29,284)**	—
Balance at end of year	**5,010,242**	3,953,076
Accumulated amortization:		
Balance at beginning of year	**143,441**	1,991,067
SMPFIL balance as at July 31, 2010	**44,816**	—
Additions	**1,048,343**	854,130
Disposals	**(37,198)**	—
Reclassifications	**(933,003)**	(2,701,756)
Currency translation adjustments	**(1,972)**	—
Balance at end of year	**264,427**	143,441
Net book value	**₱ 4,745,815**	₱ 3,809,635

The Group harvested approximately 392.2 million and 348.1 million kilograms of grown broilers in 2010 and 2009, respectively, and 0.35 million and 0.68 million heads of marketable hogs and cattle in 2010 and 2009, respectively.

10. Prepaid expenses and other current assets

This account consists of:

	2010	2009
Prepaid income tax	**₱ 650,227**	₱ 470,580
Input tax	**868,234**	568,598
Others	**247,287**	206,496
	₱1,765,748	₱1,245,674

"Others" include prepaid insurance, advance payments and deposits, and prepayments for various operating expenses.

11. Investments and Advances

Investments in Subsidiaries

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

a) SMFI and Monterey

i. In August 2010, the Securities and Exchange Commission (SEC) approved the merger of Monterey into SMFI, with SMFI as the surviving corporation, following the approvals of the merger by the respective

BOD and stockholders of Monterey and SMFI in June 2010 and July 2010, respectively. The merger became effective September 1, 2010. SMFI's request for confirmation of the tax-free merger, filed in September 2010, is still pending with the Bureau of Internal Revenue (BIR) as at March 9, 2011.

ii. Prior to Monterey's merger with SMFI, Monterey acquired in April 2009 the subscription rights of certain individuals in Highbreed Livestock Corporation (HLC), a Philippine company engaged in livestock farming, processing, selling meat products (mainly pork and beef) and leasing of properties. As such, HLC became a subsidiary of Monterey and was consolidated into SMPFC through Monterey. On June 22, 2009, the respective BOD and stockholders of Monterey and HLC approved the merger of HLC into Monterey, with Monterey as the surviving corporation. The consideration of the assignment of the subscription, net of the effect of the merger, amounted to ₱6.25 million. The SEC approved the merger on October 22, 2009. The BIR confirmed the tax-free merger of HLC into Monterey in its Certification No. S40-052-2009 dated December 18, 2009.

The fair value of the identifiable assets and liabilities of HLC at acquisition date were as follows:

	Note	
Cash and cash equivalents		**₱ 458**
Trade and other receivables — net		**14,983**
Prepaid expenses and other current assets		**13,139**
Property, plant and equipment — net	*13*	**925,854**
Deferred tax assets		**18,647**
Trade payables and other current liabilities		**(966,831)**
Net assets transferred		**₱ 6,250**

iii. In July 2010, the SEC approved the application of Monterey for the increase in its authorized capital stock. Following SEC's approval, 22,500,000 Monterey shares of stock were issued to SMPFC in exchange for the Company's deposit for future stock subscription of ₱450.0 million in 2008.

iv. In January 2008, SMFI executed a Deed of Assignment assigning its 16,457,310 shares in SMMI, then a 100%-owned subsidiary of SMFI, to SMPFC effective December 28, 2007. The assignment is in accordance with SMFI's property dividend declaration of its SMMI shares in favor of the Company, as approved by SMFI's BOD in June 2007, subject to the necessary regulatory approvals. In December 2010, the SEC approved the declaration of SMFI's 16,457,310 shares in SMMI as property dividend in favor of the Company.

b) SMPFIL

In July 2010, the Company, through its wholly-owned subsidiary, SMPFIL, acquired SMC's 51% interest (through San Miguel Foods and Beverage International Limited [SMFBIL]) in SMPFI Limited for US$18.6 million. SMPFI Limited owns 100% of SMPFVN. Pursuant to the Sale and Purchase Agreement between SMFBIL and SMPFIL, 10% of the purchase price was paid in July 2010 and the balance of US$ 16.8 million (₱734.3 million as at December 31, 2010) shall be payable (i) upon change in controlling interest of SMPFIL to any third person other than an affiliate or (ii) two years from July 30, 2010, subject to floating interest rate based on one-year LIBOR plus an agreed margin after one year, whichever comes first. The balance was recognized as part of the Company's payable to related parties in 2010 (Note 17). As discussed in Note 19, the proceeds of SMPFC's preferred shares offering is intended to pay off, among others, the SMPFVN acquisition, through SMPFIL. The preferred shares offering took place in February 2011 (Note 35).

The unaudited financial information relative to the acquisition of the 51% interest in SMPFI Limited as at July 30, 2010 were as follows:

	Note	
Cash and cash equivalents		**₱ 46,645**
Receivables and other current assets		**279,154**
Inventories — net		**352,406**
Property, plant and equipment — net		**954,349**
Other noncurrent assets		**719,278**
Accounts payables and accrued expenses		**(939,636)**
Other noncurrent liabilities		**(3,026)**
Non-controlling interests		**(813,121)**
Net assets		**596,049**
Goodwill arising on acquisition	*15*	**256,550**
Total consideration		**₱ 852,599**

c) SMMI

In October 2010, the BOD and stockholders of SMMI authorized SMMI to raise funds of up to ₱5.0 billion to fund any expansion or any investment in new businesses by SMMI and for other general corporate purposes.

d) Magnolia

In February 2009, the SEC approved the application of Magnolia for the increase in its authorized capital stock. Following SEC's approval, 283,687,943 Magnolia shares of stock were issued to SMPFC in exchange for the Company's deposit for future stock subscription of ₱400.0 million in 2008.

e) SCIL

SCIL, a Cayman Islands company, was incorporated in November 2010 with an authorized capital stock of US$50,000.00 divided into 50,000 shares with par value of US$1.00 per share. SCIL is a wholly-owned subsidiary of the Company and has not yet started operations as at December 31, 2010.

Investments in Joint Venture

The Company's application with the SEC for the dissolution of Philippine Nutrition Technologies, Inc. (PNTI), a joint venture between the Company and the Great Wall Group of Taiwan, was approved on May 27, 2010. As a result of the said dissolution, the Company's investment in PNTI amounting to ₱12.0 million was written off against its allowance for decline in value of investment.

12. Investment Properties

The movements in investment properties follow:

	Land and Land Improvements	Buildings and Improvements	Total
Cost:			
Balance at January 1, 2009	₱ 75,688	₱2,865	₱ 78,553
Additions	39,593	—	39,593
Balance at December 31, 2009	115,281	2,865	118,146
Additions	8,027	—	8,027
Disposals	(2,933)	—	(2,933)
Balance at December 31, 2010	120,375	2,865	123,240
Accumulated depreciation:			
Balance at January 1, 2009	—	1,467	1,467
Additions	—	141	141
Balance at December 31, 2009	—	1,608	1,608
Additions	—	141	141
Balance at December 31, 2010	—	1,749	1,749
Accumulated impairment losses:			
Balance at January 1, 2009	5,359	—	5,359
Additions	3,114	—	3,114
Balance at December 31, 2009 and 2010	8,473	—	8,473
Net book value:			
Balance at December 31, 2010	**₱111,902**	**₱1,116**	**₱113,018**
Balance at December 31, 2009	₱106,808	₱1,257	₱108,065

The fair value of investment properties as at December 31, 2010 and 2009 amounted to ₱288.7 million and ₱280.9 million, respectively, determined based on valuations performed either by independent appraisers or by the credit management group of the Company.

