SAN MIGUEL CORPORATION

May 7, 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:

San Miguel Corporation (the "Company") is submitting herewith a copy of the Definitive Information Statement filed with the Securities and Exchange Commission for distribution to the Company's stockholders.

Very truly yours,

Mary Rose S. Tan
Assistant Corporate Secretary

COVER SHEET

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S. E. C. Registration Number

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(Company's Full Name)

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

Atty. Mary Rose S. Tan

Contact Person

(632) 632-3000

Company Telephone Number

SEC FORM 20-IS

1	2

Month

3	1

Day

Definitive Information Statement

FORM TYPE

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

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PROXY

I, the undersigned stockholder of SAN MIGUEL CORPORATION (the "Company"), appoint:

The Chairman of the Board of Directors of the Company, or in his absence

The Vice Chairman of the Board of Directors of the Company, or in his absence

The President of the Company, or in his absence

The Chairman of the June 14, 2012 Annual Meeting of the Stockholders

as my proxy, to represent me at the regular meeting of the stockholders of the Company scheduled for Thursday, June 14, 2012 at 2:00 p.m. at the Ballroom, Valle Verde Country Club, Inc., Capt. Henry P. Javier St., Bo. Oranbo, Pasig City, Philippines, and any of its adjournment(s), as fully as I could do if present and voting in person, ratifying all action taken on matters that may properly come before such meeting or its adjournment(s). I direct my proxy to vote shares which I own, or may hereafter own, and such shares as I am authorized to vote in my capacity as Administrator, Executor or Attorney-in Fact, on the agenda items I have indicated with "X" below. **If I fail to indicate my vote on the items specified below, my proxy shall vote in accordance with the recommendation of Management. Management recommends a "FOR ALL" vote for proposal 1, and a "FOR" vote for proposals 2 through 9.**

PROPOSAL	ACTION		
	FOR ALL	WITHHOLD FOR ALL	EXCEPTION
1. Election of Management's Nominees as Directors			
Management's Nominees are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Estelito P. Mendoza, Leo S. Alvez, Joselito D. Campos, Jr., Ferdinand K. Constantino, Roberto V. Ongpin, Alexander J. Poblador, Eric O. Recto, Menardo R. Jimenez, Iñigo Zobel, Thomas A. Tan, Winston F. Garcia, Reynato S. Puno, and Margarito B. Teves. **INSTRUCTIONS:** *To withhold authority to vote for any individual nominee(s) of Management, please mark Exception box and list the name(s) under.*			
	FOR	AGAINST	ABSTAIN
2. Approval of the Amendment of the Amended Articles of Incorporation of the Company to Increase the Authorized Capital Stock.			
3. Approval of the Minutes of the 2011 Annual Stockholders' Meeting			
4. Approval of the Annual Report of the Company for year ended December 31, 2011			
5. Ratification of all the acts of the Board of Directors and Officers since the 2011 Annual Stockholders' Meeting.			
6. Appointment of Manabat Sanagustin & Company as external auditors of the Company			

Signed this _____ day of _____ 2012.

_____ _____

PRINTED NAME OF SHAREHOLDER SIGNATURE OF SHAREHOLDER/ AUTHORIZED SIGNATORY

Revocability of Proxies. A person giving a proxy may revoke it at any time before it is exercised. A proxy may be revoked by any of the following means: (1) filing with the Corporate Secretary, at least 10 working days before the scheduled meeting, a written notice revoking it; or (2) attending the meeting and voting in person. Mere attendance at the meeting will not automatically revoke a proxy.

Persons Making the Solicitation. This solicitation is being made by the Company. Solicitation of proxies in the Philippines will be mainly conducted through mail. Proxies will also, however, be solicited in person or through telephone. The cost of solicitation, approximately ₱2,000,000.00, will be borne by the Company.

Interest of Certain Persons in Matters to be Acted Upon. No director, nominee for election as director, associate of the nominee or executive officer of the Company at any time since the beginning of the last fiscal year has had any substantial interest, direct or indirect, by security holdings or otherwise, in any of the matters to be acted upon in the meeting, other than election to office.

SAN MIGUEL CORPORATION

NOTICE OF REGULAR MEETING OF STOCKHOLDERS
June 14, 2012

The Regular Meeting of the Stockholders of San Miguel Corporation will be held on **Thursday, June 14, 2012** at **2:00 P.M.** at the **Ballroom, Valle Verde Country Club, Inc., Capt. Henry P. Javier St., Bo. Oranbo, Pasig City**.

The Agenda of the Meeting is as follows:

1. Certification of Notice and Quorum
2. Approval of the Minutes of the Regular Stockholders' Meeting held on June 7, 2011
3. Presentation of the Annual Report
4. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
5. Approval of Increase in the Authorized Capital Stock
6. Approval of the Amendments to Article VII of the Amended Articles of Incorporation of the Company
7. Appointment of External Auditors
8. Election of the Board of Directors
9. Other Matters
10. Adjournment

Minutes of the 2011 Regular Stockholders' Meeting and resolutions of the Board of Directors beginning January 1, 2011 will be available for examination during office hours at the Office of the Corporate Secretariat.

The deadline for submission of proxies is on **May 30, 2012**. For corporations, proxies must be accompanied by its Corporate Secretary's sworn certification setting the corporate officer's authority to represent the corporation in the meeting. Proxies need not be notarized. Validation of proxies will be on **June 6, 2012** at 10:00 a.m. at the SMC Stock Transfer Service Corporation Office, Podium Level, SMC Head Office Complex, No. 40 San Miguel Ave., Mandaluyong City, Philippines. For your convenience in registering your attendance, please present some form of identification, such as passport, driver's license, or company I.D. Registration will start at 11:30 A.M. and the registration booths will be closed at 2:15 P.M.

Virgilio S. Jacinto
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS
INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:
   ____ Preliminary Information Statement
   ___√___ Definitive Information Statement

2. Name of Registrant as specified in its charter **SAN MIGUEL CORPORATION**

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

4. SEC Identification No. **PW 000277**

5. BIR Tax Identification No. **041-000-060-741-V**

6. Address of principal office Postal Code

   No. 40 San Miguel Avenue, Mandaluyong City **1550**

7. Registrant's telephone number, including area code **(02) 632-3000**

8. Date, Time and Place of the meeting of security holders

   Thursday, June 14, 2011 at 2:00 P.M.
   Ballroom, Valle Verde Country Club, Inc.,
   Capt. Henry P. Javier St., Bo. Oranbo, Pasig City

9. Approximate date on which the Information Statement is first to be sent or given to security holders

   May 14, 2012

10. Name of Person Filing the Statement: **San Miguel Corporation**
    Address: **40 San Miguel Ave., Mandaluyong City 1550**
    Telephone No.: **(02) 632-3000**

11. Securities registered pursuant to Sections 8 and 12 of the SRC

Title of Each Class	Number of Shares of Common and Preferred Stock Outstanding as of April 30, 2012
Common Shares	**2,369,328,187**
Series "1" Preferred Shares	**970,506,353**
Total	**3,339,834,540**

12. Are any or all of registrant's securities listed on a Stock Exchange?
    Yes [√] No [ ]
    If yes, disclose name of the Stock Exchange and class of securities listed therein:
    Philippine Stock Exchange **Common Shares and Series "1" Preferred Shares**

INFORMATION STATEMENT

GENERAL INFORMATION

Date, Time and Place of Annual Meeting

The annual stockholders' meeting of **San Miguel Corporation** (the "Company") will be held at the **Ballroom, Valle Verde Country Club, Inc., Capt. Henry P. Javier St., Bo. Oranbo, Pasig City** on **June 14, 2012** at **2:00 p.m.** The complete mailing address of the principal office of the Company is No. 40 San Miguel Avenue, Mandaluyong City, 1550, Metro Manila, Philippines.

The information statement is first to be sent to security holders approximately on **May 14, 2012**.

WE ARE NOT ASKING YOU FOR A PROXY
AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

Revocability of Proxies

A person giving a proxy may revoke it at any time before it is exercised. A proxy may be revoked through any of the following means: (1) filing with the Corporate Secretary, at least ten (10) working days before the scheduled meeting, a written notice revoking it; or (2) attending the meeting and voting in person. Mere attendance at the meeting will not automatically revoke a proxy.

Dissenters' Right of Appraisal

Under Title X of the Corporation Code, stockholders dissenting from and voting against the following corporate actions may demand payment of the fair value of their shares as of the day prior to the date on which the vote was taken for such corporate action, namely: amendment to the corporation's articles and By-laws which has the effect of changing and restricting the rights of any shareholder or class of shares; or authorizing preferences in any respect superior to those of outstanding shares of any class; sale, lease, mortgage or other disposition of all or substantially all of the corporation's assets; merger or consolidation; investment of corporate funds in another corporation or business or for any purpose other than its primary purpose; and extension or shortening of term of corporate existence.

Stockholders who voted against the proposed corporate action to amend the Company's articles of incorporation to increase the authorized capital stock are entitled to exercise their right of appraisal as provided in Title X of the Corporation Code. The stockholders' right of appraisal may be exercised by giving a written demand on the Company, within thirty (30) days from June 14, 2012, the date on which the vote on the corporate action was taken, or not later than July 14, 2012. Failure to make demand within such period shall be deemed a waiver of the appraisal right.

If the proposed action is implemented or effected, the Company shall pay to the dissenting stockholder, upon surrender of the stock certificates representing his shares, the fair value of the dissenting shares, to be determined in accordance with Title X of the Corporation Code, as of the day prior to June 14, 2012, excluding any appreciation or depreciation in anticipation of such corporate action, and provided that the Company has unrestricted retained earnings.

SOLICITATION INFORMATION

Person making the Solicitation

This solicitation is being made by the Company.

Solicitation of proxies in the Philippines will be mainly conducted through mail. Proxies will also, however, be solicited in person or through telephone. The cost of solicitation, approximately ₱2,000,000.00 will be borne by the Company.

Interest of Certain Persons in Matters to be Acted Upon

No director, nominee for election as director, associate of the nominee or executive officer of the Company at any time since the beginning of the last fiscal year has had any substantial interest, direct or indirect, by security holdings or otherwise, in any of the matters to be acted upon in the meeting, other than election to office.

None of the incumbent directors has informed the Company in writing of an intention to oppose any action to be taken by the Company at the meeting.

CONTROL AND COMPENSATION INFORMATION

Voting Securities and Principal Holders Thereof

As of April 30, 2012, the Company had the following outstanding shares of common stock:

Title of Class	No. of shares outstanding
Common Shares	2,369,328,187
Series "1" Preferred Shares	970,506,353
Total	**3,339,834,540**

The record date with respect to this solicitation is on **May 14, 2012.** Only stockholders of record at the close of business on **May 14, 2012** will be entitled to vote at the meeting.

A stockholder entitled to vote at the meeting has the right to vote in person or by proxy. With respect to the election of directors, in accordance with Section 24 of the Corporation Code of the Philippines, a stockholder may vote the number of common shares held in his name in the Company's stock books as of **May 14, 2012**, and may vote such number of common shares for as many persons as there are directors to be elected or he may cumulate said common shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his common shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; Provided, That the total number of votes cast by him shall not exceed the number of common shares owned by him as shown in the books of the Company multiplied by the total number of directors to be elected.

The total number of votes that may be cast by a stockholder of the Company is computed as follows: **no. of common shares held on record as of record date multiplied by 15 directors**.

The deadline for submission of proxies is on **May 30, 2012.** Validation of proxies will be on **June 6, 2012** at 10:00 a.m. at the SMC Stock Transfer Service Corporation Office, Podium Level, SMC Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, Philippines.

Owners of more than 5% of the Company's voting[1] securities as of April 30, 2012 were as follows:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Series "1" Preferred Shares	CIIF Companies[2] c/o 16/F, UCPB Building, Makati City	CIIF Companies c/o 16/F, UCPB Building, Makati City	Filipino	753,848,312	22.57%
Common	ECJ Companies[3] c/o 5/F, Universal Reinsurance Building, Perea Street corner Paseo de Roxas, Legaspi Village, Makati City	ECJ Companies	Filipino	493,375,183	14.77%

[1] *Common stockholders have the right to vote on all matters requiring stockholders' approval. The holders of the Series "1" Preferred Shares shall not be entitled to vote except in matters provided for in the Corporation Code: amendment of Articles of Incorporation; adoption and amendment of By-laws; sale, lease exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; incurring, creating or increasing bonded indebtedness; increase or decrease of capital stock; merger or consolidation with another corporation or other corporations; investment of corporate funds in another corporation or business; and dissolution.*

[2] *ASC Investors, Inc., ARC Investors, Inc., Anglo Ventures Corporation, AP Holdings, Inc., Fernandez Holdings, Inc., First Meridian Development, Inc., Randy Allied Ventures, Inc., Rock Steel Resources, Inc., Roxas Shares, Inc., San Miguel Officers Corps., Inc., Soriano Shares, Inc., Te Deum Resources, Inc., Toda Holdings, Inc. and Valhalla Properties Limited, Inc. None of these companies owns more than 5% of the Company's total issued and outstanding Series "1" Preferred Shares as of April 30, 2012 except ASC Investors, Inc.; ARC Investors, Inc., Toda Holdings, Inc., Te Deum Resources, Inc., Rock Steel Resources, Inc., San Miguel Officers Corps., Inc. and Roxas Shares, Inc. (see Top 20 Series "1" Preferred Shareholders in this report.) The administrator of the CIIF Companies is the United Coconut Planters Bank and the Chairman of the Board or its President or the designate of the Chairman is authorized to vote in person or by proxy the shares registered in the name of the CIIF Companies.*

[3] *Primavera Farms, Inc., Misty Mountains Agricultural Corporation, Black Stallion Ranch, Inc., Pastoral Farms, Inc., Meadow-Lark Plantations, Inc., Silver-Leaf Plantations, Inc., Agricultural Consultancy Services, Inc., Archipelago Realty Corporation, Archipelago Finance and Leasing Corporation, Balete Ranch, Inc., Christensen Plantation Corporation, Discovery Realty Corporation, Dream Pastures, Inc., Echo Ranch, Inc., Far East Ranch, Inc., First United Transport, Inc., Habagat Realty Development Corporation, Kalawakan Resorts, Inc., Kaunlaran Agricultural Corporation, Labayug Air Terminals, Inc., Land Air International Marketing Corporation, LHL Cattle Corporation, Lucena Oil Factory, Inc., Metroplex Commodities, Inc., Northeast Contract Traders, Inc., Northern Carriers Services Management Corporation, Oceanside Maritime Enterprises, Inc., Oro Verde Services, Inc., PCY Oil Manufacturing Corporation, Philippine Technologies, Inc., Punong Bayan Housing Development Corporation, Pura Electric Co., Inc., Radio Audience Developers Integrated Org., Inc., Radyo Pilipino Corporation, Rancho Grande, Inc., Reddee Developers, Inc., San Esteban Development Corporation, Southern Service Traders, Inc., Southern Star Cattle Corporation, Spade One Resorts Corporation, Unexplored Land Developers, Inc., Verdant Plantations, Inc., Vesta Agricultural Corporation and Wings Resort Corporation. None of these corporations own more than 5% of the voting securities of the Company. The shares owned by these companies are voted, either in person or by proxy, by the authorized designate of their respective boards.*

Common	Top Frontier Investment Holdings Inc.[4] 5th Floor, ENZO Bldg., No. 339 Sen. Gil Puyat, Makati City	Top Frontier Investment Holdings Inc.	Filipino	1,221,878,025	36.58%
Common	PCD Nominee Corporation (Filipino) Makati City	Various individuals/ entities	Filipino	326,533,497	9.78%

The following are the number of shares comprising the Company's capital stock (all of which are voting shares) owned of record by the directors, Chief Executive Officer, key officers of the Company, and nominees for election as director as of April 30, 2012:

Name of Owner	Amount and Nature of Ownership		Citizenship	Total No. of Shares
	Common	Series "1" Preferred		
Eduardo M. Cojuangco, Jr.	776,038 (D)		Filipino	776,038 (0.02%)
Ramon S. Ang	376,653 (D)		Filipino	376,653 (0.01%)
Ferdinand K. Constantino	139,409 (D)	210,609 (D)	Filipino	350,018 (0.02%)
Estelito P. Mendoza	31,972 (D)		Filipino	31,972 (0.00%)
Hector L. Hofileña	29,854 (D)		Filipino	29,854 (0.00%)
Iñigo Zobel	16,171 (D)		Filipino	16,171 (0.00%)
Leo S. Alvez	5,000 (D) 9,326 (I)		Filipino	14,326 (0.00%)
Joselito D. Campos, Jr.	9,149 (D)		Filipino	9,149 (0.00%)
Winston F. Garcia	5,000 (D)		Filipino	5,000 (0.00%)
Menardo R. Jimenez	5,000 (D)		Filipino	5,000 (0.00%)
Carmelo L. Santiago	5,000 (D)		Filipino	5,000 (0.00%)
Alexander J. Poblador	5,000 (D)		Filipino	5,000 (0.00%)
Roberto V. Ongpin	5,000 (D)		Filipino	5,000 (0.00%)
Eric O. Recto	5,000 (D)		Filipino	5,000 (0.00%)
Reynato S. Puno	5,000 (D)		Filipino	5,000 (0.00%)
Virgilio S. Jacinto	25,622 (D)		Filipino	25,622 (0.00%)
Joseph N. Pineda	42,600 (D)		Filipino	42,600 (0.00%)
Aurora T. Calderon	2,600 (D)		Filipino	2,600 (0.00%)

(D) – direct
(I) – indirect

The aggregate number of shares owned of record by the Chief Executive Officer, key officers and directors as a group as of April 30, 2012 is 2,400,398 shares or approximately 0.0719% of the Company's outstanding capital stock.

[4] *The shares owned by Top Frontier Investment Holdings Inc. are voted, in person or by proxy, by its authorized designate. As of December 31, 2011, Top Frontier Investments Holdings, Inc. has voting rights to a total of 1,221,878,025 shares of the Company which represent about 51.57% of the outstanding common capital stock of the Company.*

Voting Trust

There is no person holding more than 5% of the Company's voting securities under a voting trust arrangement.

Changes in Control

The Company is not aware of any change of control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

DIRECTORS AND EXECUTIVE OFFICERS

Directors and Executive Officers

The names of the incumbent and nominee directors and key executive officers of the Company, and their respective ages, periods of service, directorships in other reporting companies and positions held in the last five (5) years, are as follows:

Eduardo M. Cojuangco, Jr., Filipino, 76, is the Chairman and Chief Executive Officer of the Company, a position he has held since July 7, 1998. He is also the Chairman of the Company's Executive Committee. He also holds the following positions: Chairman and Chief Executive Officer of Ginebra San Miguel, Inc.; and Chairman of San Miguel Pure Foods Company, Inc. He is also the Chairman of ECJ & Sons Agricultural Enterprises, Inc. and the Eduardo Cojuangco, Jr. Foundation, Inc., and a Director of Cainaman Farms, Inc. and Petron Corporation. He is a former Director of Manila Electric Company (February 2009-May 2009).

Ramon S. Ang, Filipino, 58, is the Vice Chairman since January 28, 1999, President and Chief Operating Officer since March 6, 2002 of the Company. He is also a Member of the Company's Executive Committee and Nomination and Hearing Committee. He also holds, among others, the following positions: Chairman of San Miguel Brewery Inc. and San Miguel Brewery Hong Kong Limited (Hong Kong), Petron Corporation, Sea Refinery Corporation, SMC Global Power Holdings Corp., San Miguel Foods, Inc., San Miguel Yamamura Packaging Corporation San Miguel Properties, Inc., and Anchor Insurance Brokerage Corporation; Director of Ginebra San Miguel, Inc., San Miguel Pure Foods Company, Inc. and Top Frontier Investment Holdings Inc.; Chairman of Liberty Telecoms Holdings Inc., Philippine Diamond Hotel & Resort, Inc., Philippine Oriental Realty Development, Inc., Atea Tierra Corporation and Cyber Bay Corporation; Vice Chairman and Director of Manila Electric Company; and an Independent Director of Philweb Corporation. Mr. Ang has held directorships in various domestic and international subsidiaries of SMC in the last five years. He was recently elected as President and Chief Operating Officer of PAL Holdings, Inc. and Philippine Airlines, Inc., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, and Director of Air Philippines Corporation.

Estelito P. Mendoza, Filipino, 82, has been a Director of the Company since April 21, 1998. He is a Member of the Company's Executive Committee, Audit Committee, and the Chairman of the Nomination and Hearing Committee. He is also a Director of Petron Corporation, Manila Electric Company, Philippine National Bank and Philippine Airlines, Inc., and Chairman of Prestige Travel, Inc. Atty. Mendoza, a former Solicitor General, Minister of Justice, Member of the Batasang Pambansa and Governor of the Province of Pampanga, heads the E.P. Mendoza Law Office. He is also a former Chairman of Dutch Boy Philippines, Inc. and Alcorn Petroleum and Minerals Corporation, and Director of East-West Bank.

Iñigo Zobel, Filipino, 55, has been a Director of the Company since May 5, 1999.He also holds the following positions: Chairman of Top Frontier Investment Holdings Inc., Vice Chairman of SMC Global Power Holdings Corp., President and Chief Executive Officer of E. Zobel, Inc., President of Ayala España S.A., Calatagan Golf Club, Inc. and Hacienda Bigaa, Inc.; and a Director of Top Frontier Investment Holdings Inc., Global 5000 Investments, Inc., Calatagan Resort, Inc., Calatagan Gulf Realty, Inc., and Mermac, Inc. He was previously the President of Diamond Star Agro Products, Inc. (1985-2007) and formerly an Independent Director of San Miguel Brewery Inc., San Miguel Pure Foods Company, Inc. San Miguel Properties, Inc., and Ginebra San Miguel, Inc. He was recently elected as Director of PAL Holdings, Inc. and Philippine Airlines, Inc. and President and Chief Operating Officer of Air Philippines Corporation.

Winston F. Garcia, Filipino, 53, has been a Director of the Company since February 1, 2001, currently an Independent Director of the Company, and a Member of the Company's Audit Committee and Executive Compensation Committee. Atty. Garcia was President and General Manager of the Government Service Insurance System and was Vice Chairman of its Board of Trustees. He also held the following positions: Chairman of the National Reinsurance Corporation of the Philippines, GSIS Mutual Fund, Inc., Asean Forum, Incorporated and Philippine Social Security Association; Director of Philippine National Construction Corporation, and Philippine Health Insurance Corporation; Board Member of Asean Social Security Association; and a Member of the International Insurance Society, Inc., International Social Security Association, and Federation of Afro Insurers and Reinsurers. Atty. Garcia has been a practicing lawyer since 1983.

Menardo R. Jimenez, Filipino, 79, has been a Director of the Company since February 27, 2002 and the Chairman of the Company's Executive Compensation Committee and a Member of the Executive Committee. He is also a Director of San Miguel Pure Foods Company, Inc., and Magnolia, Inc. His other positions include: Chairman of the United Coconut Planters Bank; President and Chief Executive Officer of Albay-Agro Industrial Development Corporation; 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 Cable Entertainment Corporation, Majent Foundation, Inc., Marathon Building Technologies, Inc. and Meedson Properties 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.

Leo S. Alvez, Filipino, 69, has been a Director of the Company since February 27, 2002 and a Member of the Company's Nomination and Hearing Committee. He is also a Director of Ginebra San Miguel, Inc. and San Miguel Pure Foods Company, Inc. Ret. Major General Alvez is a former Security Consultant to the Prosecution Panel of the Senate Impeachment Trial of President Joseph Estrada (2000-2001), Vice Commander of the Philippine Army (1998), and Division Commander of the 7th Infantry Division (1996-1998).

Hector L. Hofileña, Filipino, 82, has been a Director of the Company since July 24, 2008 and a Member of the Company's Executive Committee. He is a former Associate Justice of the Court of Appeals (1994-1999) and currently Director of San Miguel Properties, Inc. Justice Hofileña is a professor at the Ateneo De Manila University School of Law.

Carmelo L. Santiago, Filipino, 69, has been an Independent Director of the Company since July 24, 2008. He is the Chairman of the Company's Audit Committee, and Member of the Executive Committee, Executive Compensation Committee and the Nomination and Hearing Committee. He

is also an Independent Director of San Miguel Brewery Inc., San Miguel Brewery Hong Kong Limited (Hong Kong) and Liberty Telecoms Holdings Inc.; and Director of Terbo Concepts. Mr. Santiago is the founder and owner of several branches of Melo's Restaurant and founder of Wagyu Restaurant.

Roberto V. Ongpin, Filipino, 75, has been a Director of the Company since September 1, 2009. He is a member of the Nomination and Hearing Committee. He also holds the following positions: Director of Petron Corporation, Top Frontier Investment Holdings Inc., Araneta Properties, Inc. and Shangri-La Asia (Hong Kong); Chairman of PhilWeb Corporation, ISM Communications Corporation, Alphaland Corporation, Philippine Bank of Communications, Atok-Big Wedge Co., Inc., and Acentic GmbH; Non-Executive Director, Forum Energy PLC (UK) and Shangri-la Asia Limited (Hong Kong), and Deputy Chairman, South China Morning Post (Hong Kong). He was recently elected as Director of PAL Holdings, Inc. and Philippine Airlines, Inc.

Alexander J. Poblador, Filipino, 58, has been a Director of the Company since September 1, 2009. He is the Founding Partner and Chairman of the Executive Committee of Poblador Bautista & Reyes Law Office. Atty. Poblador is a practicing lawyer, specializing in the fields of commercial litigation, international arbitration, real estate finance and project development, bankruptcy and corporate reorganization.

Joselito D. Campos, Jr., Filipino, 61, has been a Director since May 31, 2010. He is a member of the Executive Compensation Committee. He is the Managing Director and Chief Executive Officer and a Director of Del Monte Pacific Ltd, and President and Chief Executive Officer of Del Monte Philippines. He is also the Chairman and Chief Executive Officer of the NutriAsia Group of Companies, a major food conglomerate in the Philippines, Chairman of Fort Bonifacio Development Corp. and Vice-Chairman of Ayala-Greenfield Development Corp., two major Philippine property developers. He is also a Director of FieldFresh Foods (P) Ltd., a joint venture of DMPL with the Bharti Group of India, one of India's largest companies. He was the former Chairman and Chief Executive Officer of United Laboratories, Inc. and its regional subsidiaries and affiliates. He is also the Honorary Consul in the Philippines for the Republic of Seychelles. He is Chairman of the Metropolitan Museum of Manila and a Trustee of the Asia Society in the Philippines, the Philippines-China Business Council, the Philippine Center for Entrepreneurship and the World Wildlife Fund for Nature-Philippines.

Eric O. Recto, Filipino, 48, has been a Director since May 31, 2010. He is a member of the Company's Executive Compensation Committee and the Nomination and Hearing Committee. He is the Chairman, Chief Executive Officer and Executive Director of Petron; Director of manila Electric Company, Vice Chairman of Philweb Corporation, Atok-Big Wedge Corporation, Alphaland Corporation and Philippine Bank of Communications; President of ISM Communications Corporation, Top Frontier Investment Holdings Inc. He was previously Undersecretary of the Department of Finance, in charge of both the International Finance Group and the Privatization Office from 2002 to 2005.

Ferdinand K. Constantino, Filipino, 60, has been a Director of the Company since May 31, 2010. He is a member of the Audit Committee and Executive Compensation Committee. He is Senior Vice President, Chief Finance Officer and Treasurer of the Company. He also holds, among others, the following positions: President of Anchor Insurance Brokerage Corporation; and a Director of San Miguel Brewery Inc., San Miguel Yamamura Packaging Corporation, SMC Global Power Holdings Corp., Top Frontier Investment Holdings Inc. and Bank of Commerce. Mr. Constantino previously served San Miguel Corporation as Chief Finance Officer of the San Miguel Beer Division (1999-2005) and as Chief Finance Officer and Treasurer of San Miguel Brewery Inc. (2007-2009); Director of San Miguel Pure Foods Company, Inc. (2008-2009), Director of Ginebra

San Miguel, Inc. (2008-2010) and and San Miguel Properties, Inc. (2001-2009); and Chief Finance Officer of Manila Electric Company (2009) He has held directorships in various domestic and international subsidiaries of SMC during the last five years. He was recently elected as Director of PAL Holdings, Inc., and Philippine Airlines, Inc.

Reynato S. Puno, Filipino, 71, was elected to the Board as an independent director of the Company on January 20, 2011. Former Chief Justice Reynato S. Puno served as the Chief Justice of the Supreme Court from December 6, 2006 until his retirement on May 17, 2010. He joined the Court as an Associate Justice on June 1993 and was previously Associate Justice of the Court of Appeals (1986 to 1993), Appellate Justice of the Intermediate Appellate Court (1983), Assistant Solicitor General (1974-1982) and City Judge of Quezon City (1972-1974). He has 177 also served as Deputy Minister of Justice from 1984-1986. He completed his Bachelor of Laws from the University of the Philippines in 1962, and has a Master of Laws degree from the University of California in Berkeley (1968) and a Master in Comparative Law degree from the Southern Methodist University, Dallas, Texas (1967).

Thomas A. Tan, Filipino, 58, is a nominee for Director of the Company. He is the President and General Manager of SMC Shipping and Lighterage Corporation and President of Saturn Cement Corporation. He obtained a degree on Bachelor of Science, major in Physics in 1974 from the Ateneo de Manila University and a Master in Business Management from the Asian Institute of Management in 1976. He is likewise a Director of other affiliates of the Company.

Margarito B. Teves, 68, is a nominee for Independent Director of the Company. He was Secretary of the Department of Finance of the Philippine government from 2005 to 2010, and was previously President and Chief Executive Officer of the Land Bank of the Philippines from 2000 to 2005. He holds a Master of Arts in Development Economics from the Center for Development Economics, Williams College, Massachusetts and was a graduate of the City of London College, with a degree of Higher National Diploma in Business Studies which is equivalent to a Bachelor of Science in Business Economics.

Virgilio S. Jacinto is the Corporate Secretary, Senior Vice President and General Counsel and Compliance Officer of the Company (since October 8, 2010). He is a Director of San Miguel Brewery Inc. and Petron Corporation. He was formerly the Vice President and First Deputy General Counsel from 2006 to 2010 and appointed as the Company's General Counsel in 2010. He was Director and Corporate Secretary of United Coconut Planters Bank, Partner at Villareal Law Offices and Associate at SyCip, Salazar, Feliciano & Hernandez Law Office. Mr. Jacinto is an associate professor at the University of the Philippines. He obtained his law degree from the University of the Philippines where he was the class salutatorian and placed sixth in the 1981 Bar Examinations. He holds a Master of Laws degree from Harvard University. In addition, Mr. Jacinto holds various directorships in various domestic and international subsidiaries of SMC.

Joseph N. Pineda is the Senior Vice President and Deputy Chief Finance Officer of the Company. He was formerly Vice-President prior to his promotion on July 27, 2010, and has been the Deputy Chief Financial Officer since December 2005. He was previously Special Projects Head of the Company since January 2005. Mr. Pineda has a degree of Bachelor of Arts in Economics from San Beda College and obtained units towards a Master in Business Administration degree from De La Salle University. In addition, Mr. Pineda holds directorships in various SMC domestic and international subsidiaries.

Aurora T. Calderon is the Senior Vice President-Senior Executive Assistant to the President and Chief Operating Officer of the Company since January 20, 2011. Previous to her appointment, she was a consultant of the Company reporting to the Chief Operating Officer since 1998. She is also a

member of the board of directors of Petron Corporation, Petron Marketing Corporation, Petron Freeport Corporation, SMC Global Power Holdings Corp., Sea Refinery Corporation, Thai San Miguel Liquor Co., Ltd., NVRC, Las Lucas Construction and Development Corp., and Kankiyo Corporation. She is the President and a Director of Total Managers, Inc. and was a Director of Meralco (2008-2009). A certified public accountant, Ms. Calderon graduated from the University of the East with a degree in Bachelor of Science in Business Administration, major in Accountancy, *magna cum laude*. In addition, Ms. Calderon holds directorships in various SMC domestic and international subsidiaries. She was recently elected as Director of PAL Holdings, Inc., Philippine Airlines, Inc., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, and Air Philippines Corporation.

Term of Office

Pursuant to the Company's By-laws, the directors are elected at each annual stockholders meeting by stockholders entitled to vote. Each director holds office until the next annual election and his successor is duly elected, unless he resigns, dies or is removed prior to such election.

The nominees for election to the Board of Directors on June 14, 2012 are as follows:

1. Eduardo M. Cojuangco, Jr.
2. Ramon S. Ang
3. Estelito P. Mendoza
4. Leo S. Alvez
5. Joselito D. Campos, Jr.
6. Ferdinand K. Constantino
7. Roberto V. Ongpin
8. Alexander J. Poblador
9. Eric O. Recto
10. Menardo R. Jimenez
11. Iñigo Zobel
12. Thomas A. Tan
13. Winston F. Garcia – Independent Director
14. Reynato S. Puno – Independent Director
15. Margarito B. Teves – Independent Director

Independent Directors

The incumbent independent directors of the Company are as follows:

1. Winston F. Garcia
2. Carmelo L. Santiago
3. Reynato S. Puno

The incumbent directors have certified that they possess all the qualifications and none of the disqualifications provided for in the SRC. The Certifications of the incumbent directors are attached hereto as **Annexes "A-1,""A-2,** and **"A-3"**.

The nominees for election as independent directors of the Board of Directors on June 14, 2012 are as follows:

Nominee for Independent Director (a)	Person/Group recommending nomination (b)	Relation of (a) and (b)
Winston F. Garcia	Ramon S. Ang	None
Reynato S. Puno	Ramon S. Ang	None
Margarito B. Teves	Ramon S. Ang	None

In approving the nominations for independent directors, the Nominations Committee took into consideration the guidelines and procedures on the nomination of independent directors prescribed in SRC Rule 38.

The nominations for the election of all directors by the stockholders shall be submitted in writing to the Board of Directors through the Corporate Secretary on or before such date that the Board of Directors may fix, provided that such date shall be prior to the stockholders' meeting. The nominations are forwarded to the Nominations Committee which shall pre-screen the qualifications of the nominees and prepare a final list of nominees eligible for election. No other nominations are entertained after the final list of candidates is prepared.

Under Section 2, Article III of the Company's By-laws, (i) any stockholder having at least five thousand (5,000) shares registered in his name may be elected Director, and (ii) a person engaged in any business which competes with or is antagonistic to that of the Company as defined in Section 2, Article III of the Company's By-laws is not qualified or eligible for nomination or election to the Board of Directors.

All the nominees for election to the Board of Directors satisfy the mandatory requirements specified under the provisions of Section 2, Article III of the Company's By-laws.

Significant Employees

The Company has no employee who is not an executive officer but who is expected to make a significant contribution to the business.

Family Relationships

Mr. Eric O. Recto is the nephew of Mr. Roberto V. Ongpin. Both are incumbent directors of the Company. Other than this, there are no other family relationships up to the fourth civil degree, either by consanguinity or affinity, among the directors, executive officers or persons nominated or chosen by the Company to become its directors or executive officers.

Certain Relationships and Related Transactions

There were no transactions with directors, officers or any principal stockholders (owning at least 10% of the total outstanding shares of the Company) which are not in the Company's ordinary course of business.

Involvement in Certain Legal Proceedings

None of the directors, nominees for election as director, executive officers or control persons of the Company have been involved in any legal proceeding, including without limitation being the subject of any (a) bankruptcy petition, (b) conviction by final judgment in a criminal proceeding, domestic or foreign, or a pending criminal proceeding, domestic or foreign, excluding

traffic violations and other minor offenses, (c) order, judgment or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities, which is not subsequently reversed, suspended or vacated, or (d) judgment of violation of a securities or commodities law or regulation by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self regulatory organization, which has not been reversed, suspended or vacated, for the past five (5) years up to the latest date that is material to the evaluation of his ability or integrity to hold the relevant position in the Company.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The aggregate compensation paid or incurred during the last two (2) fiscal years and estimated to be paid in the ensuing fiscal year to the Chief Executive Officer, Mr. Eduardo M. Cojuangco, Jr., and senior executive officers of the Company are as follows:

NAME	YEAR	SALARY	BONUS	OTHERS	TOTAL
Total Compensation of the Chief Executive Officer and Senior Executive Officers[5]	2012 (estimated)	₱160.9 Million	₱127.2 Million	₱ 26.8 Million	₱314.9 Million
	2011	₱145.5 Million	₱ 184.6 Million	₱ 34.1 Million	₱ 364.2 Million
	2010	₱ 145.8 Million	₱ 161.6 Million	₱ 23.2 Million	₱ 330.6 Million
All other officers and directors as a group unnamed	2012 (estimated)	₱113.7 Million	₱ 46.8 Million	₱ 28.2 Million	₱ 188.7 Million
	2011	₱ 113.0 Million	₱ 66.1 Million	₱ 31.4 Million	₱ 210.5 Million
	2010	₱ 91.7 Million	₱ 40.8 Million	₱ 31.8 Million	₱ 164.3 Million
Total	2012 (estimated)	₱ 274.6 Million	₱ 174.0 Million	₱ 55.0 Million	₱ 503.6 Million
	2011	₱ 258.5 Million	₱ 250.7 Million	₱ 65.5 Million	₱ 574.7 Million
	2010	₱ 237.5 Million	₱ 202.4 Million	₱ 55 Million	₱ 494.9 Million

Section 10 of the Amended By-laws of the Company provides that the Board of Directors shall receive as compensation no more than 2% of the profits obtained during the year after deducting therefrom general expenses, remuneration to officers and employees, depreciation on buildings, machineries, transportation units, furniture and other properties. Such compensation shall be apportioned among the directors in such manner as the Board deems proper. The Company provides each director with reasonable per diem of ₱50,000 and ₱20,000 for each Board and Committee meeting attended, respectively.

[5] *The Chief Executive Officer and senior executive officers of the Company for 2012 are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Virgilio S. Jacinto, Joseph N. Pineda, Ma. Belen C. Buensuceso, and David S. Santos; for 2011 are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Virgilio S. Jacinto, Joseph N. Pineda, Ma. Belen C. Buensuceso, and David S. Santos; for 2010 are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Francis H. Jardeleza, Eduardo Sergio G. Edeza, Virgilio S. Jacinto, Joseph N. Pineda, Manuel M. Agustin and Bella O. Navarra.*

The Long-Term Incentive Plan for Stock Options ("LTIP") of the Company grants stock options to eligible senior and key management officers of the Company as determined by the Committee administering the said Plan. Its purpose is to further and promote the interests of the Company and its shareholders by enabling the Company to attract, retain and motivate senior and key management officers, and to align the interests of such officers and the Company's shareholders.

On March 1, 2007, the Company approved the grant of options to 822 executives consisting of 18.31 million shares. On June 25, 2009 and 26, 2008, the Company approved the grant of options to 755 executives consisting of 5.777 million shares and to 742 executives consisting of 7.46 million shares, respectively.

Options to purchase 34.05 million shares and 12.45 million shares in 2009 and 2008, respectively, were outstanding at the end of each year. Options which were exercised and cancelled totaled about 3.23 million and 1.76 million shares in 2009 and 2008, respectively.

As of April 30, 2012, the outstanding options under the LTIP held by the above-named Chief Executive Officer and Senior Executive Officers are 10,354,830 common shares, while those held by all officers and middle managers as a group total 9,783,230 common shares.

There were no employment contracts between the Company and a named executive officer.

There were neither compensatory plans nor arrangements with respect to a named executive officer.

ACTION WITH RESPECT TO REPORTS

The approval of the following will be considered and acted upon at the meeting:

1. Management Report of the Company for the year ended December 31, 2011;

2. Minutes of the 2011 Annual Stockholders' Meeting with the following items:

    (a) Certification of Notice and Quorum
    (b) Approval of the Minutes of the Regular Stockholders' Meeting held on May 31, 2012
    (c) Presentation of the Annual Report
    (d) Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
    (e) Extension of the Corporate Term
    (f) Amendment of the Date of the Annual Meeting
    (g) Amendments to Article IV of the Amended Articles of Incorporation of the Company and Article II, Section 1 of the Amended By-laws of the Company
    (h) Election of the Board of Directors
    (i) Appointment of External Auditors
    (j) Other Matters
    (k) Adjournment

3. Ratification of all the acts of the Board of Directors and Officers since the 2011 Annual Stockholders' Meeting which include the:

a) Approval of:

i. sale by SMC Global Power Holdings Corp. of its 100% ownership interest in PanAsia to Millenium Holdings Inc.

ii. sale to San Miguel Pure Foods Company, Inc. of 59,090,909 common shares in Manila Electric Company (Meralco) equivalent to 5.2% equity interest.

iii. acquisition of 37.7% of Eastern Telecommunications Philippines, Inc. through San Miguel Equity Securities, Inc.; and

iv. investment by Petron Oil and Gas International Berhad, a subsidiary of Petron Corporation, in the oil refining and marketing business in Malaysia through the acquisition of 65% of Esso Malaysia Berhad and its wholly-owned associate businesses ExxonMobil Malaysia Sdn Bhd and ExxonMobil Borneo Sdn Bhd;

b) Declaration of cash dividends;
c) Appointment of officers; and
d) Approval of signing authorities and limits.

Minutes of the 2011 Annual Stockholders' Meeting and resolutions of the Board of Directors since the date of the 2011 Annual Stockholders' Meeting will be available for examination during office hours at the Office of the Corporate Secretariat.

AMENDMENTS TO THE ARTICLES OF INCORPORATION TO INCREASE THE AUTHORIZED CAPITAL STOCK

A. Increase in the Authorized Capital Stock

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

Current Authorized Capital Stock	*Proposed Amendment*
₱22 Billion, divided into • 3,390,000,000 Common Shares and • 1,110,000,000 Series "1" Preferred Shares all with par value of ₱5.00 per share.	₱30 Billion, divided into • 3,790,000,000 Common Shares • 1,110,000,000 Series "1" Preferred Shares and • 1,100,000,000 Series "2" Preferred Shares all with par value of ₱5.00 per share.

The Company is seeking the approval of the increase in the authorized capital stock as stated above.

B. Issuance of Series "2" Preferred Shares

It may be recalled that in 2009, the Company issued the Series "1" Preferred Shares. Many investors found the Series "1" Preferred Shares to be well-suited to their investment objectives. The Company believes that there continues to be strong demand for similar investments. Market conditions, however, have also changed. In particular, investment yields are different now from what they were in 2009 when the Series "1" Preferred Shares were issued with a dividend rate of 8% per annum.

The Series "1" Preferred Shares allow the Company to redeem them on the third anniversary from their issue date. In view of prevailing market conditions, the Company is considering the advisability of exercising its option to redeem the Series "1" Preferred Shares, yet afford investors the opportunity to make placements at this time in Company securities with features that are very similar to the Series "1" Preferred Shares but at prevailing market rates; hence, the creation of the Series "2" Preferred Shares.

In the long run, the Series "1" Preferred Shares (as well as the Series "2" Preferred Shares in case they are redeemed after their issuance) may again be re-issued at the then prevailing market rates.

Description of the New Securities

The final features of the Series "2" Preferred Shares will be established and determined by the Board of Directors of the Company at the time of their issuance and shall be indicated in the enabling resolutions that shall authorize such issuances (the "Enabling Resolutions.") It is envisioned that such shares will be Philippine Peso-denominated, perpetual, cumulative, non-participating and non-voting. The Series "2" Preferred Shares may be issued in sub-series or tranches, each with different features on dividend rate, redemption and adjustment of dividend rate. The number of Series "2" Preferred Shares to be allocated to each sub-series or tranche shall be determined by the Board of Directors.

The shares will have a par value of Five Pesos (P5.00) per share and with the following features:

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

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

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

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

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

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

(e) Voting Rights – Holders of the Series "2" Preferred Shares shall not be entitled to vote except in cases expressly provided by law.

(f) Pre-emptive Rights – Holders of the Series "2" Preferred Shares shall have no pre-emptive right to any issue or disposition of any share of any class of the Company.

It is envisioned that the Series "2" Preferred Shares will be listed on The Philippine Stock Exchange, Inc. (the "Exchange") within one (1) month from Issue Date, subject to compliance with the requirements of the Exchange.

General Effect on Rights of Existing Shareholders

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

- Under the terms of the Series "1" Preferred Shares and the terms of the Series "2" Preferred Shares, no dividend shall be declared and paid on the common shares of the Company unless cash dividends shall have been declared and paid to all Series "1" and Series "2" Preferred Shares.

- In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of the Company, holders of Series "1" and Series "2" Preferred Shares shall be paid the Issue Price of their shares plus any previously declared and unpaid dividends before any asset of the Corporation is paid or distributed to the holders of the common shares.

For a better appreciation of the features of the Series "2" Preferred Shares and the effect of the issuance thereof on the rights of the common stockholders, set out below is a comparison of the features of the common shares of the Company with the Series "1" and Series "2" Preferred Shares.

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

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

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

Rights Upon Liquidation/ Dissolution/ Bankruptcy/ Winding Up	**Subordinate to Series "1" and Series "2" Preferred Shares** The right of the holders of Common Shares to receive any asset of the Corporation in case of liquidation, dissolution, bankruptcy or winding up of the Corporation is subordinate to the holders of the Series "1" and Series "2" Preferred Shares.	**Preference over Common Shares upon Liquidation** In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of the Corporation, the holders of the Series "1" Preferred Shares shall enjoy preference in the payment, in full, or if the remaining assets of the Corporation are insufficient, on a pro-rata basis as among all holders of outstanding Series "1" and Series "2" Preferred Shares, of the Issue Price of their shares plus any previously declared and unpaid dividends, before any asset of the Corporation is paid or distributed to the holders of Common Shares.	**Preference over Common Shares upon Liquidation** In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of the Corporation, the holders of the Series "1" Preferred Shares and the Series "2" Preferred Shares shall enjoy preference in the payment, in full, or if the remaining assets of the Corporation are insufficient, on a pro-rata basis as among all holders of outstanding Series "1" and Series "2" Preferred Shares, of the Issue Price of their shares plus any previously declared and unpaid dividends, before any asset of the Corporation is paid or distributed to the holders of Common Shares.
Voting Rights	**With Voting Rights** Common stockholders have the right to vote on all matters requiring stockholders' approval. Under the Corporation Code, the following corporate actions require the approval of the stockholders of a corporation: 1. Amendment of articles of incorporation; 2. Adoption and amendment of by-laws; 3. Sale, lease exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; 4. Incurring, creating or increasing bonded indebtedness; 5. Increase or decrease of capital stock; 6. Merger or	**No Voting Rights** The holders of the Series "1" Preferred Shares shall not be entitled to vote except in the following instances: 1. Amendment of articles of incorporation; 2. Adoption and amendment of by-laws; 3. Sale, lease exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; 4. Incurring, creating or increasing bonded indebtedness; 5. Increase or decrease of capital stock; 6. Merger or consolidation with another corporation or other corporations; 7. Investment of corporate funds in	**No Voting Rights** The holders of the Series "2" Preferred Shares shall not be entitled to vote except in the following instances: 1. Amendment of articles of incorporation; 2. Adoption and amendment of by-laws; 3. Sale, lease exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; 4. Incurring, creating or increasing bonded indebtedness; 5. Increase or decrease of capital stock; 6. Merger or consolidation with another corporation or other corporations; 7. Investment of corporate funds in another

	consolidation with another corporation or other corporations; 7. Investment of corporate funds in another corporation or business; 8. Dissolution; 9. Removal of directors; 10. Ratification of the contract of a self-dealing director or officer/ratification of act of a disloyal director who obtains profits to the prejudice of the corporation; 11. Extension or shortening of the corporate term; 12. Declaration of stock dividends; 13. Approval of management contracts; and 14. Delegation of the power to amend or repeal by-laws or adopt new by-laws to the board of directors or trustees.	another corporation or business; and 8. Dissolution.	corporation or business; and 8. Dissolution.
Pre-Emptive Right	**No Pre-Emptive Right** There shall be no pre-emptive right to any issuance of common shares.	**No Pre-Emptive Right** The holders of the Series "1" Preferred Shares shall have no pre-emptive right to any issue or disposition of any share of any class of the Corporation.	**No Pre-Emptive Right** The holders of the Series "2" Preferred Shares shall have no pre-emptive right to any issue or disposition of any share of any class of the Corporation.
PSE Listing	**Listed with the PSE** The common shares of the Corporation are listed with and traded on the Philippine Stock Exchange.	**Listed with the PSE** The Series "1" Preferred Shares are listed with the Philippine Stock Exchange.	**Not Listed with the PSE** The Series "2" Preferred Shares will be listed with the Philippine Stock Exchange (PSE) within one (1) month from Issue Date, subject to the requirements of the PSE.

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

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

AMENDMENT TO CHARTER, BY-LAWS OR OTHER DOCUMENTS

To implement the increase in the authorized capital stock and the creation of the Series "2" Preferred Shares, Article VII of the Amended Articles of Incorporation of the Company shall be amended accordingly.

Article VII of the Amended Articles of Incorporation of the Company is proposed to be worded as follows:

Article VII

That the capital stock of the aforementioned Corporation shall be **THIRTY BILLION PESOS (₱30,000,000,000.00)**, Philippine Currency, and that said capital stock is divided into **Three Billion Seven Hundred Ninety Million (3,790,000,000) Common Shares, Two Billion Two Hundred Ten Million (2,210,000,000) Preferred Shares, all with a par value of FIVE PESOS (P5.00) per share.** (As amended on July 23, 2009 on the creation of Series "1" Preferred Shares, May 31, 2010 on the declassification of common shares, and *as approved by the Board of Directors on April 18, 2012 and the Stockholders on June 14, 2012 on the creation of Series "2" Preferred Shares.*)

No transfer of stock or interest which will reduce the ownership and voting equity of Philippine nationals to less than the required percentage of capital stock under applicable law shall be allowed or permitted to be recorded on the books of the Corporation. (As amended by the Board of Directors on April 14, 2010 and by the Stockholders on May 31, 2010.)

The Preferred Shares shall consist of the following series:

(a) **Series "1" Preferred Shares consisting of One Billion One Hundred Ten Million (1,110,000,000) shares; and**

(b) **Series "2" Preferred Shares consisting of One Billion One Hundred Million (1,100,000,000) shares.**

Features of the Series "1" Preferred Share:

The Series "1" Preferred Shares shall have the following terms and features: (As amended on July 23, 2009)

1. The holders of the Series "1" Preferred Shares shall be entitled to receive cash dividends upon declaration made at the sole option of the Board of Directors. The annual dividends shall be based on the Philippine Dealing System Treasury Fixing 5-year treasury securities benchmark rate (the "PDST-F Rate") plus a spread which the Board of Directors has authorized Management to determine ("Dividend Rate") calculated in respect of each share by reference to the issue price thereof (the "Issue Price"). Unless the Series "1" Preferred Shares are redeemed at the end of the fifth year from the issue date thereof (the "Issue Date"), the Dividend Rate shall be adjusted to the higher of (i) the Dividend Rate, and (ii) the prevailing 10-year PDST-F Rate (or such successor benchmark rate) as displayed under the heading "Bid Yield" as published on the PDEx Page (or such successor page) of Bloomberg (or such successor electronic service provider) at approximately 11:30 a.m. Manila time on the date corresponding to the end of the fifth year from the Issue Date (or if not available, the PDST-F Rate on the banking day prior to such date, or if still not available, the nearest preceding date on which the PDST-F Rate is available, but if such nearest preceding date is more than five days prior to the date corresponding to the end of the fifth year from the Issue Date, the Board of Directors at its reasonable discretion shall determine the appropriate substitute rate), plus a spread of up to 300 basis points, in either case calculated in respect of each share by reference to the Issue Price.