13. Property, Plant and Equipment

This account consists of:

	Note	Land and Land Improvements	Buildings and Improvements	Machinery Equipment, Furniture and Others	Transportation Equipment	Construction in Progress	Total
Cost:							
Balance at January 1, 2009		₱1,496,344	₱4,050,351	₱8,348,129	₱506,203	₱ 883,827	₱15,284,854
HLC balance	*11*	751,188	102,210	35	—	97,914	951,347
Additions		715	2,108	209,984	13,015	425,600	651,422
Disposals		—	(126,944)	(225,864)	(58,997)	—	(411,805)
Transfers, reclassifications and others		89,517	361,311	(228,462)	10,914	(763,601)	(530,321)
Currency translation adjustments		3,159	2,691	13,183	2,462	925	22,420
Balance at December 31, 2009		2,340,923	4,391,727	8,117,005	473,597	644,665	15,967,917
SMPFIL balance as at July 31, 2010	*11*	—	1,364,516	603,920	35,051	13,362	2,016,849
Additions		—	11,744	149,311	883	419,135	581,073
Disposals		(24,023)	(357,630)	(745,984)	(18,197)	—	(1,145,834)
Transfers, reclassifications and others		61,654	520,779	488,823	(15,531)	(893,391)	162,334
Currency translation adjustments		—	(58,679)	(25,971)	(1,507)	(574)	(86,731)
Balance at December 31, 2010		2,378,554	5,872,457	8,587,104	474,296	183,197	17,495,608
Accumulated depreciation and impairment losses:							
Balance at January 1, 2009		251,338	1,651,793	4,868,931	454,369	—	7,226,431
HLC balance	*11*	10,612	14,873	8	—	—	25,493
Additions		23,914	183,601	543,099	23,911	—	774,525
Disposals		—	(90,065)	(206,860)	(51,090)	—	(348,015)
Impairment loss	*25*	45,863	—	—	—	—	45,863
Transfers, reclassification and others		(2,960)	131	(59,740)	52	—	(62,517)
Currency translation adjustments		—	1,230	7,984	2,330	—	11,544
Balance at December 31, 2009		328,767	1,761,563	5,153,422	429,572	—	7,673,324
SMPFIL balance as at July 31, 2010	*11*	—	545,325	483,974	33,201	—	1,062,500
Additions		32,830	241,364	498,225	18,761		791,180
Disposals		(22,677)	(257,852)	(706,859)	(18,014)	—	(1,005,402)
Reversal of impairment loss	*25*	(45,863)	—	—	—	—	(45,863)
Transfers, reclassification and others		(1,188)	(11,868)	(11,645)	(15,130)	—	(39,831)
Currency translation adjustments		—	(23,732)	(21,215)	(1,436)	—	(46,383)
Balance at December 31, 2010		291,869	2,254,800	5,395,902	446,954	—	8,389,525
Net Book Value:							
Balance at December 31, 2010		**₱2,086,685**	**₱3,617,657**	**₱3,191,202**	**₱ 27,342**	**₱ 183,197**	**₱ 9,106,083**
Balance at December 31, 2009		₱2,012,156	₱2,630,164	₱2,963,583	₱ 44,025	₱ 644,665	₱ 8,294,593

Depreciation charged to operations amounted to ₱791.2 million in 2010, ₱774.5 million in 2009 and ₱703.7 million in 2008 (Note 23). These amounts include annual amortizations of capitalized interest amounting to ₱2.6 million in 2010 and 2009 and ₱3.8 million in 2008. Unamortized balance of capitalized interest as at December 31, 2010, 2009 and 2008 amounted to ₱24.4 million, ₱27.0 million and ₱29.5 million, respectively. No interest was capitalized in 2010 and 2009.

Transfers, reclassification and others in 2009 include net book value of certain property, plant and equipment that were damaged by typhoon amounting to ₱215.8 million. In addition, certain machinery and equipment with a book value of ₱189.1 million and considered as idle assets, were reclassified to other noncurrent assets following the change in management's intention on its branded business (Note 25).

Land and land improvements include a 144-hectare property in Sumilao, Bukidnon, acquired by SMFI in 2002, which later became the subject of a petition for revocation of conversion order filed by MAPALAD, a group of Sumilao farmers, with the Department of Agrarian Reform (DAR), and appealed to the Office of the President (OP). Total acquisition and development costs amounted to ₱37.4 million.

To settle the land dispute, a Memorandum of Agreement (MOA) was executed among SMFI, MAPALAD, OP and DAR on March 29, 2008. The MOA provided for the release of a 50-hectare portion of the property to qualified farmer-beneficiaries, and the transfer of additional 94 hectares outside of the property to be negotiated with other Sumilao landowners. Under the MOA, SMFI shall retain ownership and title to the remaining portion of the property for the completion and pursuit of the hog farm expansion.

SMFI fully complied with all the provisions of the MOA in the last quarter of 2010. To formally close the pending cases filed by MAPALAD with the Supreme Court and OP, SMFI forwarded in November 2010 to the Sumilao farmers' counsels the draft of the Joint Manifestation and Motion for Dismissal for their concurrence. As at March 9, 2011, finalization of the Joint Manifestation and Motion for Dismissal is still ongoing.

The cost of farm improvements, buildings, machinery and equipment and construction in progress incurred for SMFI's (formerly Monterey) hog farm expansion project situated in Sumilao amounted to ₱888.6 million and ₱676.4 million in 2010 and 2009, respectively.

14. Intangible Assets

This account consists of:

	2010	2009
Trademarks and brand names	**₱3,298,353**	₱ 32,558
Formulas and recipes	**57,591**	57,591
Computer software and licenses — net	**69,566**	77,413
	₱3,425,510	₱167,562

The movements in intangible assets, including the effects of currency translation adjustments, are as follows:

	Trademarks and Brand Names	Others	Total
Cost:			
Balance at January 1, 2009	₱ 32,558	₱192,397	₱ 224,955
Additions	—	23,132	23,132
Reclassifications	—	3,238	3,238
Balance at December 31, 2009	32,558	218,767	251,325
Additions	3,200,000	18,278	3,218,278
Disposals	—	(1,404)	(1,404)
Reclassifications	68,751	3,326	72,077
Currency translation adjustments	(2,956)	—	(2,956)
Balance at December 31, 2010	3,298,353	238,967	3,537,320
Accumulated Depreciation:			
Balance at January 1, 2009	—	69,147	69,147
Additions	—	17,976	17,976
Reclassifications	—	(3,360)	(3,360)
Balance at December 31, 2009	—	83,763	83,763
Additions	—	26,125	26,125
Disposals	—	(1,404)	(1,404)
Reclassifications	—	3,326	3,326
Balance at December 31, 2010	—	111,810	111,810
Net Book Value:			
Balance at December 31, 2010	**₱3,298,353**	**₱127,157**	**₱3,425,510**
Balance at December 31, 2009	₱ 32,558	₱135,004	₱ 167,562

In July 2010, SMC and SMPFC entered into an Intellectual Property Rights Transfer Agreement (Agreement) for the transfer to SMPFC of SMC's food-related brands and intellectual property rights at a purchase price of ₱3,200.0 million. Pursuant to the Agreement, 10% of the purchase price was paid in July 2010 and the balance shall be payable (i) upon change in controlling interest of SMPFC to any third person other than an affiliate or (ii) two years from July 30, 2010, subject to floating interest rate based on one-year PDSTF plus an agreed margin after one year, whichever comes first. The balance was recognized as part of the Company's payable to related parties (Note 17) as at December 31, 2010. As discussed in Note 35, the remaining balance was subsequently settled by SMPFC on March 8, 2011.

SMC and SMPFC engaged the services of Fortman Cline Capital Markets Limited (FCCM) as financial adviser to perform a third party valuation of the food-related brands. The purchase price was arrived at after taking into account the result of the independent valuation study and analysis of FCCM.

The Company assessed that there is no impairment loss in the value of trademarks and brand names in 2010.

15. Goodwill

The movements in goodwill, including effects of currency translation adjustments, are as follows:

	Note	2010	2009
Balance at beginning of year		**₱170,792**	₱170,792
Additions	*11*	**256,550**	—
Currency translation adjustments		**(11,032)**	—
Balance at end of year		**₱416,310**	₱170,792

The recoverable amount of goodwill has been determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash flows beyond the five year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections ranged from 12% to 14% and 12% to 13% in December 31, 2010 and 2009, respectively. The discount rates also impute the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium.

Management assessed that there is no impairment loss in the value of goodwill in 2010 and 2009.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the following assumptions:

Gross Margins. Gross margins are based on average values achieved in the period immediately before the budget period. These are increased over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.

Discount Rates. The Group uses the weighted average cost of capital as the discount rates, which reflect management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investments proposals.

Raw Material Price Inflation. Forecast consumer price are obtained from indices during the budget period from which raw materials are purchased. Value assigned to key assumption is consistent with external sources of information.

16. Notes Payable

This account consists of:

	Note	2010	2009
Peso-denominated		**₱4,591,000**	₱8,811,190
Foreign currency-denominated		**581,538**	4,900
	31, 32	**₱5,172,538**	₱8,816,090

Notes payable mainly represent unsecured peso and foreign currency-denominated amounts payable to local and foreign banks. Interest rates for peso-denominated loans range from 3.10% to 4.50% and 3.10% to 6.79% in 2010 and 2009, respectively. Interest rates for foreign currency-denominated loans range from 3.56% to 16.50% and 12.08% in 2010 and 2009, respectively.

Notes payable of the Group are not subject to covenants and warranties.

17. Trade Payables and Other Current Liabilities

This account consists of:

	Note	2010	2009
Trade payables		**₱ 4,029,868**	₱ 3,491,253
Amounts owed to related parties	*11, 14, 28*	**4,960,654**	2,732,207
Non-trade payables		**4,818,343**	5,390,787
Others		**1,337,104**	1,052,839
		₱15,145,969	₱12,667,086

Non-trade payables consist of freight payable, contract growers/breeders' fees, tolling fees, guarantee deposits, gift certificates payable and expenses payable.

"Others" include tax-related and payroll-related accruals, accrued interest payable, dividends payable and derivative liabilities.

Derivative liabilities included under "Others" amounted to ₱3.1 million and ₱13.4 million as at December 31, 2010 and 2009, respectively (Note 31).

18. Long-term Debt

This account consists of:

	2010
Unsecured term notes**:**	
Peso-denominated:	
Floating interest rate based on 3-month PDST-F plus margin maturing in 2015	**₱3,700,000**
Fixed interest rate of 5.4885% maturing in 2015	**800,000**
	4,500,000
Less Debt issue costs	**39,193**
	₱4,460,807

In December 2010, SMFI offered for sale and subscription to the public Philippine peso-denominated fixed rate and floating rate notes with principal amount of ₱800.0 million and ₱3,700.0 million, respectively. Both types of notes have a term of five years and one day beginning on December 10, 2010 (Issue Date) and ending on December 11, 2015. The fixed rate note has a fixed interest rate of 5.4885% per annum while the floating rate note has a floating interest rate based on three-month PDST-F plus an agreed margin. Proceeds from the issuance of the notes will be used to fund any expansion or any investment in new businesses by SMFI and for other general corporate purposes.

The notes facility agreements contain, among others, covenants relating to the maintenance of certain financial ratios, usage of proceeds, significant change in the nature of the business, restrictions on loans and guarantees, disposal of a substantial portion of assets, merger and consolidation, and payment of interests.

As at December 31, 2010, SMFI is in compliance with the covenants of the notes facility agreements.

The movements in debt issue costs are as follows:

	2010
Additions	**₱39,597**
Amortizations	**(404)**
Balance at end of year	**₱39,193**

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 31.

19. Equity

The Parent Company's capital stock, at ₱10 par value, consists of the following number of shares as at December 31, 2010 and 2009:

	2010	2009		
	Capital Stock	Common Class "A"	Common Class "B"	Total
Authorized shares:				
Common	**206,000,000**	95,128,000	50,872,000	146,000,000
Preferred	**40,000,000**	—	—	—
	246,000,000	95,128,000	50,872,000	146,000,000
Issued shares:				
Common	**170,874,854**	95,049,129	50,401,979	145,451,108

The movements in the number of authorized common shares and issued and outstanding common shares are as follows:

	2010		2009
	Common	Preferred	Common
Authorized shares:			
Balance at beginning of year	**146,000,000**	**—**	146,000,000
Increase in authorized capital stock	**100,000,000**	**—**	—
Reclassification to preferred shares	**(40,000,000)**	**40,000,000**	—
Balance at end of year	**206,000,000**	**40,000,000**	146,000,000
Issued and outstanding shares:			
Issued shares at beginning of year	**145,451,108**	**—**	145,451,108
Issuances during the year	**25,423,746**	**—**	—
Issued shares at end of year	**170,874,854**	**—**	145,451,108
Less treasury shares	**4,207,758**	**—**	4,207,758
Issued and outstanding shares at end of year	**166,667,096**	**—**	141,243,350

On February 2, 2010 and March 12, 2010, the Company's BOD and stockholders, respectively, approved the (i) de-classification of SMPFC's common shares and increase in SMPFC's authorized capital stock by ₱1,000.0 million or 100,000,000 shares at ₱10.00 par value, and (ii) declaration of 18% stock dividend based on the issued and outstanding shares to be taken out of the proposed increase in authorized capital stock.

On April 12, 2010, the SEC approved SMPFC's amendment to its Articles of Incorporation for the de-classification of common shares.

On May 21, 2010, the SEC issued to SMPFC the Certificate for the Approval of Increase of Capital Stock from 146,000,000 common shares to 246,000,000 common shares with par value of ₱10.00 per share and the Certificate of Filing of Amended Articles of Incorporation.

On July 6, 2010, the PSE approved the application of SMPFC to list additional 25,423,746 common shares, with a par value of ₱10.00 per share, to cover the 18% stock dividend declaration to stockholders of record as at June 30, 2010. Stock dividend distribution was made on July 26, 2010.

On September 15, 2010, Company's BOD approved, among others, the: (i) reclassification of up to 75,000,000 authorized and unissued common shares into cumulative, non-participating, non-voting and non-convertible preferred shares with par value of ₱10.00 per share; (ii) issuance of preferred shares with total issue size of up to ₱50,000.0 million, part of the proceeds of which will be used to settle the Company's remaining 90% balance relating to the brands and SMPFVN acquisitions from SMC; (iii) listing of such preferred shares at the appropriate exchanges; and (iv) amendment of the Company's Articles of Incorporation to reflect the reclassification of such common shares to preferred shares and the denial of pre-emptive rights of shareholders for the proposed issuance of said preferred shares.