2. The dividends declared shall be payable quarterly, beginning on the third month after the Issue Date of the Series "1" Preferred Shares and every three months thereafter (each a "Dividend Payment Date"). The dividends on the Series "1" Preferred Shares shall be cumulative. No dividend shall be declared and paid on the common shares unless cash dividends shall have been declared and paid to all holders of the Series "1" Preferred Shares. The holders of the Series "1" Preferred Shares shall not be entitled to any participation or share in the retained earnings remaining after dividend payment shall have been made on said Series "1" Preferred Shares.

3. The Series "1" Preferred Shares are redeemable in whole or in part, at the sole option of the Corporation, at the end of three years from the Issue Date or on any Dividend Payment Date thereafter, at the price equal to the Issue Price plus any accumulated and unpaid cash dividends. The Series "1" Preferred Shares, when redeemed, shall not be considered retired and may be re-issued by the Corporation at a price to be determined by the Board of Directors.

4. In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of the Corporation, the holders of the Series "1" Preferred Shares **and the Series "2" Preferred Shares that are outstanding at that time** shall enjoy preference in the payment, in full or, if the remaining assets of the Corporation are insufficient, on a pro-rata basis as among all holders of outstanding Series "1" Preferred Shares **and Series "2" Preferred Shares**, of the Issue Price of their shares plus any previously declared and unpaid dividends, before any asset of the Corporation is paid or distributed to the holders of common shares. ***(As amended by the Board of Directors on April 18, 2012 and by the Stockholders on June 14, 2012)***

5. The holders of the Series "1" Preferred Shares shall not be entitled to vote except in those cases expressly provided by law.

6. The holders of the Series "1" Preferred Shares shall have no pre-emptive right to any issue or disposition of any share of any class of the Corporation.

Features of the Series "2" Preferred Shares

The Series "2" Preferred Shares shall have the following terms and features: ***(As amended by the Board of Directors on April 18, 2012 and by the Stockholders on June 14, 2012)***

1. Series "2" Preferred Shares shall be issued in sub-series or in tranches as the Board of Directors may determine and authority is hereby expressly granted to the Board of Directors, subject to the provisions of this Seventh Article, to establish and designate the sub-series or tranches of the Series "2" Preferred shares, fix the issue price and the number of shares in each sub-series or tranche, and establish the specific rights, preferences and limitations of each sub-series or tranche.

2. Without limiting the generality of the foregoing authority of the Board of Directors, the rights, preferences and limitations of each sub-series or tranche of the Series "2" Preferred Shares may include any or all of the following:

(a) ***Dividends*** **- The holders of the Series "2" Preferred Shares shall be entitled to receive cash dividends at such rate or amount as the Board of Directors, in its sole discretion, shall fix at the time of issuance of such shares. The Board of Directors shall likewise determine the terms and conditions upon which dividends shall be payable, such as: payment dates; whether cumulative, and if so, from when; or whether the dividend rate may adjusted, and if so, the conditions for adjustments..**

(b) ***Conversion*** **- The Series "2" Preferred Shares may be convertible into common shares of the Corporation as determined by the Board of Directors and on terms and conditions (including conversion period, conversion ratio and price) to be determined and fixed by the Board of Directors at the time of their issuance.**

(c) ***Redemption*** **– The Series "2" Preferred Shares may be redeemable in whole or in part at the sole option of the Corporation at a price and at such time that the Board of Directors shall determine. The Board of Directors may likewise prescribe and regulate the procedure to be followed and the details on the redemption of the Series "2" Preferred Shares. The Series "2" Preferred Shares when redeemed shall not be considered retired and may be re-issued by the Corporation on such terms and conditions as may be determined by the Board of Directors at the time of re-issuance. For purposes of good order and to avoid confusion, the Series "2" Preferred Shares, upon re-issuance, shall be re-designated as subsequent sub-series or tranches.**

(d) *Liquidation* - In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of the Corporation, the holders of the Series "1" Preferred Shares and the Series "2" Preferred Shares that are outstanding at that time shall enjoy preference in the payment, in full or, if the remaining assets of the Corporation are insufficient, on a pro-rata basis as among all holders of outstanding Series "1" Preferred Shares and Series "2" Preferred Shares, of the Issue Price of their shares plus any previously declared and unpaid dividends, before any asset of the Corporation is paid or distributed to the holders of common shares.

(e) *Non-voting* - The holders of the Series "2" Preferred Shares shall not be entitled to vote except in those cases expressly provided by law.

(f) *No pre-emptive right* – The holders of Series "2" Preferred Shares shall have no pre-emptive right to any issue or disposition of any share of any class of the Corporation.

The Resolutions of the Board of Directors (the "Enabling Resolutions") authorizing the issuance or re-issuance of the Series "2" Preferred Shares, or any sub-series or tranche thereof, and fixing the number, features, terms and conditions of such sub-series shall be filed with the Securities and Exchange Commission and shall form integral part of these Articles of Incorporation.

Denial of Pre-emptive Rights

That there shall be no pre-emptive rights with respect to shares of stock to be issued, sold or otherwise disposed of by the Corporation to its officers and/or employees pursuant to a duly approved stock option, stock purchase, stock subscription or similar plans, provided, however, that where the number of shares of stock subject to each stock option, stock purchase, stock subscription or similar plan exceeds five percent (5%) of the outstanding shares of stock at the time of the approval of the plan involved, there shall be pre-emptive rights with respect to such shares in excess of the five percent (5%). (As amended on May 10, 1988)

That there shall be no pre-emptive rights to the issuance of shares relating to equity linked debt or other securities, any class of Preferred Shares, shares in payment of a previously contracted debt or shares issued in exchange for property needed for corporate purposes. (As amended on May 17, 2009.)

That there shall be no pre-emptive rights to any issuance of common shares. (As amended by the Board of Directors in April 14, 2010, and by the Stockholders on May 31, 2010.)

VOTING PROCEDURES

1. For the amendment of the amended Articles of Incorporation to increase the authorized capital stock, a vote of two-thirds of the outstanding capital stock held by shareholders holding both common and Series "1" Preferred Shares, in person or represented by proxy at the meeting is necessary for the approval thereof.

2. In the election of directors, the 15 nominees with the greatest number of votes will be elected as directors.

Shareholders vote *viva voce*, unless a motion to cast votes by ballot is made and duly seconded, and approved by the majority of the shareholders present or represented at the meeting as the method of voting for any or all of the proposals or matters submitted to a vote at the meeting.

In all proposals or matters for approval except for election of directors, each share of stock entitles its registered owner (who is entitled to vote on such particular matter) to one vote. In case of election of directors, cumulative voting as set out in page 4 of this Information Statement shall be adopted.

Counting of the votes will be done by the Corporate Secretary or Assistant Corporate Secretaries with the assistance of the independent auditors and the Company's stock transfer agent.

FINANCIAL AND OTHER INFORMATION

Brief Description of the General Nature and Business of the Company

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

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

- SMC has 68.26% equity interest in Petron Corporation (Petron)
- SMC has acquired the rights, pursuant to IPPA agreements with Power Sector Assets and Liabilities Management Corporation to administer three power plants in Sual, Ilijan and San Roque.
- SMC owns a 33.19% equity interest in the Manila Electric Company (Meralco)
- SMC made the following infrastructure acquisitions:
    a. A 35.0% equity interest in Private Infra Dev Corporation (PIDC)
    b. A 93.0% equity interest in Trans Aire Development Holdings Corp. (TADHC, formerly known as Caticlan International Airport Development Corporation)
    c. A 51.0% equity interest in Universal LRT Corporation (BVI) Limited (Universal LRT)
    d. A 46.53% equity interest in Atlantic Aurum Investments BV (Atlantic)

- SMC made the following telecommunications acquisitions:
    a. A 41.5% equity interest in Liberty Telecommunications Holdings, Inc. (LTHI)
    b. A 100.0% equity interest in Bell Telecommunications Philippines (BellTel)
    c. A 100% equity interest in A.G.N. Philippines, Inc. (AGNP) which holds 40% interest in Eastern Telecommunications Philippines, Inc. (ETPI) and 37.7% equity interest in ETPI through its wholly-owned subsidiary, San Miguel Equity Securities, Inc.
- SMC made the following mining acquisitions:
    a. A 100.0% equity interest in each of the three concession holders of coal deposits in the Southern Mindanao region – namely, Daguma Agro Minerals, Inc., Bonanza Energy Resources, Inc. and Sultan Energy Phils. Corp.
- As of December 31, 2011, a 39.93% equity interest in Bank of Commerce, through San Miguel Properties, Inc. (SMPI).
- SMC, through San Miguel Equity Investments, Inc. (SMEII) , has 49% equity interest in Trustmark Holdings Corporation (Trustmark) and Zuma Holdings and Management Corporation (Zuma), the holding companies of Philippine Airlines, Inc. (PAL) and Air Philippines Corporation (Air Phil), respectively.

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

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

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

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

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

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

The Group is one of the nation's biggest private employers with an estimated 12,566 employees. In addition, the Group contributes to the growth of downstream industries and sustains a network of hundreds of third party suppliers in 2011.

Major developments in the Group are discussed in Management's Discussion and Analyses of Financial Position and Performance, attached herein as **Annex "C"**, and in Notes 5, 6, 8, 13, 14, 15, 44 and 45 of the Audited Consolidated Financial statements, attached herein as **Annex "B"**.

Core Businesses:

Beverages

San Miguel Brewery Inc. (SMB) has five breweries in the Philippines strategically located in Luzon, Visayas and Mindanao. The international beer group operates one brewery each in Indonesia, Vietnam, Thailand, and two breweries in China. Apart from beer, the Group also produces hard liquor through its majority-owned subsidiary, Ginebra San Miguel, Inc. (GSMI). GSMI is one of the world's largest gin producer by volume. It has two distillers and four bottling plants. The Group also produces non-carbonated ready-to-drink tea and fruit juices in the Philippines through GSMI.

Food

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

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

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

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

Packaging

The San Miguel Packaging Group (Packaging Group) is a total packaging solutions business servicing many of the region's leading food, pharmaceutical, chemical, beverages, spirits and personal care manufacturers. With clients in the Asia-Pacific, Middle East, Africa and the U.S. markets, the Packaging Group is involved in the production and marketing of the following packaging products, among others, glass containers, glass molds, polyethylene terephthalate (PET) bottles and preforms, PET recycling, plastic closures, corrugated cartons, woven polypropylene/kraft sacks and paperboard, pallets, flexible packaging, plastic crates, plastic floorings, plastic films, plastic tubes, plastic trays, plastic pails and tubs, plastic consumer and industrial containers, crate and pallet leasing, metal closures and two-piece aluminum cans, woven products, industrial laminates and radiant barriers. It is also involved in PET bottle filling, graphics design, packaging research and testing, packaging development and consultation, contract packaging and trading.

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

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

Properties

San Miguel Properties, Inc. (SMPI) was created in 1990 initially as the corporate real estate arm of SMC. It is the Group's primary property subsidiary, currently 99.68% owned by SMC. SMPI is presently engaged in commercial property development, sale and lease of real properties, management of strategic real estate ventures and corporate real estate services.

Power Generation and Distribution

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

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

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

Fuel and Oil

In late 2008, SMC entered into an option agreement to acquire 50.1% of Petron which was partially exercised in April 2010. This move was followed by a tender offer and the acquisition of additional shares from the Ashmore Group. SMC exercised its remaining option in December 2010

and now effectively owns 68.26% of Petron. Petron is the largest integrated oil refining and marketing company in the Philippines, supplying more than a third of the country's refined oil requirements and is the largest liquefied petroleum gas distributor, with a 37.0% market share in the eight months ended August 31, 2011, according to the Department of Energy. Petron's core business involves the refining of crude oil and the marketing and distribution of refined petroleum products, primarily for the domestic market. Petron possesses the most extensive oil distribution infrastructure in the country with more than 30 depots and terminals and over 1,900 service stations in the Philippines. Petron also exports various petroleum products and petrochemical feedstock, including high sulfur fuel oil, naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

Infrastructure

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

Most recently, SMC, through SMEII, acquired a 49% equity interest each in Trustmark and Zuma, the holding companies of PAL and Air Phil, respectively.

Telecommunications

In 2010, SMC through its subsidiary Vega Telecoms Inc. (Vega) owns 41.48% stake in LTHI, a telecommunications carrier listed in the Philippine Stock Exchange, offering telephone services nationwide as well as data communications, inter-exchange carrier services and international voice and data connectivity services. Also, in 2010, Vega subscribed to shares of stock equivalent to 100% of Two Cassandra-CCI Conglomerates, Inc., Power Smart Capital Ltd., and Perchpoint Holdings, Corp. which companies collectively own 100% of BellTel.

BellTel, which began commercial operations in 2002, offers an integrated package of services, including local and long distance telephony, high speed data connectivity, Internet, cable TV, and videoconferencing. It has various licenses that include local exchange carrier (LEC), international gateway facility (IGF), inter-exchange carrier (IXC), very small aperture terminal (VSAT), internet service provider (ISP), and wireless local loop (WLL) telephone systems in various cities and municipalities in national capital region (NCR). It is authorized to provide the full range of services throughout the Philippines.

In 2011, SMC, through Vega, acquired 100% of the outstanding and issued shares of stock of AGNP, the beneficial owner of approximately 40% of ETPI, inclusive of the existing businesses, investments and telecommunications service facilities of ETPI. On October 20, 2011, the Parent Company through its wholly-owned subsidiary, San Miguel Equity Securities, Inc., acquired 37.7% of the outstanding and issued shares of stock of ETPI, making ETPI a subsidiary of the Group.

ETPI, which was established more than 130 years ago, offers a full range of telecommunication services, including internet, data, voice and value added services such as transmission of voice, data, facsimile, control signs, audio and video. It has various licenses that include local exchange carrier (LEC), mobile, cellular, paging, fiber optic, multi channel distribution system (MMDS), local multi-point distribution system (LMDS), satellite transmit and receive systems, switches, and their value-added services.

Financial Statements

The Audited Consolidated Financial Statements of the Company as of December 31, 2011, including the Company's Statement of Management's Responsibility, are attached hereto as **Annex "B"**. The Notes to the 2010 Audited Consolidated Financial Statements of the Company are in its annual report in CD format distributed to the shareholders.

Management's Discussion and Analysis or Plan of Operation

The Management's Discussion and Analysis or Plan of Operation of the Company as of December 31, 2011 is attached hereto as **Annex "C".**

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no disagreements with the Company's external auditors on accounting and financial disclosure.

Audit and Audit Related Fees

The Parent Company paid the external auditor Audit Fees amounting to ₱12 million both in 2011 and 2010. Said fees include compensation for audit services and other related services such as audit review and research work. There were no fees paid to the external auditor for tax accounting, compliance, advice, planning, and any other form of tax services. There were no other fees paid to the auditors other than the above-described services.

The stockholders approve the appointment of the Company's external auditors. The Audit Committee reviews the audit scope and coverage, strategy and results for the approval of the Board and ensures that audit services rendered shall not impair or derogate the independence of the external auditors or violate SEC regulations. Likewise, the Audit Committee evaluates and determines any non-audit work performed by external auditors, including the fees therefor, and ensures that such work will not conflict with External Auditors' duties as such or threaten its independence.

Market Price of and Dividends on the Company's Common Equity and Related Stockholder Matters

The Company's common and Series "1" preferred equity are traded in the Philippine Stock Exchange. The Company's high and low closing prices for each quarter of the last two (2) fiscal years and for the first quarter of 2012 are as follows:

	2012				2011				2010					
	Common		Series "1"		Common		Series "1"		Class A*		Class B		Series "1"	
	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
1st	122.50	110.20	80.00	76.60	189.00	150.00	100.00	65.00	74.50	66.50	74.50	67.00	N/A	N/A
2nd	-	-	-	-	175.00	105.70	76.50	74.50	75.00	69.50	76.00	70.00	N/A	N/A
3rd	-	-	-	-	132.60	110.90	80.00	75.00	76.00	66.55	76.00	66.00	N/A	N/A
4th	-	-	-	-	129.20	110.50	79.95	75.00	169.70	73.50	N/A	N/A	120.00	86.05

* The Company's common A and B shares were declassified on August 26, 2010.

The closing prices as of April 30, 2012, the latest practicable trading date, are as follows:

Common P 112.40
Series "1" Preferred P 75.20

The approximate number of shareholders as of April 30, 2012 is 40,301.

The top 20 common and preferred stockholders as of April 30, 2012 are as follows:

Rank	Name of Stockholders	Common	Series "1" Preferred Shares	Total No. of Shares	Percentage of outstanding
1	Top Frontier Investment Holdings Inc.	1,221,878,025	0	1,221,878,025	36.587195%
2	PCD Nominee Corporation (Filipino)	326,533,497	0	326,533,497	9.777527%
3	ASC Investors, Inc.	0	167,483,095	167,483,095	5.015015%
4	PCD Nominee Corporation	25,394,152	115,784,798	141,199,347	4.227990%
5	ARC Investors, Inc.	0	105,689,360	105,689,360	3.164700%
6	Primavera Farms, Inc.	94,738,250	0	94,738,250	2.836786%
7	San Miguel Corporation Retirement Plan	1	85,751,165	85,751,166	2.567682%
8	PCD Nominee Corporation (Non-Filipino)	84,755,479	12,210	84,767,689	2.538234%
9	Toda Holdings, Inc.	0	74,880,174	74,880,174	2.242168%
10	Pastoral Farms, Inc.	63,158,769	0	63,158,769	1.891189%
11	Black Stallion Ranch, Inc.	63,158,769	0	63,158,769	1.891189%
12	Misty Mountains Agricultural Corp.	63,158,769	0	63,158,769	1.891189%
13	Te Deum Resources, Inc.	0	58,487,823	58,487,823	1.751325%
14	Rock Steel Resources, Inc.	0	58,237,403	58,237,403	1.743826%
15	San Miguel Officers Corps, Inc.	0	53,863,035	53,863,035	1.612843%
16	Roxas Shares, Inc.	0	52,815,194	52,815,194	1.581467%
17	Silver Leaf Plantations, inc.	47,369,061	0	47,369,061	1.418391%
18	Meadow-Lark Plantations, Inc.	47,369,039	0	47,369,039	1.418391%
19	AP Holdings, Inc.	0	34,669,405	34,669,405	1.038120%
20	Valhalla Properties, Inc.	0	31,411,848	31,411,848	0.940578%
	TOTAL	**2,036,903,421**	**839,105,907**	**2,876,619,848**	**86.135805%**

Cash dividends declared by the Parent Company's BOD to common shareholders amounted to P1.05 per share and P6.75 per share in 2011 and 2010, respectively.

Cash dividends declared by the Parent Company's BOD to preferred shareholders amounted to P6.00 per share both in 2011 and 2010.

Description of the following securities of the Group may be found in the indicated Notes to the 2011 Audited Consolidated Financial Statements, attached herein as **Annex "B"**:

Long-term Debt	Note 23
Stockholders' Equity	Note 26
Share-Based Transactions	Note 40

There were no securities sold by the Company within the past three (3) years which were not registered under the Securities Regulation Code (SRC), except for the issuance of Series "1" Preferred Shares under the exchange offer of the Parent Company under Section 10.1(j) in September 2009; issuance of additional Series "1" Preferred Shares in December 2009 under Section 10 (k) and (l); and issuance of floating rate corporate notes in February 2009 and common shares under the LTIP and employee stock purchase plan Section 10.2 of the SRC.

Independent Public Accountants

The accounting firm of Manabat Sanagustin & Co., CPAs ("MSC") served as the Company's external auditors for the last fiscal year. The Board of Directors will again nominate MSC for re-appointment this fiscal year.

Representatives of MSC are expected to be present at the stockholders' meeting and will be available to respond to appropriate questions. They will have the opportunity to make a statement if they so desire. MSC has been the Company's external auditors since 2006. In 2011, MSC changed the signing partner assigned to the Company, in compliance with SRC Rule 68 (3) (b) (iv) in respect of its engagement of MSC.

Compliance with Leading Practice on Corporate Governance

The evaluation by the Company to measure and determine the level of compliance of the Board of Directors and top level management with its Manual of Corporate Governance ("Manual") is vested by the Board of Directors on the Compliance Officer. The Compliance Officer is mandated to monitor compliance by all concerned with the provisions and requirements of the Manual. The Compliance Officer has certified that the Company has substantially adopted all the provisions of the Manual.

Pursuant to its commitment to good governance and business practice, the Company continues to review and strengthen its policies and procedures, giving due consideration to developments in the area of corporate governance which it determines to be in the best interests of the Company and its stockholders. On April 14, 2010, the Board of Directors amended the Manual pursuant to the Revised Code of Corporate Governance issued by the SEC under its Memorandum Circular No. 6, series of 2009.

UNDERTAKING

Upon the written request of the stockholder, the Company undertakes to furnish such stockholder with a copy of SEC Form 17-A free of charge. Such written request for a copy of SEC Form 17-A shall be directed to the Office of the Corporate Secretary, 7/F SMC-HOC Building, No. 40 San Miguel Avenue, Mandaluyong City, Philippines.

The Company shall provide copies of SEC Form 17-Q for the period ending on March 31, 2012 during the stockholders meeting. For stockholders not attending the stockholders meeting, copies of the same shall be sent to their registered address via mail.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and behalf, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Mandaluyong on May 7, 2012.

SAN MIGUEL CORPORATION

By:

Virgilio S. Jacinto
Corporate Secretary

HRAD
Central Receiving and Records Division
4 JUN 08 2011
BY :
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS

CERTIFICATION OF INDEPENDENT DIRECTORS

I, **WINSTON F. GARCIA**, Filipino, of legal age with address at 86 Juan Luna St., San Lorenzo Village, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent director of San Miguel Corporation.

2. I am affiliated with the companies or organizations listed in Annex "A' hereof.

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of San Miguel Corporation as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.

5. I shall inform the Corporate Secretary of San Miguel Corporation of any changes in the abovementioned information within five days from its occurrence.

Done this JUN - 7 2011 day of June 2011 at Mandaluyong City.

WINSTON F. GARCIA
Affiant

SUBSCRIBED AND SWORN to before me this JUN - 7 2011 day of June 2011 at Mandaluyong City, affiant personally appeared before me and exhibited to me his Passport No. XX1426496 issued at Manila valid until June 17, 2013.

Doc. No. 142;
Page No. 30;
Book No. III;
Series of 2011.

MARY ROSE S. TAN
Commission No. 0252-11
Notary Public for Mandaluyong City
Until Dec. 31, 2012
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 47144
PTR No. 0980247; 01/03/11, Mandaluyong City
Lifetime Member No. 09449; 01/04/11, Makati City

Annex "A"

WINSTON F. GARCIA

Company/Organization	Position/Relationship	Period of Service
GSIS	President & Gen. Manager	Jan. 25, 2001 to June 30, 2010
GSIS	Vice Chairman-Board of Trustees	Jan. 25, 2001 to June 30, 2010
National Reinsurance Corporation of the Phils.	Chairman	Jan. 24, 2002 to June 30, 2010
GSIS Mutual Fund, Inc.	Chairman	Nov. 17, 2005 to June 30, 2010
Asian Forum Incorporated	Chairman	Jan. 25, 2001 to June 30, 2010
Philippine Health Insurance Corporation	Director	Jan. 25, 2001 to June 30, 2010
Philippine National Construction Corporation	Director	Feb. 8, 2001 to June 30, 2010
Philippine Social Security Association	Chairman	July 21, 2009 June 30, 2010

HRAD
Central Receiving and Records Division
4 JUN 08 2011
BY :
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **REYNATO S. PUNO**, Filipino, of legal age with address at 13 Julius St., Don Jose Heights, Commonwealth Avenue, Quezon City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent Director of San Miguel Corporation.

2. I am affiliated with the companies and organizations listed in Annex "A" hereof.

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of San Miguel Corporation as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.

5. I shall inform the Corporate Secretary of San Miguel Corporation of any changes in the abovementioned information within five days from its occurrence.

Done this JUN - 7 2011 of June 2011 at Mandaluyong City.

REYNATO S. PUNO
Affiant

SUBSCRIBED AND SWORN to before me this JUN - 7 2011 day of June 2011 at Mandaluyong City, affiant personally appeared before me and exhibited to me his Passport No. XX0468450 issued at Manila valid until February 5, 2013.

Doc. No. 113;
Page No. 26;
Book No. III;
Series of 2011.

MARY ROSE S. TAN
Commission No. 0252-11
Notary Public for Mandaluyong City
Until Dec. 31, 2012
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 47144
PTR No. 0980247; 01/03/11, Mandaluyong City
Lifetime Member No. 09449; 01/04/11 Makati City

Annex "A"

REYNATO S. PUNO

Former Chief Justice Reynato S. Puno served as the Chief Justice of the Supreme Court from December 6, 2006 until his retirement on May 17, 2010. He joined the Court as an Associate Justice on June 1993 and was previously Associate Justice of the Court of Appeals (1986 to 1993), Appellate Justice of the Intermediate Appellate Court (1983), Assistant Solicitor General (1974-1982) and City Judge of Quezon City (1972-1974). He has also served as Deputy Minister of Justice from 1984-1986. He completed his Bachelor of Laws from the University of the Philippines in 1962, and has a Master of Laws degree from the University of California in Berkeley (1968) and a Master in Comparative Law degree from the Southern Methodist University, Dallas, Texas (1967)

HRAD
Central Receiving and Records Division
4 JUN 08 2011
BY:
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS

CERTIFICATION OF INDEPENDENT DIRECTORS

I, **CARMELO L. SANTIAGO**, Filipino, of legal age with address at 1730 Banyan Street, Damariñas Village, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent director of San Miguel Corporation.

2. I am affiliated with the companies or organizations listed in Annex "A" hereof.

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of San Miguel Corporation as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.

5. I shall inform the Corporate Secretary of San Miguel Corporation of any changes in the abovementioned information within five days from its occurrence.

Done this JUN - 7 2011 day of June 2011 at Mandaluyong City.

CARMELO L. SANTIAGO
Affiant

SUBSCRIBED AND SWORN to before me this JUN - 7 2011 day of June 2011 at Mandaluyong City, affiant personally appeared before me and exhibited to me his Passport No. XX3061169 issued at Manila valid until February 18, 2014.

Doc. No. 141;
Page No. 30;
Book No. 44;
Series of 2011.

MARY ROSE S. TAN
Commission No. 0252-11
Notary Public for Mandaluyong City
Until Dec. 31, 2012
[illegible] San Miguel Ave., Mandaluyong City
Roll No. 47144
[illegible]9480247; 01/03/11, Mandaluyong City
[illegible] Member No. 09449; 01/04/11, Makati City

ANNEX "A"

CARMELO L. SANTIAGO

1.	2008 to present:	Founder of Wagyu Restaurant
2.	July 1987 to present:	Founder and Chairman-Melo's Chains of Restaurants
3.	July 2008 to present:	Independent Director – San Miguel Corporation
4.	Oct. 8, 2007 to April 30, 2009 February 2010 to present:	Independent Director – San Miguel Brewery Inc.
5.	August 12, 2010 to present:	Independent Director – San Miguel Pure Foods Company, Inc.
6.	March 30, 2010 to present:	Independent Director – Ginebra San Miguel, Inc.
7.	November 2008 to present:	Independent Director – Anchor Insurance Brokerage Corporation
8.	December 2008 to present:	Independent Director-Liberty Telecoms Holdings, Inc.
9.	2001-2004; May 2008 to date:	Independent Director – San Miguel Properties, Inc.
10.	2003-2005; September 2007 to date:	Independent Non-Executive Director – San Miguel Brewery Hong Kong Limited
11.	March 2005 to date:	Director – Terbo Concept, Inc.
12.	1998-2004:	Director – Manila Standard, Inc.
13.	1998-2004:	Director – National Power Corporation
14.	1998-2004:	Director – Ginebra San Miguel, Inc.
15.	1998-2004:	Director – Philippine National Bank-Hong Kong
16.	1998-2000:	Chairman – Western Visayas Sugar Mills
17.	1975-1980:	Director – Guinoo Publication, Inc.

ANNEX "B"

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011, 2010 and 2009

Manabat Sanagustin & Co., CPAs
The KPMG Center, 9/F
6787 Ayala Avenue
Makati City 1226, Metro Manila, Philippines

Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
E-Mail manila@kpmg.com.ph

Branches · Subic · Cebu · Bacolod · Iloilo

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
San Miguel Corporation
No. 40 San Miguel Avenue
Mandaluyong City

We have audited the accompanying consolidated financial statements of San Miguel Corporation and Subsidiaries which comprise the consolidated statements of financial position as at December 31, 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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

KPMG

ANNEX "B-1"

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of San Miguel Corporation and Subsidiaries as at December 31, 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

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 28, 2012, except as to Note 46, which is as of April 3, 2012
Makati City, Metro Manila

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In Millions)

		December 31	
	Note	**2011**	2010
ASSETS			
Current Assets			
Cash and cash equivalents	*9, 41, 42*	**P128,975**	P125,188
Trade and other receivables - net	*4, 10, 34, 41, 42*	**84,472**	75,904
Inventories	*4, 11*	**65,720**	57,442
Current portion of biological assets - net	*18*	**4,124**	3,267
Prepaid expenses and other current assets	*12, 36, 41, 42*	**22,620**	16,914
		305,911	278,715
Assets held for sale	*5, 8*	**2,268**	823
Total Current Assets		**308,179**	279,538
Noncurrent Assets			
Investments and advances - net	*4, 5, 13*	**166,854**	152,814
Available-for-sale financial assets	*14, 41, 42*	**2,068**	3,597
Property, plant and equipment - net	*4, 16*	**319,626**	308,073
Investment properties - net	*4, 17*	**2,850**	2,133
Biological assets - net of current portion	*4, 18*	**1,812**	1,479
Goodwill - net	*4, 5, 19, 39*	**30,990**	30,251
Other intangible assets - net	*4, 5, 19*	**11,407**	10,980
Deferred tax assets	*4, 25*	**8,233**	7,134
Other noncurrent assets - net	*4, 20, 34, 36, 41, 42*	**38,517**	33,801
Total Noncurrent Assets		**582,357**	550,262
		P890,536	P829,800
LIABILITIES AND EQUITY			
Current Liabilities			
Drafts and loans payable	*21, 41, 42*	**P82,588**	P74,128
Accounts payable and accrued expenses	*22, 34, 35, 36, 41, 42*	**61,629**	69,774
Finance lease liabilities - current portion	*4, 35, 41, 42*	**15,388**	10,946
Income and other taxes payable		**9,041**	10,001
Dividends payable	*37*	**2,153**	826
Current maturities of long-term debt - net of debt issue costs	*23, 34, 41, 42*	**19,453**	12,549
		190,252	178,224
Liabilities directly associated with assets held for sale	*8*	**578**	-
Total Current Liabilities		**190,830**	178,224

Forward

		December 31	
	Note	**2011**	2010
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*23, 34, 41, 42*	**P191,967**	P156,378
Deferred tax liabilities	*25*	**11,257**	13,752
Finance lease liabilities - net of current portion	*4, 35, 41, 42*	**192,873**	197,461
Other noncurrent liabilities	*4, 24, 36, 41, 42*	**4,509**	17,160
Total Noncurrent Liabilities		**400,606**	384,751
Equity	*23, 26, 37, 38, 40*		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common		**16,397**	16,343
Capital stock - preferred		**4,852**	4,852
Additional paid-in capital		**103,511**	101,406
Revaluation increment		**1,443**	1,391
Cumulative translation adjustments		**5,264**	5,365
Retained earnings:			
Appropriated		**24,315**	5,671
Unappropriated		**141,126**	150,544
Treasury stock		**(67,441)**	(69,541)
		229,467	216,031
Amounts recognized directly in equity relating to assets held for sale	*8*	**(53)**	-
		229,414	216,031
Non-controlling Interests	*2*	**69,686**	50,794
Total Equity		**299,100**	266,825
		P890,536	P829,800

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(In Millions, Except Per Share Data)

	Note	**2011**	2010	2009
SALES	*34*	**P535,775**	P246,156	P174,213
COST OF SALES	*27*	**432,321**	173,929	124,295
GROSS PROFIT		**103,454**	72,227	49,918
SELLING AND ADMINISTRATIVE EXPENSES	*28*	**(47,500)**	(37,619)	(30,249)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*21, 23, 31, 35*	**(27,443)**	(16,578)	(7,926)
INTEREST INCOME	*32*	**4,618**	3,023	5,989
EQUITY IN NET EARNINGS OF ASSOCIATES	*13*	**2,824**	6,817	2,816
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	*5, 14, 16, 17*	**1,046**	529	50,630
OTHER INCOME (CHARGES) - Net	*33*	**(12)**	7,095	(6,843)
INCOME BEFORE INCOME TAX		**36,987**	35,494	64,335
INCOME TAX EXPENSE	*25, 43*	**8,483**	11,438	3,706
NET INCOME		**P28,504**	P24,056	P60,629
Attributable to:				
Equity holders of the Parent Company		**P17,518**	P20,091	P57,799
Non-controlling interests		**10,986**	3,965	2,830
		P28,504	P24,056	P60,629
Earnings Per Common Share Attributable to Equity Holders of the Parent Company	*38*			
Basic		**P4.97**	P6.18	P19.21
Diluted		**4.94**	6.14	19.10

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(In Millions)

	Note	**2011**	2010	2009
NET INCOME		**P28,504**	P24,056	P60,629
GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS		**356**	(653)	521
SHARE IN COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES	*13*	**645**	(422)	252
GAIN ON CASH FLOW HEDGES - Net	*42*	**-**	-	222
INCOME TAX EXPENSE		**-**	-	(67)
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	*14*	**(1,236)**	447	(33)
INCOME TAX BENEFIT (EXPENSE)		**-**	(45)	3
OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX		**(235)**	(673)	898
TOTAL COMPREHENSIVE INCOME - NET OF TAX		**P28,269**	P23,383	P61,527
Attributable to:				
Equity holders of the Parent Company		**P17,417**	P19,611	P58,807
Non-controlling interests		**10,852**	3,772	2,720
		P28,269	P23,383	P61,527

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(In Millions)

		Equity Attributable to Equity Holders of the Parent Company												
		Capital Stock		Additional		Cumulative Translation Adjustments			Retained Earnings				Non-	
	Note	Common	Preferred	Paid-in Capital	Revaluation Increment	Translation Reserve	Hedging Reserve	Fair Value Reserve	Appro-priated	Unappro-priated	Treasury Stock	Total	controlling Interests	Total Equity
As of January 1, 2011		**P16,343**	**P4,852**	**P101,406**	**P1,391**	**P5,241**	**P -**	**P124**	**P5,671**	**P150,544**	**(P69,541)**	**P216,031**	**P50,794**	**P266,825**
Gain (loss) on exchange differences on translation of foreign operations		-	-	-	-	474	-	-	-	-	-	474	(118)	356
Share in comprehensive income of associates	*13*	-	-	-	-	-	-	645	-	-	-	645	-	645
Net loss on available-for-sale financial assets	*14*	-	-	-	-	-	-	(1,220)	-	-	-	(1,220)	(16)	(1,236)
Other comprehensive income (loss)		-	-	-	-	474	-	(575)	-	-	-	(101)	(134)	(235)
Net income for the year		-	-	-	-	-	-	-	-	17,518	-	17,518	10,986	28,504
Total comprehensive income (loss) for the year		-	-	-	-	474	-	(575)	-	17,518	-	17,417	10,852	28,269
Issuance of capital stock	*26*	54	-	894	-	-	-	-	-	-	-	948	-	948
Reissuance of treasury stock	*26*	-	-	958	-	-	-	-	-	-	2,100	3,058	-	3,058
Stock options	*40*	-	-	253	-	-	-	-	-	-	-	253	-	253
Addition to non-controlling interests	*2, 5, 6, 13*	-	-	-	52	-	-	-	-	-	-	52	15,526	15,578
Appropriations - net	*26*	-	-	-	-	-	-	-	18,644	(18,644)	-	-	-	-
Cash dividends	*37*													
Common		-	-	-	-	-	-	-	-	(2,469)	-	(2,469)	(5,395)	(7,864)
Preferred		-	-	-	-	-	-	-	-	(5,823)	-	(5,823)	(2,091)	(7,914)
		54	**-**	**2,105**	**52**	**474**	**-**	**(575)**	**18,644**	**(9,418)**	**2,100**	**13,436**	**18,892**	**32,328**
Amounts recognized directly in equity relating to assets held for sale		-	-	-	-	**(53)**	-	-	-	-	-	**(53)**	-	**(53)**
As of December 31, 2011	*26*	**P16,397**	**P4,852**	**P103,511**	**P1,443**	**P5,662**	**P -**	**(P451)**	**P24,315**	**P141,126**	**(P67,441)**	**P229,414**	**P69,686**	**P299,100**

Forward

		Equity Attributable to Equity Holders of the Parent Company												
		Capital Stock		Additional		Cumulative Translation Adjustments			Retained Earnings				Non-	
	Note	Common	Preferred	Paid-in Capital	Revaluation Increment	Translation Reserve	Hedging Reserve	Fair Value Reserve	Appro-priated	Unappro-priated	Treasury Stock	Total	controlling Interests	Total Equity
As of January 1, 2010		P16,150	P4,852	P99,085	P18	P5,737	P -	P108	P5,497	P151,911	(P69,541)	P213,817	P27,121	P240,938
Loss on exchange differences on translation of foreign operations		-	-	-	-	(496)	-	-	-	-	-	(496)	(157)	(653)
Share in comprehensive loss of associates	*13*	-	-	-	-	-	-	(422)	-	-	-	(422)	-	(422)
Net gain (loss) on available-for-sale financial assets, net of tax	*14*	-	-	-	-	-	-	438	-	-	-	438	(36)	402
Other comprehensive income (loss)		-	-	-	-	(496)	-	16	-	-	-	(480)	(193)	(673)
Net income for the year		-	-	-	-	-	-	-	-	20,091	-	20,091	3,965	24,056
Total comprehensive income (loss) for the year		-	-	-	-	(496)	-	16	-	20,091	-	19,611	3,772	23,383
Issuance of capital stock	*26*	193	-	2,121	-	-	-	-	-	-	-	2,314	-	2,314
Stock options	*40*	-	-	200	-	-	-	-	-	-	-	200	-	200
Addition to non-controlling interests	*2, 5, 6, 13*	-	-	-	(23)	-	-	-	-	-	-	(23)	24,877	24,854
Appropriations - net	*26*	-	-	-	-	-	-	-	174	(174)	-	-	-	-
Cash dividends	*37*													
Common		-	-	-	-	-	-	-	-	(15,584)	-	(15,584)	(4,976)	(20,560)
Preferred		-	-	-	-	-	-	-	-	(5,700)	-	(5,700)	-	(5,700)
Acquisition of subsidiary and others	*5*	-	-	-	1,396	-	-	-	-	-	-	1,396	-	1,396
As of December 31, 2010	*26*	P16,343	P4,852	P101,406	P1,391	P5,241	P -	P124	P5,671	P150,544	(P69,541)	P216,031	P50,794	P266,825

Forward

		Equity Attributable to Equity Holders of the Parent Company												
		Capital Stock		Additional		Cumulative Translation Adjustments			Retained Earnings				Non-	
	Note	Common	Preferred	Paid-in Capital	Revaluation Increment	Translation Reserve	Hedging Reserve	Fair Value Reserve	Appro-priated	Unappro-priated	Treasury Stock	Total	controlling Interests	Total Equity
As of January 1, 2009		P16,112	P -	P31,183	P18	P4,882	(P123)	P78	P5,522	P96,298	(P4,053)	P149,917	P18,307	P168,224
Gain (loss) on exchange differences on translation of foreign operations		-	-	-	-	662	-	-	-	-	-	662	(141)	521
Share in comprehensive income of associates	*13*	-	-	-	-	193	-	59	-	-	-	252	-	252
Gain on cash flow hedges, net of tax	*42*	-	-	-	-	-	123	-	-	-	-	123	32	155
Net loss on available-for-sale financial assets, net of tax	*14*	-	-	-	-	-	-	(29)	-	-	-	(29)	(1)	(30)
Other comprehensive income (loss)		-	-	-	-	855	123	30	-	-	-	1,008	(110)	898
Net income for the year		-	-	-	-	-	-	-	-	57,799	-	57,799	2,830	60,629
Total comprehensive income for the year		-	-	-	-	855	123	30	-	57,799	-	58,807	2,720	61,527
Issuance of capital stock	*26*	38	486	6,563	-	-	-	-	-	-	-	7,087	-	7,087
Exchange of capital stock	*26*	-	4,366	61,122	-	-	-	-	-	-	(65,488)	-	-	-
Stock options	*40*	-	-	217	-	-	-	-	-	-	-	217	-	217
Addition to non-controlling interests	*2, 5, 6, 13*	-	-	-	-	-	-	-	-	-	-	-	8,392	8,392
Appropriations - net	*26*	-	-	-	-	-	-	-	(25)	25	-	-	-	-
Cash dividends	*37*	-	-	-	-	-	-	-	-	(2,211)	-	(2,211)	(2,298)	(4,509)
As of December 31, 2009	*26*	P16,150	P4,852	P99,085	P18	P5,737	P -	P108	P5,497	P151,911	(P69,541)	P213,817	P27,121	P240,938

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(In Millions)

	Note	**2011**	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P36,987**	P35,494	P64,335
Adjustments for:				
Depreciation, amortization and others - net	*7, 29*	**19,305**	9,457	14,724
Interest expense and other financing charges	*31*	**27,443**	16,578	7,926
Interest income	*32*	**(4,618)**	(3,023)	(5,989)
Equity in net earnings of associates	*13*	**(2,824)**	(6,817)	(2,816)
Gain on sale of investments and property and equipment	*33*	**(1,046)**	(5,019)	(50,630)
Operating income before working capital changes		**75,247**	46,670	27,550
Changes in noncash current assets, certain current liabilities and others	*39*	**(15,788)**	13,111	(1,183)
Cash generated from operations		**59,459**	59,781	26,367
Interest paid		**(14,434)**	(5,155)	(6,348)
Income taxes paid		**(12,818)**	(9,312)	(6,651)
Net cash flows provided by operating activities		**32,207**	45,314	13,368
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of subsidiaries, net of cash and cash equivalents acquired	*39*	**(775)**	(18,978)	(1,494)
Additions to investments and advances	*13*	**(16,338)**	(99,762)	(5,771)
Additions to property, plant and equipment	*7, 16*	**(26,426)**	(8,518)	(6,249)
Payment of other liabilities	*13*	**(24,485)**	-	-
Decrease (increase) in other noncurrent assets and others		**(5,262)**	1,424	(950)
Payment by (advances to) related parties		**(5,709)**	(6,070)	3,243
Proceeds from sale of investments and property and equipment		**1,347**	1,175	55,127
Interest received		**4,523**	3,798	5,249
Dividends received from associates	*13*	**2,637**	-	-
Net cash flows provided by (used in) investing activities		**(70,488)**	(126,931)	49,155

Forward

	Note	**2011**	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		**P492,117**	P685,768	P691,093
Long-term borrowings		**55,399**	72,937	67,786
Payments of:				
Short-term borrowings		**(483,672)**	(703,376)	(683,569)
Long-term borrowings		**(14,025)**	(29,196)	(44,657)
Payment of finance lease liabilities		**(11,781)**	(4,798)	(12)
Cash dividends paid	*37*	**(6,801)**	(21,118)	(3,301)
Proceeds from issuance of capital stock	*26*	**948**	2,314	7,087
Proceeds from reissuance of treasury stock	*26*	**2,971**	-	-
Dividends paid to non-controlling shareholders		**(7,650)**	(4,883)	(2,192)
Increase in non-controlling interests		**-**	126	315
Net proceeds from issuance of preferred shares of a subsidiary		**14,829**	-	-
Net cash flows provided by (used in) financing activities		**42,335**	(2,226)	32,550
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(181)**	(380)	(2,601)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**3,873**	(84,223)	92,472
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**125,188**	209,411	116,939
CASH AND CASH EQUIVALENTS ASSOCIATED TO ASSETS HELD FOR SALE	*8*	**(86)**	-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	*9*	**P128,975**	P125,188	P209,411

See Notes to the Consolidated Financial Statements.

1. Reporting Entity

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

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

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

Basis of Consolidation

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

	Percentage of Ownership		Country of Incorporation
	2011	2010	
Beverage Business:			
San Miguel Brewery Inc. (SMB) and subsidiaries [including Iconic Beverages, Inc. (IBI), Brewery Properties Inc. (BPI) [(a)] and subsidiary, Brewery Landholdings, Inc. and San Miguel Brewing International Ltd. (SMBIL) [(b)] and subsidiaries {including San Miguel Brewery Hong Kong Limited (SMBHK) and subsidiaries, PT Delta Djakarta Tbk (PT-Delta) [(c)] and a subsidiary, San Miguel (Baoding) Brewery Co. Ltd. [(c)], San Miguel Brewery Vietnam Ltd. (SMBV) [(c)], San Miguel Beer (Thailand) Ltd. (SMBTL) and San Miguel Marketing Thailand Ltd.}]	**51.00**	51.00	Philippines
Ginebra San Miguel, Inc. (GSMI) and subsidiaries [including Distileria Bago, Inc. and Ginebra San Miguel International, Ltd. (GSMIL), Ginebra San Miguel International Holdings Ltd. (GSMIHL), Global Beverage Holdings Ltd. (GBHL) and Siam Holdings Ltd. (SHL)]	**77.63**	78.00	Philippines
San Miguel Foods and Beverage International Limited (SMFBIL) and subsidiaries [including PT San Miguel Indonesia Foods & Beverages (PTSMIFB) [(c)], San Miguel (Thailand) Co. Ltd. (SMTCL) [(c)], San Miguel (Guangdong) Foods & Beverages Co. Ltd. [(c)], San Miguel (Vietnam) Co. Ltd. (SMVCL) [(c)], PT San Miguel Marketing Indonesia[(c)], and San Miguel (Malaysia) Sdn. Bhd.]	**100.00**	100.00	British Virgin Islands (BVI)
Food Business:			
San Miguel Pure Foods Company, Inc. (SMPFC) and subsidiaries [including San Miguel Foods, Inc. (SMFI), San Miguel Mills, Inc. (SMMI) and subsidiary, Golden Bay Grain Terminal Corporation (GBGTC) [(d)], The Purefoods-Hormel Company, Inc., Magnolia, Inc. (Magnolia) and subsidiaries including Golden Food and Dairy Creamery Corporation (GFDCC) [(e)], San Miguel Super Coffeemix Co., Inc., P.T. San Miguel Pure Foods Indonesia (PTSMPFI) and San Miguel Pure Foods International, Limited (SMPFIL) and subsidiary, San Miguel Pure Foods Investment (BVI) Limited (SMPFI) and subsidiary, San Miguel Hormel (Vn) Co. Ltd. [(f)]]	**99.92**	99.92	Philippines
Packaging Business:			
San Miguel Yamamura Packaging Corporation (SMYPC) and subsidiary, SMC Yamamura Fuso Molds Corporation	**65.00**	65.00	Philippines
San Miguel Yamamura Packaging International Limited (SMYPIL) and subsidiaries [including San Miguel Yamamura Phu Tho Packaging Co. Ltd. [(c)], Zhaoqing San Miguel Yamamura Glass Co., Ltd., Foshan San Miguel Yamamura Packaging Co. Ltd., PT San Miguel Yamamura Utama Indoplas (SMYUI)[(c)], San Miguel Yamamura Packaging & Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Plastic Films Sdn. Bhd. and San Miguel Yamamura Knox Pty. Ltd. (SMYK) [(c, g)] and subsidiaries]	**65.00**	65.00	BVI
Mindanao Corrugated Fibreboard, Inc. (Mincorr) [(c)]	**100.00**	100.00	Philippines
San Miguel Paper Packaging Corporation (SMPPC) [(c)]	**100.00**	100.00	Philippines
San Miguel Yamamura Asia Corporation (SMYAC)	**60.00**	60.00	Philippines

Forward

	Percentage of Ownership		Country of Incorporation
	2011	2010	
Power Generation and Distribution Business:			
SMC Global Power Holdings Corp. (SMC Global) [(h)] and subsidiaries [including San Miguel Energy Corporation (SMEC) and subsidiaries, South Premiere Power Corp. (SPPC), Strategic Power Devt. Corp. (SPDC), San Miguel Electric Corp. (SMELCO) and Panasia Energy Holdings, Inc. (PanAsia) [(i)]]	**100.00**	100.00	Philippines
Fuel and Oil Business:			
Sea Refinery Corporation (SRC) and subsidiary, Petron Corporation (Petron) and subsidiaries [including Petron Marketing Corporation (PMC), Petron Freeport Corporation, Petrogen Insurance Corporation (Petrogen), Overseas Ventures Insurance Corporation[(c)], Petron Singapore Trading Pte. Ltd. and New Ventures Realty Corporation and subsidiary, Las Lucas Construction & Development Corporation] [(j)]	**100.00**	100.00	Philippines
Infrastructure Business:			
San Miguel Holdings Corp. (SMHC) and subsidiaries [including Rapid Thoroughfares Inc. (Rapid), Trans Aire Development Holdings Corp. (TADHC) [(c, k)] and Universal LRT Corporation (BVI) Limited (ULC BVI) [(c, l)]]	**100.00**	100.00	Philippines
Telecommunications Business:			
Vega Telecom, Inc. (Vega) and subsidiaries [including Two Cassandra-CCI Conglomerates, Inc. (TCCI), Perchpoint Holdings Corp. (PHC) and Power Smart Capital Limited (PSCL) [collectively own Bell Telecommunication Philippines, Inc. (BellTel)] and A.G.N. Philippines, Inc. (AGNP)] [(c, m)]	**100.00**	100.00	Philippines
Eastern Telecommunications Philippines, Inc. (ETPI) and subsidiary, Telecommunications Technologies Phils., Inc. (TTPI) [(n)]	**77.70**	-	Philippines
Real Estate Business:			
San Miguel Properties, Inc. (SMPI) and subsidiaries [including Excel Unified Land Resources Corporation, First HQ Ayala Business Centers, Inc., SMPI-Government Service Insurance System Joint Venture Corporation (SMPI-GSIS JVC) and Integrated Geosolutions, Inc. (IGI)] [(c)]	**99.68**	99.68	Philippines
Others:			
SMC Stock Transfer Service Corporation	**100.00**	100.00	Philippines
ArchEn Technologies Inc.	**100.00**	100.00	Philippines
SMITS, Inc. [(c)] and subsidiary	**100.00**	100.00	Philippines
Anchor Insurance Brokerage Corporation (AIBC)	**58.33**	58.33	Philippines
SMC Shipping and Lighterage Corporation (SMCSLC) and subsidiaries [including MG8 Terminal Inc. (MG8) [(o)], Keppel Cebu Shipyard Land, Inc. (KCSLI) [(p)] and Mactan Shipyard Corporation (MSC) [(q)]]	**70.00**	70.00	Philippines
Challenger Aero Air Corp.	**100.00**	100.00	Philippines
Pacific Central Properties, Inc. (PCPI)	**100.00**	100.00	Philippines
San Miguel Equity Securities, Inc. (SMESI) [(r)]	**100.00**	-	Philippines
San Miguel Equity Investments Inc. (SMEII) [(s)]	**100.00**	-	Philippines

(a) Consolidated to SMB on November 10, 2010 (Note 6).
(b) Consolidated to SMB effective January 29, 2010 (Note 6).
(c) The financial statements of these subsidiaries were audited by other auditors.
(d) Incorporated on November 8, 2011 (Note 6).
(e) Consolidated to Magnolia effective September 12, 2011 (Note 5).
(f) Formerly San Miguel Pure Foods (Vn) Co. Ltd. (SMPFVN)(Note 6).
(g) Formerly JHK Investments Pty Limited. Renamed to "San Miguel Yamamura Knox Pty. Ltd." in February 2010.
(h) Formerly Global 5000 Investment Inc. Consolidated effective July 31, 2010 (Note 5).
(i) Sold to Millenium Holdings, Inc. (MHI) on August 18, 2011 (Note 5).
(j) Consolidated effective December 15, 2010 (Note 5).