On November 3, 2010, the Company's stockholders approved, among others, the: (i) reclassification of the Company's 40,000,000 authorized and unissued common shares into non-voting, cumulative and non-participating preferred shares with par value of ₱10.00 per share; (ii) issuance of such preferred shares and the listing thereof at the appropriate exchanges; and (iii) amendment of the Company's Articles of Incorporation to reflect the reclassification of 40,000,000 common shares to preferred shares and the denial of pre-emptive rights of shareholders for the proposed issuance of said preferred shares (Amendment).

On December 23, 2010, the SEC approved the foregoing Amendment to the Articles of Incorporation of the Company.

Treasury shares, totaling 4,207,758 common shares in 2010 and 2009, are carried at cost.

The Parent Company's retained earnings as at December 31, 2010 and 2009 is restricted in the amount of ₱182.1 million representing the cost of shares held in treasury.

The Group's unappropriated retained earnings include the Company's accumulated equity in net earnings of subsidiaries amounting to ₱5,408.0 million, ₱5,001.1 million and ₱2,493.3 million in 2010, 2009 and 2008, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

20. Revenues

Revenue account consists of sales of goods and fair valuation adjustments on agricultural produce. Total sales of goods amounted to ₱79,229.1 million, ₱74,979.9 million and ₱71,077.9 million for the years ended December 31, 2010, 2009 and 2008, respectively. The aggregate fair value less estimated costs to sell of agricultural produce harvested during the year, determined at point of harvest, amounted to ₱23,700.8 million, ₱25,826.8 million and ₱23,527.0 million for the years ended December 31, 2010, 2009 and 2008, respectively.

21. Cost of Sales

This account consists of:

	Note	2010	2009	2008
Inventories used	*34*	**₱56,747,681**	₱55,100,325	₱54,050,525
Freight, trucking and handling		**1,736,689**	1,709,489	1,626,949
Depreciation and amortization	*23*	**1,655,135**	1,482,653	1,315,729
Communication, light and water		**937,653**	866,722	922,063
Personnel expenses	*24*	**654,802**	862,438	1,002,888
Repairs and maintenance		**361,648**	336,721	326,397
Rentals	*30*	**193,208**	171,108	190,396
Others		**1,004,270**	918,540	1,174,716
		₱63,291,086	₱61,447,996	₱60,609,663

22. Selling and Administrative Expenses

This account consists of:

	Note	2010	2009	2008
Freight, trucking and handling		**₱ 2,357,675**	₱1,894,268	₱1,831,557
Personnel expenses	*24*	**2,351,107**	2,151,367	1,830,162
Advertising and promotions		**1,535,375**	1,287,044	1,482,056
Contracted services		**1,168,051**	1,269,644	1,134,313
Rentals	*30*	**577,929**	497,992	472,116
Professional fees		**428,320**	238,219	159,847
Depreciation and amortization	*23*	**271,268**	221,855	237,781
Supplies		**254,087**	245,808	185,968
Taxes and licenses		**253,040**	243,129	194,513
Travel and transportation		**175,656**	173,107	193,335
Communication, light and water		**173,007**	202,428	151,164
Repairs and maintenance		**120,526**	125,392	109,773
Others		**410,864**	407,094	641,066
		₱10,076,905	₱8,957,347	₱8,623,651

23. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	Note	2010	2009	2008
Cost of sales:				
Property, plant and equipment	*13*	**₱ 590,261**	₱ 607,857	₱ 551,438
Biological assets	*9*	**1,048,343**	854,130	736,922
Others		**16,531**	20,666	27,369
		1,655,135	1,482,653	1,315,729
Selling and administrative expenses:				
Property, plant and equipment	*13*	**200,919**	166,668	152,215
Others		**70,349**	55,187	85,566
		271,268	221,855	237,781
		₱1,926,403	₱1,704,508	₱1,553,510

Others include amortization of containers, computer software and licenses, small tools and equipment and investment properties amounting to ₱86.9 million, ₱75.9 million and ₱112.9 million in 2010, 2009 and 2008, respectively.

24. Personnel Expenses

This account consists of:

	Note	2010	2009	2008
Salaries and allowances		**₱1,623,063**	₱1,576,024	₱1,661,083
Retirement costs	27	**91,816**	238,627	145,506
Other employee benefits		**1,291,030**	1,199,154	1,026,461
		₱3,005,909	₱3,013,805	₱2,833,050

The above amounts are distributed as follows:

	Note	2010	2009	2008
Cost of sales	*21*	**₱ 654,802**	₱ 862,438	₱1,002,888
Selling and administrative expenses	*22*	**2,351,107**	2,151,367	1,830,162
		₱3,005,909	₱3,013,805	₱2,833,050

25. Interest Expense and Other Financing Charges, Interest Income and Other Income (Charges)

These accounts consist of:

a. Interest expense and other financing charges

	2010	2009	2008
Interest expense	**₱322,057**	₱701,726	₱774,597
Other financing charges	**37,358**	49,316	56,317
	₱359,415	₱751,042	₱830,914

Amortization of debt issue costs in 2010 included in other financing charges amounted to ₱0.4 million (Note 18).

Interest expense on short-term loans and long-term debt are as follows:

	Note	2010	2009	2008
Notes payable	*16*	**₱310,862**	₱701,726	₱774,597
Long-term debt	*18*	**11,195**	—	—
		₱322,057	₱701,726	₱774,597

b. Interest income

	2010	2009	2008
Money market placements	**₱ 47,847**	₱35,017	₱27,479
Cash in banks	**57,641**	34,124	26,844
	₱105,488	₱69,141	₱54,323

c. Other income (charges)

	Note	2010	2009	2008
Gain (loss) on derivatives		**₱167,021**	₱ 54,477	₱(388,327)
Dividend income		**156**	118	55
Foreign exchange gains (losses) — net	*31*	**(24,924)**	(978)	5,943
Impairment loss — net		**(5,426)**	(53,873)	—
Research and development costs		**—**	—	(170)
Others — net		**(38,961)**	(88,712)	(68,780)
		₱ 97,866	₱(88,968)	₱(451,279)

Impairment loss — net in 2010 includes provision for impairment loss on idle assets (shown under "Other noncurrent assets") amounting to ₱51.3 million and the reversal of the Group's 2009 provision for impairment loss on land amounting to ₱45.6 million, computed as the difference between the carrying amount of the assets and their fair value based on reports by qualified property appraisers, less costs to sell.

In 2009, the Group recognized provisions for impairment loss on land and idle assets amounting to ₱45.9 million and ₱8.0 million, respectively.

26. Income Taxes

a. The components of the Group's deferred tax assets and liabilities as at December 31 are as follows:

	2010	2009
Deferred tax assets:		
Allowance for impairment losses on receivables and inventories	**₱253,282**	₱ 230,837
Unamortized past service cost	**105,570**	116,537
Unrealized mark-to-market loss	**25,756**	168,433
NOLCO	**—**	452,793
MCIT	**—**	76,266
Others	**215,283**	174,810
	₱599,891	₱1,219,676
Deferred tax liabilities:		
Unrealized mark-to-market gain	**₱ 61,345**	₱ 184,585
Accelerated depreciation	**44,541**	51,426
Others	**165,188**	163,029
	₱271,074	₱ 399,040

b. The Group's available NOLCO and MCIT as at December 31, 2009 were applied by the concerned subsidiaries as deduction from taxable income and corporate income tax due, respectively, in 2010.

c. The components of the income tax expense (benefit) consist of:

	2010	2009	2008
Current:			
Corporate income tax	**₱1,141,096**	₱1,112,770	₱ 729,248
Final tax withheld on interest and royalty income	**42,216**	17,542	8,482
	1,183,312	1,130,312	737,730
Deferred	**470,895**	53,313	(268,860)
	₱1,654,207	₱1,183,625	₱ 468,870

d. The reconciliations between the statutory income tax rate on income before income tax and non-controlling interests and the Group's effective income tax rates follow:

	2010	2009	2008
Statutory income tax rate	**30.00%**	30.00%	35.00%
Additions to (reductions in) income tax resulting from the tax effects of:			
Interest income subjected to final tax	**(0.08)**	(0.13)	(8.80)
Unused NOLCO and MCIT	**—**	1.10	25.98
Others — net	**(0.97)**	(0.16)	0.58
Effect of change in tax rate	**—**	—	23.16
Effective income tax rates	**28.95%**	30.81%	75.92%

27. Retirement Plans

The Company and majority of its subsidiaries have funded, noncontributory retirement plans covering all of their permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2010. Valuations are obtained on a periodic basis.

Retirement costs charged by the Parent Company to operations amounted to ₱1.0 million, ₱4.2 million and ₱7.3 million in 2010, 2009 and 2008, respectively, while those charged by the subsidiaries amounted to ₱90.8 million, ₱234.4 million and ₱138.2 million in 2010, 2009 and 2008, respectively. The Group's annual contribution to the retirement plans consists of payments covering the current service cost and amortization of past service liability.

The components of retirement costs recognized in profit or loss in 2010, 2009 and 2008 and the amounts recognized in the consolidated statements of financial position as at December 31, 2010 and 2009 are as follows:

a. Retirement costs

	2010	2009	2008
Current service cost	**₱ 108,060**	₱ 131,158	₱ 96,730
Interest cost	**201,428**	262,237	137,847
Expected return on plan assets	**(220,007)**	(197,554)	(161,894)
Net actuarial loss (gain)	**(1,101)**	(2,695)	7,535
Past service cost	**206**	192	193
Effect of curtailment	**3,230**	(19,806)	—
Amortization of transitional liability	**—**	65,095	65,095
Net retirement costs	**₱ 91,816**	₱ 238,627	₱ 145,506
Actual return (loss) on plan assets	**₱ 318,479**	₱ 329,582	₱(103,770)

The retirement costs are recognized in the following line items in the consolidated statements of income:

	Note	2010	2009	2008
Cost of sales		**₱32,764**	₱ 16,724	₱ 32,010
Selling and administrative expenses		**59,052**	221,903	113,496
	24	**₱91,816**	₱238,627	₱145,506

b. Retirement asset

	2010	2009
Fair value of net plan assets	**₱—**	₱ 94,058
Present value of defined benefit obligation	**—**	(44,432)
Unrecognized actuarial gains	**—**	(43,364)
	₱—	₱ 6,262

c. Retirement liability

	2010	2009
Present value of defined benefit obligation	**₱ 2,344,856**	₱ 2,335,856
Fair value of net plan assets	**(2,488,970)**	(2,229,645)
Unrecognized:		
Past service costs	**(594)**	(856)
Net actuarial gains	**229,369**	76,132
	₱ 84,661	₱ 181,487

The movements in the present value of the defined benefit obligation are as follows:

	2010	2009
Balance at beginning of year	**₱2,380,288**	₱2,759,339
Interest cost	**201,428**	262,237
Current service cost	**108,060**	131,158
Transfer from other plans	**127,550**	51,036
Benefits paid	**(372,172)**	(564,308)
Actuarial gains	**(59,019)**	(228,625)
Transfer to other plans	**(131,746)**	(36,134)
Effect of curtailment	**90,467**	5,585
Balance at end of year	**₱2,344,856**	₱2,380,288

The movements in the fair value of net plan assets are as follows:

	2010	2009
Balance at beginning of year	**₱2,323,703**	₱2,396,143
Expected return	**220,007**	197,554
Contributions by employer	**180,580**	145,145
Transfer from other plans	**127,550**	51,036
Benefits paid	**(370,437)**	(562,069)
Transfer to other plans	**(131,746)**	(36,134)
Actuarial gains	**98,472**	132,028
Effect of curtailment	**40,841**	—
Balance at end of year	**₱2,488,970**	₱2,323,703

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2010	2009
Stock trading portfolio	**25%**	22%
Fixed income portfolio	**75%**	78%

The overall expected rate of return is determined based on historical performance of investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	2010	2009
Discount rate	**6.77% to 8.50%**	8.28% to 10%
Expected return on plan assets	**10%**	10%
Salary increase rate	**8%**	8%

The historical information for the current and previous four annual periods are as follows:

	2010	2009	2008	2007	2006
Present value of defined benefit obligation	**₱2,344,856**	₱2,380,288	₱2,759,339	₱1,810,951	₱1,596,744
Fair value of net plan assets	**2,488,970**	2,323,703	2,396,143	1,649,977	1,489,585
Deficit (surplus) in the plan	**(144,114)**	56,585	363,196	160,974	107,159
Experience adjustments on plan liabilities	**(59,019)**	(228,625)	9,888	173,538	141,002
Experience adjustments on plan assets	**98,472**	132,028	(265,664)	39,413	194,020

The Group expects to contribute about ₱142.4 million to its defined benefit plans in 2011.

28. Related Party Disclosures

Transactions with related parties are made at normal market prices. For the years ended December 31, 2010 and 2009, the Group did not provide any allowance for impairment losses relating to amounts owed by related parties. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

Transactions with related parties and the related balances include the following:

Name of Company	Relationship*	Nature of Transactions	2010	2009
SMC	Ultimate Parent Company	Sales	**₱ 2,833**	₱2,187,330
		Purchases	**335,135**	292,327
		Trade and other receivables	**63,686**	88,122
		Trade payables and other current liabilities	**3,561,031**	1,778,448
SMC Shipping and Lighterage Corporation	Affiliate	Sales	**—**	135
		Purchases	**1,439,092**	240,927
		Trade and other receivables	**9,902**	14,380
		Trade payables and other current liabilities	**382,368**	409,074
San Miguel Paper Packaging Corporation (formerly San Miguel Rengo Packaging Corporation)	Affiliate	Purchases	**611**	81,651
		Trade and other receivables	**24**	245
		Trade payables and other current liabilities	**1,845**	16,650
San Miguel Yamamura Packaging Corporation	Affiliate	Sales	**61**	2,083
		Purchases	**135,119**	102,095
		Trade and other receivables	**6,472**	8,117
		Trade payables and other current liabilities	**57,983**	61,730
San Miguel International, Ltd. and subsidiaries	Affiliate	Trade and other receivables	**25**	41,186
		Trade payables and other current liabilities	**735,614**	9