(k) Formerly Caticlan International Airport Development Corp. (CIADC). Consolidated to SMHC effective April 8, 2010 (Note 5).
(l) Consolidated to SMHC effective November 8, 2010 (Note 5).
(m) TCCI, PHC, and PSCL were consolidated to Vega effective July 30, 2010. AGNP was consolidated to Vega effective December 30, 2010 (Note 5).
(n) Consolidated effective October 20, 2011. 40% owned by AGNP in 2011 and 2010 and 37.7% owned by SMESI in 2011 (Notes 5 and 6).
(o) Incorporated on March 16, 2011 (Note 6).
(p) Consolidated to SMCSLC effective May 26, 2011 (Note 5).
(q) Incorporated on August 18, 2011 (Note 5).
(r) Incorporated on March 28, 2011 (Notes 5 and 6).
(s) Incorporated on March 23, 2011 (Note 6).

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

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

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

Non-controlling interests include the interests not held by the Group in SMB, GSMI, SMPFC, SMYPC, SMYPIL, SMYAC, SMPI, AIBC, SMCSLC, Petron, TADHC, ULC BVI and IGI in 2011 and 2010 and also ETPI in 2011 and SMPI-GSIS JVC in 2010.

3. Significant Accounting Policies

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

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The FRSC approved the adoption of a number of new or revised standards, amendments to standards, and interpretations (based on IFRIC Interpretations) as part of PFRS.

Adopted Effective 2011

The Group has adopted the following PFRS starting January 1, 2011 and accordingly, changed its accounting policies in the following areas:

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments, provided the entity offers the rights, options or warrants pro rata

to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after February 1, 2010. The adoption of this amendment to standards did not have a material effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39, *Financial Instruments,* paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010. The adoption of this Philippine Interpretation did not have a material effect on the consolidated financial statements.

- Revised PAS 24, *Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011. The adoption of this revision to standard did not have a material effect on the consolidated financial statements.

- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC 14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)*. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- *Improvements to PFRS 2010* contain 11 amendments to 6 standards and 1 interpretation. The following are the said amendments to PFRS and interpretation:

  - PFRS 3, *Business Combinations*. The amendments: (a) clarify that contingent consideration arising in a business combination previously accounted for in accordance with PFRS 3 (2004) that remains outstanding at the adoption date of PFRS 3 (2008) continues to be accounted for in accordance with PFRS 3 (2004); (b) limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and (c) expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost, when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. The amendments are effective for annual periods beginning on or after July 1, 2010. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- PAS 27, *Consolidated and Separate Financial Statements*. The amendments clarify that the consequential amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures,* resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to enable users to evaluate better an entity's exposure to risks arising from the financial instruments. In addition, the International Accounting Standards Board amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- PAS 1, *Presentation of Financial Statements*. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- PAS 34, *Interim Financial Reporting*. The amendments add examples to the list of events or transactions that require disclosure under PAS 34 and remove references to materiality in PAS 34 that describes other minimum disclosures. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*. The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

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

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 the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 11, *Joint Arrangements*, which will become mandatory for the Group's 2013 financial statements and will require the equity method for joint ventures and PFRS 9, *Financial Instruments,* which becomes mandatory for the Group's 2015 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt these standards early and the extent of the impact has not been determined.

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

- *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 the consolidated financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in the derecognized financial assets. Entities are required to apply the amendments for annual period beginning on or after July 1, 2011.

- *Deferred Tax: Recovery of Underlying Assets (Amendments to PAS 12, Income Taxes)* introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with PAS 40, *Investment Property*. The exception also applies to investment properties acquired in a business combination accounted for in accordance with PFRS 3 provided the acquirer subsequently measure these assets applying the fair value model. The amendments integrated the guidance of Philippine Interpretation Standards Interpretation Committee (SIC) - 21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets,* into PAS 12, and as a result Philippine Interpretation SIC - 21 has been withdrawn. The effective date of the amendments is for periods beginning on or after January 1, 2012 and is applied retrospectively.

- 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 statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRS continue to apply in this regard. The effective date of the amendment is for periods beginning on or after January 1, 2013.

- PFRS 10, *Consolidated Financial Statements,* introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: (a) it is exposed or has rights to variable returns from its involvement with that investee; (b) it has the ability to affect those returns through its power over that investee; and (c) there is a link between power and returns. Control is reassessed as facts and circumstances change. PFRS 10 supersedes PAS 27 (2008). The new standard is effective for annual periods beginning on or after January 1, 2013.

- PFRS 11, *Joint Arrangements,* focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). It: (a) distinguishes joint arrangements between joint operations and joint ventures; and (b) always requires the equity method for jointly controlled entities that are now called joint ventures; they are stripped of the free choice of using the equity method or proportionate consolidation. PFRS 11 supersedes PAS 31 and Philippine Interpretation SIC-13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers.* The new standard is effective for annual periods beginning on or after January 1, 2013.

- PFRS 12, *Disclosure of Interests in Other Entities,* contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities; and the effects of those interests on the entity's financial position, financial performance and cash flows. The new standard is effective for annual periods beginning on or after January 1, 2013.

- PFRS 13, *Fair Value Measurement,* replaces the fair value measurement guidance contained in individual PFRS with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRS. It does not introduce new requirements to measure assets or liabilities at fair value nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The new standard is effective for annual periods beginning on or after January 1, 2013. Early application is permitted and required to be disclosed.

- PAS 19, *Employee Benefits* (amended 2011), includes the following requirements: (a) actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which is currently allowed under PAS 19; and (b) expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The adoption of the amended or revised standard is required for annual periods beginning on or after January 1, 2013.

- PAS 27, *Separate Financial Statements* (2011), supersedes PAS 27 (2008). PAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The adoption of the amendment is required for annual periods beginning on or after January 1, 2013.

- PAS 28, *Investments in Associates and Joint Ventures* (2011), supersedes PAS 28 (2008). PAS 28 (2011) makes the following amendments: (a) PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations,* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and, (b) on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or *vice versa*, the entity does not remeasure the retained interest. The adoption of the amended or revised standard is required for annual periods beginning on or after January 1, 2013.

- PFRS 9 (2009) is the first standard issued as part of a wider project to replace PAS 39. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before January 1, 2012. PFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of PAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of Philippine Interpretation - IFRIC 9, *Reassessment of Embedded Derivatives.* The adoption of the new standard is required for annual periods beginning on or after January 1, 2015.

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

Financial Assets and Financial Liabilities

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

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

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

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

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

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

Financial Assets

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;

- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented

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

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

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

The combined carrying amounts of financial assets under this category amounted to P315 and P442 as of December 31, 2011 and 2010, respectively (Note 42).

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

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

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

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

The combined carrying amounts of financial assets under this category amounted to P240,918 and P225,875 as of December 31, 2011 and 2010, respectively (Note 42).

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

acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" in the consolidated statements of income. Gains or losses are recognized in profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process.

As of December 31, 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 not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Fair value reserve" in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest Income" in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right to receive payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

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

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

The carrying amounts of financial assets under this category amounted to P2,068 and P3,597 as of December 31, 2011 and 2010, respectively (Note 42).

Financial Liabilities

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

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented under the "Hedging reserve" account in 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 (Note 22).

The carrying amounts of financial liabilities under this category amounted to P118 and P71 as of December 31, 2011 and 2010, respectively (Note 42).

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

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

The combined carrying amounts of financial liabilities under this category amounted to P566,041 and P536,828 as of December 31, 2011 and 2010, respectively (Note 42).

Debt Issue Costs

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

Derivative Financial Instruments and Hedging

Freestanding Derivatives

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

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

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

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

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

As of 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 "Hedging reserve" account in the consolidated statements of changes in equity. The ineffective portion is immediately recognized in profit or loss.

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

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

As of December 31, 2011 and 2010, the Group has no outstanding derivatives accounted for as a cash flow hedge.

Net Investment Hedge. As of 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 the reporting date whether a financial asset or group of financial assets is impaired.

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

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

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

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

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

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

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

Classification of Financial Instruments Between Debt and Equity

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

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

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

Offsetting Financial Instruments

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

Inventories

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

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

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

Net realizable value of finished goods 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.

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

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

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

Biological Assets and Agricultural Produce

The Group's biological assets include breeding, growing hogs, cattle and poultry livestock 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.

Breeding stocks are carried at accumulated costs net of amortization and any impairment in value while growing hogs, cattle and poultry livestock and goods in process are carried at accumulated costs. The costs and expenses incurred up to the start of the productive

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

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

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

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

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

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

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

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

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

Acquisitions Prior to January 1, 2010
In comparison to the above-mentioned requirements, the following differences applied:

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

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

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

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

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

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

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

Investments in Associates
The Group's investments in associates are accounted for under the equity method of accounting from the date when they become associates. 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 as "Equity in net earnings of associates" in the Group's consolidated statements of income. Dividends received from an associate reduce the

carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate arising from changes in the associate's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The Group's share of those changes is recognized in other comprehensive income.

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

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

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

a. goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

b. any excess of the Group's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share in the associate's profit or loss in the period in which the investment is acquired.

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

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

Interest in Joint Venture

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

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

Property, Plant and Equipment

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

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO) and interest incurred during the construction period on funds borrowed to finance the construction of the projects. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as an 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 (CIP) represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

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

	Number of Years
Land improvements	5 - 50
Buildings and improvements	2 - 50
Power plants	3 - 43
Refinery and plant equipment	5 - 16
Service stations and other equipment	1 1/2 - 10
Machinery and equipment	3 - 40
Telecommunications equipment	3 - 25
Transportation equipment	5 - 10
Tools and small equipment	2 - 5
Office equipment, furniture and fixtures	2 - 10
Molds	2 - 5
Leasehold improvements	5 - 50 or term of the lease, whichever is shorter

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

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no

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

Investment Properties
Investment properties consist of properties held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, use 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 amortization and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

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

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

The useful lives, residual values and depreciation and amortization method 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-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

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

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are 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 an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset 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 is computed using the straight-line method over the following estimated useful lives of other intangible assets with finite lives:

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

The Group assessed the useful life of trademarks and brand names, licenses 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, licenses 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.

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

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

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

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

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

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

When the applicable entities have contractual obligations to fulfill as a condition of its license: (a) to maintain the infrastructure to a specified level of serviceability, or (b) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures these contractual obligations in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date.

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

Intangible Asset - Service Concession Rights

The Group's intangible asset - service concession rights pertains the right granted by the Republic of the Philippines (ROP) to TADHC to operate the Caticlan Airport, or the Airport (the Project, known as the Boracay Airport starting 2011) as expressly stated in the Concession Agreement (CA) (Note 35), the right to design and finance the development of the Project and operate and maintain the Airport during the concession period and the present value of the annual franchise fee, as defined in the CA, payable to the ROP over the concession period of 25 years. Except for the portion that relates to the annual franchise fee, which is recognized immediately as intangible asset, the right is earned and recognized by the Group as the project progresses (Note 4).

Intangible asset is carried at cost, as determined above, less accumulated amortization and any accumulated impairment losses.

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

An intangible asset is derecognized on disposal or when no further economic benefits are expected from use or disposal.

Gain or loss from derecognition of an intangible asset - service concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in profit or loss for the period.

Intangible Asset - Mining Rights

Mining rights that are acquired by the Group and have finite lives are measured at costs less accumulated amortization and any accumulated impairment losses.

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

Amortization of mining rights is recognized in profit or loss on a straight-line basis over the estimated useful lives. The estimated useful life of mining right is the period from commercial operations to the end of the operating contract. Amortization method and useful life are reviewed at each reporting date and adjusted as appropriate.

Deferred Exploration and Development Costs

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

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

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

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

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or

- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

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

Impairment of Non-financial Assets

The carrying amounts of investments and advances, property, plant and equipment, investment properties, deferred containers, biological assets - net of current portion, 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. Trademarks and brandnames, licenses and formulas and recipes with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. 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 are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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

Cylinder Deposits

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

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

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

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of 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 those specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

Share Capital

Common Shares

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

Preferred Shares

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

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

Treasury Shares

Own equity instruments which are reacquired are carried at cost and are deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of

the Parent Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue Recognition

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

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

Power. Revenue from power generation is recognized in the period actual capacity is generated and transmitted to the customers, net of related discounts.

Service Revenue from Telecommunications. Revenue from telecommunications includes the value of all telecommunications services provided and are recognized when earned and are stated net of the share of other telecommunications administrations, if any, under existing correspondence and interconnection agreements.

Inbound revenue, included as part of the "Sales" account in the consolidated statements of income, represents settlements received from telecommunications providers who sent traffic to the Group's network. Any uncollected revenue is included as part of "Trade and other receivables" account in the consolidated statements of financial position. Inbound revenue is based on agreed payment accounting rates with other carriers.

Interconnection charges are based on rates agreed with other carriers and any unpaid amounts are included as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position.

Both the inbound revenue and interconnection charges are accrued based on actual volume of traffic monitored by the Group from the switch. Adjustments are made on the recorded amount for discrepancies between the traffic volume based on the Group's records and the records of the other carriers. These adjustments are recognized as they are determined and agreed with the other carriers.

Installation fees received from landline subscribers are also credited to operating revenues. The related labor costs on installation are recognized in profit or loss.

Construction Revenue. Revenue related to the Group's recognition of intangible asset on the right to operate the Airport, which is the consideration receivable from ROP relative to the Project and which is earned and recognized (for financial reporting purposes only; it is not taxable) as the Project progresses. The Group recognizes the corresponding amount as intangible asset as it recognizes the construction revenue. The Group assumes no profit margin in earning the right to operate the Airport.

The Group uses the cost to cost percentage of completion method to determine the appropriate amount of revenue to be recognized in a given period. The stage of completion is measured by reference to the costs incurred related to the Project up to the end of the reporting period as a percentage of total estimated cost of the Project.

Construction costs are recognized when incurred or, initially, as CIP with respect to those that relate to the upgrade component of the Project which is yet to start. The cost included in CIP, that relate to the upgrade component of the Project, will be recognized as construction cost upon commencement of the upgrade.

Landing, Take-off, and Parking Fees. Revenue is recognized upon rendering of the service which is the period from landing up to take-off of aircrafts.

Terminal fees. Revenue is recognized upon receipt of fees charged to passengers on departure.

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, associate, AFS financial assets and financial assets at FVPL. 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.

Expenses are also recognized in the consolidated statements of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably has arisen. Expenses are recognized in the consolidated statements of income on the basis of a direct association between costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition in the consolidated statements of financial position as an asset.

Share-based Payment Transactions

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

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

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

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

Leases

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

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

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

Finance Lease

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

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

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

Operating Lease

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

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

Borrowing Costs

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

Research and Development Costs

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

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

Retirement Costs

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

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

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

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

Foreign Currency

Foreign Currency Translations

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

Nonmonetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Nonmonetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of AFS 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 ("Translation reserve") in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

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 "Income and other taxes payable" accounts in the consolidated statements of financial position.

Assets Held for Sale

Noncurrent assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, the assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment properties or biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains

and losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment losses.
Intangible assets, property, plant and equipment and investment properties once classified as held for sale are not amortized or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale.

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

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

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

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

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

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

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

Segment revenues, expenses and performance include sales and purchases between business 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 the 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 estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

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

Finance lease liabilities recognized in the consolidated statements of financial position amounted to P208,261 and P208,407 as at December 31, 2011 and 2010, respectively (Note 35). The carrying amount of power plants, machinery and equipment and transportation equipment under finance lease amounted to P203,756 and P209,301 as of

December 31, 2011 and 2010, respectively (Note 16).

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

Rent income recognized in the consolidated statements of income amounted to P412, P267 and P609 in 2011, 2010 and 2009, respectively (Note 35).

Rent expense recognized in the consolidated statements of income amounted to P2,575, P1,812, and P2,120 in 2011, 2010 and 2009, respectively (Notes 27, 28 and 35).

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

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

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

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

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

corresponding obligation has likewise been recognized.

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

Recognition of Profit Margin on the Service Concession Project. The Group has not recognized any profit margin on the construction of the Project as it believes that the fair value of the intangible asset related to the Project reasonably approximates the cost of the Project. The Group also believes that the profit margin of its contractors on the rehabilitation of the existing airport and its subsequent upgrade is enough to cover any difference in the fair value and carrying amount of the intangible asset.

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

Accounting for SMPI's Investment in SMPI-GSIS JVC. Under normal circumstances, the Group would account for its investment in a joint venture classified as jointly controlled entity using proportionate consolidation. In the joint venture of SMPI GSIS, however, significant judgment was exercised to determine whether SMPI's interest in the joint venture should be accounted for as jointly controlled entity under PAS 31 or as a subsidiary under PAS 27. After considering the salient provisions of the Joint Venture Agreement (JVA), particularly, with respect to the option granted by SMPI to GSIS, i.e., GSIS to sell to SMPI its whole ownership interest in SMPI-GSIS JVC (the "Put Option") at a pre-determined exercise price at different dates, management concluded that it is most appropriate to account for the investment as a subsidiary. The main factor considered by management was the potential voting rights brought about by the Put Option which gives SMPI control over the SMPI-GSIS JVC once exercised (Note 35). In 2010, although SMPI owns 52% of SMPI-GSIS JVC, the JVA clearly specified joint control of the entity but such was without due consideration to the Put Option yet; hence the SMPI-GSIS JVC was consolidated in the Group's financial statements. In 2011, GSIS exercised its option by executing a Deed of Absolute Sale over all its shares of stock representing 48% equity in the SMPI-GSIS JVC in favor of SMPI, for a consideration of P399, making SMPI-GSIS JVC a wholly-owned subsidiary of SMPI.

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

Contingencies. The Group currently has several tax assessments, legal and administrative claims. The Group's estimate of the probable costs for the resolution of these assessments and claims has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments, legal and administrative claims will have a material adverse effect on its consolidated financial position and consolidated financial performance. It is possible, however, that future financial performance could be materially affected by changes in the

estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (Note 45).

Estimates and Assumptions

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 P5,225 and P4,519 as of December 31, 2011 and 2010, respectively. The carrying amounts of trade and other receivables amounted to P84,472 and P75,904 as of December 31, 2011 and 2010, respectively (Note 10).

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

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after 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 amount of the inventories amounted to P65,720 and P57,442 as of December 31, 2011 and 2010, respectively (Note 11). The allowance for inventory losses amounted to P1,154 and P1,297 as of 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 is deducted from the fair value in order to measure the fair value of agricultural produce at point of harvest.

Unrealized gain on fair valuation of agricultural produce included in the cost of inventories for the years ended December 31, 2011, 2010 and 2009 amounted to P69, P41 and P63, respectively (Note 11).

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

and financial liabilities would affect profit or loss and equity.

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

Estimated Useful Lives of Investment Properties, Property, Plant and Equipment and Deferred Containers. The Group estimates the useful lives of investment properties, property, plant and equipment and deferred containers based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties, property, plant and equipment and deferred containers 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, property, plant and equipment and deferred containers 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, property, plant and equipment and deferred containers would increase recorded cost of sales and selling and administrative expenses and decrease noncurrent assets.

Investment properties, net of accumulated depreciation and amortization amounted to P2,926 and P2,524 as of December 31, 2011 and 2010, respectively (Note 17). Property, plant and equipment, net of accumulated depreciation, and amortization amounted to P330,949 and P319,790 as of December 31, 2011 and 2010, respectively (Note 16). Accumulated depreciation and amortization of investment properties amounted to P1,536 and P1,258 as of December 31, 2011 and 2010, respectively (Note 17). Accumulated depreciation and amortization of property, plant and equipment amounted to P111,940 and P95,152 as of December 31, 2011 and 2010, respectively (Note 16).

Deferred containers net of accumulated amortization included under "Other noncurrent assets" account in the consolidated statements of financial position amounted to P5,035 and P4,420 as of December 31, 2011 and 2010, respectively (Note 20).

Fair Value of Investment Properties. The fair value of investment properties 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 P5,594 and P3,129 as of December 31, 2011 and 2010, respectively (Note 17).

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

Intangible assets with finite useful lives amounted to P4,063 and P3,544 as of December 31, 2011 and 2010, respectively (Note 19).

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

Impairment of Goodwill, Trademarks and Brand Names, Licenses and Formulas and Recipes with Indefinite Useful Lives. The Group determines whether goodwill, trademarks and brand names, licenses 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, licenses 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, licenses 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 of December 31, 2011 and 2010 amounted to P30,990 and P30,251, respectively (Note 19).

The combined carrying amounts of trademarks and brand names, licenses and formulas and recipes amounted to P7,344 and P7,436 as of December 31, 2011 and 2010, respectively (Note 19).

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

The application of the acquisition method requires certain estimates and assumptions especially concerning the determination of the fair values of acquired intangible assets and property, plant and equipment as well as liabilities assumed at the date of the acquisition. Moreover, the useful lives of the acquired intangible assets and 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 have resulted in goodwill and other intangible assets with indefinite and finite lives. Total carrying amounts of goodwill, mining rights and licenses arising from business combinations in 2011 and 2010 amounted to P929 and P31,396, respectively (Notes 5 and 39).

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

The Group's mining activities are all in the exploratory stages as of December 31, 2011. All related costs and expenses from exploration are currently deferred as exploration and development costs to be amortized upon commencement of commercial operations. The Group had not identified any facts and circumstances which suggest that the carrying

amount of the deferred exploration and development costs exceeded the recoverable amounts as of December 31, 2011 and 2010.
Deferred exploration and development costs included in "Other noncurrent assets - others" in the consolidated statements of financial position amounted to P103 and P41 as of December 31, 2011 and 2010, respectively (Note 20). There were no impairment losses recognized for the years ended December 31, 2011 and 2010.

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

Deferred tax assets amounted to P8,233 and P7,134 as of December 31, 2011 and 2010, respectively (Note 25).

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

Accumulated impairment losses of property, plant and equipment and investment properties amounted to P11,399 and P12,108 as of December 31, 2011 and 2010, respectively (Notes 16 and 17). The aggregate amount of investments and advances, property, plant and equipment, investment properties, deferred containers, noncurrent biological assets, intangible assets - service concession rights, other intangible assets with finite useful lives, and idle assets, amounted to P501,226 and P472,632 as of December 31, 2011 and 2010, respectively (Notes 13, 16, 17, 18, 19 and 20).

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

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

The Group determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement liabilities. 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 liabilities 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 liabilities.

The Group has a net cumulative unrecognized actuarial gain amounting to P9,348 and P25,846 as of December 31, 2011 and 2010, respectively (Note 36).

Present Value of Obligation Under a Put Option. In estimating the obligation, significant assumptions were made by management, such as the period in which the option would be exercised and the discount rate appropriate to determine the present value of such obligation. Management assumed that the option will be exercised within the next 12 months from December 31, 2010. Accordingly, the Group used a risk-free rate of 3.9% based on the Group's ordinary and short-term borrowing arrangements.

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

As of December 31, 2010, the estimated obligation of the Group under a Put Option arrangement, amounted to P386 (Note 22). As of December 31, 2011, the put option obligation had already been settled.

Asset Retirement Obligation. The Group has an ARO arising from leased service stations and depots. Determining ARO requires estimation of the costs of dismantling, installations and restoring leased properties to their original condition. The Group determined the amount of ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 4.75% to 10.17% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The Group also has an ARO arising from its refinery. However, such obligation is not expected to be settled for the foreseeable future and therefore a reasonable estimate of fair value cannot be determined. Thus, the ARO included under "Other noncurrent liabilities" account in the consolidated statements of financial position amounting to P1,061 and P815 as of December 31, 2011 and 2010, respectively, covers only the Group's leased service stations and depots (Note 24).

Present Value of Annual Franchise Fee and IRO - Service Concession Arrangements. Part of the amount recognized as intangible asset - service concession rights as of December 31, 2011 and 2010 pertains to the present value of the annual franchise fee payable to the ROP over the concession period. The recognition of the present value of the IRO is temporarily lodged in construction in progress - service concession arrangements until the completion of the Project.

The present value of the annual franchise fee and IRO were determined based on the future value of the obligations discounted at the Group's internal borrowing rate which is

believed to be a reasonable approximation of the applicable credit-adjusted risk-free market borrowing rate. The carrying amount of present value of annual franchise fee already recognized in the intangible asset and carrying amount of IRO recognized in construction in progress - service concession arrangements are presented in Notes 19 and 12. A significant change in such internal borrowing rate used in discounting the estimated cost would result in a significant change in the amount of liabilities recognized with a corresponding effect on profit or loss.

Amortization of Intangible Asset - Service Concession Rights. Management used 25 years to amortize of the intangible asset - service concession rights (Note 19).

Percentage of Completion - Service Concession Arrangements. The Group determines the percentage-of-completion of the contract by computing the proportion of actual contract costs incurred to date, to the latest estimated total Project cost. The Group reviews and revises, when necessary, the estimate of Project cost as it progresses to appropriately adjust the amount of construction cost and revenue recognized at the end of each reporting period (Note 12).

5. Business Combinations

Power Generation and Mining

- SMC Global

  On August 9, 2010, the Parent Company subscribed to the remaining unissued common shares of SMC Global equivalent to 75% ownership interest for P3,240.

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

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

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

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

Bargain purchase gain, which was presented in 2010 as part of "Other income (charges)" account in the consolidated statements of income, was recognized as a result of the acquisition as follows:

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

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

On July 29, 2011, the BOD and stockholders of SMC Global approved the increase in authorized capital stock from P1,000, divided into 10,000,000 shares at P100 par value per share, to P2,000, divided into 2,000,000,000 shares at P1 par value per share. Out of the increase in authorized capital stock, the Parent Company subscribed to 250,000,000 shares and paid the amount of P62.5 on August 4, 2011. The SEC approved the increase in the authorized capital stock of SMC Global on August 25, 2011.

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

On June 17, 2011, the BOD of SMC Global approved the sale of its 100% ownership interest in PanAsia to MHI. On June 24, 2011, SMC Global signed a Share Purchase Agreement with MHI subject to certain closing conditions, which includes among others, the Board of Investments (BOI) approval of the transaction. The approval by the BOI was obtained on August 18, 2011.

As of December 31, 2011, SMC Global received P25 as initial payment and the balance of P600 will be paid by MHI on an installment basis up to June 30, 2016. In 2011, the Group recognized a gain of P278 for the said sale, presented as part of "Other income (charges)" account in the consolidated statement of income.

- SPDC

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

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

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

Mining Companies

Daguma Agro Minerals, Inc. (DAMI)

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

Bonanza Energy Resources, Inc. (BERI)

On January 29, 2010, SMEC acquired BERI, a mining company with coal property covered by COC No. 138 with the DOE dated May 26, 2005. COC No. 138 is located in Maitum, Sarangani Province and Barangay Ned, Lake Sebu, South Cotabato consisting of 8 coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 5 million metric tons based on initial exploratory drilling conducted by SMEC geologists in Maitum, Sarangani during the period from May to July 2010. The exploratory drilling to be conducted on 4 coal blocks of BERI located in Barangay Ned, Lake Sebu Municipality is projected to contain 30 million metric tons based on a geological setting and initial exploratory drilling conducted in Maitum.

Sultan Energy Phils. Corp. (SEPC)

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

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

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

As of December 31, 2011, DAMI, SEPC and BERI are in the exploratory stages of their mining activities. All related costs and expenses from exploration are currently deferred as exploration and development costs to be amortized upon commencement of commercial operations included as part of "Other noncurrent assets" account in the consolidated statements of financial position (Note 20).

The Group had not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded recoverable amounts as of December 31, 2011.

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

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

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

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

Fuel and Oil

- SRC and Petron

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

approximately 1.97% of the issued and outstanding common shares of Petron.

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

On August 31, 2010, the Parent Company purchased an additional 1,517,637,398 common shares of Petron from SEA BV through a special block sale crossed at the PSE. Said shares comprise approximately 16.188% of the outstanding common shares of Petron.

On October 18, 2010, the Parent Company also acquired from the public a total of 530,624 common shares of Petron, representing approximately 0.006% of the outstanding common shares of Petron.

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

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

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

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

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

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

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

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

Infrastructure

- ULC BVI

On October 28, 2010, the Parent Company, through SMHC, signed a Share Sale and Purchase Agreement (the "Agreement") with Universal LRT Corporation Limited, pursuant to the authority of the BOD of the Parent Company on March 15, 2010. Under the terms of the Agreement, SMHC acquired 51% equity interest in ULC BVI, the corporation which holds the exclusive right, obligation and privilege to finance, design, construct, supply, complete and commission the MRT-7 Project by virtue of the CA dated June 18, 2008 with the ROP, through the Department of Transportation and Communications (DOTC) (Note 35).

Closing of the Agreement was held on November 8, 2010. As of March 28, 2012, there are certain post completion mandatory conditions under the Agreement which are subject to the satisfaction by Universal LRT Corporation Limited.

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

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

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

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

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

- TADHC

  On April 8, 2010, the Parent Company, through its wholly-owned subsidiary, SMHC, executed a Share Sale and Purchase Agreement relating to the purchase by SMHC of the rights, title and interests to a total of 2,025,000 common shares of CIADC (the "CIADC Shares"). On April 29, 2010, Deeds of Assignment of Shares were executed covering the CIADC Shares. CIADC holds the exclusive rights, obligations and privileges to finance, design, construct, operate and maintain the Boracay Airport by virtue of the CA, dated June 22, 2009, with the ROP, through the DOTC and the Civil Aviation Authority (Note 35). As of December 31, 2011, SMHC paid P855 for the acquisition of CIADC Shares. The balance of P170 is payable as follows: (i) P100, two years after the closing of the transaction; and (ii) P70, one year from the date of the previous payment.

  The current portion of the Group's outstanding payable related to the purchase as of December 31, 2011 amounting to P100, is included under "Accounts payable and accrued expenses" account (Note 22), while the noncurrent portion amounting to P70 as of December 31, 2011, is reported as part of "Other noncurrent liabilities" account in the consolidated statements of financial position (Note 24).

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

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

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

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

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

Telecommunications

- TCCI, PHC and PSCL

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

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

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

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

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

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

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

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

- AGNP

  On December 30, 2010, the Parent Company through its wholly-owned subsidiary, Vega, executed a Share Purchase Agreement (the "Agreement") with ISM Communications Corporation (ISM Corp.), for the purchase of 100% of the outstanding and issued shares of stock of AGNP for P1,600. The acquisition of AGNP was authorized by the BOD of Vega during the meeting held on December 16, 2010.

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

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

  The current portion of the Group's outstanding payable related to the purchase of AGNP shares as of December 31, 2011 and 2010 amounted to P640, included under "Accounts payable and accrued expenses" account (Note 22), while the noncurrent portion amounting to P640 as of December 31, 2010 is reported as part of "Other noncurrent liabilities" account (Note 24) in the consolidated statements of financial position.

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

- ETPI

  On October 20, 2011, the Parent Company through its wholly-owned subsidiary, SMESI, executed a Share Purchase Agreement (the "Agreement") with ISM Corp., for the purchase of 37.7% of the outstanding and issued shares of stock of ETPI for P1,508, making it a subsidiary of the Group. The acquisition of ETPI was authorized by the BOD of the Parent Company during meetings held on December 16, 2010 and September 22, 2011.

  Upon signing of the Agreement, SMESI paid P302 as initial payment. Under the Agreement, the outstanding balance of P1,206 is payable in two installments. The

first payment amounting to P98 is payable no earlier than December 31, 2012 while the remaining balance is to be settled no earlier than December 31, 2013.
The outstanding payable related to the purchase of ETPI's shares as of December 31, 2011 amounting to P1,206 is included under "Other noncurrent liabilities" account in the consolidated statements of financial position (Note 24).

With the acquisition of the 37.7% by SMESI and of the 40% ownership by AGNP, the Parent Company obtained control and consolidated ETPI effective October 20, 2011.

From the date of acquisition, ETPI has contributed revenue of P189 and profit of P16 to the Group's financial performance.

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

	2011
Assets	
Cash and cash equivalents	**P415**
Trade and other receivables - net	**371**
Inventories	**19**
Prepaid expenses and other current assets	**100**
Available-for-sale financial assets	**4**
Property, plant and equipment - net	**2,582**
Other noncurrent assets	**229**
Liabilities	
Accounts payable and accrued expenses	**(412)**
Income and other taxes payable	**(119)**
Deferred tax liabilities	**(91)**
Total identifiable net assets at fair value	**P3,098**

The fair value of the trade and other receivables amounts to P371. The gross amount of trade receivables is P439, of which P68 is expected to be uncollectible at the acquisition date (Note 10).

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

	Note	2011
Cash		**P302**
Deferred consideration		**1,206**
Equity interest held before business combination	*13*	**1,625**
Total consideration transferred		**3,133**
Non-controlling interest measured at proportionate interest in identifiable net assets		**691**
Total identifiable net assets at fair value		**(3,098)**
Goodwill	*19, 39*	**P726**

Goodwill arising from the acquisitions is attributable to the benefit of expected synergies with the Group's telecommunication business, revenue growth, and future development. None of the goodwill recognized is expected to be deductible for tax purposes.

Properties

- SMPI-GSIS

  On October 31, 2007, the Parent Company through SMPI entered into a JVA with GSIS to establish the SMPI-GSIS JVC. The SMPI-GSIS JVC will hold ownership and title to the real property owned by GSIS, develop the property into a first class high-rise service apartment and manage and operate the same. The SMPI-GSIS JVC will have an authorized capital stock of P600 divided into 600,000,000 shares with a par value of P1.00 per share. The parties agreed to an equal equity participation wherein the real estate property owned by GSIS is valued at P300 while SMPI has committed to contribute P300 to the SMPI-GSIS JVC. On October 23, 2008, SMPI-GSIS JVC was incorporated.

  In 2010, the Articles of Incorporation of SMPI-GSIS JVC was amended accordingly to reflect the increase in its authorized capital stock from P600 divided into 600,000,000 shares to P625 divided into 625,000,000 shares, both with par value of P1.00 per share. SMPI then completed the acquisition of the 52% equity ownership in SMPI-GSIS JVC by assigning its 100% equity ownership in Maison 17 Properties, Inc. (MPI), one of its wholly-owned subsidiaries, plus additional cash consideration of P181, which is in accordance with the JVA. After this transaction, MPI became a wholly-owned subsidiary of SMPI-GSIS JVC.

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

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

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

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

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

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

On July 5, 2011, GSIS exercised its option by executing a Deed of Absolute Sale over all its shares of stock representing 48% equity in the SMPI-GSIS JVC in favor of SMPI, for a consideration of P399, making SMPI-GSIS JVC a wholly-owned subsidiary of SMPI.

The SMPI-GSIS JVC has not yet started commercial operations as of March 28, 2012.

Foods

- GFDCC

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 and was consolidated into SMPFC through Magnolia.

From the date of acquisition, GFDCC has contributed revenue of P40 to the Group's financial performance.

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

	2011
Assets	
Cash and cash equivalents	**P7**
Trade and other receivables - net	**25**
Prepaid expenses and other current assets	**37**
Property, plant and equipment - net	**308**
Liabilities	
Accounts payable and accrued expenses	**(22)**
Current maturities of long-term debt - net of debt issue costs	**(25)**
Long-term debt - net of current maturities and debt issue costs	**(185)**
Other noncurrent liabilities	**(46)**
Total identifiable net assets at fair value	**P99**

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

	Note	2011
Total cash consideration transferred		**P105**
Total identifiable net assets at fair value		**(99)**
Goodwill	*19, 39*	**P6**

Others

- KCSLI

  On May 26, 2011, SMCSLC, executed an Asset and Share Purchase Agreement relating to the purchase of 100% of the issued shares of KCSLI through which SMCSLC obtained an indirect ownership over a parcel of land, certain fixed assets and foreshore leases and land rights.

  On August 18, 2011, SMCSLC incorporated MSC. MSC's primary purpose is to engage in the business of construction, building, fabrication, repair, conversion or extension of ships, boats and other kinds of vessels and marine equipment, machineries and structures including offshore rigs. MSC leases the land owned by KCSLI.

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

	2011
Assets	
Cash and cash equivalents	**P5**
Property, plant and equipment - net	**821**
Total identifiable net assets at fair value	**P826**

Total identifiable assets at fair value on the acquisition date, is equal to the consideration of the purchase made by SMCSLC.

6. Investments in Subsidiaries

The following are the developments relating to the Parent Company's investments in subsidiaries in 2011 and 2010:

Beverages

- SMBIL

  On January 29, 2010, the Parent Company completed the sale of its international beer and malt-based beverage business to SMB, through the sale by San Miguel Holdings Limited (SMHL), its wholly-owned subsidiary, of the 100% of the issued and outstanding capital stock of SMBIL (SMBIL shares). The SMBIL shares were sold to SMB for a purchase price of United States dollar (US$)302 (P13,941), after adjustments in accordance with the terms of the Share Purchase Agreement entered by the Parent Company, SMHL and SMB in December 2009. As a result, SMBIL became a wholly-owned subsidiary of SMB.

- BPI

  On November 10, 2010, the Parent Company and SMB executed a Deed of Absolute Sale of Shares ("Deed") for the purchase by SMB of all the shares of the Parent Company in BPI (the "BPI Shares") at the aggregate purchase price of P6,829 ("Purchase Price"). SMB paid P6,629, corresponding to the appraised value of the 128 land titles of certain parcels of land used in the domestic beer operations of SMB ("Land") transferred in the name of BPI to the Parent Company upon execution of the Deed. The balance shall be paid by SMB to the Parent Company upon transfer of the remaining eight Land titles in the name of BPI. The BPI Shares comprise 40% of the issued and outstanding capital stock of BPI. The acquisition was financed using part of the proceeds of the bond offering of SMB conducted in 2009 (Note 23).

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

Foods

- SMPFC

  On February 2, 2010 and March 12, 2010, SMPFC's BOD and stockholders, respectively, approved the: (i) de-classification of SMPFC's common shares, (ii) increase in SMPFC's authorized capital stock by P1,000 or 100,000,000 shares at P10.00 par value, and (iii) 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 of its Articles of Incorporation for the de-classification of common shares.

  On May 21, 2010, the SEC issued to SMPFC the Certificate for the Approval of Increase of Capital Stock from 146,000,000 common shares to 246,000,000 common shares with par value of P10.00 per share and the Certificate of Filing of Amended Articles of Incorporation.

  On July 6, 2010, the PSE approved the application of SMPFC to list additional 25,423,746 common shares, with a par value of P10.00 per share, to cover the 18% stock dividend declaration to stockholders of record as of June 30, 2010. Stock dividend distribution was made on July 26, 2010.

  On September 15, 2010, SMPFC's BOD approved, among others, the: (i) reclassification of up to 75,000,000 authorized and unissued common shares into cumulative, non-participating, non-voting and non-convertible preferred shares with par value of P10.00 per share; (ii) issuance of preferred shares with total issue size of up to P50,000, part of the proceeds of which will be used to settle SMPFC's remaining 90% balance on the acquisition of food-related brands and intellectual property rights from the Parent Company and on the purchase of the Parent Company's 51% stake in SMPFI; (iii) listing of such preferred shares at the appropriate exchanges; and (iv) amendment of SMPFC's Articles of Incorporation to reflect the reclassification of such common shares to preferred shares and the denial of pre-emptive rights of shareholders for the proposed issuance of said preferred shares.

On November 3, 2010, SMPFC's stockholders approved, among others, the: (i) reclassification of SMPFC's 40,000,000 authorized and unissued common shares into non-voting, cumulative and non-participating preferred shares with par value of P10.00 per share; (ii) issuance of such preferred shares and the listing thereof at the appropriate exchanges; and (iii) amendment of SMPFC's Articles of Incorporation to reflect the reclassification of such common shares to preferred shares and the denial of pre-emptive rights of shareholders for the proposed issuance of said preferred shares (Amendment).

On December 23, 2010, the SEC approved the Amendment of the Articles of Incorporation of SMPFC.

On January 20, 2011, the SEC favorably considered SMPFC's Registration Statement covering the registration of 15,000,000 preferred shares with a par value of P10.00 per share.

On January 26, 2011, the PSE approved, subject to certain conditions, the application of SMPFC to list up to 15,000,000 preferred shares with a par value of P10.00 per share to cover the SMPFC's follow-on preferred shares offering at an offer price of P1,000.00 per share and with a dividend rate determined by management on the dividend rate setting date.

On February 10, 2011, the SEC issued the order for the registration of SMPFC's 15,000,000 preferred shares with a par value of P10.00 per share and released the Certificate of Permit to Offer Securities for Sale.

On February 11, 2011, SMPFC's BOD approved the terms of the preferred shares offer (Terms of the Offer) and the amendment of the Articles of Incorporation of SMPFC to reflect the additional optional redemption features of the preferred shares to align with the Terms of the Offer. The stockholders of SMPFC approved the said amendment during its annual meeting on May 13, 2011.

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 P1,000.00 per share during the period from 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 SMPFC, 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 the 5th year from issuance date was provided under certain conditions (i.e., accounting, tax or change of control events). Unless the preferred shares are redeemed by SMPFC on its 5th year anniversary, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 8% or the ten-year PDST-F rate prevailing on the optional redemption date plus 3.33% per annum.

On March 3, 2011, SMPFC's 15,000,000 preferred shares with par value of P10.00 per share were listed with the PSE.

On June 2, 2011, the SEC issued the Certificate of Filing of Amended Articles of

Incorporation approving the additional redemption features of the preferred shares of SMPFC.

On August 12, 2011, the BOD of the Parent Company approved the sale of a portion of its investment in the Manila Electric Company (Meralco) to SMPFC, comprising of 59,090,909 common shares or approximately 5.2% of the outstanding capital stock of Meralco as of December 31, 2010 (Note 13).

- SMMI

  In October 2010, the BOD and stockholders of SMMI authorized SMMI to raise funds of up to P5,000 to fund any expansion or any investment in new businesses by SMMI and for other general corporate purposes.

  In September 2011, the Parent Company, through SMMI, a wholly-owned subsidiary of SMPFC, incorporated GBGTC with an authorized capital stock of P2,000. GBGTC is a Philippine company with the primary purpose of providing and rendering general services connected with and incidental to the operation and management of port terminals engaged in handling and/or trading of grains, among others. In November 2011, following the approval by SEC of the incorporation of GBGTC, SMMI subscribed to 5,000,000 GBGTC shares for a total subscription value of P500 and paid an initial consideration amounting to P125. As of March 28, 2012, GBGTC has not yet started commercial operations.

- SMFI

  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 SMPFC, 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 SMPFC.

  In July 2010, the SEC approved the application of Monterey Foods Corporation (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 SMPFC's deposit for future stock subscription of P450 in 2008.

  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 BIR as of March 28, 2012.

- SMPFIL

  In July 2010, the Parent Company, through its wholly-owned subsidiary, SMFBIL, sold to SMPFIL, (a wholly-owned subsidiary of SMPFC) its 51% interest in SMPFI for US$18.6. SMPFI owns 100% of SMPFVN. Pursuant to the Sale and Purchase Agreement between SMFBIL and SMPFIL, 10% of the purchase price was paid in July 2010 and the balance of US$16.8 will be payable: (i) upon change in controlling interest of SMPFIL to any third person other than affiliate, or (ii) two years from July 30, 2010, subject to floating interest rate based on one-year LIBOR plus an agreed margin after one year, whichever comes first.

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 US$16.8, the remaining balance of the purchase price of the Vietnam food business.

As approved by the State Securities Commission of Vietnam on September 30, 2011, SMPFVN was renamed to San Miguel Hormel (Vn) Co., Ltd.

- SMPFC Capital Investments, Limited (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$0.05 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.

- Philippine Nutrition Technologies, Inc. (PNTI)

  The SMPFC's application with the SEC for the dissolution of PNTI, a joint venture between SMPFC and the Great Wall Group of Taiwan, was approved on May 27, 2010. As a result of the said dissolution, SMPFC's investment in PNTI amounting to P12 was written off against its allowance for decline in value of investment.

Telecommunications

- SMESI

  On March 28, 2011, the Parent Company incorporated SMESI, a wholly-owned subsidiary, with an initial authorized capital stock of P100 divided into 100,000,000 shares and paid-up capital of P25. On October 20, 2011, SMESI acquired 37.7% of the outstanding and issued shares of stock of ETPI (Note 5).

Power

- SMELCO

  On February 8, 2011, the Parent Company incorporated SMELCO, a wholly-owned subsidiary, with an authorized capital stock of P1,000 divided into 10,000,000 shares and paid-up capital of P250. On August 22, 2011, SMELCO was granted a Retail Electricity Suppliers (RES) license by the Energy Regulatory Commission (ERC) pursuant to Section 29 of Republic Act (RA) No. 9136 or the Electric Power Industry Reform Act of 2001. A RES license is needed to participate in retail sales and enter into off take agreements with contestable customers or those with power requirements of at least 1 Megawatt (MW) upon the implementation of Open Access and Retail Competition, which is scheduled in 2012.

  On August 31, 2011, the Parent Company sold its 100% shareholdings in SMELCO to SMC Global for P250.

Others

- MG8

  On March 16, 2011, SMCSLC incorporated MG8, a wholly-owned subsidiary, with an initial authorized capital stock of P10 divided into 100,000 shares and paid-up capital of P10.

- SMEII

  On March 23, 2011, the Parent Company incorporated SMEII, a wholly-owned subsidiary, with an initial authorized capital stock of P100 divided into 100,000,000 shares and paid-up capital of P25.

7. Segment Information

Operating Segments

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

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

The beverage segment produces and markets alcoholic and nonalcoholic beverages.

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

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

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

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

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

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

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories, biological assets, and property, plant and equipment, net of allowances and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable and accrued expenses and other noncurrent liabilities, excluding interest payable. Segment assets and liabilities do not include deferred taxes.

Inter-segment Transactions

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

Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenues of the Group.

Operating Segments

Financial information about reportable segments follows:

	For the Years Ended December 31, 2011, 2010 and 2009																								
	Beverage			Food			Packaging			Power Generation and Distribution		Fuel and Oil		Infrastructure		Telecommunications		Others			Eliminations			Total		
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Sales																										
External sales	**P87,076**	P90,407	P82,735	**P89,549**	P80,415	P77,220	**P18,943**	P19,268	P14,258	**P70,737**	P45,636	**P269,116**	P10,383	**P116**	P9	**P238**	P38	**P -**	P -	P -	**P -**	P -	P -	**P535,775**	P246,156	P174,213
Inter-segment sales	179	139	1,067	**42**	3	15	**5,171**	4,172	5,413	**708**	65	**4,840**	246	-	-	-	-	-	-	-	**(10,940)**	(4,625)	(6,495)	-	-	-
Total sales	**P87,255**	P90,546	P83,802	**P89,591**	P80,418	P77,235	**P24,114**	P23,440	P19,671	**P71,445**	P45,701	**P273,956**	P10,629	**P116**	P9	**P238**	P38	**P -**	P -	P -	**(P10,940)**	(P4,625)	(P6,495)	**P535,775**	P246,156	P174,213
Result																										
Segment result	**P18,850**	P19,194	P14,035	**P6,142**	P5,905	P4,559	**P2,158**	P1,999	P1,562	**P16,720**	P9,568	**P14,834**	P679	**(P74)**	(P32)	**(P672)**	(P229)	**(P2,018)**	(P2,765)	(P2,769)	**P14**	P289	P2,282	**P55,954**	P34,608	P19,669
Interest expense and financing charges																								**(27,443)**	(16,578)	(7,926)
Interest income																								**4,618**	3,023	5,989
Equity in net earnings of associates																								**2,824**	6,817	2,816
Gain on sale of investments and property and equipment																								**1,046**	529	50,630
Other income (charges) - net																								**(12)**	7,095	(6,843)
Income tax expense																								**(8,483)**	(11,438)	(3,706)
Net income																								**P28,504**	P24,056	P60,629
Attributable to:																										
Equity holders of the Parent Company																								**P17,518**	P20,091	P57,799
Non-controlling interests																								**10,986**	3,965	2,830
Net income																								**P28,504**	P24,056	P60,629

For the Years Ended December 31, 2011, 2010 and 2009

	Beverage			Food			Packaging			Power Generation and Distribution		Fuel and Oil		Infrastructure		Telecommu-nications		Others			Eliminations			Consolidated		
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Other Information																										
Segment assets	**P83,076**	P81,412	P76,816	**P43,612**	P43,267	P43,126	**P31,954**	P32,112	P33,689	**P260,418**	P238,591	**P172,173**	P158,984	**P3,141**	P2,642	**P9,679**	P5,881	**P227,709**	P216,157	P315,548	**(P152,050)**	(P144,272)	(P91,069)	**P679,712**	P634,774	P378,110
Investments in and advances to associates	-	-	-	**6,153**	-	-	-	-	-	**13,484**	12,931	**2,505**	804	**8,723**	1,581	**8,786**	5,125	**127,203**	132,373	39,005	-	-	-	**166,854**	152,814	39,005
Goodwill, trademarks and brand names																								**31,232**	30,491	8,547
Other assets																								**2,237**	3,764	1,200
Assets held for sale																								**2,268**	823	2,746
Deferred tax assets																								**8,233**	7,134	8,883
Consolidated total assets																								**P890,536**	P829,800	P438,491
Segment liabilities	**P21,196**	P20,945	P9,692	**P10,505**	P14,755	P23,337	**P4,732**	P5,380	P7,714	**P13,675**	P16,769	**P23,684**	P19,633	**P3,003**	P580	**P18,829**	P11,723	**P110,393**	P130,931	P96,547	**(P141,900)**	(P135,218)	(P87,690)	**P64,117**	P85,498	P49,600
Drafts and loans payable																								**82,588**	74,128	56,789
Long-term debt																								**211,420**	168,927	72,962
Finance lease liabilities																								**208,261**	208,407	30
Income and other taxes payable																								**9,041**	10,001	4,186
Dividends payable and others																								**4,174**	2,262	1,949
Liabilities held for sale																								**578**	-	-
Deferred tax liabilities																								**11,257**	13,752	12,037
Consolidated total liabilities																								**P591,436**	P562,975	P197,553
Capital expenditures	**P2,954**	P2,240	P1,399	**P598**	P599	P781	**P1,347**	P1,490	P1,010	**P620**	P586	**P18,794**	P364	**P36**	P8	**P72**	P -	**P2,005**	P3,231	P3,059	**P -**	P -	P -	**P26,426**	P8,518	P6,249
Depreciation and amortization of property, plant and equipment (Note 29)	**2,168**	2,248	2,415	**895**	906	940	**1,688**	1,611	1,533	**5,432**	2,468	**3,566**	210	**6**	-	**181**	55	**707**	379	366	-	-	-	**14,643**	7,877	5,254
Noncash items other than depreciation and amortization of property, plant and equipment	**1,271**	717	763	**1,309**	1,338	1,167	**(111)**	(30)	172	**600**	357	**161**	1,660	**4**	-	**91**	29	**1,209**	(6,875)	2,612	-	-	-	**4,534**	(2,804)	4,714
Loss on impairment of goodwill, property, plant and equipment, and other noncurrent assets	77	4,333	3,705	**6**	51	54	-	-	695	-	-	-	-	-	-	**45**	-	-	-	302	-	-	-	**128**	4,384	4,756

8. Assets Held for Sale

a) Petron Mega Plaza

Petron has properties consisting of office units located at Petron Mega Plaza which has a floor area of 21,216 square meters covering the 28th - 44th floors and 206 parking lots amounting to P823. On December 1, 2010, Petron's BOD approved the sale of these properties to provide cash flows for various projects. On May 2, 2011, Petron sold the 32nd floor (with total floor area of 1,530 square meters) and 10 parking lots to the International Committee of the Red Cross with a total book value of P57. In September 2011, it was reclassified back to "Investment Properties" account in view of the fact that the remaining floors are no longer held for sale and have already been tenanted.