Name of Company	Relationship*	Nature of Transactions	2010	2009
Anchor Insurance Brokerage Corporation	Affiliate	Purchases	**₱ 4,471**	₱ 49
		Trade and other receivables	**116**	585
		Trade payables and other current liabilities	**144**	241
Ginebra San Miguel, Inc. and Subsidiaries	Affiliate	Sales	**—**	1,314
		Purchases	**120,127**	472,815
		Trade and other receivables	**50,151**	68,739
		Trade payables and other current liabilities	**49,558**	62,612
San Miguel Properties, Inc.	Affiliate	Sales	**—**	51
		Purchases	**120**	—
		Trade and other receivables	**165**	230
		Trade payables and other current liabilities	**33**	395
SMITS, Inc. and a subsidiary	Affiliate	Sales	**—**	116
		Purchases	**51,712**	18,347
		Trade and other receivables	**1,523**	854
		Trade payables and other current liabilities	**97,261**	121,126
Star Dari, Inc.	Affiliate	Purchases	**—**	12,533
		Trade and other receivables	**—**	530
ArchEn Technologies, Inc.	Affiliate	Sales	**—**	28
		Purchases	**6,336**	1,005
		Trade and other receivables	**183**	94
		Trade payables and other current liabilities	**4,245**	7,806
San Miguel Yamamura Asia Corporation	Affiliate	Purchases	**30,064**	32,962
		Trade payables and other current liabilities	**5,106**	5,534
San Miguel Brewery Inc.	Affiliate	Sales	**16**	2,748
		Purchases	**26,870**	716,471
		Trade and other receivables	**24,406**	23,943
		Trade payables and other current liabilities	**25,090**	250,097
San Miguel Beverages, Inc.	Affiliate	Sales	**—**	4,755
		Purchases	**—**	83,213
		Trade and other receivables	**1,349**	7,145
		Trade payables and other current liabilities	**569**	5,492

Name of Company	Relationship*	Nature of Transactions	2010	2009
San Miguel Distribution Co., Inc.	Affiliate	Sales	**₱ —**	₱ 7
		Purchases	**67**	4,349
		Trade and other receivables	**520**	28
		Trade payables and other current liabilities	**94**	20
Mindanao Corrugated Fibreboard, Inc.	Affiliate	Purchases	**38,335**	16,146
		Trade payables and other current liabilities	**1,613**	11,523
Philippine Breweries Corporation	Affiliate	Trade payables and other current liabilities	**997**	839
Petron Corporation**	Affiliate	Purchases	**17,304**	—
		Trade and other receivables	**7,854**	—
		Trade payables and other current liabilities	**36,988**	—
Others	Affiliates	Sales	**50**	54
		Trade and other receivables	**419**	178
		Trade payables and other current liabilities	**115**	611

* Affiliate refers to a company owned by SMC.

** New affiliate in 2010.

Certain related party transactions were discussed in Notes 11, 14 and 33. The following are the other significant related party transactions entered into by the Company:

On May 1, 2009, the transfer of the receivables, inventories and fixed assets of SMC's Centralized Key Accounts Group (CKAG) to SMFI was completed, for a total consideration of ₱2,352.5 million. CKAG was a unit of SMC engaged in the business of selling and distributing various products of some companies within the SMC Group, including SMPFC's subsidiaries, to modern trade customers.

On December 28, 2004, SMC and Monterey executed a Trademark Licensing Agreement (Agreement) with PF-Hormel to license the Monterey trademark for a period of 20 years renewable for the same period for a royalty based on net sales revenue. The royalty fee will apply only for as long as SMC and any of its subsidiaries own at least 51% of PF-Hormel. In the event that the ownership of SMC and any of its subsidiaries is less than 51%, the parties will negotiate and agree on the royalty fee on the license of the Monterey trademark. As a result of the merger of Monterey into SMFI, with SMFI as the surviving corporation (Note 11), all rights and obligations of Monterey under the Agreement are automatically transferred to and vested in SMFI per applicable law and following the provision in the Plan of Merger.

The compensation of the key management personnel of the Group, by benefit type, follows:

	2010	2009	2008
Short-term employee benefits	**₱76,003**	₱52,878	₱44,053
Retirement costs	**7,663**	22,417	13,267
	₱83,666	₱75,295	₱57,320

Several key management personnel of the Group were employees of SMC in 2008.

The compensation of key management personnel, which were paid and charged by SMC to the Group as management fee, amounted to ₱2.7 million, ₱6.4 million and ₱26.7 million in 2010, 2009 and 2008, respectively.

29. Basic and Diluted Earnings Per Share

Basic EPS is computed as follows:

	2010	2009	2008
Net income attributable to equity holders of the Parent Company (a)	**₱ 3,846,145**	₱ 2,596,963	₱ 77,194
Common shares issued and outstanding	**141,243,350**	141,243,350	141,243,350
Stock dividends declared in 2010 including retroactive adjustments	**25,423,746**	25,423,746	25,423,746
Weighted average number of shares (b)	**166,667,096**	166,667,096	166,667,096
Basic EPS (a/b)	**₱ 23.08**	₱ 15.58	₱ 0.46

As at December 31, 2010, 2009 and 2008, the Group has no dilutive debt or equity instruments.

30. Operating Lease Agreements

The Group entered into various operating lease agreements. These non-cancellable leases will expire in various years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions. The minimum future rental payables under these operating leases as at December 31 are as follows:

	2010	2009
Within one year	**₱237,203**	₱ 39,502
After one year but not more than five years	**160,431**	109,122
After five years	**406,787**	409,280
	₱804,421	₱557,904

Rent expense charged to operations amounted to ₱771.1 million, ₱669.1 million and ₱662.5 million in 2010, 2009, and 2008, respectively (Notes 21 and 22).

31. Financial Risk Management Objectives and Policies

Objectives and Policies

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

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

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

The Group's principal non-trade related financial instruments include cash and cash equivalents, AFS financial assets, short-term and long-term loans, and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The Group's trade-related financial assets and financial liabilities such as trade and other receivables, trade payables and other current 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 options are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to commodity price risks arising from the Group's operations.

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

The Group's accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

Interest Rate Risk

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

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 ₱37.0 million in 2010. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

As at December 31, 2010, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following table:

	<5 Years
Fixed rate	
Philippine peso-denominated	**₱800,000**
Interest rate	5.4885%
Floating rate	
Philippine peso-denominated	**3,700,000**
Interest rate	PDST-F for 3 months + margin
	₱4,500,000

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 non-derivative instruments to manage its foreign currency risk exposure.

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

	2010		2009	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$ 1,641**	**₱ 71,941**	US$1,476	₱ 68,191
Trade and other receivables	**11,478**	**503,196**	5,308	245,230
	13,119	**575,137**	6,784	313,421
Liabilities				
Notes payable	**13,265**	**581,538**	106	4,900
Trade payables and other current liabilities	**26,902**	**1,179,383**	3,932	181,658
Other noncurrent liabilities	**790**	**34,634**	627	28,965
	40,957	**1,795,555**	4,665	215,523
Net foreign currency-denominated monetary assets (liabilities)	**US$(27,838)**	**₱(1,220,418)**	US$2,119	₱ 97,898

The Group reported net foreign exchange gains (losses) amounting to ₱(24.9 million), ₱(1.0 million) and ₱5.9 million in 2010, 2009 and 2008, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Peso to US Dollar
December 31, 2010	43.84
December 31, 2009	46.20
December 31, 2008	47.52

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 at December 31, 2010 and 2009.

	₱1 Decrease in the US Dollar Exchange Rate		₱1 Increase in the US Dollar Exchange Rate	
2010	**Effect on Income before Income Tax**	**Effect on Equity (Net of Tax)**	**Effect on Income before Income Tax**	**Effect on Equity (Net of Tax)**
Cash and cash equivalents	**₱ (1,641)**	**₱ (1,149)**	**₱ 1,641**	**₱ 1,149**
Trade and other receivables	**(11,478)**	**(8,034)**	**11,478**	**8,034**
	(13,119)	**(9,183)**	**13,119**	**9,183**
Notes payable	**13,265**	**9,286**	**(13,265)**	**(9,286)**
Trade payables and other current liabilities	**26,902**	**18,831**	**(26,902)**	**(18,831)**
Other noncurrent liabilities	**790**	**553**	**(790)**	**(553)**
	40,957	**28,670**	**(40,957)**	**(28,670)**
	₱ 27,838	**₱19,487**	**₱(27,838)**	**₱(19,487)**

	₱1 Decrease in the US Dollar Exchange Rate		₱1 Increase in the US Dollar Exchange Rate	
2009	**Effect on Income before Income Tax**	**Effect on Equity (Net of Tax)**	**Effect on Income before Income Tax**	**Effect on Equity (Net of Tax)**
Cash and cash equivalents	₱(1,476)	₱(1,033)	₱ 1,476	₱ 1,033
Trade and other receivables	(5,308)	(3,716)	5,308	3,716
	(6,784)	(4,749)	6,784	4,749
Notes payable	106	74	(106)	(74)
Trade payables and other current liabilities	3,932	2,753	(3,932)	(2,753)
Other noncurrent liabilities	627	439	(627)	(439)
	4,665	3,266	(4,665)	(3,266)
	₱(2,119)	₱(1,483)	₱ 2,119	₱ 1,483

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

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices. The Group, through SMC, 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 mark-to-market losses; however, any loss in the mark-to-market position is offset by the resulting lower physical raw material cost.

SMC enters into commodity derivative transactions on behalf of the Group to reduce cost by optimizing purchasing synergies within the SMC Group of Companies and managing inventory levels of common materials.

The Group uses commodity futures and options to manage the Group's exposures to volatility in prices of certain commodities such as fuel oil, soybean meal and wheat.

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 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 at December 31, 2010 and 2009.

2010	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	**₱ 7,041,345**	**₱ 7,041,345**	**₱ 7,041,345**	**₱ —**	**₱ —**	**₱ —**
Trade and other receivables — net	**7,760,271**	**7,760,271**	**7,760,271**	**—**	**—**	**—**
Derivative assets	**107,633**	**107,633**	**107,633**	**—**	**—**	**—**
AFS financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**11,232**	**11,232**	**—**	**—**	**—**	**11,232**
Financial Liabilities						
Notes payable	**5,172,538**	**5,250,284**	**5,250,284**	**—**	**—**	**—**
Trade payables and other current liabilities (excluding derivative liabilities)	**15,142,853**	**15,142,853**	**15,142,853**	**—**	**—**	**—**
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	**3,116**	**3,116**	**3,116**	**—**	**—**	**—**
Long-term debt	**4,460,807**	**5,423,012**	**—**	**—**	**5,423,012**	**—**
Other noncurrent liabilities (excluding retirement liability)	**2,883**	**2,883**	**—**	**2,883**	**—**	**—**

2009	Carrying Amount	Contractual Cash flow	1 Year or Less	> 1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	₱ 3,950,346	₱ 3,950,346	₱ 3,950,346	₱—	₱—	₱ —
Trade and other receivables — net	9,023,953	9,023,953	9,023,953	—	—	—
Derivative assets	47,070	47,070	47,070	—	—	—
AFS financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	13,761	13,761	—	—	—	13,761
Financial Liabilities						
Notes payable	8,816,090	8,833,169	8,833,169	—	—	—
Trade payables and other current liabilities (excluding derivative liabilities)	12,653,724	12,653,724	12,653,724	—	—	—
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	13,362	13,362	13,362	—	—	—

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. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. Thus, the Group has established detailed credit policies under which each new customer is reviewed individually for creditworthiness before standard payment and delivery terms and conditions are implemented. 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 also 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. 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 recognizes provision for uncollectible accounts and 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 at December 31, 2010 and 2009, without considering the effects of collaterals and other risk mitigation techniques, is presented below:

	Note	2010	2009
Cash and cash equivalents	*6*	**₱ 7,041,345**	₱ 3,950,346
Trade and other receivables — net	*7*	**7,760,271**	9,023,953
Derivative assets	*32*	**107,633**	47,070
AFS financial assets	*32*	**11,232**	13,761
		₱14,920,481	₱13,035,130

The credit risk for cash and cash equivalents, derivative assets 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, hogs and cattle in all dressing and meat 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.

Capital Management

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

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

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

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

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

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to regulatory-imposed capital requirements.

32. Financial Assets and Financial Liabilities

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as at December 31, 2010 and 2009:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**₱ 7,041,345**	**₱ 7,041,345**	₱ 3,950,346	₱ 3,950,346
Trade and other receivables — net	**7,760,271**	**7,760,271**	9,023,953	9,023,953
Derivative assets	**107,633**	**107,633**	47,070	47,070
AFS financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**11,232**	**11,232**	13,761	13,761
Financial liabilities				
Notes payable	**5,172,538**	**5,172,538**	8,816,090	8,816,090
Trade payables and other current liabilities (excluding derivative liabilities)	**15,142,853**	**15,142,853**	12,653,724	12,653,724
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	**3,116**	**3,116**	13,362	13,362
Long-term debt	**4,460,807**	**4,489,490**	—	—
Other noncurrent liabilities (excluding retirement liability)	**2,883**	**2,883**	—	—

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

Cash and Cash Equivalents and Trade and Other Receivables. The carrying amounts of cash and cash equivalents and receivables approximate fair values primarily due to the relatively short-term maturities of these financial 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.

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.

Notes Payable and Trade Payables and Other Current Liabilities. The carrying amounts of notes payable and trade payables and other current liabilities approximate fair values due to the relatively short-term maturities of these financial instruments.

Long-term Debt 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 at reporting date. As at December 31, 2010, discount rates used range from 1.32% to 5.03%. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments that are categorized into those accounted for as hedges and those that are not designated as hedges are discussed below.

The Group, through SMC, 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 futures and options.

Derivative Instruments Accounted for as Hedges

Cash Flow Hedge. In 2008, the Group had outstanding bought and sold options designated as hedge of forecasted purchases of fuel oil requirements for 2009. These options were exercised at various calculation dates in 2009 with specified quantities on each calculation date.

As at December 31, 2010 and 2009, the Group has no outstanding commodity options accounted for as cash flow hedge. However, the amount charged to profit or loss in 2009 amounted to ₱7.6 million.

These option contracts were used to hedge the commodity price risk of the Group's commitments. There was no ineffective portion on these hedges.

Other Derivative Instruments Not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding commodity options and embedded currency forwards 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 various commodity options entered into by SMC on behalf of the Group.

The Group had outstanding bought and sold options covering its wheat requirements with various maturities in 2010 and 2011. As at December 31, 2010 and 2009, the notional quantity allocated to the Group is 49,532 and 59,874 metric tons, respectively. The net positive (negative) fair value of these options as at December 31, 2010 and 2009 amounted to ₱53.9 million and ₱(5.8 million), respectively.