As of December 31, 2011, the carrying amount of assets held for sale amounted to P10, which comprised of buildings for stand-alone convenience stores (Treats) and locators held by PMC.

b) SMTCL

On December 7, 2011, the Parent Company through SMFBIL, signed a Share Sale and Purchase Agreement to sell all its outstanding shares in SMTCL to Pepsi Thai Trading Co., for a purchase price of US$35. The sale was completed on February 15, 2012.

c) SMYUI

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

The major classes of SMTCL and SMYUI's assets and liabilities held for sale in 2011 are as follows:

	Note	
Assets held for sale		
Cash and cash equivalents	*9*	**P86**
Trade and other receivable - net		**21**
Inventories		**53**
Prepaid expenses and other current assets		**30**
Property, plant and equipment	*16*	**1,900**
		P2,090
Liabilities directly associated with assets held for sale		
Accounts payable and accrued expenses		**P58**
Income and other taxes payable		**9**
Current maturities of long-term debt - net of debt issue costs		**341**
Other noncurrent liabilities		**170**
		P578

d) Included in the "Assets held for sale" account presented in the consolidated statement of financial position as of December 31, 2011, are building and land use rights of SMVCL in Amata Industrial Zone in Vietnam amounting to P168, which were sold to Pepsico International - Vietnam Company on February 23, 2012.

9. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	**2011**	2010
Cash in banks and on hand		**P30,125**	P17,344
Short-term investments		**98,850**	107,844
	41, 4	**P128,975**	P125,188

Cash in banks earns interest at the respective bank deposit rates. Short-term investments include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates.

Cash and cash equivalents included in the "Assets held for sale" account in the consolidated statement of financial position as of December 31, 2011 amounted to P86 (Note 8).

10. Trade and Other Receivables

Trade and receivables consist of:

	Note	**2011**	2010
Trade		**P44,631**	P39,112
Non-trade	*35, 40*	**31,830**	29,921
Amounts owed by related parties	*34*	**13,236**	11,390
		89,697	80,423
Less allowance for impairment losses	*4*	**5,225**	4,519
	41, 42	**P84,472**	P75,904

Trade receivables are non-interest bearing and are generally on a 30 to 45-day term.

The movements in the allowance for impairment losses are as follows:

	Note	**2011**	2010
Balance at beginning of year		**P4,519**	P2,729
Charges for the year		**1,017**	697
Amounts written off		**(214)**	(257)
Acquisition of subsidiaries	*5*	**68**	965
Transferred to assets held for sale		**(12)**	-
Others - net		**(153)**	385
Balance at end of year		**P5,225**	P4,519

As of December 31, 2011 and 2010, the aging of receivables is as follows:

2011	Trade	Non-trade	Owed by Related Parties	Total
Current	**P35,387**	**P19,282**	**P13,236**	**P67,905**
Past due				
Less than 30 days	**3,280**	**546**	**-**	**3,826**
30-60 days	**1,378**	**915**	**-**	**2,293**
61-90 days	**641**	**186**	**-**	**827**
Over 90 days	**3,945**	**10,901**	**-**	**14,846**
	P44,631	**P31,830**	**P13,236**	**P89,697**

2010	Trade	Non-trade	Owed by Related Parties	Total
Current	P33,202	P18,494	P11,390	P63,086
Past due				
Less than 30 days	2,413	2,637	-	5,050
30-60 days	849	543	-	1,392
61-90 days	387	1,621	-	2,008
Over 90 days	2,261	6,626	-	8,887
	P39,112	P29,921	P11,390	P80,423

Various collaterals for trade receivables such as bank guarantees, time deposit and real estate mortgages are held by the Group for certain credit limits.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible based on historical payment behavior and extensive analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

The Parent Company has outstanding advances to San Miguel Corporation Retirement Plan (SMCRP) amounting to P5,755 and P3,997 as of December 31, 2011 and 2010, respectively. The advances are subject to interest of 5.75% and 6.50% in 2011 and 2010, respectively (Note 34). Interest pertaining to the said advances amounted to P174 and P82 for the years ended December 31, 2011 and 2010, respectively (Note 32).

11. Inventories

Inventories at net realizable value consist of:

	2011	2010
Finished goods and goods in process (including petroleum products)	**P46,763**	P37,402
Materials and supplies (including coal)	**17,656**	18,427
Containers	**1,301**	1,613
	P65,720	P57,442

The cost of finished goods and goods in process amounted to P46,879 and P37,637 as of December 31, 2011 and 2010, respectively.

If the Group used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other petroleum products would have decreased by P379 and P715 as of December 31, 2011 and 2010, respectively.

The cost of materials and supplies, as of December 31, 2011 and 2010 amounted to P18,516 and P19,185, respectively.

Containers at deposit value amounted to P1,479 and P1,917 as of December 31, 2011 and 2010, respectively.

Finished goods and goods in process include net unrealized gain of P69, P41 and P63 on fair valuation of agricultural produce as of December 31, 2011, 2010 and 2009, respectively (Note 4). The fair value of agricultural produce less costs to sell, which formed part of finished goods inventory, amounted to P753 and P416 as of December 31, 2011 and 2010, respectively, with corresponding cost at point of harvest amounting to P684 and P375, respectively.

12. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	**2011**	2010
Prepaid taxes and licenses		**P16,113**	P10,539
Raw land inventory and real estate projects		**3,925**	3,675
Construction in progress - service concession arrangements	*4*	**318**	119
Prepaid insurance		**290**	198
Prepaid rent		**287**	314
Financial assets at FVPL	*41, 42*	**194**	193
Derivative assets	*41, 42*	**121**	249
Retirement assets - current portion	*36*	**-**	221
Prepaid interest		**-**	212
Others		**1,372**	1,194
		P22,620	P16,914

"Others" consist of advances to officers and employees and prepayments for various operating expenses.

Construction in progress - service concession arrangements includes the Group's accumulated costs incurred on the design of the upgrade component of the development of the Boracay Airport, cost of a parcel of land earmarked for such upgrade and the present value of the obligation to maintain and restore the Boracay Airport prior to its transfer to the ROP at the end of the concession period, as described in Note 35. This will be transferred and recognized as cost of construction upon commencement of the construction of the new terminal and runway (Note 3). The interest expense related to the accretion of the IRO in 2011 and 2010 amounting to P4.2 and P0.9, respectively, was recognized and presented as part of "Interest expense and other financing charges" in the consolidated statements of income (Note 31).

13. Investments and Advances

Investments and advances consist of:

	Note	**2011**	2010
Investments in associates - at equity:			
Acquisition cost			
Balance at beginning of year		**P152,016**	P36,461
Additions		**9,199**	97,017
Reclassification of investment in an associate to investment in subsidiaries	*5*	**(1,600)**	-
Investments of newly acquired subsidiaries	*5*	**-**	15,383
Transfer from assets held for sale	*8*	**-**	3,159
Reclassifications and others		**(374)**	(4)
		159,241	152,016
Accumulated equity in net earnings (losses):			
Balance at beginning of year		**(217)**	1,388
Equity in net earnings during the year		**2,824**	6,817
Dividends		**(3,973)**	(2,338)
Reclassification of investment in an associate to investment in subsidiaries	*5*	**(25)**	(5,095)
Share in other comprehensive income (losses)		**645**	(422)
Accumulated equity on investments transferred from assets held for sale	*8*	**-**	(413)
Accumulated equity on investments of newly acquired subsidiaries		**-**	(154)
Balance at end of year		**(746)**	(217)
		158,495	151,799
Advances		**8,359**	1,015
		P166,854	P152,814

The carrying amounts of investments in associates are as follows:

	Country of Incorporation	2011 Percentage of Ownership	2011 Amount	2010 Percentage of Ownership	2010 Amount
Top Frontier Investment Holdings, Inc. (Top Frontier)	Philippines	**49.00**	**P90,345**	49.00	P92,480
Atlantic Aurum Investments BV (Atlantic)	Netherlands	**46.53**	**6,068**	-	-
LTHI	Philippines	**41.48**	**2,828**	41.48	3,525
Limay Energen Corp. (LEC)	Philippines	**40.00**	**1,360**	40.00	213
Bank of Commerce (BOC)	Philippines	**39.93**	**8,517**	32.77	6,253
Private Infra Dev Corporation (PIDC)	Philippines	**35.00**	**1,544**	35.00	1,581
Manila North Harbour Port Inc. (MNHPI)	Philippines	**35.00**	**704**	-	-
Meralco	Philippines	**33.19**	**46,439**	33.19	45,309
Petrochemical Asia (HK) Limited (PAHL)	Hong Kong	**33.00**	**441**	33.00	591
Northpine Land, Inc.	Philippines	**20.00**	**249**	20.00	247
ETPI	Philippines	**-**	**-**	40.00	1,600*
			P158,495		P151,799

** Reclassified to investments in subsidiaries in 2011 (Note 5).*

Following are the unaudited condensed and combined financial information of the associates:

	2011	2010	2009
Total assets	**P587,629**	P552,700	P398,354
Total liabilities	**309,418**	261,599	323,170
Revenue	**271,340**	253,289	194,795
Net income	**12,173**	19,290	8,262

a. Top Frontier

On January 6, 2010, the Parent Company acquired a 49% stake via equity infusion in Top Frontier consisting of its subscription to 2,401,960 common shares of Top Frontier from its unissued capital stock. On January 7, 2010, the Parent Company paid P48,324 as deposit for future subscription in connection with the option granted to the Parent Company to apply the same to the subscription of 2,598,040 non-voting, redeemable, participating preferred shares of Top Frontier upon the increase in its authorized capital stock, amendment of its Articles of Incorporation and Top Frontier's compliance with its obligations related to the aforementioned investment.

The application for the increase in the authorized capital stock of Top Frontier was approved by the SEC on August 6, 2010.

The stock certificates covering the investment of the Parent Company in the 2,598,040 preferred shares of Top Frontier were issued in the name of the Parent Company on October 22, 2010.

The preferred shares are entitled to preferential dividends at a fixed rate per annum of 3% of the issue price which will be payable quarterly in arrears and in cash. The dividends on the preferred shares are cumulative from and after the issue date of the preferred shares.

The preferred shares are non-voting and participating. These are redeemable in whole or in part, at the sole option of Top Frontier, equal to its issue price plus any accrued and unpaid preferential dividends, upon notice to the holders.

b. Atlantic

On October 11, 2011, the Parent Company, through its wholly-owned subsidiary SMHC, entered into a Sale and Purchase Agreement of Shares with PT Matra Sarana Arsitama, a corporation organized and existing under the laws of the Republic of Indonesia, for the purchase of 16,022,041 Class B common shares, representing 46.53% of the outstanding capital stock of Atlantic for US$132 or P5,871. Atlantic has indirect equity interests in the companies holding the concessions to construct, operate and maintain the South Luzon Expressway Project.

On December 29, 2011, SMHC entered into an Option Agreement with Padma Fund L.P. (Padma), a corporation organized and existing under the laws of Cayman Island, for the option to purchase up to 53.47% of the outstanding capital stock of Atlantic, comprising of 47,369 Class A common shares and 18,364,461 Class B common shares. SMHC paid US$40 or P1,754 as option deposit for the option to purchase the shares. SMHC has the option to purchase the shares for a period of 25 calendar days from the execution of the Option Agreement or until January 23, 2012, or such date as may be agreed upon by the Parties in writing. The option deposit shall be returned upon the issuance of a written notice by SMHC confirming that the option shall not be exercised. As of December 31, 2011, the option deposit was presented as part of "Trade and other receivables" account in the consolidated statements of financial position (Note 10).

On January 26, 2012, Padma returned to SMHC the option deposit of US$40.

c. LTHI

On July 8, 2009, Vega, a wholly-owned subsidiary of the Parent Company, acquired 579,111,669 common shares of LTHI from LTHI's existing stockholders for a total consideration of P2,041.

On July 21, 2009, Vega entered into a subscription agreement with LTHI for the subscription of 587,951,737 voting, non-redeemable and participating preferred shares out of the proposed increase in the authorized capital stock of LTHI at an issue price of P3.00 per share or approximately P1,764.

The application for the increase in the authorized capital stock of LTHI was approved by the SEC on January 18, 2010.

In 2010 and 2009, Vega paid P1,029 and P735, respectively, as subscription on LTHI's preferred shares.

The transaction was completed with a stock certificate covering the said preferred shares issued in the name of Vega on May 26, 2010.

On October 5, 2010, Vega also acquired from the public a total of 64,589,000 common shares of LTHI amounting to P221.

The fair value of the Group's capital stock investment in LTHI amounted to P3,508 and P4,152 as of December 31, 2011 and 2010, respectively.

d. LEC

On August 3, 2010, Petron together with Two San Isidro SIAI Assets, Inc. (Two San Isidro), formed LEC with an authorized capital stock of P3,400. Out of its authorized capitalization, P850 has been subscribed, of which P213 has been paid-up by Petron. Petron owns 40% of LEC, while Two San Isidro owns the remaining 60%. In 2011, Petron infused P1,147 to LEC to fully pay its 40% equity share.

LEC was formed to build, operate and maintain a cogeneration power plant that will engage in the generation of power and steam for the primary purpose of supplying the steam and power requirements of Petron Bataan Refinery.

As of December 31, 2011 and 2010, cost of investment in LEC amounted to P1,360 and P213, respectively.

e. BOC

SMPI has made a series of acquisitions of BOC shares in 2008 and 2007 and has acquired a total of 11,749,779 shares amounting to P1,749, equivalent to 30% equity ownership interest in BOC at the end of 2008. In 2009, SMPI subscribed to additional shares of BOC for a total consideration of P1 thereby increasing its equity ownership interest from 30% to 31.23% as of December 31, 2009. SMPI's management, however, decided to sell SMPI's entire equity ownership interest in BOC and reclassified the asset as held-for-sale in the 2009 consolidated statement of financial position.

In 2010, SMPI management decided not to pursue the sale of its ownership interest in BOC with a carrying amount of P2,746 and reclassified it back to "Investments and advances" account and made further acquisitions of BOC shares.

In 2010, SMPI acquired additional 20,383,210 shares amounting to P3,562 from various stockholders of BOC. These acquisitions increased SMPI's equity ownership interest in BOC to 32.77% as of December 31, 2010. Of the total acquisition cost, P1,800 and P542 were paid by SMCRP and Parent Company, respectively, in behalf of SMPI. The amounts were already paid as of December 31, 2011.

In 2010, SMPI made advance payments to certain stockholders of BOC amounting to P221 for the acquisition of additional shares sufficient to increase its equity interest in BOC to 33.86%. These advances were presented under "Investments and advances" account in the consolidated statements of financial position as of December 31, 2011 and 2010 and were not considered in the determination of SMPI's percentage equity interest in BOC.

In 2011, SMPI agreed to acquire an additional 7.2% of the outstanding capital stock of BOC for a total consideration of P1,490, by way of Deed of Sale of Shares with Assignment of Subscription Rights from Valiant Ventures and Development Holdings, Inc. consisting of: (i) 2,800,000 outstanding and issued common shares of stock; and (ii) the subscription rights to 5,237,265 common shares of stock. The acquisition by SMPI resulted to an increase in its equity interest to 39.93% as of December 31, 2011. As of December 31, 2011, SMPI completed the payment for the additional investment.

Share in BOC's accumulated fair value gains (losses) amounted to P645 and (P201) in 2011 and 2010, respectively, and are presented as part of "Share in comprehensive income (loss) of associates" account in the consolidated statements of comprehensive income.

Certain accounting policies applied by BOC in the preparation of its financial statements are not in accordance with PFRS. In computing for the equity in net earnings (losses) and comprehensive income (losses) of BOC, SMPI made adjustments to the 2011, 2010 and 2009 audited financial statements of BOC to conform BOC's accounting policies with PFRS and make them consistent with the Group's accounting policies. The adjustments made by SMPI relate to the correction of: (a) inadequate reserves on non-performing assets, investment properties and financial assets; (b) deferral of losses on sale of non-performing loans; and (c) misstatement in the values of structured financial instruments and certain investment properties. Based on the adjusted account balances of BOC as of December 31, 2009, management determined that the carrying amount of the investment is not fully recoverable, thus, an impairment loss on the investment amounting to P163 was recognized in 2009 and is included in "Other income (charges)" account in the 2009 consolidated statement of income (Note 33). No impairment loss on the investment was recognized in 2011 and 2010.

BOC is required to meet certain ratios under Bangko Sentral ng Pilipinas (BSP) regulations to manage the risks inherent in the banking business. As of December 31, 2011, 2010 and 2009, BOC has complied with the statutory and regulatory capital requirements which were computed based on the regulatory accounting policies that differ from PFRS in some aspects. BOC's retained earnings as of December 31, 2011, 2010 and 2009 is restricted from being declared as dividend to common stockholders to the extent of the amount of cumulative cash dividend in arrears of P320 declared by BOC's BOD on December 16, 2008 in favor of stockholders of certain redeemed preferred shares. The dividend declaration is pending approval from BSP as of December 31, 2011, 2010 and 2009.

f. PIDC

On September 11, 2009, Rapid, a wholly-owned subsidiary of SMHC, acquired 35% stake in PIDC, a consortium of construction companies behind the Tarlac-Pangasinan-La Union Expressway Project. Rapid subscribed to 1,575,000 common shares of PIDC amounting to P1,575 and paid a portion of the subscription price amounting to P245 and P561 on November 30, 2010 and September 11, 2009, respectively. As of December 31, 2011 and 2010, the unpaid subscription price amounting to P769 is reported as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position (Note 22).

On September 12, 2011, Rapid advanced P1,111 as deposit for future stock subscription to 1,111,228 common shares of PIDC. One of the conditions for the issuance of the subscribed shares of Rapid is the approval of the SEC of the increase in the authorized capital stock of PIDC. As of December 31, 2011, the approval by the SEC has not yet been obtained.

g. MNHPI

On January 3, 2011, Petron entered into a Share Sale and Purchase Agreement with Harbour Centre Port Terminal, Inc. for the purchase of 35% of the outstanding and issued capital stock of MNHPI.

As of December 31, 2011, the cost of investment in MNHPI amounted to P691.

h. Meralco

On October 27, 2008, the Parent Company entered into a sale and purchase agreement with GSIS to acquire the latter's 300,963,189 shares in Meralco for a total consideration of P27,087 plus an additional fixed term interest. On November 10, 2008, the Parent Company paid P5,417 representing down payment for said shares with the balance payable in three (3) years.

On August 9, 2010, the Parent Company's beneficial interest in Meralco increased by 6.19% upon acquisition of SMC Global, which owns 69,059,538 common shares of Meralco for a total consideration of P7,063, inclusive of transaction costs of P46.

On August 12, 2011, the BOD of the Parent Company approved the sale of a portion of its investment in Meralco to SMPFC, comprising of 59,090,909 common shares or approximately 5.2% of the outstanding capital stock of Meralco as of December 31, 2010 at P220.00 per share. The purchase price of the shares was based on the average trading price of Meralco shares for the period from January 1 to July 31, 2011, with a discount of 12%.

In January and August 2011, the Parent Company paid in full the remaining balance of its liability related to the acquisition of Meralco shares of stock from GSIS amounting to an aggregate of P21,909.

The current portion of the Group's outstanding payable related to the purchase of Meralco shares as of December 31, 2011 and 2010 amounted to P2,122 and P14,019, respectively, included under "Accounts payable and accrued expenses" account (Note 22), while the noncurrent portion amounting to P14,253 as of December 31, 2010, is reported as part of "Other noncurrent liabilities" account (Note 24) in the consolidated statements of financial position.

In January 2011, SMC Global paid the Development Bank of the Philippines and the Social Security System P2,575, related to the acquisition of Meralco shares of stock and paid in full the remaining balance of its payable on January 31, 2012.

The fair value of the Group's investment in Meralco amounted to P90,656 and P84,365 as of December 31, 2011 and 2010, respectively.

i. PAHL

PAHL was incorporated in March 2008 in Hong Kong.

PAHL indirectly owns, among other assets, a 160,000 metric ton-polypropylene production plant in Mariveles, Bataan.

On March 13, 2010, Petron acquired 182,000,000 ordinary shares representing 40% of the issued and outstanding shares of PAHL from Vantage Stride (Mauritius) Limited for P745.

In June 2010, Petron's ownership interest was reduced to 33% due to the acquisition by another investor of 102,142,858 new Class "B" ordinary shares of PAHL.

PAHL commenced operation in the first quarter of 2011.

j. Advances

IGI
In June 2009, SMPI entered into a JVA with certain individuals and corporations (collectively referred to as Co-Venturer) to transfer the title of certain properties and to develop and later operate the properties into a mixed commercial and residential estate. On July 28, 2009, as part of the terms of the JVA, IGI was incorporated with an authorized capital stock of P1,000 divided into 1,000,000,000 common shares with a par value of P1.00 per share. On the same date, the Co-Venturer subscribed to 600,000,000 common shares of IGI for P600.

Pursuant to the terms and conditions of the JVA, SMPI made cash advances in favor of the Co-Venturer amounting to P311 as of December 31, 2009. Under the Deed of Assignment, the advances will be applied as payment for SMPI's subscription of additional number of IGI shares of stock sufficient to give SMPI a 51% ownership interest in IGI. In 2010, the Deed of Assignment between SMPI and the Co-Venturer was consummated and SMPI became the parent company of IGI. Accordingly, the balance of its advances earmarked for such subscription was applied to the subscription price.

Primeria Commercio Holdings, Inc. (PCHI)
In 2009, SMPI provided US dollar-denominated non-interest bearing cash advances to PCHI, a future investee of SMPI, amounting to P794 as of December 31, 2011 and 2010. These advances will be applied against future subscriptions of SMPI to the shares of stock of PCHI.

Telecom Company
In 2011, Vega provided non-interest bearing cash advances to a telecom company, a future investee, amounting to P5,958 as of December 31, 2011.

14. Available-for-Sale Financial Assets

Available-for-sale financial assets consist of:

	Note	**2011**	2010
Government and other debt securities		**P924**	P1,049
Equity securities		**877**	2,292
Proprietary membership shares and others		**267**	256
	41, 42	**P2,068**	P3,597

Acquisition of Indophil Resources NL (Indophil)
On October 8, 2010, the Parent Company entered into a Share Placement Agreement with Indophil to subscribe to 48,016,960 common shares (Placement Shares) equivalent to approximately 10.1% of the currently issued common shares of Indophil, on a fully diluted basis.

Indophil is an Australian company listed in the Australian Stock Exchange, which owns a 37.5% beneficial interest in Sagittarius Mines, Inc. (SMI). SMI has the rights to the Tampakan gold and copper mine in South Cotabato.

On October 15, 2010, the Placement Shares were issued in the name of Coastal View Exploration Corporation (Coastal View), a subsidiary of SMHC. The total consideration for the purchase of the Placement Shares was Australian dollar (A$)41.3 (approximately US$40) or A$0.86 per Placement Share.

As of December 31, 2011, Coastal View's stake in Indophil has been diluted to 3.99% as a result of the additional shares issuances made by Indophil.

As of December 31, 2011 and 2010, the fair value of the investment in Indophil amounted to P862 and P2,188, respectively.

Government Securities
This account consists of investments in government securities of Petrogen and ROP9 bonds of Ovincor.

Petrogen's investments bear fixed annual interest rates ranging from 6.00% to 8.75% and 6.25% to 8.875% in 2011 and 2010, respectively.

Ovincor's ROP9 bonds which are carried at fair value with weighted average effective interest rate of 4.3% are maintained at the Bank of Bermuda and will mature in March 2015.

15. Interests in Joint Ventures

On November 23, 2004, GSMI entered into a Share Purchase Agreement (SPA) with Thai Life Group of Companies (the Seller) for the purchase of 40% of the outstanding shares of TSML, a limited company organized under the laws of Thailand. TSML holds a license in Thailand to engage in the business of manufacturing alcohol and manufacturing, selling and distributing brandy, wine and distilled spirits products both for domestic and export markets. On the same date, GSMI and the Seller entered into a JVA covering the ownership and operation of TSML and the joint control, rights, obligations and responsibilities of GSMI and the Seller, as stockholders. In November 2004, GSMI incorporated GSMIL and subsequently assigned its rights and obligations under the SPA and the joint venture to GSMIL, including its rights to purchase 40% ownership of the outstanding shares of TSML. On December 15, 2004, all the closing conditions for the execution of the SPA were satisfied and the purchase was effected.

In 2009 and 2010, GSMI, through GSMIL acquired additional shares to retain the 40% ownership of the outstanding shares of TSML for a total of THB260 (P366).

On June 29, 2007, GSMI incorporated GSMIHL as a wholly-owned subsidiary. GSMIHL was organized to be the holding company of TGT. TGT, which was formed as another joint venture by GSMI with its Thai counterparty, will function as the selling and distribution arm of TSML. GSMI, with GSMIHL as its holding company, purchased 40% ownership of the outstanding shares of TGT.

On August 27, 2008 and September 11, 2008, GSMI incorporated GBHL and SHL, respectively, as wholly-owned subsidiaries. GSMI subscribed to 1,000 shares of GBHL at par value of US$1.00 per share for a total subscription value of US$0.001 (P0.05) and 1,000 shares of SHL at par value of US$1.00 per share for a total subscription value of US$0.001 (P0.05). Both entities are established as holding companies for the acquisition of additional investment in TSML and TGT.

On October 14, 2008, GSMI, through SHL, acquired 24,500 shares representing 49% ownership of the outstanding shares of Siam Wine and Liquor Limited (SWL), a limited company organized under the laws of Thailand, for Thailand Baht THB2 (P2.8). On the same date, SWL acquired 1,000,000 shares representing 10% ownership of the outstanding capital stock of TSML for THB106.48 (P147). SHL's share on the share purchase is THB52.2 (P72) for 490,000 shares at THB108.68 per share representing 4.9% ownership. Accordingly, GSMI group's share in TSML increased from 40% to 44.9%.

On October 14, 2008, GSMI advanced a total amount of US$3.1 (P146.9) to GBHL. On October 10, 2008, GBHL ("Lender") entered into a loan agreement with SWL ("Borrower") for the same amount, to finance the latter's working capital requirements and purchase of additional shares in TSML and TGT.

On March 9, 2009 and December 11, 2009, SHL ("Lender") entered into a loan agreement with SWL ("Borrower") for THB15 and THB10, respectively, to subscribe to the increase in capital stock of TSML.

On February 25, April 8 and December 7, 2010, the Lender entered into a loan agreement with the Borrower for a total of THB40 to subscribe to the increase in capital stock of TSML.

The Group's share in the assets, liabilities, income and expenses of TSML as of and for the years ended December 31, 2011, 2010, and 2009 which is included in the Group's consolidated financial statements is shown below:

	2011	2010	2009
Current assets	**P484**	P516	P339
Noncurrent assets	**806**	894	894
Current liabilities	**425**	436	409
Noncurrent liabilities	**269**	309	415
Revenue	**452**	657	317
Cost of sales	**600**	817	462
Operating expenses	**85**	76	68
Other income	**4**	12	1
Net loss	**229**	224	212

The Group's share in the cash flows of TSML for the years ended December 31, 2011, 2010 and 2009 is as follows:

	2011	2010	2009
Net cash flows used in operating activities	**(P209)**	(P373)	(P204)
Net cash flows provided by investing activities	**87**	-	17
Net cash flows used in financing activities	**(40)**	(106)	(111)

On October 14, 2008, SWL acquired 5,000 shares representing 10% ownership of the outstanding capital stock of TGT for THB0.5 (P0.7). SHL's share on the share purchase is THB0.245 (P0.3) for 2,450 shares at THB100.00 per share representing 4.9% ownership. Accordingly, GSMI group's share in TGT increased from 40% to 44.9%.

The Group's share in the assets, liabilities, income and expenses of TGT as of and for the years ended December 31, 2011, 2010 and 2009 which is included in the Group's consolidated financial statements is shown below:

	2011	2010	2009
Current assets	**P65**	P51	P102
Noncurrent assets	**3**	14	30
Current liabilities	**14**	15	20
Noncurrent liabilities	**-**	2	16
Revenue	**171**	232	230
Cost of sales	**2**	17	56
Operating expenses	**83**	111	96
Other income	**1**	1	2
Net income	**87**	105	80

The Group's share in the cash flows of TGT for the years ended December 31, 2011, 2010 and 2009 is as follows:

	2011	2010	2009
Net cash flows provided by operating activities	**P70**	P159	P109
Net cash flows provided by investing activities	**12**	15	14
Net cash flows used in financing activities	**(2)**	(14)	(13)

16. Property, Plant and Equipment

Property, plant and equipment consist of:

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Machinery and Equipment	Telecommunications Equipment	Transportation Equipment	Tools and Small Equipment	Office Equipment, Furniture and Fixtures	Molds	Leasehold Improvements	Construction in Progress	Total
Cost:														
December 31, 2009	P10,627	P24,406	P -	P -	P -	P78,891	P -	P3,305	P2,354	P2,542	P657	P921	P5,674	P129,377
Additions	437	561	568	-	364	3,073	-	3,170	285	129	267	73	(409)	8,518
Disposals/reclassifications/ acquisition of subsidiaries	4,136	7,642	214,331	37,286	4,955	4,338	1,002	2,148	(334)	1,532	(219)	243	838	277,898
Currency translation adjustments	77	(385)	-	-	-	(539)	-	(8)	22	(9)	(3)	-	(6)	(851)
December 31, 2010	15,277	32,224	214,899	37,286	5,319	85,763	1,002	8,615	2,327	4,194	702	1,237	6,097	414,942
Additions	1,121	1,201	596	524	831	4,394	39	2,308	277	461	227	224	14,223	26,426
Disposals/reclassifications/ acquisition of subsidiaries	285	(177)	(1,176)	-	(80)	(2,182)	6,353	(41)	(70)	207	(120)	90	682	3,771
Transfer to assets held for sale	(202)	(729)	-	-	-	(1,615)	-	(3)	(8)	(52)	-	-	(4)	(2,613)
Currency translation adjustments	(73)	143	-	-	-	304	-	1	(19)	(4)	-	-	11	363
December 31, 2011	**16,408**	**32,662**	**214,319**	**37,810**	**6,070**	**86,664**	**7,394**	**10,880**	**2,507**	**4,806**	**809**	**1,551**	**21,009**	**442,889**
Accumulated depreciation and amortization:														
December 31, 2009	1,154	6,731	-	-	-	40,884	-	1,987	1,668	2,178	511	372	-	55,485
Additions	109	745	2,464	86	42	3,575	55	240	168	161	157	75	-	7,877
Disposals/reclassifications/ acquisition of subsidiaries	1,197	3,358	3,147	16,459	3,700	2,392	623	170	(203)	1,252	(125)	107	-	32,077
Currency translation adjustments	2	(102)	-	-	-	(199)	-	(8)	58	(6)	(33)	1	-	(287)
December 31, 2010	2,462	10,732	5,611	16,545	3,742	46,652	678	2,389	1,691	3,585	510	555	-	95,152
Additions	158	1,056	5,427	2,027	504	3,790	166	668	219	304	203	121	-	14,643
Disposals/reclassifications/ acquisition of subsidiaries	(5)	385	(410)	7	(25)	(1,412)	4,562	(110)	(81)	(110)	(76)	(22)	-	2,703
Transfer to assets held for sale	-	(94)	-	-	-	(415)	-	-	(2)	(51)	-	-	-	(562)
Currency translation adjustments	(3)	21	-	-	-	5	-	-	(17)	(4)	1	1	-	4
December 31, 2011	**2,612**	**12,100**	**10,628**	**18,579**	**4,221**	**48,620**	**5,406**	**2,947**	**1,810**	**3,724**	**638**	**655**	**-**	**111,940**

Forward

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Machinery and Equipment	Telecommunications Equipment	Transportation Equipment	Tools and Small Equipment	Office Equipment, Furniture and Fixtures	Molds	Leasehold Improvements	Construction in Progress	Total
Accumulated impairment losses:														
December 31, 2009	P208	P2,313	P -	P -	P -	P5,410	P -	P6	P13	P20	P3	P -	P -	P7,973
Additions for the year	-	1,574	-	-	-	2,248	-	6	-	20	-	-	-	3,848
Disposals/reclassifications/ acquisition of subsidiaries	204	(5)	-	-	-	(138)	-	-	7	2	(2)	-	-	68
Currency translation adjustments	-	(53)	-	-	-	(117)	-	-	-	(1)	(1)	-	-	(172)
December 31, 2010	412	3,829	-	-	-	7,403	-	12	20	41	-	-	-	11,717
Additions for the year	-	6	-	-	-	52	45	-	-	-	-	-	-	103
Disposals/reclassifications/ acquisition of subsidiaries	(27)	(149)	-	-	-	(685)	-	-	(1)	-	-	-	-	(862)
Transfer to assets held for sale	-	-	-	-	-	(46)	-	-	-	-	-	-	-	(46)
Currency translation adjustments	-	126	-	-	-	283	-	1	1	-	-	-	-	411
December 31, 2011	**385**	**3,812**	**-**	**-**	**-**	**7,007**	**45**	**13**	**20**	**41**	**-**	**-**	**-**	**11,323**
Net book value:														
December 31, 2010	P12,403	P17,663	P209,288	P20,741	P1,577	P31,708	P324	P6,214	P616	P568	P192	P682	P6,097	P308,073
December 31, 2011	**P13,411**	**P16,750**	**P203,691**	**P19,231**	**P1,849**	**P31,037**	**P1,943**	**P7,920**	**P677**	**P1,041**	**P171**	**P896**	**P21,009**	**P319,626**

Depreciation, amortization and impairment losses recognized in profit or loss amounted to P14,746, P11,725 and P8,900 in 2011, 2010 and 2009, respectively (Notes 29 and 33). These amounts include annual amortization of capitalized interest amounting to P13, P14 and P13 in 2011, 2010 and 2009, respectively.

The Group has interest amounting to P219 and P15 which were capitalized in 2011 and 2010, respectively. The capitalization rate used to determine the amount of interest eligible for capitalization were 6.76% and 4.97% in 2011 and 5.73% in 2010. As of December 31, 2011 and 2010, the unamortized capitalized borrowing costs amounted to P314 and P108, respectively.

The carrying amount of power plants, machinery and equipment and transportation equipment under finance lease amounted to P203,756 and P209,301 as of December 31, 2011 and 2010, respectively (Notes 4 and 35).

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

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

On August 18, 2011, SMC Global sold its 100% ownership interest in PanAsia to MHI.

On August 25, 2011, SMVCL sold its machinery and equipment in Amata Industrial Zone, Vietnam for US$19 and recognized a gain amounting to P273 included as part of "Gain on sale of investments and property and equipment" account in the consolidated statements of income.

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 P37.

To settle the land dispute, a Memorandum of Agreement (MOA) was executed between SMFI, MAPALAD, OP and DAR on March 29, 2008. The MOA provided for the release of a 50-hectare portion of the property to qualified farmer-beneficiaries, and the transfer of additional 94 hectares outside of the property to be negotiated with other Sumilao landowners. Under the MOA, SMFI shall retain ownership and title to the remaining portion of the property for the completion and pursuit of the hog farm expansion.

SMFI fully complied with all the provisions of the MOA in 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 P906 and P889 as of 2011 and 2010, respectively.

17. Investment Properties

The movements in investment properties are as follows:

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Tools and Small Equipment	Construction in Progress	Total
Cost:						
December 31, 2009	P1,841	P629	P1,013	P9	P -	P3,492
Additions/reclassifications	289	28	2	-	-	319
Disposals	(3)	(39)	-	-	-	(42)
Currency translation adjustments	31	(18)	-	-	-	13
December 31, 2010	2,158	600	1,015	9	-	3,782
Additions/reclassifications	403	995	2	-	398	1,798
Disposals	(1,012)	(70)	-	-	-	(1,082)
Currency translation adjustments	(36)	-	-	-	-	(36)
December 31, 2011	**1,513**	**1,525**	**1,017**	**9**	**398**	**4,462**
Accumulated depreciation and amortization:						
December 31, 2009	81	223	916	9	-	1,229
Additions	8	22	13	-	-	43
Disposals/reclassifications	-	(6)	-	-	-	(6)
Currency translation adjustments	(2)	(6)	-	-	-	(8)
December 31, 2010	87	233	929	9	-	1,258
Additions	11	102	7	-	-	120
Disposals/reclassifications	2	168	(12)	-	-	158
December 31, 2011	**100**	**503**	**924**	**9**	**-**	**1,536**
Accumulated impairment losses:						
December 31, 2009	349	47	-	-	-	396
Disposals/reclassifications	(6)	(11)	-	-	-	(17)
Currency translation adjustments	13	(1)	-	-	-	12
December 31, 2010	356	35	-	-	-	391
Disposals/reclassifications	(304)	-	-	-	-	(304)
Currency translation adjustments	(11)	-	-	-	-	(11)
December 31, 2011	**41**	**35**	**-**	**-**	**-**	**76**
Net book value:						
December 31, 2010	P1,715	P332	P86	P -	P -	P2,133
December 31, 2011	**P1,372**	**P987**	**P93**	**P -**	**P398**	**P2,850**

No impairment loss was recognized in 2011 and 2010.

There are no other direct selling and administrative expenses other than depreciation and amortization and real property taxes arising from investment properties that generated income in 2011, 2010 and 2009 .

On June 10, 2011, SMBTL sold its Bangpho property in Bang Sue District, Bangkok Metropolis for THB815 (P1,050). The property's carrying amount is THB506 (P706). The Group recognized a gain of P344 for the said sale, presented as part of "Gain on sale of investments and property and equipment" account in the consolidated statement of income.

Estimated fair values of investment properties amounted to P5,594 and P3,129 as of December 31, 2011 and 2010, respectively.

18. Biological Assets

Biological assets consist of poultry, hogs and cattle as follows:

	2011	2010
Current:		
Growing stocks	**P3,228**	P2,559
Goods in process	**896**	708
	4,124	3,267
Noncurrent:		
Breeding stocks - net	**1,812**	1,479
	P5,936	P4,746

The amortization of breeding stocks recognized in profit or loss amounted to P1,186, P1,081 and P909 in 2011, 2010 and 2009, respectively (Note 29).

Growing stocks pertain to growing broilers, hogs and cattle and goods in process pertain to hatching eggs and carcass.

The movements in biological assets are as follows:

	2011	2010
Gross:		
Balance at beginning of year	**P5,010**	P4,598
Increase (decrease) due to:		
Production	**17,159**	11,308
Purchases	**11,687**	13,101
Mortality	**(477)**	(414)
Sales	**(6,087)**	(4,693)
Harvest	**(19,989)**	(17,884)
Reclassifications	**(1,010)**	-
Currency translation adjustments	**2**	(1,006)
Balance at end of year	**6,295**	5,010
Accumulated amortization:		
Balance at beginning of year	**264**	226
Additions	**1,186**	1,081
Disposals	**(81)**	(1,043)
Reclassifications	**(1,010)**	-
Balance at end of year	**359**	264
Net book value	**P5,936**	P4,746

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.

19. Goodwill and Other Intangible Assets

The movements in goodwill are as follows:

	Note	**2011**	2010
Balance at beginning of year		**P30,251**	P6,408
Additions	*5, 39*	**732**	24,456
Impairment	*33*	**-**	(461)
Currency translation adjustments and others		**7**	(152)
Balance at end of year		**P30,990**	P30,251

The movements in other intangible assets with indefinite useful lives are as follows:

	Note	**Trademarks and Brand Names**	**Licenses**	**Formulas and Recipes**	**Total**
Cost:					
December 31, 2009		P2,272	P -	P58	P2,330
Additions and acquisition of subsidiaries	*5*	-	5,221	-	5,221
Disposals and reclassifications		(1,839)	1,917	-	78
Currency translation adjustments		(3)	-	-	(3)
December 31, 2010		430	7,138	58	7,626
Currency translation adjustments		2	(94)	-	(92)
December 31, 2011		**432**	**7,044**	**58**	**7,534**
Accumulated impairment losses:					
December 31, 2009		133	-	-	133
Additions	*33*	64	-	-	64
Currency translation adjustments		(7)	-	-	(7)
December 31, 2010 and 2011		**190**	**-**	**-**	**190**
Net book value:					
December 31, 2010		P240	P7,138	P58	P7,436
December 31, 2011		**P242**	**P7,044**	**P58**	**P7,344**

The movements in other intangible assets with finite useful lives are as follows:

	Note	Service Concession Rights	Licenses	Mining Rights	Land Use Rights	Others	Total
Cost:							
December 31, 2009		P -	P139	P -	P1,890	P689	P2,718
Additions and acquisition of subsidiaries	*5*	91	-	1,800	-	69	1,960
Disposals and reclassifications		-	62	-	-	3	65
Currency translation adjustments		-	2	-	(73)	(3)	(74)
December 31, 2010		91	203	1,800	1,817	758	4,669
Additions and acquisition of subsidiaries		111	34	197	3	362	707
Disposals and reclassifications		1	-	-	(118)	19	(98)
Currency translation adjustments		-	(2)	-	25	1	24
December 31, 2011		**203**	**235**	**1,997**	**1,727**	**1,140**	**5,302**
Accumulated amortization and impairment losses:							
December 31, 2009		-	52	-	641	592	1,285
Additions and acquisition of subsidiaries	*33*	1	12	-	(202)	51	(138)
Disposals and reclassifications		-	(3)	-	-	11	8
Currency translation adjustments		-	1	-	(29)	(2)	(30)
December 31, 2010		1	62	-	410	652	1,125
Additions and acquisition of subsidiaries		9	8	-	46	54	117
Disposals and reclassifications		1	(1)	-	(22)	12	(10)
Currency translation adjustments		-	-	-	7	-	7
December 31, 2011		**11**	**69**	**-**	**441**	**718**	**1,239**
Net book value:							
December 31, 2010		P90	P141	P1,800	P1,407	P106	P3,544
December 31, 2011		**P192**	**P166**	**P1,997**	**P1,286**	**P422**	**P4,063**

Intangible asset-service concession rights represent the present value of the annual franchise fee payable to the ROP over 25 years discounted using 9% internal borrowing rate, net of accumulated amortization (Notes 4, 12 and 24).

Mining rights and licenses with finite lives and licenses, goodwill, trademarks and brand names with indefinite lives acquired through business combinations have been allocated to individual cash-generating units, for impairment testing as follows:

	2011			2010		
	Goodwill	**Licenses, Trademarks and Brand Names**	**Mining Rights**	Goodwill	Licenses, Trademarks and Brand Names	Mining Rights
Fuel and oil	**P22,025**	**P -**	**P -**	P22,025	P -	P -
Food	**2,942**	**229**	**-**	2,936	227	-
Packaging	**2,026**	**-**	**-**	2,026	-	-
Beverage	**772**	**1,836**	**-**	772	1,930	-
Power generation and distribution	**-**	**-**	**1,997**	-	-	1,800
Infrastructure	**2,438**	**-**	**-**	2,431	-	-
Telecommunications	**726**	**5,221**	**-**	-	5,221	-
Others	**61**	**-**	**-**	61	-	-
Total	**P30,990**	**P7,286**	**P1,997**	P30,251	P7,378	P1,800

The recoverable amount of goodwill has been determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections ranged from 6% to 14% in 2011 and 2010. The discount rates also impute the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium.

Impairment loss on goodwill amounting to P461 and P33 was recognized and included as part of "Other income (charges)" account in the consolidated statements of income in 2010 and 2009, respectively. No impairment losses were recognized in 2011 (Note 33).

The recoverable amount of the trademarks and brand names 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 determined constant growth rate to arrive at its terminal value. The growth rate used range is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections ranged from 8% to 14.5% and 8.9% to 18% in 2011 and 2010, respectively.

Management assessed that impairment loss in the value of trademarks and brand names amounting to P64 was recognized and included as part of "Other income (charges)" account in the consolidated statement of income in 2010. No impairment losses were recognized in 2011 and 2009 (Note 33).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the following assumptions:

- *Gross Margins*. Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.

- *Discount Rates*. The Group uses the weighted-average cost of capital as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investments proposals.

- *Raw Material Price Inflation.* Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

20. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	**2011**	2010
Noncurrent receivables and deposits - net	*40, 41, 42*	**P27,471**	P24,783
Deferred containers - net	*4*	**5,035**	4,420
Project development costs	*5*	**2,218**	2,186
Retirement assets	*36*	**299**	147
Others		**3,494**	2,265
		P38,517	P33,801

Noncurrent receivables and deposits include advances to Petron Corporation Employee Retirement Plan (PCERP) amounting to P23,247 and P22,435, respectively, and deposits to Meralco amounting to P80 and P87, respectively, as of December 31, 2011 and 2010 (Note 34).

Project development costs consist of expenditures related to the development of the MRT 7 Project (Note 35) which are capitalized. These include manpower costs, engineering service costs, financing fees, technology development and consultancy service costs, overhead costs and other related project costs.

"Others" include noncurrent prepaid rent and insurance, catalysts, deferred exploration and development costs and idle assets.

Idle assets included under "Others" amounted to P986 and P169 as of December 31, 2011 and 2010, respectively (Note 33).

21. Drafts and Loans Payable

Drafts and loans payable consist of:

	Note	**2011**	2010
Parent Company			
Peso-denominated		**P15,133**	P22,422
Subsidiaries			
Peso-denominated		**63,577**	48,214
Foreign currency-denominated		**3,878**	3,492
	41, 42	**P82,588**	P74,128

Drafts and loans payable mainly represent unsecured peso and foreign currency-denominated amounts payable to local and foreign banks. Interest rates for peso-denominated loans range from 3.10% to 5.13%, 3.05% to 4.50% and 3.10% to 6.79% in 2011, 2010 and 2009, respectively. Interest rates for foreign currency-denominated loans range from 1.5% to 20%, 1.8% to 16.5% and 1.32% to 12.08% in 2011, 2010 and 2009, respectively.

Drafts and loans payable of the Group are not subject to covenants and warranties.

22. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**2011**	2010
Trade		**P39,398**	P34,591
Non-trade		**12,638**	11,671
Payables on the purchase of shares of stock	*5, 13*	**2,862**	14,839
Subscriptions payable	*13, 34*	**769**	1,290
Amounts owed to related parties	*34*	**326**	2,555
Retirement liabilities	*36*	**85**	503
Obligation under a put option	*4, 35*	**-**	386
Others		**5,551**	3,939
	41, 42	**P61,629**	P69,774

Derivative liabilities included under "Others" amounted to P118 and P71 as of December 31, 2011 and 2010, respectively (Notes 41 and 42).

Non-trade payables include freight payable, contract growers/breeders' fee, guarantee deposits, utilities, rent and other expenses payable to third parties, as supported by invoices, which were not paid in the month in which they are incurred.

The current portion of IRO included in "Non-trade" amounted to P2 as of December 31, 2011 and 2010 (Note 35).

Others include interest payable and accruals for payroll, materials, repairs and maintenance, advertising, handling, contracted labor, supplies and various other payables.

23. Long-term Debt

Long-term debt consists of:

	2011	2010
Parent Company		
Unsecured term notes:		
Foreign currency-denominated:		
Floating interest rate based on LIBOR plus margin, with maturities up to 2015 (a)	**P43,011**	P42,810
Fixed interest rate with maturities up to 2014 (b)	**25,754**	-
Peso-denominated:		
Floating interest rate based on PDST-F plus margin, with maturities up to 2012, 2014 and 2015 (c)	**9,445**	10,838
	78,210	53,648
Subsidiaries		
Bonds:		
Peso-denominated:		
Fixed interest rate of 8.25%, 8.875% and 10.5% maturing in 2012, 2014 and 2019, respectively (d)	**38,534**	38,425
Foreign currency-denominated:		
Fixed interest rate of 7% maturing in 2016 (e)	**13,012**	-
Unsecured term notes:		
Peso-denominated:		
Fixed interest rate of 7% maturing in 2017 (f)	**19,803**	19,779
Fixed interest rate of 8.88%, 8.14% and 9.33% maturing in 2011, 2014 and 2016, respectively (g)	**9,840**	16,162
Fixed interest rate of 6.3212% and 7.1827% maturing in 2018 and 2021 (h)	**3,563**	-
Fixed interest rate of 6.50% and 7.25% maturing in 2012 and 2014, respectively (i)	**2,220**	2,217
Fixed interest rate of 6.175% and 6.145% maturing in 2016 (j)	**1,494**	-
Fixed interest rate of 7.89% and 7.25% maturing in 2015 (k)	**1,495**	1,493
Fixed interest rate of 5.4885% maturing in 2015 (l)	**794**	793
Fixed interest rate of 6.73% maturing in 2012 (m)	**154**	767
Floating interest rate based on PDST-F plus margin, with maturities up to 2015 (l)	**3,673**	3,668
Floating interest rate based on PDST-F plus margin, with maturities up to 2011 and 2014 (n)	**1,200**	2,466
Floating interest rate based on PDST-F plus margin, with maturities up to 2014 (o)	**204**	-
Foreign currency-denominated:		
Floating interest rate based on LIBOR plus margin, with maturities up to 2015 (p)	**12,906**	12,840
Floating interest rate based on LIBOR plus margin, with maturities up to 2015 (q)	**11,889**	15,229
Floating interest rate based on LIBOR plus margin, with maturities up to 2014 (r)	**8,713**	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2016 (s)	**3,419**	-
Floating interest rate based on VNIBOR and THBFIX plus margin, with maturities up to 2014 (t)	**297**	1,440
	133,210	115,279
	211,420	168,927
Less current maturities	**19,453**	12,549
	P191,967	P156,378

a. The amount represents drawdown by the Parent Company in 2010 from the US$1,000 loan facility. The drawdown was used to refinance its existing financial indebtedness and for general working capital purposes.

   Unamortized debt issue costs related to these loans amounted to P829 and P1,030 as of December 31, 2011 and 2010, respectively.

b. The amount represents the Parent Company's US$600 Exchangeable Bonds (the "Bonds") issued on May 5, 2011. The Bonds bear interest at the rate of 2.00% per annum, payable semi-annually in arrears every 5th of May and November of each year, with the first interest payment made on November 5, 2011. Unless the Bonds have been previously redeemed, repurchased, cancelled or exchanged, the Parent Company will redeem the Bonds at its principal amount on May 5, 2014.

   The Bonds are exchangeable for common shares from the treasury stock of the Parent Company (Note 26). The number of common shares to be delivered in exchange of a Bond will be determined by dividing the principal amount of the Bond to be exchanged (translated into Philippine Peso at the fixed rate of P43.34=US$1.00) by the initial exchange price of P137.50 per share, subject to adjustment in certain circumstances.

   The Bonds were listed in the Singapore Exchange Securities Trading Limited on May 5, 2011.

   In November 2011, a total of US$2 (P87) was exchanged for 765,451 common shares of the Parent Company at an exchange price of P113.24 per share (Note 26).

   Unamortized bond issue costs as of December 31, 2011 amounted to P462.

c. The amount represents drawdown by the Parent Company in 2010 and 2009 for general financing and corporate requirements. Unamortized debt issue costs related to these loans amounted to P5 and P12 as of December 31, 2011 and 2010, respectively.

d. The amount represents SMB's peso-denominated fixed rate bonds (Bonds) worth P38,800 which were sold to the public pursuant to a registration statement that was rendered effective by the SEC on March 17, 2009 and are listed on the Philippine Dealing & Exchange Corp. for trading.

   The Bonds were issued in three (3) series: Series A Bonds with a fixed interest rate of 8.25% per annum; Series B Bonds with a fixed interest rate of 8.875% per annum; and Series C Bonds with a fixed interest rate of 10.50% per annum.

   Proceeds from the issuance of the Bonds were used to finance SMB's acquisition of the interest of the Parent Company in IBI and in BPI. Unamortized debt issue costs related to these bonds amounted to P167 and P276 as of December 31, 2011 and 2010, respectively.

e. The amount represents US$300, 7%, 5-year bond issued by SMC Global in 2011 under the Regulations of the US Securities Act of 1933, as amended. The unsecured bond issue is listed in the Singapore Exchange Securities Trading Limited. Unamortized bond issue costs as of December 31, 2011 amounted to P140.

f. The amount represents P20,000 peso-denominated notes issued by Petron in 2010. The principal and interest will be translated into and paid in US dollars based on the average representative market rate at the applicable rate calculation date at the time of each payment. The notes are payable semi-annually in arrears on May 10 and November 10 of each year. The notes will mature on November 10, 2017. Unamortized debt issue cost related to this note amounted to P197 and P222 as of December 31, 2011 and 2010, respectively.

g. The amount represents fixed rate corporate notes issued by Petron amounting to P6,300 in 2006 and P5,200 and P4,800 in 2009. The P6,300 fixed rate corporate note was used to finance the construction of its Petro Fluidized Catalytic Cracker Unit and Propylene Recovery Unit and for other general financing purposes. The note has matured and was fully paid on August 2, 2011. The P5,200 five-year notes bear a fixed rate of 8.14% per annum with one-time payment of principal in June 2014. The P4,800 seven-year notes bear a fixed rate of 9.33% per annum with principal payments of P48 per year commencing in June 2010 and a one-time payment of P4,512 in June 2016. Unamortized debt issue cost related to these notes amounted to P64 and P89 as of December 31, 2011 and 2010, respectively.

h. The amount represents Fixed Rate Corporate Notes (FXCNs) issued by Petron in 2011 consisting of Series A Notes amounting to P690 having a maturity of 7 years from the issue date and Series B notes amounting to P2,910 having a maturity of 10 years from the issue date. The notes are subject to fixed interest coupons of 6.3212% per annum for the Series A notes and 7.1827% per annum for the Series B notes. The net proceeds from the issuance were used for general corporate requirements. Unamortized debt issue cost related to these notes amounted to P37 as of December 31, 2011.

i. The amount represents syndicated loans obtained by SMYAC in 2007 which were used for capital expenditures. Unamortized debt issue costs related to these loans amounted to P4 and P8 as of December 31, 2011 and 2010, respectively.

j. The amount represents drawdown by SMCSLC in 2011, from a local bank, used for working capital requirements. Unamortized debt issue costs related to this loan amounted to P6 as of December 31, 2011.

k. The amount represents drawdown by GSMI in 2010, from a local bank, used for working capital requirements. Unamortized debt issue costs related to these loans amounted to P5 and P7 as of December 31, 2011 and 2010, respectively.

l. The amount represents corporate notes which SMFI offered for sale and subscription to the public. These are Philippine peso-denominated fixed rate and floating rate corporate notes with principal amount of P800 and P3,700, respectively. Both types of notes have a term of 5 years and 1 day beginning on December 10, 2010 and ending on December 11, 2015. The fixed rate note bears interest rate of 5.4885% per annum, while the floating rate note bears interest rate based on 3-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 financing purposes. Unamortized debt issue costs related to these bonds amounted to P33 and P39 as of December 31, 2011 and 2010, respectively.

m. The amount represents a club loan agreement entered into by Petron with Metropolitan Bank and Trust Company and Citibank amounting to P1,000 each in 2007. The loan was fully paid on January 31, 2012.

n. The amount includes a loan agreement entered into by Petron with Land Bank of the Philippines in 2006 amounting to P2,000, used for capital expenditures. The loan bears interest calculated based on the prevailing 3-month MART (now PDST-F) rate plus a fixed spread. The loan has been fully paid on November 29, 2011.

   The amount also includes a three-year term facility agreement entered into by Petron with Development Bank of the Philippines in 2010 amounting to P1,800. The loan is subject to quarterly repricing and the principal amount is amortized in twelve quarterly installments of 150 starting March 2011 up to 2014. The loan was obtained to finance Petron's general corporate requirements.

o. The amount represents the consolidation of GFDCC's balance of P210 in 2011. The unsecured loan facility was entered into by GFDCC with BOC in 2009 and 2010. Proceeds of the loan were used to finance GFDCC's capital expenditures.

p. The amount represents an unsecured loan facility agreement entered into by SMB in 2010 and 2011 with an aggregate amount of US$300, used to finance SMB's acquisition of the international beer and malt-based beverages business from the Parent Company, through SMB's purchase of SMH's shares in SMBIL, comprising 100% of the issued and outstanding capital stock of SMBIL. Interest rate for the foreign currency-denominated loan of SMB ranges from 2.33% to 2.41% and 2.35% to 2.54% in 2011 and 2010, respectively. Unamortized debt issue costs related to this loan facility amounted to P246 and P312 as of December 31, 2011 and 2010, respectively.

q. The amount represents drawdown by Petron in 2011 and 2010 from the US$355 loan facility for general corporate purposes and refinancing of peso-denominated debts. Floating interest rate for the loan is 1, 3 or 6-month LIBOR plus a spread of 2.15%. Principal repayment is in 9 equal semi-annual installments of US$39 beginning June 1, 2011. Unamortized debt issue costs related to this loan facility amounted to P216 and P334 as of December 31, 2011 and 2010, respectively.

r. The amount represents the US$200, syndicated 3-year medium term loan facility which SMC Global has drawn on September 30, 2011. Pursuant to the Facility Agreement signed on March 31, 2011, the amount of the loan drawn will bear interest at the rate of the LIBOR plus a margin, payable in arrears on the last day of the interest period. The facility agreement has a final maturity date of September 2014. Unamortized debt issue costs related to the loan amounted to P55 as of December 31, 2011.

s. The amount represents the US$480 term loan facility signed and executed by Petron on September 30, 2011. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate plus a spread of 2.35%. The loan proceeds will be used to finance the capital expenditure requirements of Refinery Master Plan Phase 2 (RMP-2) Project. The first drawdown of US$80 was made on November 25, 2011. The balance of US$400 will be available for drawdown until March 30, 2012. Unamortized debt issue costs related to the loan amounted to P88 as of December 31, 2011.

t. The amount includes loan obtained by SMFBIL's subsidiaries, which was used to finance their capital expenditures. It also includes the 44.9% share of the loan of TSML in 2011 and 2010 to finance its plant constructions and start up operations. Unamortized debt issue costs related to these loans amounted to P1 as of December 31, 2011 and 2010.

The debt agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements, restrictions on loans and guarantees, disposal of a substantial portion of assets, significant changes in the ownership or control of subsidiaries, payments of dividends and redemption of capital stock.

In 2011, SMB obtained the approval from the lenders of the US$300 Term Facility to amend the financial covenant from a minimum current ratio of 1:1 to a minimum interest coverage ratio of 4.75:1. In 2012, SMB also obtained the consent of bondholders representing 76.92% of the aggregate principal amount of the Bonds to effect the same change in the terms and conditions of the Bonds.

As of December 31, 2011 and 2010, the Group is in compliance with the covenants of the debt agreements.

The movements in debt issue costs are as follows:

	Note	**2011**	2010
Balance at beginning of year		**P2,334**	P1,738
Additions and reclassification		**974**	2,404
Amortization	*31*	**(753)**	(1,808)
Balance at end of year		**P2,555**	P2,334

Repayment Schedule
As of December 31, 2011, the annual maturities of long-term debt are as follows:

Year	**Gross Amount**	**Debt Issue Costs**	**Net**
2012	P19,642	P189	P19,453
2013	5,503	151	5,352
2014	69,927	765	69,162
2015	72,476	1,145	71,331
2016	20,197	261	19,936
2017 and thereafter	26,230	44	26,186
Total	**P213,975**	**P2,555**	**P211,420**

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 41.

24. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

	Note	**2011**	2010
Payables on the purchase of shares of stock	*5, 13*	**P1,276**	P15,063
ARO	*4*	**1,061**	815
Retirement liabilities	*36*	**1,054**	132
Obligation to the Philippine Government - service concession agreement	*4, 19, 35*	**76**	77
IRO	*4, 12, 35*	**46**	45
Redeemable preferred shares	*4*	**12**	12
Cash bonds, cylinder deposits and others		**984**	1,016
	41, 42	**P4,509**	P17,160

Redeemable preferred shares represent the preferred shares of TADHC. The preferred shares are cumulative, non-voting, redeemable and with liquidation preference. The shares are preferred as to dividends, which are given in the form of coupons, at the rate of 90% of the applicable base rate (i.e., One Year Philippine Dealing System Treasury Reference Rate PDST-F). The dividends are cumulative from and after the date of issue of the preferred shares, whether or not in any period the amount is covered by available unrestricted retained earnings.

The preferred shares will be mandatorily redeemed at the end of the ten-year period from and after the issuance of the preferred shares by paying the principal amount, plus all unpaid coupons (at the sole option of TADHC, the preferred shares may be redeemed earlier in whole or in part).

In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of TADHC, the holders of the preferred shares are entitled to be paid in full, an amount equivalent to the issue price of such preferred shares plus all accumulated and unpaid dividends up to the current dividend period or proportionately to the extent of the remaining assets of TADHC, before any assets of TADHC will be paid or distributed to the holders of the common shares.

25. Income Taxes

Deferred tax assets and liabilities arise from the following:

	2011	2010
Allowance for impairment losses on trade and other receivables and inventory	**P1,913**	P1,745
NOLCO	**1,371**	392
MCIT	**65**	434
Undistributed net earnings of foreign subsidiaries	**(7,669)**	(10,137)
Unrealized intercompany charges and others	**1,296**	948
	(P3,024)	(P6,618)

The above amounts are reported in the consolidated statements of financial position as follows:

	Note	**2011**	2010
Deferred tax assets	*4*	**P8,233**	P7,134
Deferred tax liabilities		**(11,257)**	(13,752)
		(P3,024)	(P6,618)

The undistributed earnings of foreign subsidiaries and cumulative translation adjustments for which deferred tax liabilities have not been recognized totaled P4,976 and P4,091 as of December 31, 2011 and 2010, respectively.

As of December 31, 2011, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
2009	December 31, 2012	P1,392	P -
2010	December 31, 2013	1,151	-
2011	December 31, 2014	2,027	65
		P4,570	**P65**

The components of income tax expense are shown below:

	2011	2010	2009
Current	**P12,240**	P11,517	P10,254
Deferred	**(3,757)**	(79)	(6,548)
	P8,483	P11,438	P3,706

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2011	2010	2009
Statutory income tax rate	**30.00%**	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subject to final tax	**(3.75)**	(2.56)	(2.79)
Equity in net earnings of associates	**(2.29)**	(5.76)	(1.31)
Gain on sale of investments subject to final or capital gains tax	**(0.23)**	-	(23.52)
Gains on derivatives	**(0.15)**	(0.56)	(0.45)
Others, mainly income subject to different tax rates - net	**(0.65)**	11.10	3.83
Effective income tax rate	**22.93%**	32.22%	5.76%

26. Equity

a. On July 23, 2009, during the Parent Company's annual stockholders' meeting, the stockholders approved amendments to the Parent Company's Articles of Incorporation providing for the reclassification of the common shares comprising the authorized capital stock of P22,500. The authorized capital stock of the Parent Company was divided into 2,034,000,000 Class "A" common shares, 1,356,000,000 Class "B" common shares and 1,110,000,000 Series "1" preferred shares, and defined the terms and features of the Series "1" preferred shares. The preferred shares are peso-denominated, perpetual, cumulative and non-voting with an issue price of P75.00 per share and a dividend rate of 8% per annum computed in reference to the issue price. The SEC approved the amendments to the Amended Articles of Incorporation of the Parent Company on August 20, 2009.

Also, on July 23, 2009, the stockholders of the Parent Company approved the Offer by the Parent Company to exchange existing common shares of up to approximately 35% of the issued and outstanding capital stock of the Parent Company with Series "1" preferred shares. The exchange ratio was one (1) common share for one (1) Series "1" preferred share and the qualified shareholders of record as of July 2, 2009, were vested with the right to participate on the exchange.

On October 5, 2009, the Parent Company completed the exchange of 476,296,752 Class "A" common shares and 396,876,601 Class "B" common shares for Series "1" preferred shares.

On October 15, 2009, the Parent Company's BOD approved the issuance, through private placement, of up to 226,800,000 Series "1" preferred shares.

On December 22, 2009, the Parent Company issued 97,333,000 Series "1" preferred shares to qualified buyers and by way of private placement to not more than 19 non-qualified buyers at the issue price of P75.00 per Series "1" preferred share.

On July 27, 2010, the Parent Company's BOD approved the offer to issue approximately 1,000,000,000 common shares (from unissued capital stock and treasury shares) at a price of not less than P75.00 per share.

b. *Capital Stock*

Common Stock

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company are considered as common shares without distinction, as approved by the SEC. Both shall be available for foreign investors, subject to the foreign ownership limit.

As of December 31, 2011, the Parent Company has a total of 39,883 common stockholders.

The movements in the number of issued and outstanding shares of common stock are as follows:

	2011	2010
Balance at beginning of year	**3,268,594,254**	3,229,944,942
Issuances during the year	**10,740,321**	38,649,312
Issued shares at end of year	**3,279,334,575**	3,268,594,254
Less treasury shares	**910,303,273**	938,648,724
Issued and outstanding shares at end of year	**2,369,031,302**	2,329,945,530

	2009
Class "A"	
Balance at beginning of year	1,975,940,615
Issuances during the year	4,652,540
Issued shares at end of year	1,980,593,155
Less treasury shares	530,959,512
Issued and outstanding shares at end of year	1,449,633,643
Class "B"	
Balance at beginning of year	1,246,527,833
Issuances during the year	2,823,954
Issued shares at end of year	1,249,351,787
Less treasury shares	407,689,212
Issued and outstanding shares at end of year	841,662,575

Preferred Shares

Series "1" preferred shares have a par value of P5.00 per share and are entitled to receive cash dividends upon declaration by and at the sole option of the Parent Company's BOD at a fixed rate of 8% per annum calculated in respect of each Series "1" preferred share by reference to the Issue Price thereof in respect of each dividend period. Unless the Series "1" preferred shares are redeemed by the Parent Company, the dividend rate will be adjusted at the end of the fifth year after the date of issue.

Series "1" preferred shares are non-voting except as provided for under the Corporation Code. The Series "1" preferred shares are redeemable in whole or in part, at the sole option of the Parent Company, at the end of three years from the issue date at P75.00 plus any accumulated and unpaid cash dividends.

All shares rank equally with regard to the Parent Company's residual assets, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

On October 3, 2011 and December 8, 2010, the Parent Company listed 97,333,000 and 873,173,353 Series "1" preferred shares worth P7,300 and P65,488, respectively.

As of December 31, 2011 and 2010, the Parent Company has 970,506,353 outstanding Series "1" preferred shares.

As of December 31, 2011, the Parent Company has a total of 954 preferred stockholders.

c. *Treasury Shares*

The movements in the number of treasury shares are as follows:

	Note	**2011**	2010
Balance at beginning of year		**938,648,724**	938,648,724
Reissuance of treasury shares during the year		**(27,580,000)**	-
Conversion of exchangeable bonds	*23*	**(765,451)**	-
Balance at end of year		**910,303,273**	938,648,724

	2009
Class "A"	
Balance at beginning of year	54,662,760
Acquisition through exchange of common shares to preferred shares during the year	476,296,752
Balance at end of year	530,959,512
Class "B"	
Balance at beginning of year	10,812,611
Acquisition through exchange of common shares to preferred shares during the year	396,876,601
Balance at end of year	407,689,212

Treasury shares, totaling 65,475,371 Class "A" and "B" common shares, are stated at acquisition cost, while 873,173,353 Class "A" and "B" common shares were acquired through the exchange of common shares to preferred shares on a one-for-one basis at P75.00 per share.

1. Out of the total treasury shares, 25,450,000 common shares (15,274,484 Class "A" common shares and 10,175,516 Class "B" common shares), with an acquisition cost of P481, [net of the cost of the 1,000,000 shares paid to Presidential Commission on Good Government (PCGG) as arbitral fee pursuant to the Compromise Agreement, as herein defined] were reverted to treasury in 1991 upon implementation of the Compromise Agreement and Amicable Settlement (Compromise Agreement) executed by the Parent Company with the United Coconut Planters Bank (UCPB) and the Coconut Industry Investment Fund (CIIF) Holding Companies in connection with the purchase of the Parent Company shares under an agreement executed on March 26, 1986.

   Certain parties have opposed the Compromise Agreement. The right of such parties to oppose, as well as the propriety of their opposition, has been the subject matters of cases before the Sandiganbayan and the Supreme Court.

   On September 14, 2000, the SC upheld a Sandiganbayan resolution requiring the Parent Company to deliver the 25,450,000 common shares that were reverted to treasury in 1991 to the PCGG and to pay the corresponding dividends on the said shares (the "Sandiganbayan Resolution").

   On October 10, 2000, the Parent Company filed a motion for reconsideration with the SC to be allowed to comply with the delivery and payment of the dividends on the treasury shares only in the event that another party, other than the Parent Company, is declared owner of the said shares in the case for forfeiture (Civil Case) filed by the Philippine government (Government).

   On April 17, 2001, the SC denied the motion for reconsideration.

   On September 19, 2003, the PCGG wrote the Parent Company to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan resolution upheld by the Supreme Court. The Parent Company referred the matter to its external financial advisor and external legal counsel for due diligence and advice. The external financial advisor presented to the BOD on December 4, 2003 the financial impact of compliance with the resolution considering "with and without due compensation" scenarios, and applying different rates of return to the original amount paid by the Parent Company. The

financial advisor stated that if the Parent Company is not compensated for the conversion of the treasury shares, there will be: (a) a negative one-off EPS impact in 2003 of approximately 17.5%; (b) net debt increase of approximately P2,100; and (c) a negative EPS impact of 6.9% in 2004. The external legal counsel at the same meeting advised the BOD that, among others, the facts reviewed showed that: (a) the compromise shares had not been validly sequestered; (b) no timely direct action was filed to nullify the transaction; (c) no rescission can be effected without a return of consideration; and (d) more importantly, requiring the Parent Company to deliver what it acquired from the sellers without a substantive ground to justify it, and a direct action in which the Parent Company is accorded full opportunity to defend its rights, would appear contrary to its basic property and due process rights. The external legal counsel concluded that the Parent Company has "legal and equitable grounds to challenge the enforcement" of the Sandiganbayan resolution.

On January 29, 2004, the external legal counsel made the additional recommendation that the Parent Company should file a Complaint-in-Intervention in the Civil Case (now particularly identified as SB Civil Case No. 0033-F), the forfeiture case brought by the Government involving the so-called CIIF block of the Parent Company shares of stock of which the treasury shares were no longer a portion. The Complaint-in-Intervention would pray that any judgment in the Civil Case forfeiting the CIIF block of the Parent Company shares of stock should exclude the treasury shares.

At its January 29, 2004 meeting, the BOD of the Parent Company unanimously decided to: (a) deny the PCGG demand of September 19, 2003, and (b) authorize the filing of the Complaint-in-Intervention. Accordingly, the external legal counsel informed the PCGG of the decision of the Parent Company and the Complaint-in-Intervention was filed in the Civil Case.

In a Resolution dated May 6, 2004, the Sandiganbayan denied the Complaint-in-Intervention. The external legal counsel filed a Motion for Reconsideration, which was denied by the Sandiganbayan in its Decision dated November 28, 2007.

The external legal counsel advised that because the Sandiganbayan had disallowed the Parent Company's intervention, the Sandiganbayan's disposition of the so-called CIIF block of the Parent Company shares in favor of the Government cannot bind the Parent Company, and that the Parent Company remains entitled to seek the nullity of that disposition should it be claimed to include the treasury shares.

The external legal counsel also advised that the Government has, in its own court submissions: (i) recognized the Parent Company's right to the treasury shares on the basis that the Compromise Agreement is valid and binding on the parties thereto; and (ii) taken the position that the Parent Company and UCPB had already implemented the Compromise Agreement voluntarily, and that the PCGG had conformed to the Agreement and its implementation. The Executive Committee of the Parent Company approved the recommendation of external legal counsel on January 18, 2008 which was ratified by the BOD on March 6, 2008.

On July 23, 2009, the stockholders of the Parent Company approved the amendment of the Articles of Incorporation to issue Series "1" preferred shares, and the offer to exchange common shares to Series "1" preferred shares. The PCGG, with the approval of the SC in its Resolution dated September 17, 2009, converted the sequestered common shares in the Parent Company in the name of the CIIF Holding Companies, equivalent to 24% of the outstanding capital stock, into Series "1" preferred shares. On February 11, 2010, the Supreme Court, amending its Resolution dated September 17, 2009, authorized the PCGG to exercise discretion in depositing in escrow, the net dividend earnings on, and/or redemption proceeds from, the Series "1" preferred shares of the Parent Company, either with the Development Bank of the Philippines/Land Bank of the Philippines or with the UCPB. All dividends accruing to the Series "1" preferred shares are remitted to the escrow account established with UCPB.

On June 30, 2011, the PCGG filed with the SC relating to an Urgent Motion to Direct the Parent Company to comply with the Sandiganbayan Resolution (the "Urgent Motion"). On March 30, 2012, the Parent Company filed a Comment on the Urgent Motion in compliance with the Supreme Court's Resolution dated December 13, 2011 which was received by the Parent Company on February 22, 2012, directing the Parent Company to file its Comment on the Urgent Motion.

In the meantime, the Parent Company has available cash and shares of stock for the dividends payable on the treasury shares.

2. On May 5, 2011, the Parent Company completed the secondary offering of its common shares. The offer consists of 110,320,000 shares of stock of the Parent Company consisting of 27,580,000 common shares from treasury stock of the Parent Company and 82,740,000 common shares of Top Frontier. In addition, Top Frontier sold to ATR Kim Eng Capital Partners, Inc., BDO Capital & Investment Corporation and SB Capital Investment Corporation an additional 27,580,000 Offer Shares. The Parent Company likewise granted Credit Suisse (Singapore) Pte., Standard Chartered Securities (Singapore) Pte. Limited, Goldman Sachs (Singapore) Pte., and UBS AG an option, exercisable in whole or in part for thirty (30) days from the date of allotment of Offer Shares in the international offer, to procure purchasers for up to 7,880,000 additional Common Shares, solely to cover over-allotments under the Offer, if any. The 7,880,000 common shares which were not utilized were reverted to treasury shares. The Offer Shares were priced at P110.00 per share on April 20, 2011.

   Also on May 5, 2011, US$600 worth of exchangeable bonds of the Parent Company sold to overseas investors were simultaneously listed at the Singapore Stock Exchange. The exchangeable bonds have a maturity of three years, a coupon of 2% per annum and a conversion premium of 25% of the offer price. The exchangeable bonds will be exchangeable for common shares from the treasury stock of the Parent Company. The initial exchange price for the exchange of the exchangeable bonds into Common Shares is P137.50 per share.

On December 5, 2011, 765,451 common shares were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at an exchange price of P113.24 per share. Subsequently on December 8, 2011, 612,361 common shares of stock of the Parent Company were transacted and crossed at the PSE via a special block sale in relation to the issuance of common shares pursuant to the US$600 exchangeable bonds of the Parent Company. As of December 31, 2011, US$2 (P87) worth of exchangeable bonds were already exchanged to equity into common shares (Note 23).

d. *Unappropriated Retained Earnings*

The Group's unappropriated retained earnings includes its accumulated equity in net earnings of subsidiaries and associates amounting to P44,000, P55,565 and P46,209 in 2011, 2010 and 2009, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

The Parent Company's unappropriated retained earnings as of December 31, 2011 and 2010 is restricted in the amount of P67,441 and P69,541, respectively, representing the cost of shares held in treasury.

e. *Appropriated Retained Earnings*

The BOD of certain subsidiaries approved additional appropriations amounting to P18,650, P201 and P15 in 2011, 2010 and 2009, respectively, to finance future capital expenditure projects. Reversal of appropriations in 2011, 2010 and 2009 amounted to P6, P27 and P40, respectively.

27. Cost of Sales

Cost of sales consist of:

	Note	**2011**	2010	2009
Inventories		**P320,381**	P102,166	P75,051
Fuel and oil		**41,945**	17,504	2,170
Taxes and licenses		**30,219**	23,343	21,515
Depreciation, amortization and impairment	*29*	**12,625**	7,287	4,994
Contracted services		**6,592**	5,929	4,682
Freight, trucking and handling		**5,563**	5,504	4,392
Communications, light and water		**5,252**	4,585	3,662
Personnel	*30*	**4,532**	3,827	3,802
Repairs and maintenance		**2,255**	1,962	1,827
Rent	*4, 35*	**879**	517	455
Others		**2,078**	1,305	1,745
		P432,321	P173,929	P124,295

28. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2011	2010	2009
Selling	**P24,222**	P18,239	P12,905
Administrative	**23,278**	19,380	17,344
	P47,500	P37,619	P30,249

Selling expenses consist of:

	Note	**2011**	2010	2009
Freight, trucking and handling		**P6,665**	P5,922	P2,021
Personnel	*30*	**5,844**	4,180	3,635
Advertising and promotions		**5,528**	4,977	4,980
Rent	*4, 35*	**1,650**	1,200	1,060
Depreciation, amortization and impairment	*29*	**1,434**	419	221
Supplies		**897**	326	251
Taxes and licenses		**484**	271	249
Communications, light and water		**347**	193	218
Professional fees		**313**	131	45
Others		**1,060**	620	225
		P24,222	P18,239	P12,905

Administrative expenses consist of:

	Note	**2011**	2010	2009
Personnel	*30*	**P10,965**	P8,090	P7,385
Depreciation, amortization and impairment	*29*	**3,387**	2,403	2,110
Professional fees		**2,083**	1,802	2,383
Taxes and licenses		**1,197**	803	673
Advertising and promotion		**1,178**	1,201	822
Repairs and maintenance		**690**	681	952
Communications, light and water		**627**	715	644
Supplies		**436**	755	711
Freight, trucking and handling		**343**	513	270
Research and development		**146**	333	212
Rent	*4, 35*	**46**	95	605
Others	*40*	**2,180**	1,989	577
		P23,278	P19,380	P17,344

"Others" consist of entertainment and amusement, gas and oil, and other operating and administrative expenses.

29. Depreciation, Amortization and Impairment

Depreciation, amortization and impairment are distributed as follows:

	Note	**2011**	2010	2009
Cost of sales:				
Property, plant and equipment	*7, 16*	**P11,436**	P6,192	P3,852
Deferred containers, biological assets and others	*18, 20*	**1,189**	1,095	1,142
	27	**12,625**	7,287	4,994
Selling and administrative expenses:				
Property, plant and equipment	*7, 16*	**3,207**	1,685	1,402
Deferred containers and others	*20, 33*	**1,614**	1,137	929
	28	**4,821**	2,822	2,331
		P17,446	P10,109	P7,325

"Others" include amortization of computer software, land use rights, licenses and investment properties.

30. Personnel Expenses

Personnel expenses consist of:

	Note	**2011**	2010	2009
Salaries and wages		**P10,086**	P7,997	P7,205
Retirement costs	*36*	**1,019**	285	594
Other employee benefits		**10,236**	7,815	7,023
		P21,341	P16,097	P14,822

Personnel expenses are distributed as follows:

	Note	**2011**	2010	2009
Cost of sales	*27*	**P4,532**	P3,827	P3,802
Selling expenses	*28*	**5,844**	4,180	3,635
Administrative expenses	*28*	**10,965**	8,090	7,385
		P21,341	P16,097	P14,822

31. Interest Expense and Other Financing Charges

	2011	2010	2009
Interest expense	**P25,698**	P13,870	P6,780
Other financing charges	**1,745**	2,708	1,146
	P27,443	P16,578	P7,926

Amortization of debt issue costs in 2011, 2010 and 2009 included in other financing charges amounted to P753, P1,808 and P575, respectively (Note 23).

Interest expense on drafts and loans payable and long-term debt are as follows:

	Note	**2011**	2010	2009
Drafts and loans payable	*21*	**P7,392**	P3,035	P2,916
Long-term debt and finance lease liabilities	*23, 35*	**18,306**	10,835	3,864
		P25,698	P13,870	P6,780

32. Interest Income

Interest income consist of:

	Note	**2011**	2010	2009
Interest from short-term investments, cash in banks and others		**P3,545**	P2,899	P5,350
Interest on amounts owed by related parties	*10, 20*	**1,073**	124	639
		P4,618	P3,023	P5,989

33. Other Income (Charges)

Other income (charges) consist of:

	Note	**2011**	2010	2009
Gains on derivatives - net	*42*	**P182**	P660	P962
Foreign exchange gains (losses)		**(823)**	6,097	(3,364)
Loss on impairment of goodwill, trademark and brand name, property, plant and equipment and idle assets (a, b, c)	*16, 19, 20*	**(36)**	(4,233)	(4,756)
Gain on acquisition of a subsidiary	*5, 39*	**-**	4,490	-
Others (b, d, e)		**665**	81	315
		(P12)	P7,095	(P6,843)

a. In 2011, 2010 and 2009, the Group recognized impairment loss on noncurrent assets of SMBHK and San Miguel (Guangdong) Brewery Company Limited (SMGB). Over the past three years, the Group's business performance of SMBHK and SMGB had been adversely affected by factors including economic downturns, fierce market competition, counterfeit products and poor weather conditions.

SMBHK
In 2010, the recoverable amount of the SMBHK cash-generating unit (CGU) has been determined using the value in use calculation derived on the cash flow projections based on the business forecasts approved by management covering a period of five years on which cash flows beyond the covered periods are extrapolated using a steady growth rate of 2%. This growth rate does not exceed the long-term average growth rate for Hong Kong.

Key assumptions used for value in use calculation are as follows:

	2011	2010
Sales volume growth rate	**1.1 - 12.4%**	1.7 - 12.6%
Gross contribution rate	**38 - 41%**	40 - 43%
Pre-tax discount rate	**9.75%**	9.85%

In 2011, the Group's results in Hong Kong were fairly consistent with the forecasts made in 2010. Based on the Group's assessment of the recoverable amounts of the Hong Kong CGU as of December 31, 2011, additional impairment loss or a reversal of previously recorded impairment loss is no longer necessary.

SMGB
In 2010, the estimates of recoverable amount of the SMGB CGU were based on the assets' fair values less costs to sell, determined by reference to the observable market prices for similar assets. The assessment was made by LCH (Asia-Pacific) Surveyor Limited, an independent firm of surveyors who are members of the Hong Kong Institute of Surveyors which was engaged by the Group.

In 2009, however, the estimated recoverable amount of the mainland China CGU was determined using value in use calculation. This calculation uses the discounted value of the projected cash flows to be generated over the remaining useful life of the CGU. Cash flows beyond the six-year period were extrapolated using a steady growth rate of 4%.

Key assumptions used for value in use calculation are as follows:

	2009
Sales volume growth rate	5.5 - 7.3%
Gross contribution rate	39 - 40%
Pre-tax discount rate	13.17%

Management determined the growth rates and gross contribution rates based on past experiences, future expected market trends and an intermediate holding company's import plan of beer brewed by the Group.

Based on the Group's assessment of the recoverable amounts of the CGUs to which these assets belong, the carrying amounts of the assets in the CGUs were written down by P30 and P4,333, as of December 31, 2011 and 2010, respectively, presented as follows:

	Note	**2011**	2010	2009
Selling and administrative expenses	*28*	**P -**	P151	P -
Other charges		**30**	4,182	3,705
		P30	P4,333	P3,705

In 2010, a reversal of an impairment loss was made with respect to land use rights, as there has been a favorable change in the estimates used to determine the recoverable amount.

b. In 2009, the Group recognized impairment loss on land and idle assets amounting to P46 and P8, respectively.

   In 2010, the Group recognized impairment loss on idle assets amounting to P51 and reversed the Group's 2009 impairment loss on land amounting to P46, 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.

c. In 2009, the Group reduced the carrying amount of certain assets of SMPPC by a total of P694 after the latter ceased its commercial operations on July 27, 2009.

d. On January 11, 2011, SMPI entered into a contract with the Philippine Foundation of Blessed Mary Mother of the Poor, Inc. (the "Foundation"), a non-profit religious organization, for the donation of a 33-hectare parcel of land located in Alfonso, Cavite (the "Donated Property"). The land title of the Donated Property was transferred in the name of the Foundation on April 28, 2011.

   In accordance with the Deed of Donation, the Donated Property shall be used and devoted exclusively by the Foundation for the construction, operation and maintenance of its project, the Montemaria Oratory of the Blessed Virgin Mary (the "Montemaria Project"). The Montemaria Project will consist of a Shrine of the Blessed Virgin Mary, churches and chapels, Way of the Cross and such other structures and facilities for Roman Catholic religious purposes, and socio-civic and non-profit activities and program of the Foundation.

   Further, the Deed of Donation requires that the Montemaria Project must be at least 50% completed by 2015 and fully completed by 2020. If the Foundation will not be able to comply with this requirement, the Donated Property will revert back to SMPI. As of December 31, 2011, the Foundation has not yet started with the Montemaria Project.

   On February 8, 2012, SMPI received a letter from the Foundation conveying its intention of returning portion of the Donated Property. SMPI's BOD is yet to decide on the appropriate action for the said request.

e. "Others" consist of PSALM monthly fees reduction, rent income, commission income, dividend income from AFS financial assets, changes in fair value of financial assets at FVPL, gain on settlement of ARO and insurance claims.

34. Related Party Disclosures

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

	Relationship with Related Parties	Year	Revenue From Related Parties	Purchases From Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties
Meralco	Associate	**2011**	**P32,871**	**P494**	**P4,166**	**P60**
		2010	17,103	490	4,635	43
		2009	-	692	140	32
SMEC	Associate	2009	-	-	315	-
PAHL	Associate	**2011**	**-**	**-**	**701**	**-**
LTHI	Associate	**2011**	**47**	**-**	**433**	-
		2010	-	-	145	-
BOC	Associate	**2011**	**31**	**-**	**13**	**-**
		2010	29	-	4	521
PIDC	Associate	**2011**	**95**	**-**	**13**	**-**
Top Frontier	Associate	**2011**	**-**	**-**	**2,592**	**-**
		2010	-	-	2,543	-
Atlantic	Associate	**2011**	**-**	**-**	**537**	**-**
LEC	Associate	**2011**	**-**	**1,393**	**-**	**-**
MNHPI	Associate	**2011**	**-**	**-**	**6**	**-**
Kirin Holdings Company, Limited and subsidiaries	Shareholder in a subsidiary	**2011**	**19**	**18**	**4**	**-**
		2010	11	105	2	-
		2009	4	33	2	7
Hormel Netherlands, BV	Shareholder in a subsidiary	**2011**	**-**	**-**	**19**	**-**
		2010	-	-	11	-
		2009	**-**	**-**	6	**-**
Super Coffee Corporation Pte. Ltd.	Shareholder in a subsidiary	**2011**	**-**	**-**	**-**	**61**
		2010	-	-	**-**	18
		2009	**-**	**-**	**-**	19
TSML	JVC	**2011**	**-**	**-**	**118**	**-**
SMCRP	Retirement plan	**2011**	**-**	**-**	**5,755**	**-**
		2010	**-**	**-**	3,997	1,800
		2009	**-**	**-**	2,785	**-**
PCERP	Retirement plan	**2011**	**-**	**-**	**23,247**	**-**
		2010	**-**	**-**	22,435	-
GSMI Retirement Plan	Retirement plan	**2011**	**-**	**-**	**137**	**-**
		2010	-	-	137	-
Others	Others	**2011**	**1**	**76**	**4**	**205**
		2010	3	-	3	173
		2011	**P33,064**	**P1,981**	**P37,745**	**P326**
		2010	P17,146	P595	P33,912	P2,555
		2009	P4	P725	P3,248	P58

a. Amounts owed by related parties consist of trade and non-trade receivables, share in expenses and cash advances.

b. Amounts owed to related parties consist of trade payables, professional fees and cash advances.

c. The Parent Company has advances to SMCRP amounting to P5,755 and P3,997 as of December 31, 2011 and 2010, respectively, included as part of "Trade and other receivables" account in the consolidated statements of financial position (Note 10).

d. As of December 31, 2011 and 2010, Petron has outstanding advances to PCERP for some investment opportunities (Note 20).

e. SMPI has fully paid its advances from SMCRP as of December 31, 2011 amounting to P1,800 which is included as part of "Accounts payable and accrued expenses" account as of December 31, 2010. SMPI used the proceeds of the advances mainly for the acquisition of additional BOC shares (Note 22).

f. As of December 31, 2010, SMPI has unpaid subscription to BOC amounting to P521, arising from the acquisition of additional 20,383,210 shares in 2010, presented as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position (Note 22).

g. As of December 31, 2011, GFDCC has an outstanding loan from BOC amounting to P204, included as part of "Long-term debt" account (Note 23).

h. The compensation of key management personnel of the Group, by benefit type, follows:

	2011	2010	2009
Short-term employee benefits	**P475**	P408	P378
Retirement costs (benefits)	**(52)**	(147)	37
Share-based payments	**29**	31	56
	P452	P292	P471

Some of the personnel performing key management functions in certain subsidiaries are employed by the Parent Company. This is covered by a management agreement executed by and between the Parent Company and the subsidiaries. The salaries and benefits of these personnel are billed to the subsidiaries through management fees, with details as follows:

	Note	**2011**	2010	2009
Short-term employee benefits		**P7**	P30	P46
Retirement costs	*36*	**-**	-	1
Share-based payments	*40*	**25**	24	43
	28, 30	**P32**	P54	P90

35. Significant Agreements and Lease Commitments

Significant Agreements:

Power

Independent Power Producer (IPP) Administration (IPPA) Agreements

As a result of the biddings conducted by PSALM for the Appointment of the IPP Administrator for the Contracted Capacity of the following power plants, the Group was declared the winning bidder through the following subsidiaries:

Subsidiary	Power Plant	Contracted Capacity	Location	Date Awarded	Effective Date
SMEC	Sual Coal - Fired Power Station (Sual Power Plant)	2 x 500 MW	Sual, Pangasinan Province	September 1, 2009	November 6, 2009
SPDC	San Roque Multi-Purpose Hydroelectric Power Plant (San Roque Power Plant)	345 MW	San Roque, Pangasinan Province	December 28, 2009	January 26, 2010
SPPC	Ilijan Natural Gas - Fired Combined Cycle Power Plant (Ilijan Power Plant)	1,200 MW	Ilijan, Batangas City	May 5, 2010	June 26, 2010

The IPPA Agreements are with the conformity of National Power Corporation (NPC), a government-owned and controlled corporation created by virtue of RA No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the Agreement and further confirms that for so long as it remains the IPP Counterparty it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

SMEC
On November 6, 2009, SMEC assumed the administration of the Contracted Capacity of the Sual Power Plant in accordance with the provisions of the IPPA Agreement for the Contracted Capacity of the Sual Power Plant with Execution Date of September 8, 2009. SMEC started commercial operations on November 6, 2009.

SPDC
On January 26, 2010, SPDC assumed the administration of the Contracted Capacity of the San Roque Power Plant in accordance with the provisions of the IPPA Agreement for the Contracted Capacity of the San Roque Power Plant with Execution Date of December 29, 2009. SPDC started commercial operations on January 26, 2010.

SPPC
On June 26, 2010, SPPC assumed the administration of the Contracted Capacity of the Ilijan Power Plant in accordance with the provisions of the IPPA Agreement for the Contracted Capacity of the Ilijan Power Plant with Execution Date of May 11, 2010. SPPC started commercial operations on June 26, 2010.

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

i. The right and obligation to manage and control the contracted capacity of the power plant for its own account and at its own cost and risks;

ii. The right to trade, sell or otherwise deal with the capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and at its own risk and cost. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;

iii. The right to receive a transfer of the power plant in case of buy-out or termination of the Agreement for no consideration;

iv. The right to receive an assignment of NPC interest to existing short-term bilateral power supply contracts;

v. The obligation to supply and deliver, at its own cost, fuel required by the IPP and necessary for the Sual Power Plant to generate the electricity required to be produced by the IPP;

vi. Maintain the performance bond in full force and effect with a qualified bank; and

vii. The obligation to pay PSALM the monthly payments and generation fees in respect of all electricity generated from the capacity, net of outages for SMEC.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly fees for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. SMEC, SPDC and SPPC opened with their respective banks performance bonds denominated in US$ amounting to US$58, US$20 and US$60, respectively, with expiration dates of November 3, 2011, January 25, 2011 and June 16, 2011, respectively. SMEC, SPDC and SPPC renewed their performance bonds which will expire on November 3, 2012, January 25, 2012 and June 26, 2012, respectively.

In view of the nature of the IPPA Agreements, the arrangement has been accounted for as finance lease.

Market Participation Agreements (MPA)
SMEC, SPDC and SPPC have entered into MPA with the Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member.

Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by ERC.

The Group purchases power from WESM during periods when the power generated from power plants are not sufficient to meet customers' power requirements.

Power Supply Agreements
SMEC and SPPC have Power Supply Agreements with various counterparties to supply or sell electricity produced by the power plants. All agreements provide for renewals or extensions subject to mutually agreed terms and conditions by both parties.

The customers are billed based on the time-of-use per kilowatt hour (TOU/kWh). However, as stipulated in the contracts, each customer has to pay the minimum charge based on the contracted power using the basic energy charge and adjustments if customer has not fully taken or failed to consume the contracted power. For the years ended December 31, 2011 and 2010, all customers are above their minimum contracted power requirements.

Coal Supply Agreement
SMEC entered into a Supply Agreement for Steaming Coal with PT Bumi Resources Tbk's subsidiary PT Kaltim Prima Coal through Topcoal Trading Corporation for the coal requirements of the Sual Power Plant from October 1, 2009 to September 30, 2010. Under the agreement, the parties shall negotiate and agree on the contract price of the coal at least 30 days prior to the delivery. On August 18, 2011, the parties renewed the contract until September 30, 2012, which may be further extended upon written agreement by the parties.

Fuel and Oil

Supply Agreement
Petron have a term contract to purchase its crude oil requirements from Arabian American Oil Company ("Saudi Aramco") based on Saudi Aramco's standard far east selling prices. The contract is for a period of one year from October 28, 2008 to October 27, 2009 with automatic one-year extensions thereafter unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities of Petron for such purchases are shown as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position (Note 22). The contract was extended until October 27, 2012.

Fuel Supply Contract with NPC and PSALM
Petron entered into various fuel supply contracts with NPC and PSALM. Under these contracts, Petron supplies the bunker fuel and diesel fuel oil requirements of selected NPC plants and PSALM plants, and NPC-supplied IPP plants.

Infrastructure

Concession Agreement

- TADHC

  In 2009, the ROP awarded TADHC the Project through a Notice of Award (NOA) issued on May 15, 2009. The Project is proposed to be implemented through a Contract-Add-Operate and Transfer Arrangement, a variant of the Build-Operate-Transfer (BOT) contractual arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its Revised Implementing Rules and Regulations.

On June 22, 2009, TADHC entered into a CA with the ROP, through the DOTC and Civil Aviation Authority of the Philippines. Based on the CA, TADHC has been granted with the concession of the Project which includes the extension or expansion of the Boracay Airport. Subject to existing law, the CA also grants to TADHC the franchise to operate and maintain the Boracay Airport up to the end of the concession period, which is for a period of 25 years, and to collect the fees, rentals and other charges as may be agreed from time to time based on the Parametric Formula as defined in the CA.

The following are the salient features of the CA:

1. The operations and management of the Boracay Airport shall be transferred to TADHC, provided that the ROP shall retain the operations and control of air traffic services, national security matters, immigration, customs and other governmental functions and the regulatory powers insofar as aviation security, standards and regulations are concerned at the Boracay Airport.

2. As concessionaire, TADHC shall have full responsibility in all aspects of the operation and maintenance of the Boracay Airport and shall collect the regulated and other fees generated from it and from the end users. To guarantee faithful performance of its obligation in respect to the operation and maintenance of the Boracay Airport, TADHC shall post in favor of the ROP an Operations and Maintenace Performance Security (OMPS) amounting to P25, which must be valid for the entire concession period of 25 years. As of December 31, 2011 and 2010, TADHC has yet to pay the OMPS since it is payable only after the completion of the construction of the Project.

3. Immediately upon receiving the Notice to Commerce Implementation (NCI) and provided all conditions precedent in the CA are fulfilled and waived, TADHC shall start all the activities necessary to upgrade and rehabilitate the Boracay Airport into a larger and more technologically advanced aviation facility to allow international airport operations.

4. TADHC shall finance the Project cost, while maintaining a debt-to-equity ratio of 70:30, with debt pertaining to third party loans. TADHC's estimated capital commitment to develop the Project amounts to P2,500, including possible advances to the ROP for the right of way up to the amount of P466. Such ratio is complied with as TADHC does not have any outstanding third party loans as of December 31, 2011 and 2010.

5. TADHC shall post a P250 Work Performance Security in favor of the ROP as guarantee for faithful performance by TADHC to develop the Project. This performance security shall be partially released by the ROP from time to time to the extent of the percentage of completion of the Project. TADHC has paid P1 premium both in 2011 and 2010, for the Work Performance Security. The unamortized portion of the premium is presented as part of the "Prepaid expenses and other current assets" account in the consolidated statements of financial position as of December 31, 2011 and 2010 (Note 12).

6. In consideration for allowing TADHC to operate and manage the Boracay Airport, TADHC shall pay ROP P8 annually. The first payment shall be made immediately upon the turnover by the ROP of the operations and management of the Boracay Airport to TADHC, and every year thereafter until the end of the concession period. The operations and management of the airport was turned over to TADHC on October 16, 2010.

After the fulfillment of all contractual and legal requirements, the CA became effective on December 7, 2009. The NCI issued to TADHC by the DOTC was accepted by TADHC on December 18, 2009. The CA may be renewed or extended for another 25 years upon written agreement of the parties hereto through the execution of a renewal or extension contract.

In accordance with the license granted by the ROP, as expressly indicated in the CA, TADHC presently operates the Boracay Airport. TADHC completed the rehabilitation of the existing airport terminal building and facilities on June 25, 2011, but has not started the construction of the new terminal and extension of the runway as of December 31, 2011, pending completion of the acquisition of the right of way.

- ULC BVI

In 2008, the ROP awarded ULC BVI the financing, design, construction, supply, completion, testing, commissioning and operation and maintenance of the MRT Line 7 Project (the "MRT 7 Project") through a NOA issued on January 31, 2008. The MRT Project is proposed to be an integrated transportation system, under a Build-Gradual Transfer-Operate, Maintain and Manage (BGTOM) scheme which is a modified Build-Transfer-Operate (BTO) arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its Implementing Rules and Regulations, to address the transportation needs of passengers and to alleviate traffic in Metro Manila, particularly traffic going to and coming from North Luzon.

On June 18, 2008, ULC BVI entered into a CA (MRT 7 Agreement) with the ROP, through the DOTC, for a 25-year concession period, subject to extensions as may be provided for under the CA and by law. Based on the CA, ULC BVI has been granted the right to finance, construct, Operate and Maintain (O&M) the proposed MRT Line 7, which consists of 44-kilometer of road and rail transportation from the Bocaue exit on the North Luzon Expressway to LRT 1 and Metro Rail Transit 3 at North Avenue - Epifanio delos Santos Avenue.

The following are the salient features of the CA:

1. The MRT 7 Project cost shall be financed by ULC BVI through debt and equity at a ratio of approximately 75:25 and in accordance with existing BSP regulations on foreign financing components, if any. Based on the CA, ULC BVI's estimated capital commitment to develop the MRT 7 Project amounts to US$1,235.60. ULC BVI shall endeavor to have signed the financing agreements not later than 18 months from the signing of the CA.

2. ULC BVI shall post a Performance Security for Construction and O&M in favor of the ROP as guarantee for faithful performance by ULC BVI to develop the MRT 7 Project. This performance security for O&M shall be reduced every year of the concession period to the amounts as specified in the CA.

3. In the event that the MRT 7 Project is not completed by the end of the grace period, which is 100 calendar days following the project completion target as defined in the CA, ULC BVI shall pay the ROP liquidated damages of US$0.1 for every calendar day of delay.

4. As payment for the gradual transfer of the ownership of the assets of the MRT 7 Project, the ROP shall pay ULC BVI a fixed amortization payment on a semi-annual basis in accordance with the schedule of payment described in the CA. The ROP's amortization payment to ULC BVI shall start when the MRT 7 Project is substantially completed.

5. Net passenger revenue shall be shared by the ROP and ULC BVI on a 30:70 basis.

6. All rail-based revenues above 11.90% internal rate of return of ULC BVI for the MRT 7 Project over the cooperation period, which means the period covering the construction and concession period, shall be shared equally by ULC BVI and the ROP at the end of the concession period. All rail-based revenues above 14% internal rate of return shall wholly accrue to the ROP.

7. The ROP grants the ULC BVI exclusive and irrevocable commercial development rights (including the right to lease or sublease or assign interests in, and to collect and receive any and all income from, but not limited to, advertising, installation of cables, telephone lines, fiber optics or water mains, water lines and other business or commercial ventures or activities over all areas and aspects of the MRT 7 Project with commercial development potentials) from the effectivity date of the CA until the end of the concession period, which can be extended for another 25 years, subject to the ROP's approval. In consideration of the development rights granted, ULC BVI or its assignee shall pay the ROP 20% of the net income before tax actually realized from the exercise of the development rights.