Embedded Derivatives

The Group's embedded derivatives include currency forwards embedded in non-financial contracts. As at December 31, 2010 and 2009, the total outstanding notional amount of such embedded currency forwards amounted to US$34.4 million and US$28.6 million, 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 at December 31, 2010 and 2009, the net positive fair value of these embedded currency forwards amounted to ₱50.6 million and ₱39.5 million, respectively.

For the years ended December 31, 2010, 2009 and 2008, the Group recognized mark-to-market gains (losses) from freestanding and embedded derivatives amounting to ₱167.0 million, ₱54.5 million and ₱(388.3 million), respectively.

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Balance at beginning of year	**₱ 33,708**	₱(108,456)
Net changes in fair value of derivatives:		
Designated as accounting hedges	**—**	3,645
Not designated as accounting hedges	**167,021**	55,267
	200,729	(49,544)
Less fair value of settled instruments	**96,212**	(83,252)
Balance at end of year	**₱104,517**	₱ 33,708

Hedge Effectiveness Results

As at December 31, 2010 and 2009, the Group has no outstanding derivatives designated as hedge.

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 at December 31, 2010 and 2009. The different levels have been defined as follows:

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

2010	Level 1	Level 2	Total
Financial Assets			
Derivative assets	**₱53,907**	**₱53,726**	**₱107,633**
AFS financial assets	**1,557**	**9,675**	**11,232**
Financial Liabilities			
Derivative liabilities	**—**	**3,116**	**3,116**

2009	Level 1	Level 2	Total
Financial Assets			
Derivative assets	₱ 4,863	₱42,207	₱47,070
AFS financial assets	4,048	9,713	13,761
Financial Liabilities			
Derivative liabilities	10,698	2,664	13,362

As at December 31, 2010 and 2009, the Group has no financial instruments valued based on Level 3. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The disclosure on fair value hierarchy is only presented for December 31, 2010 and 2009 as comparative information is not required in 2009, which was the first year of application of the amended PFRS 7.

33. Employee Stock Purchase Plan

SMC offers shares of stocks to employees of SMC and its subsidiaries under the Employee's Stock Purchase Plan (ESPP). Under the ESPP, all permanent Philippine-based employees of SMC and its subsidiaries who have been employed for a continuous period of one year prior to the subscription period will be allowed to subscribe at a price equal to the weighted average of the daily closing market prices for three months prior to the offer period less 15% discount. A participating employee may acquire at least 100 shares of stocks through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to SMC until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from exercise date.

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions.

Expenses billed by SMC for share-based payments charged by the Group to operations and included in "Selling and Administrative Expenses" amounted to ₱17.6 million, ₱6.3 million and ₱5.5 million in 2010, 2009 and 2008, respectively.

34. Other Matters

a. Toll Agreements

The significant subsidiaries are into toll processing with various contract growers, breeders, contractors and processing plant operators (collectively referred to as "the Parties"). The terms of the agreements include the following, among others:

- The Parties have the qualifications to provide the contracted services and have the necessary manpower, facilities and equipment to perform the services contracted.
- Tolling fees paid to the Parties are based on the agreed rate per acceptable output or processed product. The fees are normally subject to review in cases of changes in costs, volume and other factors.
- The periods of the agreement vary. Negotiations for the renewal of any agreement generally commence six months before expiry date.

Total tolling expenses in 2010, 2009 and 2008 amounted to ₱3,971.0 million, ₱3,137.9 million, and ₱2,663.8 million, respectively.

b. Contingencies

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

c. Commitments

The outstanding capital and purchase commitments as at December 31, 2010 and 2009 amounted to ₱10,074.1 million and ₱13,813.6 million, respectively.

d. Registration with the Board of Investments (BOI)

Certain operations of consolidated subsidiaries are registered with the BOI as pioneer and non-pioneer activities. As registered enterprises, these consolidated subsidiaries are subject to some requirements and are entitled to certain tax and non-tax incentives which are considered in the computation of the provision for income tax.

SMFI

SMFI was registered with the BOI on a non-pioneer status as a New Producer of Animal Feeds for its Mariveles, Bataan plant and as a New Producer of Chicken (Dressed) for its Orion, Bataan farm in August 2006 and July 2007, respectively.

Under the terms of SMFI's BOI registration and subject to certain requirements as provided in the Omnibus Code of 1987, SMFI is entitled to incentives which included, among others, ITH for a period of four (4) years from January 2007 for Animal Feeds and from October 2007 for Dressed Chicken (can be extended to maximum of 8 years provided certain conditions are met).

SMFI's (formerly Monterey) Sumilao Hog Project (Sumilao Project) was registered with the BOI under Registration No. 2008-192, in accordance with the provisions of the Omnibus Investment Code of 1987 on a pioneer status as New Producer of Hogs on July 30, 2008. As a BOI-registrant, the Sumilao Project is entitled to incentives which included, among others, income tax holiday (ITH) for a period of six (6) years, extendable under certain conditions to eight (8) years, from February 2009 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

PF-Hormel

The existing registration of PF-Hormel with the BOI was made on May 18, 2006 in accordance with the provisions of the Omnibus Investments Code of 1987 as a new producer of processed meat products on a non-pioneer status. Under the terms of this new registration, PF-Hormel is entitled to certain tax incentives, including income tax holiday (ITH) for four years from July 2007, or from the actual start of commercial operations, whichever comes first, but in no case earlier than the date of registration.

PF-Hormel's new registered activity with the BOI commenced commercial operations in July 2007 and began to avail tax incentives since then.

35. Events After the Reporting Date

On January 20, 2011, the SEC favorably considered the Company's Registration Statement covering the registration of 15,000,000 preferred shares with a par value of ₱10.00 per share.

On January 26, 2011, the PSE approved, subject to certain conditions, the (i) application of the Company to list up to 15,000,000 preferred shares with a par value of ₱10.00 per share to cover the Company's follow-on preferred shares offering at an offer price of ₱1,000.00 per share and with a dividend rate determined by management on the dividend rate setting date.

On February 10, 2011, the SEC issued the order for the registration of the Company's 15,000,000 preferred shares with a par value of ₱10.00 per share and released the Certificate of Permit to Offer Securities for Sale.

On February 11, 2011, the Company's BOD approved the terms of the preferred shares offer, a summary of which is set out below.

SMPFC, through the underwriters and selling agents, offered 15,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares with 5-year maturity at an offer price of ₱1,000.00 per share during the period February 14 to 25, 2011. The dividend rate was set at 8% per annum with dividend payment dates on March 3, June 3, September 3 and December 3 of each year calculated on a 30/360-day basis, as and if declared by the Board. Optional redemption of the preferred shares prior to 5th year from issuance date was provided under certain conditions (i.e., accounting, tax or change of control events). Unless the preferred shares are redeemed by the Company on its 5th year anniversary, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 8% or the ten-year PDST-F rate prevailing on the optional redemption date plus 3.33% per annum.

On March 3, 2011, the Company's 15,000,000 preferred shares with par value of ₱10.00 per share were listed with the PSE.

On March 8, 2011, the Company paid SMC the amount of ₱2,880.0 million representing the 90% balance of the purchase price of the food-related brands and intellectual property rights acquired in July 2010 (Note 14).

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