The Group has determined that the provisions of Philippine Interpretation IFRIC 12 apply to this CA and will be accounted for under the financial asset model. As of March 28, 2012, construction of the MRT 7 Project has not yet started.

Telecommunications

Franchise with National Telecommunications Commission (NTC)

- BellTel

  In 1994, the Philippine Congress passed RA No. 7692 which granted a franchise to BellTel to install, operate and maintain telecommunications systems throughout the Philippines and for other purposes.

  On October 28, 1997, the NTC, under NTC Case No. 94-229, granted a Provisional Authority (PA) to BellTel, valid for eighteen (18) months, or until April 27, 1999, to install, operate and maintain the following telecommunication services, to wit:

  - international gateway facility;
  - inter-exchange carrier facility;
  - VSAT system nationwide;
  - telephone systems in the selected cities and municipalities in the Luzon area;
  - WLL telephone systems in the cities of Muntinlupa, Las Piñas, Pasig, Mandaluyong, Makati, Pasay, Parañaque, Taguig and Marikina; and in the municipalities of Pateros and San Juan; and
  - telephone systems in all economic zones identified under RA No. 7916.

Since then, this PA had been extended several times, the latest extension of which is valid until December 22, 2010 as contained in NTC's order dated September 19, 2009. BellTel applied for an extension of the PA on January 28, 2011. On March 5, 2012, NTC approved the extension of the PA for another three years, expiring on March 5, 2015.

In an Order dated October 19, 2007 (CCC Case No. 94-223), the NTC granted BellTel a PA, valid for 18 months or until April 19, 2009, to install, operate and maintain a Mobile Telecommunication Network as set forth in the said Order. This PA was later extended for a period of three (3) years or until April 17, 2012 as per NTC Order dated August 14, 2009.

- ETPI

  On October 3, 2002, RA No. 9172 entitled "An Act Renewing and Amending the Franchise Granted to ETPI (Eastern Extension Australia and China Telegraph Company Limited) under RA No. 808, as Amended" extended for another twenty-five years ETPI's legislative franchise to construct, install, establish, operate and maintain for commercial purposes and in the public interest, throughout the Philippines and between the Philippines and other countries and territories, wire and/or wireless telecommunications systems, including but not limited to mobile, cellular, paging, fiber optic, multi-channel distribution system, local multi-point distribution system, satellite transmit and receive systems, switches, and their value-added services such as, but not limited to, transmission of voice, data, facsimile, control signs, audio and video, information services bureau and all other telecommunications systems technologies as are at present available or will be made available through technological advances or innovations in the future; and construct, acquire, lease and operate or manage transmitting and receiving stations, lines, cables or systems, as is, or are, convenient or essential to efficiently carry out the purpose of the franchise.

- TTPI

  TTPI has an approved congressional franchise granted under RA No. 7671, as amended by RA No. 7674, to install, operate and maintain telecommunications systems throughout the Philippines.

  On September 25, 1996, the NTC granted TTPI a PA to install, operate and maintain Local Exchange Carrier (LEC) services in the provinces of Batanes, Cagayan, Isabela, Kalinga, Apayao, Nueva Vizcaya, Ifugao and Quirino and the cities of Manila and Caloocan as well as the municipality of Navotas in order to commence compliance with the requirements of Executive Order No. 109 (s. 1993), which required TTPI to put up a minimum of 300,000 LEC lines. TTPI is allowed to deploy Public Calling Offices in municipalities and barangays within its authorized service area in lieu of rolling out LEC lines.

  On January 18, 2006, the NTC granted TTPI a Certificate of Public Convenience and Necessity (CPCN) to install, operate and maintain LEC services in the cities of Manila and Caloocan, as well as in the provinces of Cagayan, Isabela, Apayao, Batanes, Ifugao, Kalinga, Nueva Vizcaya and Quirino. In addition, in a letter dated August 14, 2006, the NTC confirmed that TTPI has already completely served the remaining areas it needs to serve under the PA of September 25, 1996. On January 8, 2010, TTPI was granted a CPCN to install, operate and maintain LEC services in the municipality of Navotas and the provinces of Cagayan, Isabela, Apayao, Batanes, Ifugao, Kalinga, Nueva Vizcaya and Quirino.

On September 25, 1996, October 16, 2006 and December 23, 2008, NTC issued separate PA in favor of TTPI to install, operate and maintain LEC services in the remaining cities and municipalities of Metro Manila, in the provinces of Cavite, Laguna, Batangas, Rizal and Quezon (CALABARZON) and in the provinces of Apayao, Batanes, Ifugao, Kalinga, Nueva Vizcaya and Quirino.

Properties

SMPI-GSIS Put Option
The Put Option between SMPI and GSIS can be exercised within a period of 10 years. The option exercise price is equivalent to P300 plus interest.

Any dividends declared and paid to stockholders prior to the exercise of the Put Option by GSIS will be deducted from interest provided above upon exercise of the option. As of December 31, 2010, the carrying amount of the obligation related to the Put Option amounts to P386 and is presented under "Accounts payable and accrued expenses" account in the 2010 consolidated statement of financial position (Note 22).

On July 5, 2011, GSIS exercised its option by executing a Deed of Absolute Sale over all of its shares of stock representing 48% equity in the SMPI-GSIS JVC in favor of SMPI, for a consideration of P399, making SMPI-GSIS JVC a wholly-owned subsidiary of SMPI.

Lease Commitments:

a. Finance Leases

Group as Lessee

i. IPPA Agreements

The IPPA Agreements are with the conformity of NPC, a government-owned and controlled corporation created by virtue of RA No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees the terms of the Agreement and further confirms that for so long as it remains the IPP Counterparty it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly fees for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively.

The IPPA Agreements provide the Group with a right to receive a transfer of the power station in case of buyout or termination.

In accounting for the Group's IPPA Agreements with PSALM, the Group's management has made a judgment that the IPPA Agreement is an agreement that contains a finance lease. The Group's management has also made a judgment that it has substantially acquired all the risks and rewards incidental to ownership of the power plants. Accordingly, the Group recognized the capitalized asset and related liability of P203,691 and P208,187 in 2011 and P209,288 and P208,394 in 2010, respectively, (equivalent to the present value of the minimum lease payments using the Group's incremental borrowing rates for US dollar and Philippine peso payments) as "Property, plant and equipment" and "Finance lease liabilities" in the consolidated statements of financial position.

The Group's incremental borrowing rates are as follows:

	US Dollar	Philippine Peso
SMEC	3.89%	8.16%
SPDC	3.30%	7.90%
SPPC	3.85%	8.05%

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as "Interest expense" in the consolidated statements of income (Note 31). Interest expense in 2011 and 2010 amounted to P11,531 and P5,299, respectively.

The future minimum lease payments for each of the following periods are as follows:

2011

	Dollar Payments	**Peso Equivalent of Dollar Payments**	**Peso Payments**	**Total**
Not later than one year	**US$193**	**P8,438**	**P9,212**	**P17,650**
More than one year and not later than five years	**918**	**40,263**	**43,971**	**84,234**
Later than five years	**2,191**	**96,035**	**104,951**	**200,986**
	3,302	**144,736**	**158,134**	**302,870**
Less: Future finance charges on finance lease liabilities	**730**	**31,985**	**62,698**	**94,683**
Present values of finance lease liabilities	**US$2,572**	**P112,751**	**P95,436**	**P208,187**

2010

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US$129	P5,671	P6,109	P11,780
More than one year and not later than five years	861	37,731	41,203	78,934
Later than five years	2,486	108,981	114,966	223,947
	3,476	152,383	162,278	314,661
Less: Future finance charges on finance lease liabilities	897	32,888	73,379	106,267
Present values of finance lease liabilities	US$2,579	P119,495	P88,899	P208,394

The present values of minimum lease payments for each of the following periods are as follows:

2011

	Dollar Payments	**Peso Equivalent of Dollar Payments**	**Peso Payments**	**Total**
Not later than one year	**US$176**	**P7,721**	**P7,643**	**P15,364**
More than one year and not later than five years	**764**	**33,486**	**29,945**	**63,431**
Later than five years	**1,632**	**71,544**	**57,848**	**129,392**
	US$2,572	**P112,751**	**P95,436**	**P208,187**

2010

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US$123	P5,406	P5,529	P10,935
More than one year and not later than five years	743	32,566	30,316	62,882
Later than five years	1,713	81,523	53,054	134,577
	US$2,579	P119,495	P88,899	P208,394

ii. Machinery and Equipment

The Group's finance leases cover machinery and equipment needed for business operations. The agreements do not allow subleasing. As of December 31, 2011, the net carrying amount of the leased equipment was P64 (Note 16).

The Group's share in the minimum lease payments for these finance lease liabilities are as follows:

2011

	Minimum Lease Payable	**Interest**	**Principal**
Within one year	P25	P1	P24
After one year but not more than 2 years	53	3	50
	P78	P4	P74

iii. Transportation Equipment

The Group's finance leases also cover transportation equipment needed for business operations. These agreements do not allow subleasing. Some leases provide the Group with the option to purchase the equipment at a beneficial price. As of December 31, 2011 and 2010, the net carrying amount of leased transportation equipment was P1 and P13, respectively. As of December 31, 2011, the minimum lease payable due within one year amounted to P0.4.

The Group's minimum lease payments of the finance lease liabilities relating to transportation equipment is as follows:

2010

	Minimum Lease Payable	Interest	Principal
Within one year	P14	P3	P11
After one year but not more than 2 years	3	1	2
	P17	P4	P13

b. Operating Leases

Group as Lessor
The Group has entered into lease agreements on its investment property portfolio, consisting of surplus office spaces (Note 17). The non-cancellable leases have remaining terms of between three to fourteen years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

As of December 31, 2011, 2010 and 2009, the future minimum lease receipts under non-cancellable operating leases are as follows:

	2011	2010	2009
Within one year	**P311**	P370	P78
After one year but not more than five years	**318**	541	62
After five years	**45**	52	-
	P674	P963	P140

Rent income recognized in profit or loss amounted to P412, P267 and P609 in 2011, 2010 and 2009, respectively (Note 4).

Group as Lessee
The Group leases a number of office, warehouse and factory facilities under operating leases. The leases typically run for a period of one to sixteen years. Some leases provide an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals.

As of December 31, 2011, 2010 and 2009, non-cancellable operating lease rentals are payable as follows:

	2011	2010	2009
Within one year	**P885**	P875	P35
After one year but not more than five years	**2,551**	2,424	109
More than five years	**7,486**	7,196	409
	P10,922	P10,495	P553

Rent expense recognized in profit or loss amounted to P2,575, P1,812 and P2,120 in 2011, 2010 and 2009, respectively (Notes 4, 27 and 28).

36. Retirement Plans

The Parent Company and majority of its subsidiaries have funded, noncontributory, defined benefit retirement plans covering all of their permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. Majority of the Group's latest actuarial valuation date is December 31, 2011. Valuations are obtained on a periodic basis.

Retirement costs (benefits) charged by the Parent Company to operations amounted to (P212), (P371) and P65 in 2011, 2010 and 2009, respectively, while those charged by the subsidiaries amounted to P1,231, P656 and P529 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 costs.

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 of December 31, 2011 and 2010 are as follows:

	2011	2010	2009
Current service cost	**P922**	P652	P486
Interest cost	**1,303**	1,082	992
Expected return on plan assets	**(3,951)**	(1,170)	(868)
Net actuarial loss (gain)	**2,754**	(282)	(64)
Effect of curtailment	**(9)**	3	(24)
Amortization of transitional liability	**-**	-	66
Past service costs	**-**	-	6
Net retirement costs	**P1,019**	P285	P594
Actual return on plan assets	**(P14,056)**	P25,621	P6,099

The retirement costs are recognized in the following line items in the consolidated statements of income:

	Note	**2011**	2010	2009
Cost of sales	*27*	**P143**	P143	P123
Selling and administrative expenses	*28*	**876**	142	471
	30	**P1,019**	P285	P594

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		**P20,700**	P18,386
Fair value of plan assets		**29,208**	43,964
		(8,508)	(25,578)
Unrecognized actuarial gain	*4*	**9,348**	25,846
Unrecognized past service costs		**-**	(1)
Net retirement liabilities		**P840**	P267

Net retirement assets and liabilities in 2011 are included as part of "Other noncurrent assets" account amounting to P299 (Note 20) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts amounting to P85 and P1,054, respectively (Notes 22 and 24).

Net retirement assets and liabilities in 2010 are included as part of "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts amounting to P221 and P147, respectively (Notes 12 and 20), and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts amounting to P503 and P132, respectively (Notes 22 and 24).

The movements in the present value of defined benefit obligation are as follows:

	2011	2010
Balance at beginning of year	**P18,386**	P12,362
Benefit obligation of newly acquired subsidiaries	**170**	4,528
Interest cost	**1,303**	1,082
Current service cost	**922**	652
Benefits paid	**(1,312)**	(2,324)
Actuarial losses	**1,245**	1,919
Effect of curtailment	**(10)**	163
Translation adjustments	**(4)**	4
Balance at end of year	**P20,700**	P18,386

The movements in the fair value of the plan assets are as follows:

	2011	2010
Balance at beginning of year	**P43,964**	P15,178
Plan assets of newly acquired subsidiaries	**255**	4,742
Expected return	**3,951**	1,170
Contributions by employer	**318**	698
Benefits paid	**(1,271)**	(2,324)
Effect of curtailment	**-**	41
Actuarial gains (losses)	**(18,007)**	24,451
Translation adjustments	**(2)**	8
Balance at end of year	**P29,208**	P43,964

Plan assets consist of the following:

	In Percentages	
	2011	2010
Stock trading portfolio	**9**	5
Fixed income portfolio	**27**	25
Others	**64**	70

As of December 31, 2011 and 2010, the plan assets include 8,511,667 and 551,670 common shares, respectively, of the Parent Company with fair market value per share of P116.70 and P163.80, respectively.

As of December 31, 2011 and 2010, the plan assets include 86,145,265 and 85,751,165 preferred shares, respectively, of the Parent Company with fair market value per share of P77.5 and P87, respectively.

SMCRP's 39.94% and 38.19% investment in shares of stock of BOC as of December 31, 2011 and 2010, respectively, is included in the above list of plan assets under "Others."

The overall expected rate of return is determined based on historical performance of investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2011	2010
Discount rate	**1.5 - 6.3**	2.9 - 8.5
Salary increase rate	**2.5 - 7.0**	2.5 - 9.0
Expected return on plan assets	**5.0 - 9.0**	5.0 - 10.0

The historical information for the current and previous four annual periods is as follows:

	2011	2010	2009	2008	2007
Present value of the defined benefit obligation	**P20,700**	P18,386	P12,362	P11,080	P11,332
Fair value of plan assets	**29,208**	43,964	15,178	10,232	10,726
Deficit (excess) in the plan	**(8,508)**	(25,578)	(2,816)	848	606
Experience adjustments on plan liabilities	**1,492**	(132)	927	6	933

The Group expects to contribute P1,019 to its defined benefit plans in 2012.

37. Cash Dividends

Cash dividends declared by the Parent Company's BOD to common shareholders amounted to P1.05 per share and P6.75 per share in 2011 and 2010, respectively.

Cash dividends declared by the Parent Company's BOD to preferred shareholders amounted to P6.00 per share in 2011 and 2010.

On January 20, 2012, the Parent Company's BOD declared cash dividend at P0.35 per share, payable on February 20, 2012 to all common shareholders as of February 6, 2012.

38. Basic and Diluted Earnings Per Share

Basic and Diluted EPS is computed as follows:

	Note	**2011**	2010	2009
Income attributable to equity holders of the Parent Company		**P17,518**	P20,091	P57,799
Dividends on preferred shares for the period	*37*	**(5,823)**	(5,823)	(1,281)
Net income attributable to common shareholders of the Parent Company (a)		**P11,695**	P14,268	P56,518
Weighted average number of common shares outstanding (in millions) - basic (b)		**2,353**	2,310	2,942
Effect of dilution- common	*40*	**16**	14	17
Weighted average number of common shares outstanding (in millions) - diluted (c)		**2,369**	2,324	2,959
Earnings per common share attributable to equity holders of the Parent Company				
Basic (a/b)		**P4.97**	P6.18	P19.21
Diluted (a/c)		**4.94**	6.14	19.10

39. Supplemental Cash Flow Information

Supplemental information with respect to the consolidated statements of cash flows is presented below:

a. Changes in noncash current assets and certain current liabilities and others are as follows (amounts reflect actual cash flows rather than increases or decreases of the accounts in the consolidated statements of financial position):

	2011	2010	2009
Trade and other receivables	**(P7,689)**	P12,241	P558
Inventories	**(10,129)**	2,178	1,085
Prepaid expenses and other current assets	**(5,670)**	(3,686)	(874)
Drafts payable	**15**	107	-
Accounts payable and accrued expenses	**6,869**	7,581	6,393
Income and other taxes payable and others	**816**	(5,310)	(8,345)
	(P15,788)	P13,111	(P1,183)

b. Acquisition of subsidiaries (Note 5)

	Note	**2011**	2010	2009
Cash and cash equivalents		**P463**	P42,729	P193
Trade and other receivables - net		**437**	32,953	1,243
Inventories		**19**	35,315	664
Prepaid expenses and other current assets		**137**	4,599	23
Assets held for sale		**-**	823	-
Investments and advances - net		**278**	16,092	-
Property, plant and equipment - net		**3,711**	175,650	1,430
Investment properties - net		**-**	121	-
Other intangible assets - net		**-**	7,097	20
Deferred tax assets		**-**	430	72
Other noncurrent assets - net		**229**	25,619	-
Drafts and loans payable		**-**	(34,987)	(839)
Accounts payable and accrued expenses		**(450)**	(28,114)	(2,076)
Income and other taxes payable		**(119)**	(1,267)	-
Current maturities of long-term debt - net of debt issue costs		**(25)**	(9,193)	-
Long-term debt - net of current maturities and debt issue costs		**(185)**	(43,452)	-
Deferred tax liabilities		**(91)**	(2,539)	(40)
Other noncurrent liabilities		**(1,779)**	(151,777)	(88)
Non-controlling interests		**(691)**	(25,518)	(211)
Net assets		**1,934**	44,581	391
Cash and cash equivalents		**(463)**	(42,729)	(193)
Goodwill in subsidiaries	*5, 19*	**732**	24,456	1,296
Investment at equity		**(1,625)**	(1,444)	-
Other intangible assets		**197**	-	-
Revaluation increment		**-**	(1,396)	-
Gain on acquisition of a subsidiary	*5, 33*	**-**	(4,490)	-
Net cash flows		**P775**	P18,978	P1,494

40. Share-Based Transactions

ESPP

Under the ESPP, 80,396,659 shares (inclusive of stock dividends declared) of the Parent Company's unissued shares have been reserved for the employees of the Group. All permanent Philippine-based employees of the Group, who have been employed for a continuous period of one year prior to the subscription period, will be allowed to subscribe at 15% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee may acquire at least 100 shares of stock through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to the Parent Company until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from the exercise date. The current portion of subscriptions receivable as of December 31, 2011 and 2010 amounted to P286 and P170, respectively, presented as part of "Non-trade" under "Trade and other receivables" account in the consolidated statements of financial position (Note 10). The noncurrent portion of P1,343 and P1,002 as of December 31, 2011 and 2010, respectively, is reported as part of "Noncurrent receivables and deposits" under "Other noncurrent assets" account in the consolidated statements of financial position (Note 20).

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions. The shares pertaining to withdrawn or cancelled subscriptions shall remain issued shares and shall revert to the pool of shares available under the ESPP.

The table below shows the number and weighted average exercise prices of grants:

	2011	
	Number of Shares	**Weighted Average Exercise Price**
Subscribed during the year	**8,754,400**	**P95.11**
Cancelled during the year Class "A"	**(408,150)**	**65.98**
Cancelled during the year Class "B"	**(1,100)**	**70.50**

	2010		2009	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Class "A"				
Subscribed during the year	24,323,050	P60.31	2,189,450	P42.46
Cancelled during the year	(173,250)	59.09	(248,100)	50.62
Class "B"				
Subscribed during the year	1,272,800	58.39	2,688,750	44.92
Cancelled during the year	(11,600)	50.45	(383,700)	60.18

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

The average market price of the common shares granted in 2011 was P111.90 per share.

The average market prices of the shares granted were P70.96 and P49.95 per share in 2010 and 2009, respectively, for Class "A" common shares and P68.69 and P52.84 per share in 2010 and 2009, respectively, for Class "B" common shares.

The average remaining contractual life of the ESPP was 0.61, 1.55 and 1.41 years as of December 31, 2011, 2010 and 2009, respectively, for Class "A" common shares and 0.15, 0.83 and 1.66 years as of December 31, 2011, 2010 and 2009, respectively, for Class "B" common shares.

The average remaining contractual life of the ESPP subscribed in 2011 was 0.58 years.

LTIP

The Parent Company also maintains LTIP for the executives of the Group. The options are exercisable at the fair market value of the Parent Company shares as of date of grant, with adjustments depending on the average stock prices of the prior three months. A total of 54,244,905 shares, inclusive of stock dividends declared, are reserved for the LTIP over its 10-year life. The LTIP is administered by the Executive Compensation Committee of the Parent Company's BOD.

On June 25, 2009, the Parent Company approved the grant of stock options to 755 executives consisting of 5,766,585 shares based on the closing price of the Parent Company's share, computed in accordance with the provisions of LTIP. Also on December 16, 2010, the Parent Company approved the grant of stock options to 732 executives consisting of 2,402,081 shares.

Options to purchase 16,039,416 shares and 14,038,733 shares in 2011 and 2010, respectively, were outstanding at the end of each year. Options which were exercised and cancelled totaled 3,023,807 shares and 13,685,122 shares in 2011 and 2010, respectively.

The stock options granted under the LTIP cannot be assigned or transferred by a participant and are subject to a vesting schedule. After one complete year from the date of the grant, 33% of the stock option becomes vested. Another 33% is vested on the second year and the remaining option lot is fully vested on the third year.

Vested stock options may be exercised at any time, up to a maximum of eight years from the date of grant. All unexercised stock options after this period are considered forfeited.

A summary of the status of the outstanding share stock options and the related weighted average exercise price under the LTIP is shown below:

	2011	
	Number of Share Stock Options	**Weighted Average Exercise Price**
Class "A"		
Balance at beginning of year	**15,541,940**	**P66.36**
Exercised during the year	**(1,496,639)**	**53.67**
Expired during the year	**(411,849)**	**55.34**
Balance at end of year	**13,633,452**	**68.09**
Class "B"		
Balance at beginning of year	**7,228,736**	**P69.66**
Exercised during the year	**(898,532)**	**64.73**
Expired during the year	**(216,787)**	**66.06**
Balance at end of year	**6,113,417**	**70.52**

	2010		2009	
	Number of Share Stock Options	Weighted Average Exercise Price	Number of Share Stock Options	Weighted Average Exercise Price
Class "A"				
Balance at beginning of year	22,054,784	P57.39	20,203,940	P56.71
Granted during the year	2,402,081	120.33	4,922,958	58.05
Exercised during the year	(8,734,635)	58.74	(2,711,190)	52.61
Expired during the year	(180,290)	56.94	(360,924)	62.58
Balance at end of year	15,541,940	66.36	22,054,784	57.39
Class "B"				
Balance at beginning of year	11,998,933	P70.21	11,911,370	P69.94
Granted during the year	-	-	843,627	58.05
Exercised during the year	(4,503,677)	70.83	(518,904)	41.30
Expired during the year	(266,520)	74.39	(237,160)	84.71
Balance at end of year	7,228,736	69.66	11,998,933	70.21

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company were declassified and considered as common shares without distinction. However, as at December 31, 2011, 2010 and 2009, the number of the outstanding share stock options and related weighted average exercise price under LTIP were presented as Class "A" and Class "B" common shares to recognize the average exercise price of stock options granted prior to August 26, 2010.

The fair value of equity-settled share options granted is estimated as at the date of grant using Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. Expected volatility is estimated by considering average share price volatility.

The inputs to the model used to measure the fair value of the shares granted in 2010 and 2009 are as follows:

	2010 Grant	2009 Grant	
		Class "A"	Class "B"
Dividend yield	1.16%	2.41%	2.41%
Expected volatility	52%	53%	43%
Historical volatility	52%	53%	43%
Risk-free interest rate	2.36% to 5.49%	5.15% to 7.76%	5.15% to 7.76%
Expected life option	1 to 8 years	1 to 8 years	1 to 8 years
Weighted average share price	120.33	58.05	58.05

The weighted average fair value of options granted in 2010 was P42.40.

The range of exercise prices for options outstanding was P40.50 to P65.00 as of December 31, 2011 and 2010.

The average remaining contractual life of the LTIP was 0.72, 1.05 and 1.11 years as of December 31, 2011, 2010 and 2009, respectively, for Class "A" common shares and 0.11, 0.83 and 0.63 years as of December 31, 2011, 2010 and 2009, respectively, for Class "B" common shares.

Share-based payment charged to operations, included under "Administrative expenses - others" account, amounted to P303, P315 and P236 in 2011, 2010 and 2009, respectively.

41. Financial Risk Management Objectives and Policies

Objectives and Policies

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

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

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

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

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

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

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

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

The Group's accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

Interest Rate Risk

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

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P962 and P910 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 its 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	>5 Years	Total
Fixed rate							
Philippine peso-denominated	**P15,040**	**P513**	**P29,284**	**P1,270**	**P6,048**	**P26,230**	**P78,385**
Interest rate	**6.3212% - 9.33%**	**6.3212% - 9.33%**	**6.3212% - 9.33%**	**5.4895% - 9.33%**	**6.145% - 9.33%**	**6.3212% - 10.5%**	
Foreign currency-denominated (expressed in Philippine peso)	**-**	**-**	**26,216**	**-**	**13,152**	**-**	**39,368**
Interest rate			**2%**		**7%**		
Floating rate							
Philippine peso-denominated	**1,025**	**875**	**1,104**	**11,550**	**-**	**-**	**14,554**
Interest rate	**PDST-F + margin**	**PDST-F + margin**	**PDST-F + margin**	**PDST-F + margin**			
Foreign currency-denominated (expressed in Philippine peso)	**3,577**	**4,115**	**13,323**	**59,656**	**997**	**-**	**81,668**
Interest rate	**LIBOR and THBFIX + margin**	**LIBOR and THBFIX + margin**	**LIBOR and THBFIX + margin**	**LIBOR + margin**	**LIBOR + margin**		
	P19,642	**P5,503**	**P69,927**	**P72,476**	**P20,197**	**P26,230**	**P213,975**

December 31, 2010	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed rate							
Philippine peso-denominated	P6,963	P15,004	P476	P29,249	P1,234	P27,322	P80,248
Interest rate	6.73% - 9.33%	6.5% - 9.33%	7.25% - 9.33%	7.25% - 9.33%	5.4885% - 9.33%	7% - 10.5%	
Floating rate							
Philippine peso-denominated	1,667	2,000	1,000	800	11,550	-	17,017
Interest rate	PDST-F + margin	PDST-F + margin	PDST-F + margin	PDST-F + margin	PDST-F + margin		
Foreign currency-denominated (expressed in Philippine peso)	4,092	4,080	3,583	3,520	58,721	-	73,996
Interest rate	LIBOR, THBFIX and VNIBOR + margin	LIBOR, THBFIX and VNIBOR + margin	LIBOR and THBFIX + margin	LIBOR and THBFIX + margin	LIBOR + margin		
	P12,722	P21,084	P5,059	P33,569	P71,505	P27,322	P171,261

Foreign Currency Risk

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

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

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

	2011		2010	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$1,386**	**P60,759**	US$1,456	P63,825
Trade and other receivables	**567**	**24,879**	281	12,318
AFS financial assets	**20**	**862**	50	2,188
Noncurrent receivables	**44**	**1,918**	20	867
	2,017	**88,418**	1,807	79,198
Liabilities				
Drafts and loans payable	**88**	**3,878**	139	6,079
Accounts payable and accrued expenses	**661**	**28,990**	955	41,872
Long-term debt (including current maturities)	**2,761**	**121,036**	1,688	73,996
Finance lease liabilities	**2,574**	**112,751**	2,550	111,803
Other noncurrent liabilities	**10**	**434**	10	430
	6,094	**267,089**	5,342	234,180
Net foreign currency-denominated monetary liabilities	**(US$4,077)**	**(P178,671)**	(US$3,535)	(P154,982)

The Group reported net foreign exchange gains (losses) amounting to (P823), P6,097 and (P3,364) 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 as shown in the following table:

	Philippine 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 table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations) as of December 31, 2011 and 2010:

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

2010	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P1,328)	(P1,064)	P1,328	P1,064
Trade and other receivables	(114)	(250)	114	250
AFS financial assets	-	(50)	-	50
Noncurrent receivables	(1)	(20)	1	20
	(1,443)	(1,384)	1,443	1,384
Drafts and loans payable	7	151	(7)	(151)
Accounts payable and accrued expenses	839	682	(839)	(682)
Long-term debt (including current maturities)	1,665	1,189	(1,665)	(1,189)
Finance lease liabilities	2,550	3,630	(2,550)	(3,630)
Other noncurrent liabilities	7	8	(7)	(8)
	5,068	5,660	(5,068)	(5,660)
	P3,625	P4,276	(P3,625)	(P4,276)

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

Commodity Price Risk

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

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

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

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

Liquidity Risk

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

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of December 31, 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	**P128,975**	**P128,975**	**P128,975**	**P -**	**P -**	**P -**
Trade and other receivables - net	**84,472**	**84,472**	**84,472**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**121**	**121**	**121**	**-**	**-**	**-**
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**194**	**194**	**194**	**-**	**-**	**-**
AFS financial assets	**2,068**	**2,068**	**-**	**2,068**	**-**	**-**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**27,471**	**27,471**	**-**	**27,471**	**-**	**-**
Financial Liabilities						
Drafts and loans payable	**82,588**	**83,078**	**83,078**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	**61,424**	**61,424**	**61,424**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**118**	**118**	**118**	**-**	**-**	**-**
Long-term debt (including current maturities)	**211,420**	**252,614**	**30,092**	**15,206**	**177,748**	**29,568**
Finance lease liabilities (including current portion)	**208,261**	**295,587**	**17,675**	**28,483**	**48,443**	**200,986**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	**2,348**	**2,348**	**-**	**2,348**	**-**	**-**

2010

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P125,188	P125,188	P125,188	P -	P -	P -
Trade and other receivables - net	75,904	75,904	75,904	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	249	249	249	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	193	193	193	-	-	-
AFS financial assets	3,597	3,597	-	3,597	-	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	24,783	24,783	-	24,783	-	-
Financial Liabilities						
Drafts and loans payable	74,128	75,057	75,057	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	69,198	69,198	69,198	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	71	71	71	-	-	-
Long-term debt (including current maturities)	168,927	209,335	22,250	28,947	126,378	31,760
Finance lease liabilities (including current portion)	208,407	314,678	11,794	18,479	60,458	223,947
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	16,168	16,168	-	16,168	-	-

Credit Risk

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

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

Trade and Other Receivables

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

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

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

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

Investments

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

Financial information on the Group's maximum exposure to credit risk as of 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	*9*	**P128,975**	P125,188
Trade and other receivables - net	*10*	**84,472**	75,904
Derivative assets	*12*	**121**	249
Financial assets at FVPL	*12*	**194**	193
AFS financial assets	*14*	**2,068**	3,597
Noncurrent receivables and deposits - net	*20*	**27,471**	24,783
		P243,301	P229,914

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

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

Financial and Other Risks Relating to Livestock

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

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

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.

- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at reasonable price.

Other Market Price Risk

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

Capital Management

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

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

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

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

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

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

42. Financial Assets and Financial Liabilities

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of December 31, 2011 and 2010:

	2011		2010	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P128,975**	**P128,975**	P125,188	P125,188
Trade and other receivables - net	**84,472**	**84,472**	75,904	75,904
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**121**	**121**	249	249
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**194**	**194**	193	193
AFS financial assets	**2,068**	**2,068**	3,597	3,597
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**27,471**	**27,471**	24,783	24,783
Financial Liabilities				
Drafts and loans payable	**82,588**	**82,588**	74,128	74,128
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	**61,424**	**61,424**	69,198	69,198
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**118**	**118**	71	71
Long-term debt (including current maturities)	**211,420**	**228,523**	168,927	182,030
Finance lease liabilities (including current portion)	**208,261**	**208,261**	208,407	208,407
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	**2,348**	**2,348**	16,168	15,764

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

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

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

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

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

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. As of December 31, 2011 and 2010, discount rates used for Philippine peso-denominated loans range from 1.7% to 5.4% and 1.3% to 5.7%, respectively. The discount rates used for foreign currency-denominated loans range from 0.3% to 1.0% as of December 31, 2011. The Group has no foreign currency-denominated fixed-rate loans as of December 31, 2010. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

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

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

Derivative Instruments Not Designated as Hedges

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

Freestanding Derivatives

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

Currency Forwards

As of December 31, 2011 and 2010, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US$220 and US$110, respectively, and with various maturities in 2012 and 2011. As of December 31, 2011 and 2010, the net positive (negative) fair value of these currency forwards amounted to P40 and (P8), respectively.

Commodity Swaps
The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2012 and 2011. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps as of December 31, 2011 and 2010 is 845 and 450 metric tons, respectively. As of December 31, 2011 and 2010, the net positive (negative) fair value of these swaps amounted to (P13) and P16, respectively.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2012 and 2011. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps as of December 31, 2011 and 2010 is 1.8 and 1.5 million barrels, respectively. As of December 31, 2011 and 2010, the negative fair value of these swaps amounted to P147 and P32, respectively.

Commodity Options
The Group has outstanding bought and sold options covering its wheat requirements with notional quantities as of December 31, 2011 and 2010 of 47,083 and 49,532 metric tons, respectively. These options can be exercised at various calculation dates in 2012 and 2011 with specified quantities on each calculation date. As of December 31, 2011 and 2010, the net positive (negative) fair value of these options amounted to (P5) and P54, respectively.

As of 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 calculation dates in 2012 with specified quantities on each calculation date. As of December 31, 2011, the negative fair value of these options amounted to P5. There were no outstanding options on the purchase of soybean meal as of December 31, 2010.

As of December 31, 2011 and 2010, the Group has outstanding commodity options covering its crude oil requirements with notional quantity of 1.3 and 2.8 million barrels, respectively. These call and put options can be exercised at various calculation dates in 2012 and 2011 with specified quantities on each calculation date. The net negative fair value of these options as of December 31, 2011 and 2010 amounted to P47 and P234, respectively.

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

Embedded Currency Forwards
As of December 31, 2011 and 2010, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$201 and US$244, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. As of December 31, 2011 and 2010, the net positive (negative) fair value of these embedded currency forwards amounted to (P2) and P127, respectively.

Embedded Currency Options
As of December 31, 2011 and 2010, the total outstanding notional amount of currency options embedded in non-financial contracts amounted to US$24 and US$26, respectively. These non-financial contracts consist mainly of sales agreements. These embedded options are not clearly and closely related to their host contracts. As of December 31, 2011 and 2010, the net negative fair value of these embedded currency options amounted to P11.

For the years ended December 31, 2011, 2010 and 2009, the Group recognized marked-to-market gains from freestanding and embedded derivatives amounting to P182, P660 and P962, respectively.

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	**P178**	P91
Net change in fair value of non-accounting hedges	**182**	660
	360	751
Less fair value of settled instruments	**357**	573
Balance at end of year	**P3**	P178

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

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 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	**P2**	**P119**	**P121**
Financial assets at FVPL	**194**	**-**	**194**
AFS financial assets	**1,069**	**999**	**2,068**
Financial Liabilities			
Derivative liabilities	**10**	**108**	**118**

2010

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	P3	P246	P249
Financial assets at FVPL	193	-	193
AFS financial assets	2,477	1,120	3,597
Financial Liabilities			
Derivative liabilities	-	71	71

As of 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.

43. Registration with the BOI

- SMC Global

  SMEC, SPDC, SPPC and PanAsia are registered with the BOI as administrator/operator of their respective power plant on a pioneer status with non-pioneer incentives and were granted an Income Tax Holiday (ITH) for four years without extension beginning August 1, 2010, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plant. On August 26, 2011, the Parent Company sold its 100% ownership in PanAsia to MHI (Note 5).

- SMPFC

  SMFI
  SMFI was registered with the BOI on a non-pioneer status as a New Producer of Animal Feeds for its Mariveles, Bataan plant and as a New Producer of Chicken (Dressed) for its Orion, Bataan farm in August 2006 and July 2007, respectively.

  Under the terms of SMFI's BOI registration and subject to certain requirements as provided in the Omnibus Investments 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. This can be extended to a 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 include, among others, ITH for a period of six (6) years, extendable under certain conditions to eight (8) years, from February 2009 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

  PF-Hormel
  The existing registration of PF-Hormel with the BOI was made on May 18, 2006 in accordance with the provisions of the Omnibus Investments Code of 1987 as a new producer of processed meat products on a non-pioneer status. Under the terms of this new registration, PF-Hormel is entitled to certain tax incentives, including ITH for four years from July 2007, or from the actual start of commercial operations, whichever comes first, but in no case earlier than the date of registration.

PF-Hormel's new registered activity with the BOI commenced commercial operations in July 2007 and began to avail tax incentives since then.

- Petron

  Mixed Xylene, Benzene, Toluene (BTX) and Propylene Recovery Units
  On October 20, 2005, Petron registered with the BOI under the Omnibus Investments Code of 1987 (EO 226) as: (1) a non-pioneer, new export producer status of Mixed Xylene; (2) a pioneer, new export producer status of Benzene and Toluene; and (3) a pioneer, new domestic producer status of Propylene. Under the terms of its registration, Petron is subject to certain requirements principally that of exporting at least 70% of the production of the mentioned petrochemical products every year except for the produced propylene.

  As a registered enterprise, Petron is entitled to the following benefits on its production of petroleum products used as petrochemical feedstock:

  a. ITH: (1) for four years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Mixed Xylene subject to base figure of 120,460 metric tons per year representing Petron's highest attained production volume for the last three years; (2) for six years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for BTX; and (3) for six years from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Propylene;

  b. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming parts thereof for ten years from start of commercial operations;

  c. Simplification of custom procedures;

  d. Access to Customs Bonded Manufacturing Warehouse (CBMW) subject to Customs rules and regulations provided firm exports at least 70% of production output;

  e. Exemption from wharfage dues, any export tax, duty, imposts and fees for a ten-year period from date of registration;

  f. Importation of consigned equipment for a period of ten years from the date of registration subject to the posting of re-export bond;

  g. Exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 70% production; and

  h. Petron may qualify to import capital equipment, spare parts, and accessories at zero percent (one percent for propylene) duty from date of registration up to June 5, 2006 pursuant to EO No. 313 and its Implementing Rules and Regulations.

Fluidized Bed Catalytic Cracker (PetroFCC) Unit

On December 20, 2005, the BOI approved Petron's application under RA 8479 for new investment at its Bataan Refinery for the PetroFCC. Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

a. ITH for five years without extensions or bonus year from December 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to a rate of exemption computed based on the % share of product that are subject to retooling;

b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts;

c. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment. This shall be equivalent to the difference between the tariff rate and the three percent (3%) duty imposed on the imported counterpart;

d. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity;

e. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse;

f. Exemption from real property tax on production equipment or machinery; and

g. Exemption from contractor's tax.

Grease Manufacturing Plant

In December 2005, the BOI approved Petron's application under RA 8479 as an Existing Industry Participant with New Investment in Modernization of the firm's Grease Manufacturing Plant in Pandacan, Manila. The BOI is extending the following major incentives:

a. ITH for a period of five years without extension or bonus year from March 2006 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to base figure of 845 metric tons of grease product representing Petron's highest attained sales volume prior to rehabilitation;

b. Minimum duty of 3% and VAT on imported capital equipment and accompanying spare parts;

c. Tax credit on domestic capital equipment on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the 3% duty imposed on the imported counterpart;

d. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity;

e. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse;

f. Exemption from real property tax on production equipment or machinery; and

g. Exemption from contractor's tax.

70 MW Coal-Fired Power Plant (Limay, Bataan)

On November 3, 2010, Petron registered with the BOI as new operator of a 70 MW Coal-Fired Power Plant on a pioneer status with non-pioneer incentives under the Omnibus Investments Code of 1987 (EO No. 226). Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

a. ITH for four years from July 2012 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration limited to the revenue generated from the electricity sold to the grid;

b. Importation of consigned equipment for a period of ten years from the date of registration subject to the posting of re-export bond; and

c. Petron may qualify to import capital equipment, spare parts and accessories at zero percent (0%) duty from date of registration up to June 16, 2011 pursuant to EO No. 528 and its Implementing Rules and Regulations.

Refinery Master Plan Phase 2 (RMP-2) Project

On June 3, 2011, the BOI approved Petron's application under RA 8479 as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

a. ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based in the formula of the ITH rate of exemption;

b. Minimum duty of 3% and VAT on imported capital equipment and accompanying spare parts;

c. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity;

d. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the 3% duty imposed on the imported counterpart;

e. Exemption from real property tax on production equipment or machinery; and

f. Exemption from contractor's tax.

Yearly certificates of entitlement have been timely obtained by Petron to support its ITH credits.

- SMYAC

SMYAC is registered with the BOI as a new domestic producer of glass containers for the new production facility (Phase I) and as expanding producer of glass containers for the expansion of the existing production facility (Phase II), both on a non-pioneer status under the Omnibus Investments Code of 1987.

As a registered enterprise, SMYAC is entitled to the following benefits:

a. ITH;

   i. Phase I - for a period of four (4) years from February 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than March 23, 2005, the date of registration; and

   ii. Phase II - for a period of three (3) years from August 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than March 23, 2005.

b. For the first five years from the date of registration, SMYAC shall be allowed an additional deduction from taxable income of fifty percent (50%) of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the BOI;

c. Employment of foreign nationals;

d. Tax credit for taxes or duties paid on raw materials and supplies and semi-manufactured products used for its export products and forming parts thereof;

e. Simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies;

f. Access to CBMW subject to Customs rules and regulations, provided SMYAC exports at least 70% of production output;

g. Exemption from wharfage dues, any export tax, duties, imports and fees for a ten-year period from the date of registration;

h. Importation of consigned equipment for a period of ten years from date of registration;

i. Exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 70% of production; and

j. May qualify to import capital requirement, spare parts and accessories at one percent duty rate from date of registration up to June 5, 2006 pursuant to EO No. 313 and its implementing Rules and Regulations.

SMYAC's entitlement for ITH for Phase I expired in August 2010 while the entitlement for ITH for Phase II with an expiration date on November 2010 was extended until November 2012.

44. Events After the Reporting Date

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

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

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

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

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

- On January 24, 2012, PCERP sold 695,300,000 common shares of Petron at a price of P11.00 per share through the facilities of the PSE.

- On January 27, 2012, GSMI acquired 100% of the outstanding capital stock of East Pacific Star Bottlers Philippines, Inc. for P200.

- At the March 14, 2011 and June 7, 2011 meeting of the Parent Company's BOD and stockholders, respectively, the amendments to the Articles of Incorporation and By-Laws of the Parent Company were approved as follows:

  a. that the Parent Company's corporate term be extended for another fifty (50) years from August 21, 2013; and

  b. that the date of the annual regular meeting of the stockholders be changed from second Tuesday of May to second Tuesday of June.

  The SEC approved on March 16, 2012, the amendment of the Articles of Incorporation and By-Laws of the Parent Company.

- Pursuant to the approvals of the board of directors of SMB on October 11, 2011, February 7, 2012 and March 13, 2012, SMB offered for subscription of fixed rate peso-denominated bonds with an aggregate principal amount of P20,000 (the "Bonds") on March 19 to 23, 2012 (the "Offer"). The Bonds will be issued on April 2, 2012 ("Issue Date") at the issue price of 100.00% of face value in three series: Series D Bonds, Series E Bonds, and Series F Bonds. The Series D Bonds shall have a term beginning on the Issue Date and ending five years and one day

from the Issue Date or on April 3, 2017, with a fixed interest rate equivalent to 6.05% per annum. The Series E Bonds shall have a term beginning on the Issue Date and ending seven years from the Issue Date or on April 2, 2019, with fixed interest rate equivalent to 5.93% per annum. The Series F Bonds shall have a term beginning on the Issue Date and ending ten years from the Issue Date or on April 2, 2022, with a fixed interest rate equivalent to 6.60% per annum. Interest in Series D Bonds, Series E Bonds and Series F Bonds shall be payable semi-annually in arrears on April 2 and October 2 of each year, or the subsequent business day without adjustment if such interest payment date is not a business day, while the Bonds are outstanding, provided that the first interest payment date for the Series D Bonds shall be on October 3, 2012 (or the subsequent business day if such date is not a business day).

Proceeds of the Offer will be used to support SMB's redemption of the fixed rate bonds issued by SMB in 2009 maturing on April 3, 2012 and the partial prepayment of the Company's US$300 term facility.

45. Other Matters

a. *Contingencies*

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

- Deficiency Excise Tax

  On April 12, 2004 and May 26, 2004, the Parent Company was assessed by the BIR for deficiency excise tax on "San Mig Light", one of its beer products. The Parent Company contested the assessments before the Court of Tax Appeals (CTA) (1st Division) under CTA case numbers 7052 and 7053.

  In relation to the aforesaid contested assessments, the Parent Company, on January 31, 2006, filed with the CTA (1st Division), under CTA case number 7405, a claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it.

  The above assessment cases (CTA case numbers 7052 and 7053) and claim for refund (CTA case number 7405), which involve common questions of fact and law, were subsequently consolidated and jointly tried.

  On November 27, 2007, the Parent Company filed with the CTA (3rd Division), under CTA case number 7708, a second claim for refund, also in relation to the contested assessments, as it was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate.

  On January 11, 2008, the BIR addressed a letter to the Parent Company, appealing to the Parent Company to settle its alleged tax liabilities subject of CTA case numbers 7052 and 7053 "in order to obviate the necessity of issuing a Warrant of Distraint and Garnishment and/or Levy." The Parent Company's external legal counsel responded to the aforesaid letter and met with appropriate officials of the BIR and explained to the latter the unfairness of the issuance of a

Warrant of Distraint and Garnishment and/or Levy against the Parent Company, especially in view of the Parent Company's pending claims for refund. As of March 28, 2012, the BIR has taken no further action on the matter.

On July 24, 2009, the Parent Company filed its third claim for refund with the CTA (3rd Division), under CTA case number 7953, also in relation to the contested assessments. This case is still undergoing trial.

On January 7, 2011, the CTA (3rd Division) under CTA case number 7708 rendered its decision in this case, granting the Parent Company's petition for review on its claim for refund and ordering respondent Commissioner of Internal Revenue to refund or issue a tax credit certificate in favor of the Parent Company in the amount of P926, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from December 1, 2005 up to July 31, 2007. This decision was elevated by the BIR Commissioner to the CTA En Banc and is pending review.

On October 18, 2011, the CTA (1st Division) rendered its joint decision in CTA case numbers 7052, 7053 and 7405, cancelling and setting aside the deficiency excise tax assessments against the Parent Company, granting the latter's claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of P781, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from February 1, 2004 to November 30, 2005. A motion for reconsideration filed by the BIR Commissioner on the aforesaid decision has been denied, and the Commissioner is presently taking steps to elevate the decision to CTA En Banc for review.

In the meantime, effective October 1, 2007, the Parent Company spun off its domestic beer business into a new company, SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR.

On September 28, 2009, SMB filed a claim for refund with the CTA (3rd Division) under CTA case number 7973; on December 28, 2010, its second claim for refund with the CTA (1st Division) under case number 8209; and on December 23, 2011, its third claim for refund with the CTA (3rd Division) under case number 8400. All of these cases are undergoing trial.

- Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron. The assessment relates to Petron's use of P659 worth of Tax Credit Certificates ("TCCs") to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron is contesting the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron is a qualified transferee of the TCCs. Following an unfavorable ruling from the CTA En Banc, Petron filed an appeal to the SC. A Resolution was issued by the SC (1st Division) on September 13, 2010 denying with finality the Commissioner of Internal Revenue's motion for reconsideration of the Decision dated July 28, 2010.

In November 1999, the BIR issued a P284 assessment against Petron for deficiency excise taxes for the years 1995 to 1997. The assessment results from the cancellation by the Philippine Department of Finance ("DOF") of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. In August 2006, the CTA denied Petron's petition, ordering it to pay the BIR P580 representing the P284 unpaid deficiency excise from 1995 to 1997, and 20% interest per annum computed from December 4, 1999. In July 2010, the Philippine SC nullified the assessment against Petron and declared Petron as a valid transferee of the TCCs. The BIR filed a motion for reconsideration which remains pending as of March 28, 2012.

In May 2002, the BIR issued a P254 assessment against Petron for deficiency excise taxes for the years 1995 to 1998. The assessment results from the cancellation by the DOF of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. In May 2007, the CTA second division denied Petron's petition, ordering Petron to pay the BIR P601 representing Petron's P254 unpaid deficiency excise taxes for the taxable years 1995 to 1998, and 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. Petron appealed the decision to the CTA *en banc,* which ruled in favor of Petron, reversing the unfavorable decision of the CTA second division. The BIR is contesting the CTA *en banc* decision before the SC where the case is still pending.

There are duplications in the TCCs subject of the three assessments described above. Excluding these duplications, the aggregate deficiency excise taxes, excluding interest and penalties, resulting from the cancellation of the subject TCCs amount to P911.

- Pandacan Terminal Operations

  In November 2001, the City of Manila enacted City Ordinance No. 8027 ("Ordinance 8027") reclassifying the areas occupied by the oil terminals of Petron, Shell and Chevron from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, Petron, together with Shell and Chevron, entered into a MOU with the City of Manila and DOE, agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance 8027. In December 2002, in reaction to the MOU, Social Justice Society ("SJS") filed a petition with the SC against the Mayor of Manila asking that the latter be ordered to enforce Ordinance 8027. In April 2003, Petron filed a petition with the Regional Trial Court ("RTC") to annul Ordinance 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance 8027.

  The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance ("Ordinance 8119"), which applied to the entire City of Manila. Ordinance 8119 allowed Petron (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance 8119, which was thought to effectively repeal Ordinance 8027, in April 2007, the RTC dismissed the petition filed by Petron questioning Ordinance 8027.

However, on March 7, 2007, in the case filed by SJS, the SC rendered a decision (the "March 7 Decision") directing the Mayor of Manila to immediately enforce Ordinance 8027. On March 12, 2007, Petron, together with Shell and Chevron, filed motions with the SC seeking intervention and reconsideration of the March 7 Decision, on the ground that the SC failed to consider supervening events, notably (i) the passage of Ordinance 8119 which supersedes Ordinance 8027, as well as (ii) the RTC orders preventing the implementation of Ordinance 8027. Petron, Shell, and Chevron also noted the possible ill-effects on the entire country arising from the sudden closure of the oil terminals in Pandacan.

On February 13, 2008, the SC resolved to allow Petron, Shell and Chevron to intervene, but denied their motion for reconsideration. In its February 13 resolution (the "February 13 Resolution"), the SC also declared Ordinance 8027 valid, dissolved all existing injunctions against the implementation of the Ordinance 8027, and directed Petron, Shell and Chevron to submit their relocation plans to the RTC. Petron, Shell and Chevron have sought reconsideration of the February 13 Resolution. In compliance with the February 13 Resolution, Petron, Shell and Chevron have submitted their relocation plans to the RTC.

In May 2009, Manila City Mayor approved Ordinance No. 8187 ("Ordinance 8187"), which repealed Ordinance 8027 and Ordinance 8119, and permitted the continued operations of the oil terminals in Pandacan.

In June 2009, petitions were filed with the SC, seeking the nullification of Ordinance 8187 and enjoining its implementation. These petitions are still pending.

- Oil Spill Incident in Guimaras

  On August 11, 2006, M/T Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, capsized 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice ("DOJ") and the Special Board of Marine Inquiry ("SBMI"), both agencies found the owners of M/T Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, who are charterers.

- Bataan Real Property Tax Cases

  Petron has three pending real property tax cases with the Province of Bataan, arising from three real property tax assessments. The first is for an assessment made by the Municipal Assessor of Limay, Bataan in 2006 for the amount of P86.4 covering Petron's isomerization and gas oil hydrotreater facilities which enjoy, among others, a five-year real property tax exemption under the Oil Deregulation Law per the BOI Certificates of Registration. The second is for an assessment made also in 2006 by the Municipal Assessor of Limay for P17 relating to the leased foreshore area on which the pier of Petron's Refinery is located. In 2007, the Bataan Provincial Treasurer issued a Final Notice of Delinquent Real Property Tax requiring Petron to settle the amount of P2,168

allegedly in delinquent real property taxes as of September 30, 2007, based on a third assessment made by the Provincial Assessor covering a period of 13 years from 1994 to 2007. The third assessment cited Petron's non-declaration or under-declaration of machineries and equipment in the Refinery for real property tax purposes and its failure to pay the corresponding taxes for the said period.

Petron timely contested the assessments by filing appeals with the Local Board of Assessment Appeals ("LBAA"), and posted the necessary surety bonds to stop collection of the assessed amount.

However, with regard to the third assessment, notwithstanding the appeal to the LBAA and the posting of the surety bond, the Provincial Treasurer, acting on the basis of the Final Notice of Delinquent Real Property Tax relating to the third assessment, proceeded with the publication of the public auction of the assets of Petron, which was set for October 17, 2007. Due to the Provincial Treasurer's refusal to cancel the auction sale, Petron filed a complaint for injunction on October 8, 2007 before the RTC to stop the auction sale. A writ of injunction stopping the public auction until the final resolution of the case was issued by the RTC on November 5, 2007.

A motion to dismiss filed by the Provincial Treasurer on the ground of forum-shopping was denied by the RTC. However, a similar motion based on the same ground of forum shopping was filed by the Provincial Treasurer before the LBAA and the motion was granted by the LBAA in December 2007. On appeal by Petron, the Central Board of Assessment Appeals ("CBAA"), in August 2008, remanded the case to the LBAA for factual determination, effectively granting Petron's appeal and reversing the LBAA's dismissal of the case.

The RTC issued a Decision dated June 25, 2010 upholding Petron's position and declared null and void the demand on Petron for the payment of realty taxes in the amount of P1,731 made by the Provincial Assessor of Bataan and the levy of the properties of Petron. The Court issued a Writ of Prohibition permanently prohibiting, preventing and restraining the Provincial Treasurer of Bataan from conducting a public auction of the properties of Petron or selling the same by auction, negotiated sale, or any act of disposition pending the finality of the disposition by the LBAA or CBAA, as the case maybe, on the pending appeal made by Petron from the revised assessment of the Provincial Assessor of Bataan.

b. *Top Frontier*

On November 27, 2009, Top Frontier acquired 857,115,914 common shares of the issued and outstanding common shares of the Parent Company for a total of P64,284. To acquire an additional 327,000,000 Class "B" common shares of the Parent Company under the SPA with Q-Tech Alliance Holdings Inc. (Q-Tech), Top Frontier conducted a tender offer before such acquisition pursuant to the 35% threshold under the mandatory provisions of the Securities Regulation Code.

On April 8, 2010, such tender offer closed and a total of 47,700,679 Class "A" and 31,759,499 Class "B" common shares were tendered for P75.00 per share, for a total consideration of P5,959. Such tendered shares were crossed in the PSE on April 13, 2010 together with the 327,000,000 common shares acquired from Q-Tech under the SPA.

Following the tender offer, Top Frontier acquired in the open market a total of 1,942,906 common shares for P75.00 per share.

The SPA with Q-Tech also provides a grant of call option to Top Frontier for the purchase of 301,666,675 Class "B" common shares of the Parent Company at P70.00 per share. The call option may be exercised by Top Frontier until March 31, 2011 or such later date as may be mutually agreed upon by the parties in writing. On March 8, 2011, Top Frontier has notified Q-Tech of its intention to exercise the call option within the period specified in the SPA. On March 16, 2011, Top Frontier exercised its option to purchase from Q-Tech a 12.9% equity interest in the Parent Company which increased Top Frontier's equity interest in the Parent Company's issued and outstanding common shares of stock to 67.2%.

Top Frontier entered into an Option Agreement with 44 Corporations in 2009 wherein Top Frontier has exclusive right to acquire 476,722,639 Class "A" and 16,652,544 Class "B" common shares of the Parent Company at P75.00 per share for which Top Frontier paid an amount of US$200 as advances. The call option may be exercised by Top Frontier until November 12, 2012. Any further extension of the term of the option period shall require the written consent and approval of both parties.

As discussed in Note 26, the Parent Company completed the secondary offering of its common shares which includes 110,320,000 shares of stock held by Top Frontier. The Offer Shares were priced at P110.00 per share on April 20, 2011.

On December 1, 2011, Top Frontier sold 9,000,000 SMC common shares transacted through the PSE.

As of December 31, 2011 and 2010, Top Frontier had total shareholdings of 1,447,865,673 and 1,265,518,998 common shares of the Parent Company, respectively. Out of the 1,447,865,673 common shares of the Parent Company held by Top Frontier as of December 31, 2011, 225,987,648 shares are lodged in the Philippine Depository and Trust Company.

c. *Commitments*

Amount authorized but not yet disbursed for capital projects as of December 31, 2011 is approximately P25,250.

d. Certain amounts in prior year have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations for any period.

e. *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries and associates to Philippine peso were closing rates of P43.84 in 2011 and 2010 for consolidated statements of financial position accounts; and average rates of P43.31, P45.12 and P47.64 in 2011, 2010 and 2009, respectively, for income and expense accounts.

46. Events After the Date of Auditor's Report but Before the Date the Consolidated Financial Statements are Issued

a. *Investment in ExxonMobil*

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

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

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

COVER SHEET

P	W	-	2	7	7						

S.E.C. Registration Number

S	A	N		M	I	G	U	E	L		C	O	R	P	O	R	A	T	I	O	N		A	N	D				

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(Company's Full Name)

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

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

Bella O. Navarra

Contact Person

632-3000

Company Telephone Number

1	2

Month

3	1

Day

Compliance for CFD

FORM TYPE

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2011

A -	FINANCIAL ASSETS	
B -	AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES AND PRINCIPAL STOCKHOLDERS (OTHER THAN ASSOCIATES)	NOT APPLICABLE
C -	AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS	
D -	INTANGIBLE ASSETS AND OTHER ASSETS	
E -	LONG -TERM DEBT	
F -	INDEBTEDNESS TO RELATED PARTIES	NOT APPLICABLE
G -	GUARANTEES OF SECURITIES OF OTHER ISSUERS	NOT APPLICABLE
H -	CAPITAL STOCK	

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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Stockholders and Board of Directors
San Miguel Corporation and Subsidiaries
No. 40 San Miguel Avenue
Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Corporation and Subsidiaries (the "Group") as at and for each of the three years in the period ended December 31, 2011, included in this Form 17-A, and have issued our report thereon dated March 28, 2012, except as to Note 46, which is as of April 3, 2012.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Company's management.

- Map of the Conglomerate
- Schedule of Philippine Financial Reporting Standards
- Supplementary Schedules of Annex 68-E

The supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

MANABAT SANAGUSTIN & CO., CPAs

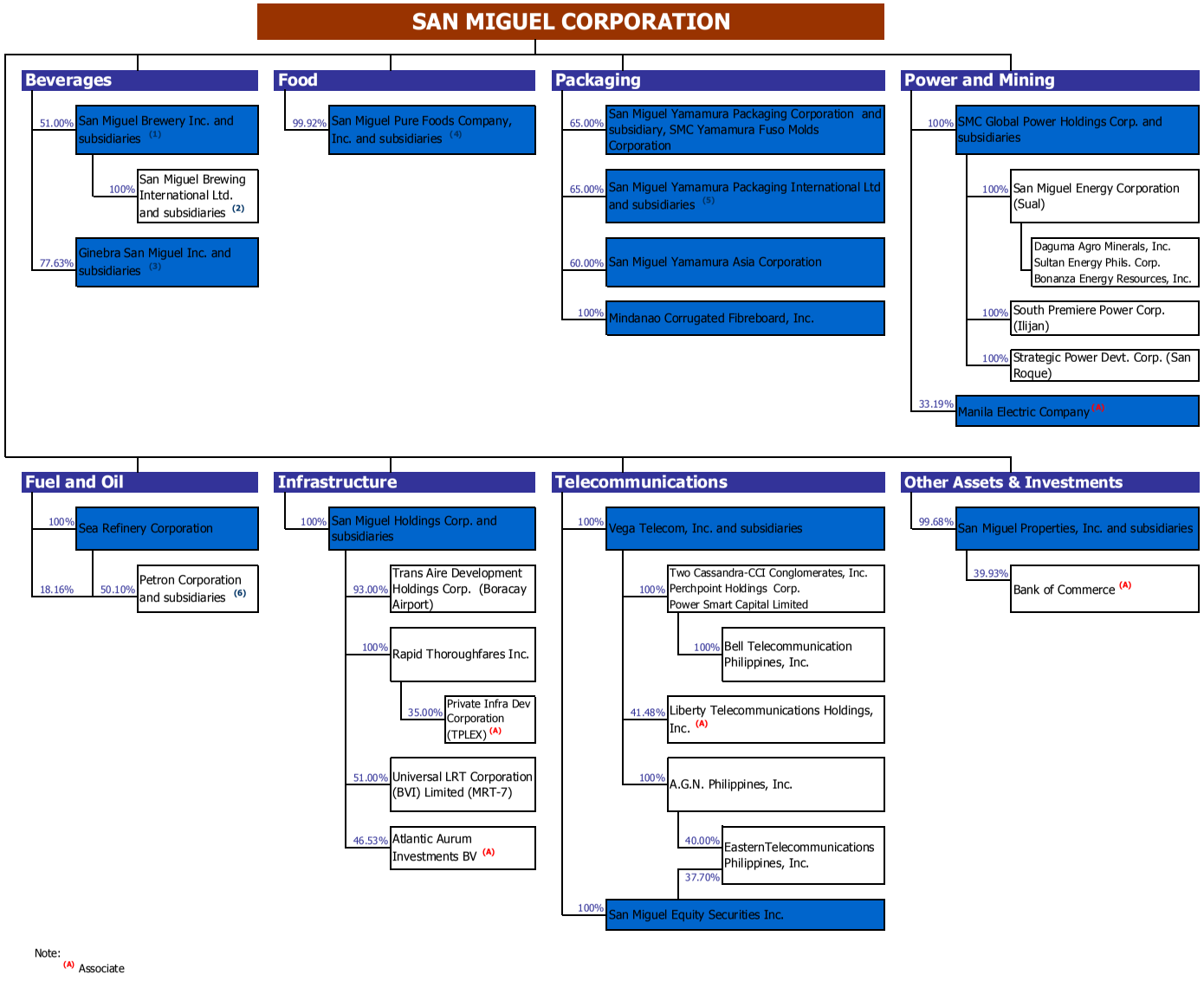
WILFREDO Z. PALAD
Partner
CPA License No. 0045177
SEC Accreditation No. 0027-AR-3, Group A, valid until January 4, 2015
Tax Identification No. 106-197-186
BIR Accreditation No. 08-001987-6-2010
Issued June 30, 2010; valid until June 29, 2013
PTR No. 3174023MA
Issued January 2, 2012 at Makati City

March 28, 2012, except as to Note 46, which is as of April 3, 2012
Makati City, Metro Manila

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

SMC and its Major Subsidiaries and Associates



Note:
(A) Associate

Subsidiaries:

1. San Miguel Brewery Inc. subsidiaries include Iconic Beverages, Inc., Brewery Properties Inc. and subsidiary, Brewery Landholdings, Inc. and San Miguel Brewing International Ltd. and subsidiaries

2. San Miguel Brewing International Ltd. subsidiaries include San Miguel Brewery Hong Kong Limited and subsidiaries, PT Delta Djakarta Tbk and subsidiary, San Miguel (Baoding) Brewery Co. Ltd., San Miguel Brewery Vietnam Ltd., San Miguel Beer (Thailand) Ltd. and San Miguel Marketing Thailand Ltd.

3. Ginebra San Miguel, Inc. subsidiaries include Distileria Bago, Inc., Ginebra San Miguel International, Ltd., Ginebra San Miguel International Holdings Ltd., Global Beverage Holdings Ltd. and Siam Holdings Ltd.

4. San Miguel Pure Foods Company, Inc. subsidiaries include San Miguel Foods, Inc., San Miguel Mills, Inc. and subsidiary, Golden Bay Grain Terminal Corporation, The Purefoods-Hormel Company, Inc., Magnolia, Inc. and subsidiaries including Golden Food and Dairy Creamery Corporation, San Miguel Super Coffeemix Co., Inc., P.T. San Miguel Pure Foods Indonesia, San Miguel Pure Foods International, Limited and subsidiary, San Miguel Pure Foods Investment (BVI) Limited and subsidiary, San Miguel Hormel (Vn) Co. Ltd.

5. San Miguel Yamamura Packaging International Limited subsidiaries include San Miguel Yamamura Phu Tho Packaging Co. Ltd., Zhaoqing San Miguel Yamamura Glass Co., Ltd., Foshan San Miguel Yamamura Packaging Co. Ltd., PT San Miguel Yamamura Utama Indoplas, San Miguel Yamamura Packaging & Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Plastic Films Sdn. Bhd. and San Miguel Yamamura Knox Pty. Ltd. and subsidiaries

6. Petron Corporation subsidiaries include Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation, Overseas Ventures Insurance Corporation, Petron Singapore Trading Pte. Ltd., New Ventures Realty Corporation and subsidiary, Las Lucas Construction & Development Corporation

San Miguel Corporation and Subsidiaries
Schedule of Philippine Financial Reporting Standards
December 31, 2011

Standards	"Adopted", "Not Adopted" or "Not Applicable"
Philippine Financial Reporting Standards (PFRSs)	
PFRS 1 First-time Adoption of Philippine Financial Reporting Standards	Not Applicable
PFRS 2 Share-based Payment	Adopted
PFRS 3 Business Combinations	Adopted
PFRS 4 Insurance Contracts	Not Applicable
PFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Adopted
PFRS 6 Exploration for and Evaluation of Mineral Resources	Adopted
PFRS 7 Financial Instruments: Disclosures	Adopted
PFRS 8 Operating Segments	Adopted
Philippine Accounting Standards (PASs)	
PAS 1 Presentation of Financial Statements	Adopted
PAS 2 Inventories	Adopted
PAS 7 Statement of Cash Flows	Adopted
PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Adopted
PAS 10 Events after the Reporting Period	Adopted
PAS 11 Construction Contracts	Adopted
PAS 12 Income Taxes	Adopted
PAS 16 Property, Plant and Equipment	Adopted
PAS 17 Leases	Adopted
PAS 18 Revenue	Adopted
PAS 19 Employee Benefits	Adopted
PAS 20 Accounting for Government Grants and Disclosure of Government Assistance	Not Applicable
PAS 21 The Effects of Changes in Foreign Exchange Rates	Adopted
PAS 23 Borrowing Costs	Adopted
PAS 24 Related Party Disclosures	Adopted
PAS 26 Accounting and Reporting by Retirement Benefit Plans	Adopted
PAS 27 Consolidated and Separate Financial Statements	Adopted
PAS 28 Investments in Associates	Adopted
PAS 29 Financial Reporting in Hyperinflationary Economies	Not Applicable
PAS 31 Interests in Joint Venture	Adopted
PAS 32 Financial Instruments: Presentation	Adopted
PAS 33 Earnings per Share	Adopted
PAS 34 Interim Financial Reporting	Adopted
PAS 36 Impairment of Assets	Adopted
PAS 37 Provisions, Contingent Liabilities and Contingent Assets	Adopted
PAS 38 Intangible Assets	Adopted
PAS 39 Financial Instruments: Recognition and Measurement	Adopted
PAS 40 Investment Property	Adopted
PAS 41 Agriculture	Adopted

Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC)	
Philippine Interpretation IFRIC -1 Changes in Existing Decommissioning, Restoration and Similar Liabilities	Not Applicable
Philippine Interpretation IFRIC - 2 Members' Share in Co-operative Entities and Similar Instruments	Not Applicable
Philippine Interpretation IFRIC - 4 Determining whether an Arrangement contains a Lease	Adopted
Philippine Interpretation IFRIC - 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	Adopted
Philippine Interpretation IFRIC - 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	Not Applicable
Philippine Interpretation IFRIC - 7 Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies	Not Applicable
Philippine Interpretation IFRIC - 10 Interim Financial Reporting and Impairment	Adopted
Philippine Interpretation IFRIC - 12 Service Concession Arrangements	Adopted
Philippine Interpretation IFRIC - 13 Customer Loyalty Programmes	Adopted
Philippine Interpretation IFRIC - 14, Prepayments of a Minimum Funding Requirement	Adopted
Philippine Interpretation IFRIC - 16 Hedges of a Net Investment in a Foreign Operation	Adopted
Philippine Interpretation IFRIC - 17 Distributions of Non-cash Assets to Owners	Adopted
Philippine Interpretation IFRIC - 18 Transfers of Assets from Customers	Not Applicable
Philippine Interpretation IFRIC - 19 Extinguishing Financial Liabilities with Equity Instruments	Adopted

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2011
(Amounts in Millions)

Name of Issuing Entity / Description of Each Issue	Number of shares or Principal Amount of Bonds and Notes	Amount Shown in the Statements of Financial Position	Value Based on Market Quotations at Dec. 31, 2011	Income Received and Accrued
Cash and cash equivalents	-	₱ 128,975	₱ 128,975	₱ 3,290
Trade and other receivables - net	-	84,472	84,472	365
Derivative assets	-	121	121	182**
Financial assets at FVPL	-	194	194	1
Available for sale financial assets	*	2,068	2,068	47
Noncurrent receivables and deposits - net		27,471	27,471	928
	-	₱ 243,301	₱ 243,301	₱ 4,813

See attachment to Schedule A - Available for Sale Financial Assets

** *This represents net marked-to-market gains/losses from derivative assets and derivative liabilities that have matured during the year and those that are still outstanding as of year-end.*

See Notes 41 and 42 of the Notes to Consolidated Financial Statements

SAN MIGUEL CORPORATION AND SUBSIDIARIES
ATTACHMENT TO SCHEDULE A - AVAILABLE FOR SALE FINANCIAL ASSETS
DECEMBER 31, 2011
(Amounts in Millions, Except No. of Shares Data)

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Valued Based on Market Quotation at End of Reporting Period (a)
Available for Sale Financial Assets		
San Miguel Corporation		
Alabang Country Club	7	₱ 12
Ansor International	3,334	-
Apo Golf & Country Club	3	-
Baguio Country Club	1	1
Bancom Group Inc	999,546	-
Batulao Village Club	-	-
Calatagan Golf Club	1	-
Camp John Hay	2	1
Canlubang Golf Club	3	1
Capitol Hills Golf & Country Club	1	-
Casino Espanol de Manila	2	-
Cebu Country Club	1	2
Celebrity Sports Plaza	3	-
Club Filipino	8	1
Continental Potash	7,909	-
Evercrest	2	-
Export & Industry Bank	940,560,000	-
Green Valley Club - Baguio	1	-
Greenfield Tennis Club	3	-
Iloilo Golf Club	1	-
Inter island Broadcasting Corp	4,458,928	-
Landgolf Inc	2	-
Makati Executive Center	1	-
Makati Sports Club	11	3
Manila Bankers Life	250,000	1
Manila Electric Company	100,331	1
Manila Golf & Country Club	3	81
Manila Polo Club	2	14
Manila Southwoods Golf & Country Club	1	1
Medical Doctors Inc.	83,379	13
Merchant Investment	41,660	-
Metropolitan Club	2	-
Metropolitan Theater	198	-
Mimosa Golf & Country Club	3	2
Monserrat Trading	1,000	-
Motor Services	52,500	-
Naga Telephone Co.	220	-
Negros Occidental Golf club	6	₱ -
Norcem Philippines	80,000	-
Orchard Golf & Country Club	5	1
Pacific Club Corporate	1	-
Pantranco South Express	340,992	-
People's Press	1,500	-
Phil. Columbian Club	3	-
Phil. Dealing Sytem Holding Corp.	250,000	25
Phil. International Fair	500	-
Phil. Long Distance Tel. Co	230,594	2
Phil. Overseas Resources	10,000	-
Pilipino Telephone	600	-
Professional Services Inc	11,250	5
Puerto Azul Golf Club	3	-
Quezon City Sports Club	1	-
Sta Elena Properties	7	5
Sta Elena Golf Club	1	2
Sta Lucia Realty Golf Club	2	1
Subic Bay Yacht Club	1	-
Tagaytay Highland Golf and Country Club	2	2
Tagaytay Midlands Country Club	1	1
The Country Club - Canlubang	2	-
Universal Leisure Club	1	-
Valle Verde Golf Club	53	7
Valley Golf Club Inc.	2	1
Victorias Country Club	1	-

(a) if the cost of investment is less than P500,000, the amount column will show zero.

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Valued Based on Market Quotation at End of Reporting Period (a)
San Miguel Holdings Corp.		
Indophil Resources NL	48,016,960	862
Petron Corporation		
Aboitiz Power Bonds	40,000,000	23
Government Security - PIID 0516 C107	-	74
Globe Bonds	50,220,000	28
Government Security - PIBD 0514 A673 (FXTN 5-67)	100,000,000	53
Government Security - PIBD 0713 C348 (FXTN 7-43)	100,000,000	54
Government Security - PIBD 0511 C622	106,000,000	-
Government Security - PIID 0311 G065	240,000,000	-
ROP Bonds	27,012,000	692
San Miguel International Ltd.		
Others	-	16
San Miguel Brewery Inc.		
Royal Orchid International Golf Club	1	2
Guangzhou Luhu Golf Club	1	2
HSBC Holdings	20,400	7
Pacific Club Kowloon	1	6
Hongkong Arts Centre Ltd.	1	-
The American Club Hong Kong	1	8
Hong Kong Football Club	1	6
Canadian International School of Hong Kong	1	1
Discovery Bay Golf Club	1	7
San Miguel Properties Inc.		
Apo Golf & Country Club	1 ₱	1
Mimosa Golf & Country Club	4	1
Sta. Elena Golf & Country Club	1	-
Metro Club	1	-
Phil. Long Distance Tel Co	12,200	1
Meralco	273,118	8
Italia Country Club	89	5
Riviera Golf Course and Country Club	1	5
Tagaytay Midlands Country Club	1	2
Pacific Central Properties, Inc.		
Corporate Investment Phils Inc	200,000	-
Herald Publications	410	-
San Miguel Rengo Packaging Corp		
Phil Long Distance Tel.	5,200	-
Evercrest Golf & Country Club	1	-
Orchard Golf & Country Club	1	1
Apo Golf & Country Club	1	-
Anchor Brokerage Corporation		
Phil. Long Distance Tel. Co.	50	-
Export & Industry Bank	766,000	-
San Miguel Yamamura Asia		
Manila Southwoods Golf & Country Club	1	-
Orchard Golf and Country Club	1	-
Evercrest Golf & Country Club	1	1
San Miguel Yamamura Packaging Corporation		
Canlubang Golf & Country Club	1	1
Manila Southwoods	1	-
Orchard Golf & Country Club	1	-
Puerto Azul	1	1
Manila Southwoods Golf and Country Club	1	-
Orchard Golf and Country Club	1	-
Philippine Longdistance Tel. Co.	1,800	-
Riviera Golf Club	1	-

(a) if the cost of investment is less than P500,000, the amount column will show zero.

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Valued Based on Market Quotation at End of Reporting Period (a)
San Miguel Purefoods Company, Inc.		
Club Filipino	1	₱ -
Club Strata, Inc.	1	-
Makati Sports Club, Inc.	1	1
Philippine Long Distance Tel. Co.	1	1
Valle Verde Country Club	1	-
Capitol Hills Golf and Country Club, Inc.	1	-
Alabang Country Club	1	1
Golf Club Bogor Raya	1	-
Insta Food	1	1
Manila Southwoods Golf & Country Club	1	-
Sta Elena Golf Club	1	2
Manila Electric Co.	1	1
Tagaytay Highland Golf and Country Club	1	1
Club Filipino	1	-
Piltel	11,100	-
Royal Tagaytay Country Club	1	-
Orchard Golf and Country Club	1	-
Endless Vacation Club Phils. Inc.	2	-
Phil. Assoc. of Hod Raisers	14,388	-
Philippine Long Distance Tel. Co.	9,290	1
Makati Sports Club, Inc.	1	-
Casino Espanol	1	-
Vega Telecom Holdings, Inc.		
Makati Sport Club	2	1
MERALCO - SIP	2,831	-
Other Telecom Companies	840,000	4
Total Available for Sale Financial Assets		**₱ 2,068**

(a) if the cost of investment is less than P500,000, the amount column will show zero.

See Notes 14, 41 and 42 of the Notes to Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CURRENCY TRANSLATION ADJUSTMENTS/ RECLASSIFICATIONS/ OTHERS	AMOUNTS COLLECTED/ CREDIT MEMO	AMOUNTS WRITTEN-OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
San Miguel Corporation	₱ 77,541	₱ 43,452	₱ (29,186)	₱ -	₱ 91,807	₱ 47,825	₱ 43,982	₱ 91,807
San Miguel International Limited and Subsidiaries	48,978	-	(6,591)	-	42,387	42,387	-	42,387
San Miguel Yamamura Packaging Corporation and Subsidiary	1,389	4,045	(4,440)	-	994	992	2	994
Petron Corporation and Subsidiaries	1,817	5,063	(6,143)	-	737	737	-	737
San Miguel Yamamura Asia Corporation	258	4,032	(3,600)	-	690	602	88	690
SMC Shipping and Lighterage Corporation	740	3,762	(3,902)	-	600	600	-	600
San Miguel Properties, Inc. and Subsidiaries	35	526	(159)	-	402	402	-	402
SMITS, Inc. and Subsidiary	313	866	(809)	-	370	369	1	370
San Miguel Brewery Inc. and Subsidiaries	128	6,869	(6,826)	-	171	137	34	171
ArchEn Technologies Inc.	60	471	(375)	-	156	156	-	156
Ginebra San Miguel, Inc. and Subsidiaries	232	268	(357)	-	143	143	-	143
San Miguel Pure Foods Company, Inc. and Subsidiaries	221	4,030	(4,116)	-	135	135	-	135
Challenger Aero Air Corp.	7	509	(393)	-	123	123	-	123
San Miguel Holdings Corp. and Subsidiaries	68	12	(6)	-	74	74	-	74
SMC Global Power Holdings Corp. and Subsidiaries	125	713	(770)	-	68	66	2	68
Mindanao Corrugated Fibreboard, Inc.	17	107	(99)	-	25	25	-	25
Others	22	80	(86)	-	16	16	-	16
	₱ 131,951	**₱ 74,805**	**₱ (67,858)**	**₱ -**	**₱ 138,898**	**₱ 94,789**	**₱ 44,109**	**₱ 138,898**

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS AND OTHER ASSETS
DECEMBER 31, 2011
(Amounts in Millions)

Part A - Goodwill and Other Intangible Assets

Description	Beginning Balance	Additions/ Acquisition of Subsidiaries	Disposal/ Reclass to other Accounts	Charged to Costs and Expenses	Currency Translation Adjustments	Ending Balance
Goodwill	₱ 30,251	₱ 732	₱ 7	₱ -	₱ -	₱ 30,990
Trademarks and Other Intangibles						
Cost:						
Trademarks and brand names	₱ 430	₱ -	₱ -	₱ -	₱ 2	₱ 432
Licenses	7,341	34	-	-	(96)	7,279
Service consession rights	91	111	1	-	-	203
Mining rights	1,800	197	-	-	-	1,997
Formulas and recipes	58	-	-	-	-	58
Land use rights	1,817	3	(118)	-	25	1,727
Others	758	362	19	-	1	1,140
	12,295	707	(98)	-	(68)	12,836
Accumulated Amortization and Impairment Losses:						
Trademarks and brand names	₱ 190	₱ -	₱ -	₱ -	₱ -	₱ 190
Licenses	62	-	(1)	8	-	69
Service consession rights	1	-	1	9	-	11
Land use rights	410	-	(22)	46	7	441
Others	652	-	12	54	-	718
	1,315	-	(10)	117	7	1,429
Net Book Value:	**₱ 10,980**	**₱ 707**	**₱ (88)**	**₱ (117)**	**₱ (75)**	**₱ 11,407**

See Notes 4, 5, 19 and 39 of the Notes to Consolidated Financial Statements

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS AND OTHER ASSETS
DECEMBER 31, 2011
(Amounts in Millions)

Part B - Other Noncurrent Assets

Description	Beginning Balance	Additions/ Acquisition of Subsidiaries	Charged to Costs and Expenses	Reclassifications/ (Disposal)	Currency Translation Adjustments	Ending Balance
Noncurrent receivables and deposits	₱ 24,783	₱ 1	₱ (156)	₱ 2,843	₱ -	₱ 27,471
Deferred containers expense - net of accumulated amortization	4,420	1,762	(1,065)	(80)	(2)	5,035
Others - net	4,598	555	(5)	860	3	6,011
	₱ 33,801	**₱ 2,318**	**₱ (1,226)**	**₱ 3,623**	**₱ 1**	**₱ 38,517**

See Notes 4, 5, 20, 36, 41 and 42 of the Notes to Consolidated Financial Statements

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2011
(Amounts in Millions)

TITLE OF ISSUE	AGENT / LENDER	Outstanding Balance	Current Portion of Debt	Transaction Cost Current	Amount Shown as Current	Long-term Noncurrent Portion Debt	Non Current Transaction Cost	Amount Shown as Long-term	Current and Long-term	INTEREST RATES	Number of Periodic Installments	Interest Payments	Final Maturity
Parent Company													
Unsecured term notes:													
Peso denominated:													
Floating	Landbank of the Philippines	₱ 1,600	₱ 400	₱ (1)	₱ 399	₱ 1,200	₱ (4)	₱ 1,196	₱ 1,595	PDST-F for 3 months plus margin	Amortized	Quarterly	November-14
Floating	Banco De Oro Unibank, Inc.	7,850	-	-	-	7,850	-	7,850	7,850	PDST-F for 3 months plus margin	Bullet	Quarterly	December-15
		9,450	400	(1)	399	9,050	(4)	9,046	9,445				
Foreign currency - denominated													
Fixed	Bank of New York Mellon	26,216	-	-	-	26,216	(462)	25,754	25,754	2%	Bullet	Semi Annual	May-14
Floating	Standard Chartered Bank	43,840	-	-	-	43,840	(829)	43,011	43,011	LIBOR plus agreed margin	Bullet	Quarterly	July-15
		70,056	-	-	-	70,056	(1,291)	68,765	68,765				
Subsidiaries													
Unsecured term notes:													
Peso denominated:													
SM Brewery													
Fixed	Philippine Depository & Trust Corp.	13,590	13,590	(13)	13,577	-	-	-	13,577	8.25%	Bullet	Semi-annual	April-12
	Philippine Depository & Trust Corp.	22,301	-	-	-	22,301	(129)	22,172	22,172	8.875%	Bullet	Semi-annual	April-14
	Philippine Depository & Trust Corp.	2,810	-	-	-	2,810	(25)	2,785	2,785	10.50%	Bullet	Semi-annual	April-19
		38,701	13,590	(13)	13,577	25,111	(154)	24,957	38,534				
Petron													
	MBTC/Maybank/Insular Life/Mega Int'l												
Fixed	Commercial Bank/Robinsons Savings Bank	154	154		154	-		-	154	6.73%	Amortized	Quarterly	January-12
Fixed	Rizal Commercial Banking Corporation	3,600	36	(3)	33	3,564	(34)	3,530	3,563	6.3212% and 7.1827%	Amortized	Semi-annual	October-18 and October-21
Fixed	BPI Asset Management and Trust Group	5,200	-	(11)	(11)	5,200	(18)	5,182	5,171	8.14%	Bullet	Semi-annual	June-14
Fixed	BPI Asset Management and Trust Group	4,704	48	(7)	41	4,656	(28)	4,628	4,669	9.33%	Amortized	Semi-annual	June-16
Fixed	Deutsche Bank AG, Hongkong Branch	20,000	-	(27)	(27)	20,000	(170)	19,830	19,803	7.00%	Bullet	Semi-annual	November-17
		33,658	238	(48)	190	33,420	(250)	33,170	33,360				
SMY Asia													
Fixed	HSBC	955	955		955	-	-	-	955	6.50%	Bullet	Semi-annual	March-12
Fixed	HSBC	1,269	-	(1)	(1)	1,269	(3)	1,266	1,265	7.25%	Bullet	Semi-annual	March-14
		2,224	955	(1)	954	1,269	(3)	1,266	2,220				
GSMI													
Fixed	Security Bank Corporation	300	86		86	214		214	300	7.89%	Amortized	Semi-annual	May-15
Fixed	Security Bank Corporation	1,200	171	(1)	170	1,029	(4)	1,025	1,195	7.25%	Amortized	Semi-annual	May-15
		1,500	257	(1)	256	1,243	(4)	1,239	1,495				
SMCSLC													
Fixed	Security Bank Corporation	1,250			-	1,250	(6)	1,244	1,244	6.175%	Bullet	Quarterly	May-16
Fixed	Security Bank Corporation	250			-	250	-	250	250	6.145%	Bullet	Quarterly	May-16
		1,500	-	-	-	1,500	(6)	1,494	1,494				
SMPFC													
Fixed	China Banking Corporation	230	-	-	-	230	-	230	230	5.4885%	Bullet	Quarterly	December-15
	China Banking Corporation - Trust Group as Trustee	54	-	-	-	54	-	54	54	5.4885%	Bullet	Quarterly	December-15
	China Bank Savings, Inc. Trust as Trustee	16				16	-	16	16	5.4885%		Quarterly	December-15
	Land Bank of the Philippines	500	-	-	-	500	(6)	494	494	5.4885%	Bullet	Quarterly	December-15
		800	-	-	-	800	(6)	794	794				
SMPFC													
Floating	Bank of Commerce	204	25	-	25	179	-	179	204	PDST-R1 for 3-months plus margin	Amortized	Quarterly	September-14
	Banco de Oro Unibank, Inc.	1,500	-	-	-	1,500	(11)	1,489	1,489	PDST-F for 3 months plus margin	Bullet	Quarterly	December-15
	China Banking Corporation	1,200	-	-	-	1,200	(9)	1,191	1,191	PDST-F for 3 months plus margin	Bullet	Quarterly	December-15
	Land Bank of the Philippines	500	-	-	-	500	(4)	496	496	PDST-F for 3 months plus margin	Bullet	Quarterly	December-15
	Maybank Philippines, Inc.	500	-	-	-	500	(3)	497	497	PDST-F for 3 months plus margin	Bullet	Quarterly	December-15
		3,904	25	-	25	3,879	(27)	3,852	3,877				
Petron													
Floating	Development Bank of the Philippines	1,200	600	-	600	600	-	600	1,200	PDST-F for 3 months plus margin	Amortized	Quarterly	March-14
		83,487	15,665	(63)	15,602	67,822	(450)	67,372	82,974				

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2011
(Amounts in Millions)

TITLE OF ISSUE	AGENT / LENDER	Outstanding Balance	Current Portion of Debt	Transaction Cost Current	Amount Shown as Current	Long-term Noncurrent Portion Debt	Non Current Transaction Cost	Amount Shown as Long-term	Current and Long-term	INTEREST RATES	Number of Periodic Installments	Interest Payments	Final Maturity
Foreign currency - denominated													
Domestic Subsidiairy													
SMC Global													
Fixed	DB Trustees (Hongkong) Limited	₱ 13,152	₱ -	₱ -	₱ -	₱ 13,152	₱ (140)	₱ 13,012	₱ 13,012	7%	Bullet	Semi Annual	January-16
Floating	Standard Chartered Bank (Hongkong) Limited	8,768	-	-	-	8,768	(55)	8,713	8,713	LIBOR plus agreed margin	Bullet	Quarterly	September-14
		21,920	-	-	-	21,920	(195)	21,725	21,725				
Petron													
Floating	Norddeutsche Landesbank Girozentrale	12,105	3,458	(99)	3,359	8,647	(117)	8,530	11,889	LIBOR plus agreed margin	Amortized	Quarterly	June-15
Floating	Standard Chartered Bank (Hong Kong) Limited	3,507	-	(25)	(25)	3,507	(63)	3,444	3,419	LIBOR plus agreed margin	Semi-annual	Semi-annual	November-16
		15,612	3,458	(124)	3,334	12,154	(180)	11,974	15,308				
SM Brewery													
Floating	Mizuho Corporate Bank, Ltd.	13,152	-	-	-	13,152	(246)	12,906	12,906	LIBOR plus agreed margin	Bullet	Quarterly	January-15
GSMI													
Floating	ABN AMRO	149	59	-	59	90		90	149	THBFIX plus agreed margin	Amortized	Quarterly	February-14
Floating	United Overseas Bank	149	60	(1)	59	89		89	148	THBFIX plus agreed margin	Amortized	Quarterly	February-14
		298	119	(1)	118	179	-	178	297				
		50,982	3,577	(125)	3,452	47,405	(621)	46,784	50,236				
Total Long-term Debt		**₱ 213,975**	**₱ 19,642**	**₱ (189)**	**₱ 19,453**	**₱ 194,333**	**₱ (2,366)**	**₱ 191,967**	**₱ 211,420**				

See Notes 23, 41 and 42 of the Notes to Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE H - CAPITAL STOCK
DECEMBER 31, 2011

DESCRIPTION	NUMBER OF SHARES AUTHORIZED	NUMBER OF SHARES ISSUED	TREASURY SHARES	NUMBER OF SHARES OUTSTANDING	NUMBER OF SHARES RESERVED FOR OPTIONS	NUMBER OF SHARES HELD BY: RELATED PARTY	DIRECTORS, OFFICERS AND EMPLOYEES
COMMON STOCK	3,390,000,000	3,279,334,575	910,303,273	2,369,031,302	134,641,564	1,456,377,340	28,218,507
PREFERRED SHARES	1,110,000,000	970,506,353	-	970,506,353	-	86,145,265	360,109
	4,500,000,000	4,249,840,928	910,303,273	3,339,537,655	134,641,564	1,542,522,605	28,578,616

See Notes 23, 26, 36, 40 and 45 of the Notes to Consolidated Financial Statements.

SAN MIGUEL CORPORATION (Parent Only)
ACCOUNTS RECEIVABLE - NON-TRADE
AS OF DECEMBER 31, 2011
(Amounts in Millions)

		TOTAL	OVER 90 DAYS
ACCOUNTS RECEIVABLE - NON-TRADE	₱	250	250
ALLOW. FOR DOUBTFUL ACCOUNTS		(250)	
NET	₱	0	

SAN MIGUEL CORPORATION

ANNEX "C"

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

This discussion summarizes the significant factors affecting the consolidated financial performance, financial position and cash flows of San Miguel Corporation (the "Parent Company") and its subsidiaries (collectively referred to as the "Group") for the three-year period ended December 31, 2011. The following discussion should be read in conjunction with the attached audited consolidated statements of financial position of the Group as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2011. All necessary adjustments to present fairly the Group's consolidated financial position as of December 31, 2011 and the financial performance and cash flows for the year ended December 31, 2011 and for all the other periods presented, have been made.

I. BASIS OF PREPARATION

Statement of Compliance

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

Basis of Measurement

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

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

Functional and Presentation Currency

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

Significant Accounting Policies
The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The FRSC approved the adoption of a number of new or revised standards, amendments to standards, and interpretations (based on IFRIC Interpretations) as part of PFRS.

Adopted Effective 2011

The Group has adopted the following PFRS starting January 1, 2011 and accordingly, changed its accounting policies in the following areas:

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments, provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after February 1, 2010. The adoption of this amendment to standards did not have a material effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39, *Financial Instruments,* paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010. The adoption of this Philippine Interpretation did not have a material effect on the consolidated financial statements.

- Revised PAS 24, *Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011. The adoption of this revision to standard did not have a material effect on the consolidated financial statements.

- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC 14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)*. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- *Improvements to PFRS 2010* contain 11 amendments to 6 standards and 1 interpretation. The following are the said amendments to PFRS and interpretation:

  - PFRS 3, *Business Combinations*. The amendments: (a) clarify that contingent consideration arising in a business combination previously accounted for in accordance with PFRS 3 (2004) that remains outstanding at the adoption date of PFRS 3 (2008) continues to be accounted for in accordance with PFRS 3 (2004); (b) limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and (c) expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost, when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. The amendments are effective for annual periods beginning on or after July 1, 2010. The adoption of these amendments did not have a material effect on the consolidated financial statements.

  - PAS 27*, Consolidated and Separate Financial Statements*. The amendments clarify that the consequential amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures,* resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010. The adoption of these amendments did not have a material effect on the consolidated financial statements.

  - PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to enable users to evaluate better an entity's exposure to risks arising from the financial instruments. In addition, the International Accounting Standards Board amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

  - PAS 1, *Presentation of Financial Statements*. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

  - PAS 34, *Interim Financial Reporting*. The amendments add examples to the list of events or transactions that require disclosure under PAS 34 and remove references to materiality in PAS 34 that describes other minimum disclosures. The amendments

are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*. The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

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

II. FINANCIAL PERFORMANCE

Comparisons of key financial performance for the last three years are summarized in the following tables.

	Years Ended December 31		
	2011	2010	2009
		(In Millions)	
Sales	**₱535,775**	₱246,156	₱174,213
Gross Profit	**103,454**	72,227	49,918
Selling and Administrative Expenses	**(47,500)**	(37,619)	(30,249)
Financing Charges - Net	**(22,825)**	(13,555)	(1,937)
Equity in Net Earnings of Associates	**2,824**	6,817	2,816
Gain on Sale of Investments and Property and Equipment	**1,046**	529	50,630
Other Income (Charges) - Net	**(12)**	7,095	(6,843)
Net Income	**28,504**	24,056	60,629
Net Income Attributable to Equity Holders of the Parent Company	**17,518**	20,091	57,799

2011 vs. 2010

Consolidated sales revenue in 2011 reached ₱535,775 million, more than double the reported revenue in 2010. Steady growth derived from core businesses was complemented by a 63% contribution from the new businesses, specifically power and fuel and oil. Correspondingly, operating income grew 62% to ₱55,954 million. San Miguel Brewery Inc. (SMB), the packaging and the food businesses also helped with operating income growth of 10%, 8% and 4%, respectively.

The decrease in equity in net earnings of associates resulted from the consolidation of San Miguel Energy Corporation (SMEC) and Strategic Power Devt. Corp. (SPDC) on September 21, 2010 and of Petron Corporation (Petron) on December 15, 2010, previously associates of the Parent Company.

With higher interest expenses and other financing charges and foreign exchange losses versus the gains recognized in 2010, the resulting consolidated net income before non-controlling interests for 2011 is ₱28,504 million, 18% higher than 2010. However, with much higher share of non-controlling interests in net income of the subsidiaries, particularly that of SMB, Petron and San Miguel Pure Foods Company, Inc. (SMPFC), net income attributable to equity holders of the Parent Company ended at ₱17,518 million. Excluding one-off items, particularly the gain on acquisition of SMC Global Power Holdings Corp. (SMC Global) in 2010 and the gain on sale of Panasia Energy Holdings, Inc. (PanAsia) in 2011, the recurring net income attributable to equity holders of the Parent Company in 2011 amounted to ₱17,243 million, almost at par with 2010.

2010 vs. 2009

San Miguel Corporation's consolidated sales revenue amounted to ₱246,156 million, 41% above 2009. The core businesses accounted for the 9% of the increase while the new businesses accounted for the remaining 32% increase. The power business which was consolidated starting third quarter brought in revenues amounting to ₱45,701 million or around 19% of the Group's consolidated revenue. Most of the core businesses also delivered improved volumes in the last quarter of 2010.

Correspondingly, the consolidation of Power brought in an additional ₱ 9,568 million in operating income. This resulted to a consolidated operating income of ₱34,608 million, 76% higher than 2009. Without the new businesses, the core businesses also did well registering 25% increase in operating income versus 2009.

The increase in equity in net earnings of associates resulted from the recognition of equity in net income of the Manila Electric Company (Meralco) and of the following subsidiaries prior to consolidation: SMEC, SPDC and Petron.

Net financing charges increased in 2010 as a result of higher interest expense, attributable to higher average balances of drafts and loans payable and long-term debt in 2010 and the interest expense on SMC Global's finance lease liabilities.

Other income of ₱7,095 million in 2010, principally includes foreign exchange gains, gain on acquisition of a subsidiary and loss on impairment on the noncurrent assets of the Group's China and Hong Kong operations.

With other income from new investments, offset by higher net financing charges and higher income taxes, the Group's resulting net income attributable to equity holders of the Parent Company amounted to ₱ 20,091 million. Excluding one-off items, recurring net income attributable to equity holders of the Parent Company for 2010 is ₱17,078 million, more than double of last year's comparable net income.

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

2011 vs. 2010

BEVERAGE

SMB

For the Philippines' oldest and largest brewer, 2011 was another year of significant achievement in many important areas. SMB's growth strategies based on multi-value distribution and consumption-generating programs continued to deliver strong growth so that continuing profitable growth was enhanced for the majority of products in SMB's portfolio.

Total revenues grew 6% reaching ₱71,910 million with consolidated volumes of 223.8 million cases, 1% higher than 2010. Distribution remained SMB's key competitive advantage with volume generating initiatives further improving product availability among served outlets both domestically and overseas.

Operating income ended at ₱20,471 million, higher by 10%.

Beer Domestic

SMB's domestic operations ended the year with a 5% revenue growth compared to the previous year, helped by a price increase implemented in May 2011 and higher volumes reaching 185 million cases, 1% higher than 2010.

The San Miguel brand continued to dominate the domestic market. Established volume - generating programs (Muziklaban, the National Beer Drinking contest, the Oktoberfest), numerous on-premise activations, sponsorship of major events and festivals, and consumer loyalty promotions all continued to work for the business raising its profile and strengthening brand loyalty. As a result, operating income grew 8% to ₱20,292 million.

Beer International

Revenues of beer international operations rose 16%, on the back of significant improvements in sales especially from North China, Hong Kong, Indonesia and exports. Higher volumes from these critical markets, largely offset lower volumes from South China, Vietnam and Thailand, allowing Beer International to register 5% growth in total international volume.

With these improvements and strong profitability in the brewery's Indonesian and exports operations, Beer International registered a very significant increase versus last year.

In South China, market conditions continued to be challenging, as competitors touted aggressive trade offers. While the South China operations continued to post negative operating results in 2011, there was considerable improvement over the previous year.

In response to intense market competition, Beer International embarked on a major business restructuring program that resulted in the integration of the sales and distribution teams of its local Dragon brand into the Guangzhou operations. The now purely brewing operation in Guangdong will also be developed as an exports production base and will focus on improving plant utilization, productivity and efficiency. South China operations also launched the new San Mig Light with an enhanced formula, new packaging design and new positioning in the market.

In North China, revenue and volume grew by 14% and 6%, respectively. Local brand Blue Star contributed 6% volume growth while San Miguel Pale Pilsen (SMPP) likewise posted a 13% growth. The North China operations posted a significant recovery from last year's losses.

2011 was a very good year for Hong Kong operations as volume and revenue increased by 16% and 24%, respectively, a strong showing considering that the local beer industry grew only 2%. Against such a backdrop, the brewery further strengthened its position as the No. 1 beer company in Hong Kong in terms of volume with the flagship brand San Miguel at the forefront. San Mig Light chalked up impressive growth of 356% from its launch in 2010, while SMPP continued to build on its brand equity in sports. San Miguel Hong Kong Brewery also secured the exclusive distributorship of Budweiser and Harbin in Hong Kong, further strengthening its portfolio of brands and market dominance.

Operating performance likewise turned around from a loss in 2010, improving by 288%.

In Vietnam, revenues grew by 10% on account of better selling price due to an improvement in sales of San Miguel brands. Some of this headway however, was negated by the contraction of the Bia Hoi market.

PT Delta Djakarta (PT Delta) posted an 11% increase in volume, which translated to 23% revenue growth. Strong volume sales resulted from expansion programs implemented in primary cities across Indonesia. Operating income posted a 16% growth, despite the increase in excise tax, higher inflation affecting direct materials and payroll.

Thailand experienced widespread flooding across the country in the fourth quarter of the year, particularly in Bangkok and in its neighboring suburbs. This weighed heavily down on volumes, offsetting the gains registered in the first half of the year, bringing full year domestic volumes to a 7% decline versus last year.

Nevertheless, lower container, manufacturing supplies and freight, trucking and handling costs prevented a further drop in operating income.

Export revenues grew by a robust 26%, mainly due to strong volume sales which grew 23%. San Miguel brands performed well in Sudan, Singapore, Malaysia, Taiwan and Korea, and debuted in newly opened markets in Saudi Arabia, Zambia, Estonia and Timor Leste.

Liquor and Spirits

Amid the relentless pressure of competition and shifts in consumer preference, SMC's hard liquor and soft beverages business under Ginebra San Miguel, Inc. (GSMI) buckled under this highly competitive operating environment, turning in much lower volumes versus 2010. While GSMI's flagship Ginebra San Miguel gin held its ground and continued to be a strong contributor to the business, Gran Matador and GSM Blue trailed behind rival brands which managed to be first to market with lighter proof liquor products favored by younger consumers. GSMI responded to this challenge by way of launching Gran Matador Light and Antonov Mixed Drinks, managing to gain some lost ground in the last quarter of 2011, and successfully stemming the volume and revenue decline for the remainder of the year. Margins for GSMI were at par with last year as a price increase and lower bottle costs offset the adverse effects of higher excise taxes.

FOOD

San Miguel Food Group posted a record sales performance for 2011, with consolidated revenues reaching ₱89,591 million, 11% above last year's already strong showing. The double-digit growth was backed by strong volume sales and better average selling prices, surpassing 2010 levels across almost all business units.

The upward trend in raw material prices persisted in 2011, causing margin erosion throughout the business. Continuing efforts to rationalize low-margin products, stock-keeping units (SKU) and cost reduction programs, however, alleviated the margin squeeze, resulting to an operating income of ₱6,142 million, 4% better than 2010.

The sustained growth and profitability from the Food Group is hinged on its strategic programs on innovation, capacity expansion and efficiencies established in recent years.

Agro-Industrial

Integrated Agro-Industrial Zone. The Agro-Industrial cluster, which contributes 65% of Food Group sales, posted a 5% revenue growth for 2011. The strong sales performance was driven by robust volume growth mainly from the poultry and basic meats sectors. However, high raw material prices continued to affect the business, resulting in a 29% operating income decline.

The commercial feeds revenue grew 8% compared to 2010, amidst volatile raw material prices and aggressive pricing stance of competition. The persistent increases in raw material prices and the inability of the market to absorb full cost deterred growth in operating profits.

The poultry business generated revenue growth of 10% on account of higher volumes and better selling prices, despite an industry oversupply of chicken which tempered price increases. Higher broiler costs and the increase in fixed costs due to the opening of additional Chicken Station outlets resulted to lower operating income.

San Miguel Foods Inc.'s (SMFI) fresh meats business' strong volume growth of 17% compensated for a decline in selling prices. Profits, however, were impacted by the higher cost of marketable hogs brought about by the increase in feed costs. As a result, in spite of a continuing drive to improve production efficiencies and effectively manage fixed costs, operating income was lower than the previous year.

Value-Added Businesses

Processed Meats. The Food Group's value-added business did well in 2011, with a volume and revenue growth of 7% and 5%, respectively. Leading brands and products included TJ hotdog, PF Star hotdog, nuggets bacons, whole hams and corned meats. The business posted an impressive 43% increase in operating income helped by efforts to rationalize SKUs.

Milling

*Milling***.** The flour milling operation was affected by competition coming from lower-priced imported flour products. However, with better selling prices, revenue grew 17%. Operating income also managed to grow 16% despite rising wheat and freight costs.

Dairy and Others

Dairy, Oils & Fats. The Dairy, fats and oils business generated revenues that registered a stellar 23% increase from last year's level. Strong volumes and better selling prices across most product categories contributed to this strong showing. In spite of higher input costs, the segment

registered 56% growth in operating income. Magnolia Ice Cream likewise posted considerable revenue and volume growths of 31% and 26%, respectively.

San Miguel Super Coffeemix Co. Inc. (SMSCCI) posted 32% revenue growth, with volumes growing 35%, the result of intensified distribution efforts. Operating income more than doubled compared to last year.

PACKAGING

San Miguel's packaging business, under San Miguel Yamamura Packaging Corporation (SMYPC) ended another solid year in 2011. Consolidated revenues reached ₱24,113 million, 3% higher than 2010, the result of continuing efforts to broaden reach both in the domestic and export markets. Bringing the packaging products overseas offers a new dimension to the business in 2011, exports from SMYPC's domestic operations grew 36%. Revenue from the Packaging Group's international operations accounted for 43% of the total, as lower demand from key customers, resulted in a 2% revenue growth from domestic operations. In spite of higher fuel and raw material costs and competitive pricing in overseas markets, operating income growth was sustained at 8%.

Glass. The glass segment, the Packaging Group's largest segment with a 34% revenue contribution, posted ₱8,272 million in sales revenue, 9% above 2010 levels. Operating income for the segment surged 19%, reaching ₱1,443 million, the result of purposive cost-cutting measures such as working capital reduction, overhead expenses controls and efficiency improvements.

Metal. Metal business revenues amounted to ₱4,026 million. In 2011, customers from China, Hong Kong, Sri Lanka, the Middle East and Romania joined the business' list of clients.

Plastics. Driven largely by better selling prices, revenue of the plastics businesses reached ₱1,523 million, 12% above 2010 levels. Gross margins also improved by 25% from a year-ago, even as fixed costs ballooned due to higher depreciation. The result: operating income roughly at par with the prior year.

Paper. The paper segment, under Mindanao Corrugated Fibreboard, Inc. or Mincorr, registered revenue growth of 14% on account of higher sales volumes. Operating income likewise rose an impressive 64% due to successful utilization improvements and a decline in fixed costs.

PET. The PET business was severely hit by a drop in demand from key customers, registering much lower revenues compared to 2010. Cost management and containment initiatives allowed the business to minimize losses for 2011.

Flexibles. Flexibles volumes grew 24% to register revenue growth of 12%. 2011 marked a turnaround for the flexible packaging business.

Malaysia. SMYPC's Malaysian operations continued to contribute strongly to the overall business. Sales revenues increased 8%, with the woven segment contributing 6% volume growth and operating income grew 15% on account of lower fixed costs.

Cospak. The Packaging Group's Australian trading arm, Cospak, continued to do well in 2011. Sales were strong, reaching ₱4,023 million and gross contribution likewise grew despite higher costs. Cospak continued to make a strategic contribution to the Packaging Group, enabling SMYPC to further grow its exports, allowing for better access to the growing Australian market.

PROPERTY

San Miguel Properties, Inc. (SMPI), the real estate arm of San Miguel Corporation, generated revenues of ₱844 million in 2011, higher by 43% versus 2010.

Residential subdivision projects in General Trias, Cavite and in Sta. Rosa, Laguna are in sellout status of its inventory and now positioning to generate fresh inventory. Townhouse developments in Pasig and Mandaluyong are on the drawing board and residential condominium is scheduled to rise along Pasay Road in Makati City. On the other hand, the on-going construction of the 29-storey serviced apartments at Legaspi St., Makati City is expected to be completed by 2014.

POWER GENERATION AND DISTRIBUTION

In a few short years, San Miguel has built a power company with a full spectrum of power plants and Independent Power Producer Administration (IPPA) contracts that are operated and maintained together with world class, independent power producers. Today, power subsidiary SMC Global, is one of the largest power companies in the country.

In January 2011, a US$300 million bond was issued in preparation for financing for future expansions. In September 2011, SMC Global also raised US$200 million from a syndicated loan. In August 2011, Limay power plant was sold to make room for capacity increases from new acquisitions through government biddings and construction of new plants. With Sual, Ilijan and San Roque in the power portfolio, total capacity stood at 2,545 Megawatt Hours (MWH), 23% and 17% of the Luzon and national grid capacities, respectively.

Before the year ended, expiring contracts with customers were renewed. The Sual power plant was able to sign new customers, while Ilijan completed negotiations with Meralco, which remains the business' biggest customer.

2011 also saw the full-year effect of the power business's consolidation in the SMC group. And the year-end financial results bore out its positive contribution.

Total power generated reached 14,483 thousand MWH which brought revenues of ₱71,445 million and operating income of ₱16,720 million despite lower WESM prices during the year.

Sual Power Plant posted an 11% increase in revenues compared to 2010, mainly due to higher bilateral off-take volume and price. Margins improved to 29% from 21% in 2010 resulting from lower power purchase costs. Consequently, operating income grew by an impressive 51%.

Ilijan Power Plant under South Premiere Power Corp. generated 7,964 thousand MWH in 2011, 90% above the 2010 figure covering operations starting June. Bilateral off-takes increased by 110% resulting in an 81% revenue growth. Operating income growth at 35% was tempered by higher power purchased due to a 63-day planned outage which brought about higher power purchases.

Net generation volume of the San Roque Power Plant grew 77% to 1,041 thousand MWH due to abundant water supply in 2011. Operations were affected by the El Niño weather condition of 2010. Net capacity factor likewise improved to 34% from 21%. Accordingly, revenues increased by 17%. Operating income improved by 3% despite full year depreciation against 11 months in 2010.

FUEL AND OIL

Petron registered a good 2011 performance despite a challenging third quarter that saw weak demand brought about by higher fuel prices and aggressive competition particularly in the retail and industrial sectors.

Petron ended the year with consolidated revenues of ₱273,956 million, a significant 20% growth from last year. Lower domestic demand due to higher fuel prices and aggressive competition affected retail and industrial volumes, even as sales in petrochemical sales managed to remain buoyant. Margins grew, the result of a better product mix that included sales from high-margin petrochemical feed stocks such as propylene, benzene, toluene and mixed xylene.

In 2011, a refinery upgrade or the RMP2 plan was launched that will enable Petron to fully convert its residual products to higher-value gasoline, LPG, diesel and propylene. This ongoing project will allow Petron to further integrate high-margin products in the business mix. Petron has also embarked on the expansion of its distribution network. By year-end 2011, Petron has over 1,900 retail service stations, 16 car care centers and more than 700 LPG branch stores. Petron's ambitious modernization and expansion programs will result in better yields, more efficient production and optimized distribution.

Construction of a power plant in Limay, Bataan, which began in 2010, is still ongoing. The co-generation power plant adjacent to Petron's oil refinery will ensure reliable and economical steam and power supply for the business and provide Petron considerable cost savings. The first phase of this project is expected to be completed by the second half of 2012.

INFRASTRUCTURE

The infrastructure projects are well on track.

For the Boracay Airport, the rehabilitation of the existing terminal has been completed. The terminal fee has recently been increased to ₱200 which will help maintain the greatly improved facilities and services provided to visitors of this popular holiday spot. Meanwhile, Trans Aire Development Holdings Corp. (TADHC) is finalizing the technical plans related to the extension of the runway. Construction is expected to start by the third quarter.

For the Tarlac-Pangasinan-La Union Expressway, construction is on-going with the first phase nearing completion. We expect revenues to be coming in by the fourth quarter of 2012 as we start the operations of the 16-kilometer Tarlac-Gerona stretch.

On the other hand, the MRT 7 technical evaluation and other aspects related to the project are being jointly reviewed and discussed with the Department of Transportation and Communications and other pertinent government agencies. We expect the project's implementation to start within the year.

2010 vs. 2009

BEVERAGE

SMB

SMB's accelerated growth in 2010 owing to the strong economic recovery, election-related spending, an improving cost environment and stepped-up consumption-generating programs. Consolidated SMB sales revenue rose 6% to reach ₱67,575 million, while operating income increased to ₱18,551 million. This is on a consolidated beer volumes of about 221 million cases, 2% above 2009 level.

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

Beer Domestic

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

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

Beer International

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

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

In North China, Blue Star remains the leading beer brand in Baoding City. SMB's North China operations posted a strong recovery in the last eight months of 2010, reversing the declining trend during the early part of the year. Volumes were slightly ahead versus 2009 by year-end driven by improvements in wholesaler channel management.

SMB retained its position as the leading player in the Hong Kong beer industry even as domestic volumes fell short in 2009. Premium brands continued to grow by double-digit in 2010 while exports nearly doubled versus 2009 volumes, bringing total production volumes 11% ahead of 2009.

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

In Vietnam, San Miguel brands continued their growth momentum in 2010, growing by 20% compared to 2009, the result of greater outlet coverage, particularly in cities popular with tourists, and strong sales of SMB's draft beer variant.

Despite the political unrest in Thailand during the first half of 2010, SMB's Thai unit was able to grow domestic volumes by 7% over 2009. Despite a decline in the total industry's premium segment, sales were particularly good for San Mig Light and San Miguel Draught Beer. Volume growth for these brands was brought about by a focus on outlet penetration and an improvement in sales yields.

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

Liquor and Spirits

GSMI ended 2010 with positive results, greatly surpassing the 2009's performance. Domestic liquor sales volumes reached 39.4 million cases, 7% higher than 2009 levels and a new all-time high record.

Flagship Ginebra San Miguel Gin and G.S.M. Blue were the main contributors to GSMI's volume growth. Marketing programs like "Blueniversity" and exposure in both traditional media and social media sites helped sustain the brand's popularity among younger drinkers. Ginebra San Miguel performed creditably, posting 11% growth. GSMI continues to provide the brand steady marketing support via the popular "Gin- U-Win 2" consumer promo. Vino Kulafu held its own in southern Philippines, with volumes rising markedly above the prior year. Owing to the decline in the overall brandy segment, sales of Gran Matador slid despite retaining its lead in the brandy market. To provide consumers choice, GSMI launched a lower-proof variant, Gran Matador Primo in late 2010.

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

Overall, GSMI's consolidated revenues for 2010 reached ₱22,688 million, 16% higher than 2009. Consolidated operating income stood at ₱1,519 million, a robust 40% over 2009 levels - the result of significant growth in the core liquor segments and exports. Losses from both Thai liquor and the non-alcoholic beverage sectors were also considerably lower than 2009.

FOOD

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

San Miguel Pure Foods Company, Inc. (SMPFC) and Subsidiaries ended 2010 with consolidated revenues of ₱80,418 million, 4% higher than 2009, largely on the back of sustained volume growth across the majority of its businesses. Cost pressures remained an issue as do lower selling prices for some food products, but in the aggregate, the Food Group has managed to offset these pressures by pricing actions, new product launches and strong promotional activities. Efforts to raise operating efficiencies over the years, complemented by lower costs of critical raw materials in poultry, basic meats, flour and dairy, translated into higher profitability - enabling SMPFC to post an operating income that was 30% above 2009 at ₱5,906 million.

Agro-Industrial Cluster

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

The numerous market challenges bearing down on business profitability on SMFI's feeds business; i.e., increasing farm inputs, surging raw material prices, threats of animal disease, and weather disturbances, stood Feeds' operating income lower than 2009 performance. The continued use of raw material substitutes like cassava is being intensified to help manage direct material costs.

Improved efficiencies contributed to SMFI's basic meats business' operating profits, reversing 2009's loss. This strong showing offset lower volumes and revenues.

Value-Added Businesses

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

Milling

*Milling***.** The Food Group's flour business under San Miguel Mills, Inc. (SMMI) continued its strong year-on-year performance, with better operating margins versus 2009 helped by lower wheat and operating costs. Flour volumes grew by 7% amid competition from other local flour manufacturers and flour imports. Revenues dropped 3% due to lower selling prices, an offshoot of better global wheat prices.

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

SMSCCI's revenues topped 2009 by 17%, resulting in a significant improvement in operating profits.

PACKAGING

San Miguel Yamamura Packaging Group (SMYPG) had a strong year in 2010, with the PET and paper businesses in particular showing robust profit growth. Including the consolidation of Australian trading company, Cospak, the Packaging Group generated revenue of ₱23,438 million, 19% higher than 2009. Likewise, operating income for the group reached ₱1,999 million, 26% above 2009, on account of lower raw material costs.

Glass. Sales revenues of the glass business reached ₱7,615 million in 2010, mainly attributable to volume sales to the Coca-Cola Bottlers Group (CCBG) and GSMI. Other customers contributing to revenue were SMB, pharmaceutical company United Laboratories and Cospak. 2010 marked SMYPG's successful commercial delivery of the first flint and antique green wine bottles to customers in Australia.

Metal. For SMYPG's metal operations, sales revenues amounted to ₱4,276 million, mainly from sales of crowns to SMB and CCBG, metal caps to GSMI and roll-on-pilfer-proof caps to CCBG and Bickford's. For the second year running, SMYPG's metal container plant bagged the Best Two-Piece Can Award in the Asia CanTech 2010.

Plastics. For the plastics business, higher sales of regrinds, pallets and crates pushed sales revenue to reach ₱1,361 million, at par versus 2009 level. In 2010, the plastics business launched its four-liter paint buckets for leading paint maker, Boysen, and developed the flexi-pallet, eight-piece pallet molds and SMYPG's patented Suretube for customers in the pharmaceutical and personal care industries.

Paper. The paper business posted sales revenue of ₱1,440 million for 2010. Nestle Philippines was a major customer as were customers from the fresh produce segment.

PET. Driven by higher volume sales to CCBG and Del Monte, the Packaging Group's PET operations' sales revenue of ₱1,960 million was 12% above 2009. Preform sales to CCBG were also strong. The PET business introduced 38 mm caps and preforms for Pepsi as well as the amorphous neck finish preforms and 1-liter hot fill bottle for Del Monte.

Flexibles. Rightpak's sales served Nestle Philippines, SMFI, Alaska and Del Monte resulting in sales revenue of ₱647 million, 12% higher than 2009's level.

Malaysia. SMYPG's Malaysia operations' sales revenue of ₱3,075 million was 9% better than 2009.

Cospak. Through synergy between SMYPC and Cospak, new multi-year contracts were secured with major Australian customers such as General Mills, Gage Roads, Amcor Glass and Bickford's. At the end of 2010, Cospak's sales revenue totaled ₱3,698 million.

PROPERTY

Election-related spending and overseas Filipino workers remittances resulted in more reservation sales take-up for SMPI existing projects. However, due to depleting inventory and implementation of stringent measures to ensure the creditworthiness of buyers, SMPI residential sales dipped by 29%. The policy of requiring buyers' equity prior to loan releases also affected SMPI's booked sales.

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

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

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

POWER GENERATION AND DISTRIBUTION

SMC Global is San Miguel's holding firm for all power-related units such as SMEC, SPDC, SPPC and PanAsia, which in turn own the 620-megawatt Limay combined-cycle power plant and manage the IPP Administration contracts of three power plants—the 1,200-megawatt Ilijan natural gas-fired power plant IPP Administration; 1,200-megawatt Sual coalfired power plant IPP Administration, and the 345-megawatt San Roque hydroelectric power plant IPP Administration. The power companies were consolidated into San Miguel during the third quarter of 2010 following SMC's subscription of 75% of the shares and voting interests of Global 5000 Investment Inc. and its acquisition of the remaining 25% stake from existing shareholders.

In February 2011, San Miguel's power business successfully completed its US$300 million, five-year benchmark US dollar bond at a 7% yield. SMC Global plans to use the proceeds to finance investments in other power-related assets, finance payment or, subject to negotiation with the Power Sector Assets and Liabilities Management Corporation (PSALM), prepay the obligations, and/or for general corporate purposes. SMC's four power plants—Sual, Limay, San Roque and Ilijan—generated an estimated 11.1 million megawatt hours in 2010. The revenue and operating income contribution of the power generation and distribution business to the Group upon consolidation up to December 31, 2010 amounted to ₱45,701 million and ₱9,568 million, respectively.

III. FINANCIAL POSITION

2011 vs. 2010

The Group's consolidated total assets as of December 2011 amounted to ₱890,536 million, ₱60,736 million higher than 2010. This is basically due to the increase in investments and advances, property, plant and equipment and certain current assets.

Below were the major developments in 2011:

BUSINESS COMBINATIONS AND INVESTMENTS IN SUBSIDIARIES

FOOD

- **Golden Food and Dairy Creamery Corporation (GFDCC)**
  In September 2011, Magnolia, a wholly-owned subsidiary of SMPFC, acquired the subscription rights of certain individuals in GFDCC, a Philippine company engaged in the toll manufacturing of ice cream products.

- **Golden Bay Grain Terminal Corporation (GBGTC)**
  In September 2011, the Parent Company, through SMMI, a wholly-owned subsidiary of SMPFC, incorporated GBGTC with an authorized capital stock of ₱2,000 million. GBGTC is a Philippine company with the primary purpose of providing and rendering general services connected with and incidental to the operation and management of port terminals engaged in handling and/or trading of grains, among others. In November 2011, following the approval by 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 million and paid an initial consideration amounting to ₱125 million. As of March 28, 2012, GBGTC has not yet started commercial operations.

POWER AND MINING

- **Panasia Energy Holdings, Inc. (PanAsia)**
  On June 17, 2011, the Board of Directors (BOD) of SMC Global approved the sale of its 100% ownership interest in PanAsia to Millenium Holdings, Inc. (MHI). On June 24, 2011, SMC Global signed a Share Purchase Agreement with MHI subject to certain closing conditions, which includes among others, the Board of Investments (BOI) approval of the transaction. The approval by the BOI was obtained on August 18, 2011.

  In 2011, the Group recognized a gain of ₱278 million for the said sale.

- **San Miguel Electric Corp. (SMELCO)**
  On February 8, 2011, the Parent Company incorporated SMELCO, a wholly-owned subsidiary, with an authorized capital stock of ₱1,000 million divided into 10,000,000 shares and paid-up capital of ₱250 million. On August 22, 2011, SMELCO was granted a Retail Electricity Supplier (RES) license by the Energy Regulatory Commission pursuant to Section 29 of Republic Act No. 9136 or the Electric Power Industry Reform Act of 2001. A RES license is needed to participate in retail sales and enter into off take agreements with contestable customers or those with power requirements of at least 1MW upon the implementation of Open Access and Retail Competition, which is scheduled in 2012.

On August 31, 2011, the Parent Company sold its 100% shareholdings in SMELCO to SMC Global for ₱250 million.

TELECOMMUNICATIONS

- **San Miguel Equity Securities, Inc. (SMESI)**
  On March 28, 2011, the Parent Company incorporated SMESI, a wholly-owned subsidiary, with an initial authorized capital stock of ₱100 million divided into 100,000,000 shares and paid-up capital of ₱25 million.

- **Eastern Telecommunications Philippines, Inc. (ETPI)**
  On October 20, 2011, the Parent Company through its wholly-owned subsidiary, SMESI, executed a Share Purchase Agreement with ISM Communications Corporation (ISM Corp.), for the purchase of 37.7% of the outstanding and issued shares of stock of ETPI for ₱1,508 million. The acquisition of ETPI was authorized by the BOD of the Parent Company during meetings held on December 16, 2010 and September 22, 2011.

  With the acquisition of the 37.7% by SMESI and of the 40% ownership by A.G.N. Philippines, Inc. (AGNP), the Parent Company obtained control and consolidated ETPI effective October 20, 2011.

PROPERTIES

- **SMPI-Government Service Insurance System Joint Venture Corporation (SMPI-GSIS JVC)**
  On July 5, 2011, GSIS exercised its option by executing a Deed of Absolute Sale over all of its shares of stock representing 48% equity in the SMPI-GSIS JVC in favor of SMPI, for a consideration of ₱399 million, making SMPI-GSIS JVC a wholly-owned subsidiary of SMPI.

OTHERS

- **Keppel Cebu Shipyard Land, Inc. (KCSLI)**
  On May 26, 2011, SMC Shipping and Lighterage Corporation (SMCSLC) executed an Asset and Share Purchase Agreement relating to the purchase of 100% of the issued shares of KCSLI for ₱826 million through which SMCSLC obtained an indirect ownership over a parcel of land and of certain fixed assets and foreshore leases and land rights.

- **Mactan Shipyard Corporation (MSC)**
  On August 18, 2011, SMCSLC incorporated MSC. MSC's primary purpose is to engage in the business of construction, building, fabrication, repair, conversion or extension of ships, boats and other kinds of vessels and marine equipment, machineries and structures including offshore rigs. MSC leases the land owned by KCSLI.

- **San Miguel Equity Investments Inc. (SMEII)**
  On March 23, 2011, the Parent Company incorporated SMEII, a wholly-owned subsidiary, with an initial authorized capital stock of ₱100 million divided into 100,000,000 shares and paid-up capital of ₱25 million.

INVESTMENTS IN ASSOCIATES

- **Atlantic Aurum Investments BV (Atlantic)**
  On October 11, 2011, the Parent Company through its wholly-owned subsidiary San Miguel Holdings Corp. (SMHC), entered into a Sale and Purchase Agreement of Shares with PT Matra Sarana Arsitama, a corporation organized and existing under the laws of the Republic of Indonesia, for the purchase of 16,022,041 Class B common shares, representing 46.53% of the outstanding capital stock of Atlantic for US$132 million or ₱5,871 million. Atlantic has indirect equity interests in the companies holding the concessions to construct, operate and maintain the South Luzon Expressway Project.

  On December 29, 2011, SMHC entered into an Option Agreement with Padma Fund L.P. (Padma), a corporation organized and existing under the laws of Cayman Island, for the option to purchase up to 53.47% of the outstanding capital stock of Atlantic, comprising of 47,369 Class A common shares and 18,364,461 Class B common shares. SMHC paid US$40 million or ₱1,754 million as option deposit for the option to purchase the shares. SMHC has the option to purchase the shares for a period of 25 calendar days from the execution of the Option Agreement or until January 23, 2012, or such date as may be agreed upon by the Parties in writing. The option deposit shall be returned upon the issuance of a written notice by SMHC confirming that the option shall not be exercised.

  On January 26, 2012, Padma returned to SMHC the option deposit of US$40 million.

- **Meralco**

  On August 12, 2011, the BOD of the Parent Company approved the sale of a portion of its investment in Meralco to SMPFC, comprising of 59,090,909 common shares or approximately 5.2% of the outstanding capital stock of Meralco as of December 31, 2010 at ₱220.00 per share. The purchase price of the shares was based on the average trading price of Meralco shares for the period from January 1 to July 31, 2011, with a discount of 12%.

  In January and August 2011, the Parent Company paid in full the remaining balance of its liability related to the acquisition of Meralco shares of stock from GSIS amounting to an aggregate of ₱21,909 million.

  In January 2011, SMC Global paid the Development Bank of the Philippines and the Social Security System ₱2,575 million, related to the acquisition of Meralco shares of stock and paid in full the remaining balance of its payable on January 31, 2012.

- **Limay Energen Corporation (LEC)**

  On August 3, 2010, Petron together with Two San Isidro SIAI Assets, Inc. (Two San Isidro), formed LEC with an authorized capital stock of ₱3,400 million. Out of its authorized capitalization, ₱850 million has been subscribed, of which ₱213 million has been paid-up by Petron. Petron owns 40% of LEC, while Two San Isidro owns the remaining 60%. In 2011, Petron infused ₱1,147 million to LEC to fully pay its 40% equity share.

  LEC was formed to build, operate and maintain a cogeneration power plant that will engage in the generation of power and steam for the primary purpose of supplying the steam and power requirements of Petron Bataan Refinery.

- **Manila North Harbour Port Inc. (North Harbour)**
  On January 3, 2011, Petron entered into a Share Sale and Purchase Agreement with Harbour Centre Port Terminal, Inc. for the purchase of 35% of the outstanding and issued capital stock of MNHPI. As of December 31, 2011, the cost of investment in MNHPI amounted to ₱691 million.

- **Bank of Commerce (BOC)**
  In 2011, SMPI agreed to acquire an additional 7.2% of the outstanding capital stock of BOC, by way of Deed of Sale of Shares with Assignment of Subscription Rights from Valiant Ventures and Development Holdings, Inc. consisting of: (i) 2,800,000 outstanding and issued common shares of stock; and (ii) the subscription rights to 5,237,265 common shares of stock. The acquisition by SMPI resulted to an increase in its equity interest to 39.93% as of December 31, 2011. As of December 31, 2011, SMPI completed the payment for the additional investment.

- **Private Infra Dev Corporation (PIDC)**
  On September 12, 2011, Rapid Thoroughfares Inc. (Rapid) advanced ₱1,111 million as deposit for future stock subscription to 1,111,228 common shares of PIDC. One of the conditions for the issuance of the subscribed shares of Rapid is the approval of the SEC of the increase in the authorized capital stock of PIDC. As of December 31, 2011, the approval by the SEC has not yet been obtained.

- **Telecom Company**
  In 2011, Vega Telecom, Inc. (Vega) provided non-interest bearing cash advances to a telecom company, a future investee, amounting to ₱5,958 million as of December 31, 2011.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

- **Indophil Resources NL (Indophil)**
  As of December 31, 2011, Coastal View Exploration Corporation (Coastal View) stake in Indophil has been diluted to 3.99% as a result of the additional shares issuances made by Indophil.

ASSETS HELD FOR SALE

- **San Miguel (Thailand) Co. Ltd. (SMTCL)**
  On December 7, 2011, the Parent Company through San Miguel Foods and Beverage International Limited (SMFBIL), signed a Share Sale and Purchase Agreement to sell all its outstanding shares in SMTCL to Pepsi Thai Trading Co., for a purchase price of US$35 million. The sale was completed on February 15, 2012.

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

- **San Miguel (Vietnam) Co. Ltd. (SMVCL)**
  Included in the "Assets held for sale" account presented in the consolidated statement of

financial position as of December 31, 2011, are building and land use rights of SMVCL in Amata Industrial Zone in Vietnam amounting to ₱168 million, which were sold to Pepsico International - Vietnam Company on February 23, 2012.

BORROWINGS AND EQUITY TRANSACTIONS

- **Sale of Common Shares of the Parent Company and Issuance of Exchangeable Bonds**
  On May 5, 2011, the Parent Company completed the secondary offering of its common shares. The offer consists of 110,320,000 shares of stock of the Parent Company consisting of 27,580,000 common shares from treasury stock of the Parent Company and 82,740,000 common shares of Top Frontier. In addition, Top Frontier sold to ATR Kim Eng Capital Partners, Inc., BDO Capital & Investment Corporation and SB Capital Investment Corporation an additional 27,580,000 Offer Shares. The Parent Company likewise granted Credit Suisse (Singapore) Pte., Standard Chartered Securities (Singapore) Pte. Limited, Goldman Sachs (Singapore) Pte., and UBS AG an option, exercisable in whole or in part for thirty days from the date of allotment of Offer Shares in the international offer, to procure purchasers for up to 7,880,000 additional Common Shares, solely to cover over-allotments under the Offer, if any. The 7,880,000 common shares which were not utilized were reverted to treasury shares. The Offer Shares were priced at ₱110.00 per share on April 20, 2011.

  Also on May 5, 2011, US$600 million worth of exchangeable bonds of the Parent Company sold to overseas investors were simultaneously listed at the Singapore Stock Exchange. The exchangeable bonds have a maturity of three years, a coupon of 2% per annum and a conversion premium of 25% of the offer price. The exchangeable bonds will be exchangeable for common shares from the treasury stock of the Parent Company. The initial exchange price for the exchange of the exchangeable bonds into Common Shares is ₱137.50 per share.

  On December 5, 2011, 765,451 common shares were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at an exchange price of ₱113.24 per share. Subsequently on December 8, 2011, 612,361 common shares of stock of the Parent Company were transacted and crossed at the Philippine Stock Exchange (PSE) via a special block sale in relation to the issuance of common shares pursuant to the US$600 exchangeable bonds of the Parent Company. As of December 31, 2011, P87 worth of exchangeable bonds were already exchanged to equity into common shares.

- **Issuance of Bonds by SMC Global**
  On January 28, 2011, SMC Global carried out a US$300 million, 7%, 5 year bond issue under Regulations of the U.S. Securities Act of 1933, as amended. The bond issue was listed in the Singapore Exchange Securities Trading Limited.

- **Draw Down by SMC Global of the US$200 Million Medium Term Loan**
  On September 30, 2011, SMC Global has drawn a US$200 million, syndicated 3-year term loan facility. Pursuant to the Facility Agreement signed on March 31, 2011, the amount of the loan drawn will bear interest at the rate of the London interbank offered rate plus a margin, payable in arrears on the last day of the interest period. The facility agreement has a final maturity date of September 2014.

- **Issuance and Listing of Preferred Shares by San Miguel Pure Foods Company, Inc.**
  On January 20, 2011, the SEC favorably considered SMPFC's Registration Statement covering the registration of 15,000,000 preferred shares with a par value of ₱10.00 per share.

On January 26, 2011, the PSE approved, subject to certain conditions, the application of the SMPFC to list up to 15,000,000 preferred shares with a par value of ₱10.00 per share to cover the SMPFC's follow-on preferred shares offering at an offer price of ₱1,000.00 per share and with a dividend rate determined by management on the dividend rate setting date.

On February 10, 2011, the SEC issued the order for the registration of SMPFC's 15,000,000 preferred shares with a par value of ₱10.00 per share and released the Certificate of Permit to Offer Securities for Sale.

On February 11, 2011, the SMPFC's BOD approved the terms of the preferred shares offer (Terms of the Offer) and the amendment of the Articles of Incorporation of SMPFC to reflect the additional optional redemption features of the preferred shares to align with the Terms of the Offer. The stockholders of SMPFC approved the said amendment during its annual meeting on May 13, 2011.

On March 3, 2011, SMPFC's 15,000,000 preferred shares with par value of ₱10.00 per share were listed with the PSE.

On June 2, 2011, the SEC issued the Certificate of Filing of Amended Articles of Incorporation approving the additional redemption features of the preferred shares of SMPFC.

- **BOD Approval on the Issuance of Bonds by SMB**
  On October 11, 2011 the BOD of SMB approved the issuance of fixed rate peso-denominated bonds in the aggregate principal amount of up to ₱20,000 million (the "Bonds"). The proceeds thereof will be used to refinance the Series A Bonds issued by SMB in 2009, which are maturing in 2012. The BOD has also delegated to management the authority to determine, negotiate and finalize the terms and conditions of the issuance, including the interest rate and listing thereof.

  Subsequently, on February 7, 2012 further to the approval by BOD of the issuance by SMB of the Bonds in October 2011, the BOD also approved the use of proceeds of the Bonds for the prepayment of the USD Facility, which will mature in 2015. On March 13, 2012, the BOD of SMB also approved among others the interest rate of the Bonds.

  Pursuant to the above approvals, SMB offered for subscription the Bonds on March 19 to 23, 2012, (the "Offer"). The Bonds were issued on April 2, 2012 ("Issue Date") at the issue price of 100.00% of face value in three series: Series D Bonds, Series E Bonds, and Series F Bonds. The Series D Bonds shall have a term beginning on the Issue Date and ending five years and one day from the Issue Date or on April 3, 2017, with a fixed interest rate equivalent to 6.05% per annum. The Series E Bonds shall have a term beginning on the Issue Date and ending seven years from the Issue Date or on April 2, 2019, with fixed interest rate equivalent to 5.93% per annum. The Series F Bonds shall have a term beginning on the Issue Date and ending ten years from the Issue Date or on April 2, 2022, with a fixed interest rate equivalent to 6.60% per annum. Interest in Series D Bonds, Series E Bonds and Series F Bonds shall be payable semi-annually in arrears on April 2 and October 2 of each year, or the subsequent business day without adjustment if such interest payment date is not a business day, while the Bonds are outstanding, provided that the first interest payment date for the Series D Bonds shall be on October 3, 2012 (or the subsequent business day if such date is not a business day).

OTHERS

- **Payment of the Balance of the Purchase Price of Vietnam Food Business**
  In May 2011, SMPFC increased its investment in San Miguel Pure Foods International, Limited (SMPFIL) by an amount equivalent to the 90% balance of the purchase price of San Miguel Pure Foods (Vn) Co. Ltd. (SMPFVN) acquired by SMPFIL from SMFBIL. Subsequently, SMPFIL paid US$16.8 million, the remaining balance of the purchase price of the Vietnam food business.

  As approved by the State Securities Commission of Vietnam on September 30, 2011, SMPFVN was renamed to San Miguel Hormel (Vn) Co., Ltd.

- **Declaration of Cash Dividend by Top Frontier Investment Holdings, Inc. (Top Frontier)**
  On February 10, May 23 and December 29, 2011, the Parent Company received cash dividends on its preferred shares in Top Frontier amounting to ₱139.50 per share or a total of ₱1,087 million.

- **Exercise of Option to Purchase from Q-Tech Alliance Holdings, Inc. a 12.9% Equity Interest in SMC by Top Frontier**
  On March 16, 2011, Top Frontier exercised its option to purchase from Q-Tech a 12.9% equity interest in the Parent Company which increased Top Frontier's equity interest in the Parent Company's issued and outstanding common shares of stock to 67.2%.

- **Sale of SMC Shares by Top Frontier**
  On December 1, 2011 Top Frontier sold 9,000,000 SMC common shares transacted through the PSE.

  As of December 31, 2011, Top Frontier had total shareholdings of 1,447,865,673 common shares of the Parent Company or equivalent to 61.12% ownership interest. Out of the 1,447,865,673 common shares of the Parent Company held by Top Frontier as of December 31, 2011, 225,987,648 shares are lodged in the Philippine Depository and Trust Company.

2010 vs. 2009

The Group's consolidated total assets as of December 2010 amounted to ₱829,800 million, ₱391,309 million higher than 2009. This is basically due to the consolidation of the power assets and the year-end consolidation of Petron, combined with the increase in investments and advances.

Below were the major developments in 2010:

BUSINESS COMBINATIONS

POWER AND MINING

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

  On March 15, 2010, the Parent Company and SMC Global executed the Subscription Agreement setting forth their aforementioned subscription of the remaining unissued capital stock of SPDC.

Prior to the subscription, the Parent Company beneficially owned the 2,500 subscribed common stock of SPDC, representing 100% ownership interest. On March 19, 2010, the Parent Company paid in full its remaining unpaid subscription to the 2,495 common shares of stock in SPDC amounting to ₱0.1875 million.

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

- **South Premiere Power Corp.**
  On May 19, 2010, the Parent Company paid in full its remaining unpaid subscription to the 2,495 common shares of stock in SPPC amounting to ₱0.1875 million.

- **SMC Global Power Holdings Corp.**
  On August 9, 2010, the Parent Company obtained control of SMC Global, an entity whose subsidiaries are primarily engaged in the production of electricity and mining, by acquiring 75% of the shares.

  In September 3 and 8, 2010, the Parent Company acquired the remaining 25% ownership in SMC Global, making it a wholly-owned subsidiary.

  On May 17, 2010, the BOD of the Parent Company approved the sale of its entire 40% ownership interest in SMEC and SPDC and 100% ownership in PanAsia and SPPC. On September 21, 2010, the Parent Company and SMC Global executed Deed of Absolute Sale of Shares whereby the former's entire interest in SMEC, PanAsia, SPPC and SPDC were sold for a total price of ₱7.15 million. Following such sale, SMEC, PanAsia, SPPC and SPDC became wholly-owned subsidiaries of SMC Global.

- **Mining (thru San Miguel Energy Corporation)**

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

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

- **Bonanza Energy Resources, Inc. (BERI)**
  On January 29, 2010, SMEC acquired BERI, a mining company with coal property covered by COC No. 138 with the DOE dated May 26, 2005. COC No. 138 is located in Maitum, Sarangani Province and Barangay Ned, Lake Sebu, South Cotabato consisting of 8 coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 5 million metric tons based on initial exploratory drilling conducted by SMEC geologists in Maitum, Saranggani during the period from May to July 2010. The exploratory drilling to be conducted on 4 coal blocks of BERI located in Barangay Ned, Lake Sebu Municipality is projected to contain 30 million metric tons based on a geological setting and initial exploratory drilling conducted in Maitum.

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

  As of December 31, 2010, SEPC, DAMI and BERI are in the exploratory stages of their mining activities.

FUEL AND OIL

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

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

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

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

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

INFRASTRUCTURE

- **Trans Aire Development Holdings Corp. - Caticlan Airport**
  On April 8, 2010, the Parent Company, through its wholly-owned subsidiary, San Miguel Holdings Corp. (SMHC), executed a share sale purchase agreement relating to the purchase by SMHC of the rights, title and interests to a total of 2,025,000 common shares in Caticlan International Airport Development Corp. (CIADC) (the "CIADC Shares"). On April 29, 2010, Deeds of Assignment of Shares were executed covering the CIADC Shares. CIADC holds the exclusive rights, obligations and privileges to finance, design, construct, operate and maintain the Caticlan Airport by virtue of the Concession Agreement, dated June 22, 2009, with the ROP, through the DOTC and the Civil Aviation Authority.

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

- **Universal LRT Corporation (BVI) Limited - MRT 7 Project (ULC BVI)**
  On October 28, 2010, the Parent Company, through SMHC, signed a Share Sale and Purchase Agreement (the "Agreement") with Universal LRT Corporation Limited, pursuant to the authority of the BOD of the Parent Company on March 15, 2010. Under the terms of the Agreement, SMHC acquired 51% equity interest in ULC BVI, the corporation which holds the exclusive right, obligation and privilege to finance, design, construct, supply, complete and commission the MRT-7 Project by virtue of the Concession Agreement dated June 18, 2008 with the ROP, through the DOTC.

  Closing of the Agreement was held on November 8, 2010. As of March 28, 2012, there are certain post completion mandatory conditions under the Agreement which are subject to the satisfaction by Universal LRT Corporation Limited.

TELECOMMUNICATIONS

- **Two Cassandra – CCI Conglomerates, Inc. (TCCI), Perchpoint Holdings Corp. (PHC), Power Smart Capital Limited (PSCL)**
  On July 30, 2010, the Parent Company through its wholly-owned subsidiary, Vega, subscribed to unissued shares of stock of TCCI, PHC and PSCL, equivalent to 75% equity interests in each of said companies. TCCI, PHC and PSCL, in turn, collectively own 100% of the outstanding capital stock of Bell Telecommunication Philippines (BellTel).

  BellTel is a grantee of a franchise to install, operate and maintain local exchange networks and Wireless Local Loop in several areas including special economic zones, inter-exchange networks, nationwide VSAT network, international gateway facilities, and cellular mobile telecommunications network.

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

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

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

PROPERTIES

- **SMPI-Government Service Insurance System Joint Venture Corporation (SMPI-GSIS JVC)**
  On October 31, 2007, the Parent Company through SMPI entered into a Joint Venture Agreement (JVA) with Government Service Insurance System (GSIS) to establish the SMPI-GSIS JVC. The SMPI-GSIS JVC will hold ownership and title to the real property owned by GSIS, develop the property into a first class high-rise service apartment and manage and operate the same. The SMPI-GSIS JVC will have an authorized capital stock of ₱600 million divided into 600,000,000 shares with a par value of ₱1.00 per share. The parties agreed to an equal equity participation wherein the real estate property owned by GSIS is valued at ₱300 million while SMPI has committed to contribute ₱300 million to the SMPI-GSIS JVC. On October 23, 2008, SMPI-GSIS JVC was incorporated.

  In 2010, the Articles of Incorporation of SMPI-GSIS JVC was amended accordingly to reflect the increase in its authorized capital stock from ₱600 million divided into 600,000,000 shares to ₱625 million divided into 625,000,000 shares, both with par value of ₱1.00. SMPI then completed the acquisition of the 52% equity ownership in SMPI-GSIS JVC by assigning its 100% equity ownership in Maison 17 Properties (MPI), one of its wholly-owned subsidiaries, plus additional cash consideration of ₱181 million, which is in accordance with the JVA. After this transaction MPI became a wholly-owned subsidiary of SMPI-GSIS JVC.

INVESTMENTS IN ASSOCIATES

- **Top Frontier Investment Holdings, Inc. (Top Frontier)**
  On January 6, 2010, the Parent Company acquired a 49% stake via equity infusion in Top Frontier consisting of its subscription to 2,401,960 common shares of Top Frontier from its unissued capital stock. On January 7, 2010, the Parent Company paid ₱48,324 million as deposit for future subscription in connection with the option granted to the Parent Company to apply the same to the subscription of 2,598,040 non-voting, redeemable, participating preferred shares of Top Frontier upon the increase in its authorized capital stock, amendment of its Articles of Incorporation and Top Frontier's compliance with its obligations related to the aforementioned investment.

  The application for the increase in the authorized capital stock of Top Frontier was approved by the SEC on August 6, 2010.

  The stock certificates covering the investment by the Parent Company in the 2,598,040 preferred shares of Top Frontier were issued in the name of the Parent Company on October 22, 2010.

  The preferred shares are entitled to preferential dividends at a fixed rate per annum of 3% of the issue price which shall be payable quarterly in arrears and in cash. The dividends on the preferred shares shall be cumulative from and after the issue date of the preferred shares.

The preferred shares are non-voting and participating. These are redeemable in whole or in part, at the sole option of Top Frontier, equal to its issue price plus any accrued and unpaid preferential dividends, upon notice to the holders.

- **Meralco**
  On August 9, 2010, the beneficial interest of the Parent Company in Meralco increased by 6.19% upon acquisition of SMC Global, which owns 69,059,538 common shares of Meralco for a total consideration of ₱7,063 million, inclusive of transaction costs of ₱46 million.

- **Liberty Telecoms Holdings, Inc.**
  In 2009, the Parent Company, through its wholly-owned subsidiary, Vega, acquired 579,111,669 common shares of LTHI from LTHI's existing stockholders for ₱2,041 million.

  On July 21, 2009, Vega entered into a subscription agreement with LTHI for the subscription of 587,951,737 voting, nonredeemable and participating preferred shares of LTHI for ₱1,764 million. As of December 31, 2010, Vega has fully paid the said subscription.

  On October 5, 2010, Vega also acquired from the public a total of 64,589,000 common shares of LTHI amounting to ₱221 million, representing approximately 2.18% of the outstanding capital stock of LTHI.

- **BOC**
  In 2010, SMPI management decided not to pursue the sale of its ownership interest in BOC and reclassified it back to "Investments and advances" and made further acquisitions of BOC shares.

  In 2010, SMPI acquired additional 20,383,210 shares amounting to ₱3,562 million from various stockholders of BOC. These acquisitions increased SMPI's equity ownership interest in BOC to 32.77% as of December 31, 2010.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

- **10.1% stake in Indophil**
  On October 8, 2010, the Parent Company entered into a Share Placement Agreement with Indophil to subscribe to 48,016,960 common shares (Placement Shares) equivalent to approximately 10.1% of the currently issued common shares of Indophil, on a fully diluted basis.

  Indophil is an Australian company listed in the Australian stock exchange, which owns a 37.5% beneficial interest in Sagittarius Mines, Inc. (SMI). SMI has the rights to the Tampakan gold and copper mine in South Cotabato.

  On October 15, 2010, the Placement Shares were issued in the name of Coastal View, a subsidiary of SMHC. The total consideration for the purchase of the Placement Shares was A$41.3 million (approximately US$40 million) or A$0.86 per Placement Share.

ACQUISITION OF ASSETS

- **Independent Power Producer Administration Agreement**

  - **Sual Power Plant IPP Administration Agreement**

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

  - **San Roque IPP Administration Agreement**

    Following the December 15, 2009 bidding conducted by PSALM for the Appointment of the IPP Administrator for the Contracted Capacity of the 345 MW San Roque Multi-Purpose Hydroelectric Power Plant located at Barangay San Roque, San Miguel, Pangasinan (San Roque Power Plant), PSALM issued on December 28, 2009 the Notice of Award to SPDC as the winning bidder thereof. As of January 26, 2010, SPDC assumed the administration of the Contracted Capacity of the San Roque Power Plant in accordance with the provisions of the IPP Administration Agreement for the Contracted Capacity of the San Roque Power Plant with Execution Date of December 29, 2009.

  - **Ilijan IPP Administration Agreement**

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

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

- **Independent Power Producer**

  - **Limay Power Plant**

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

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

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

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

BORROWINGS AND EQUITY TRANSACTIONS

- In 2010, the Parent Company entered into a US$1,000 million unsecured loan facility agreement. Proceeds of the loan were used to prepay the US$600 million loan and to finance the diversification projects of the Group.

- In 2010, the Parent Company has drawn down ₱7,850 million for general financing and corporate requirements.

- On January 28, 2010, SMB entered into a US$ 300 million unsecured loan facility agreement. Proceeds of the loan were used to finance SMB's acquisition of the international beer and malt-based beverages business from SMC, through SMB's purchase of San Miguel Holdings Ltd.'s (SMHL) shares in SMBIL, comprising 100% of the outstanding capital stock of SMBIL.

- On May 25, 2010, GSMI entered into unsecured long-term, interest bearing loans from a local bank amounting to ₱1,500 million for the purpose of funding its permanent working capital requirements.

- In December 2010, SMFI offered for sale and subscription to the public Philippine peso-denominated fixed rate and floating rate notes with principal amount of ₱800 million and ₱3,700 million, respectively. Both types of notes have a term of 5 years and 1 day beginning on December 10, 2010 and ending on December 11, 2015. Proceeds from the issuance of the notes will be used to fund any expansion or any investment in new businesses by SMFI and for other general corporate purposes.

- In 2010, Petron issued peso-denominated notes amounting to ₱20,000 million. The principal and interest will be translated into and paid in US dollars based on the average representative market rate at the applicable rate calculation date at the time of each payment.

- In 2010, Petron has entered into a US$355 million term facility agreement. The loan was used for general corporate purposes and refinancing of peso-denominated debts.

- On July 27, 2010, the Parent Company's BOD approved the offer to issue approximately 1,000,000,000 common shares (from unissued capital stock and treasury shares) at a price of not less than ₱75.00 per share.

- Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company were considered as common shares without distinction, as approved by the SEC. Both shall be available for foreign investors, subject to the foreign ownership limit.

- On December 8, 2010, the Parent Company listed 873,173,353 Series "1" preferred shares worth ₱65,488 million, representing 27.6% of its outstanding stock.

OTHERS

- **San Miguel Brewery Inc. and Subsidiaries**

o **Sale of San Miguel Brewing International Ltd. to San Miguel Brewery Inc.**

On January 29, 2010 SMB completed the purchase of the international beer and malt-based beverages business of the Parent Company through the purchase of the shares of SMHL in SMBIL, comprising 100% of the issued and outstanding capital stock of SMBIL (SMBIL Shares), for value of US$302 million (₱13,941 million), after adjustments in accordance with the terms of the SPA. As a result, SMBIL became a wholly-owned subsidiary of SMB.

o **Sale of Brewery Properties Inc. (BPI) to San Miguel Brewery Inc.**

On November 10, 2010, SMB and the Parent Company executed a Deed of Absolute Sale of Shares ("Deed") for the purchase by SMB of all the shares of the Parent Company in BPI (the "BPI Shares"), at the aggregate purchase price of ₱6,829 million ("Purchase Price"). Upon execution of the Deed, SMB paid ₱6,629 million to the Parent Company, corresponding to the appraised value of the 128 land titles transferred in the name of BPI. The balance shall be paid by SMB to the Parent Company upon transfer of the remaining eight (8) land titles in the name of BPI. The BPI Shares comprise 40% of the issued and outstanding capital stock of BPI. The acquisition was financed using part of the proceeds of the bond offering of SMB.

BPI owned the land on which all of SMB's production facilities and certain sales offices are located.

o **Impairment Losses on Noncurrent Assets of San Miguel Brewery Hong Kong and San Miguel Guangdong Brewery**

In 2010, the Group recognized an impairment loss of ₱4,333 million against certain assets of operations in Hong Kong and mainland China, comprising mainly the production plant, office building, warehouse, trademarks and other tangible assets.

- **San Miguel Pure Foods Company, Inc. and Subsidiaries**

  - **Merger of Monterey Foods Corporation (Monterey) to San Miguel Foods, Inc.**

In August 2010, the SEC approved the merger of Monterey into SMFI, with SMFI as the surviving corporation, following the approvals of the merger by the respective BOD and stockholders of Monterey and SMFI in June 2010 and July 2010, respectively. The merger became effective September 1, 2010.

  - **Sale of San Miguel Pure Foods Investment (BVI) Limited (SMPFI) shares to SMPFC**

In July 2010, the Parent Company, through its wholly-owned subsidiary, San Miguel Foods and Beverage International Limited (SMFBIL), sold to San Miguel Pure Foods International, Limited (SMPFIL), (a wholly-owned subsidiary of SMPFC) its 51% interest in SMPFI for US$18.6 million. SMPFI owns 100% of San Miguel Pure Foods (Vn) Co. Ltd. (SMPFVN). Pursuant to the Sale and Purchase Agreement between SMFBIL and SMPFIL, 10% of the purchase price was paid in July 2010 and the balance of US$ 16.8 million (₱734.3 million as of December 31, 2010) shall be payable (i) upon change in controlling interest of SMPFIL to any third person other than an affiliate or (ii) two years from July 30, 2010, subject to floating interest rate based on one-year LIBOR plus an agreed margin after one year, whichever comes first.

  - **Sale of Food-related Brands to SMPFC**

On July 21, 2010, the Parent Company and SMPFC entered into an Intellectual Property Rights Transfer Agreement (the "Agreement") for the transfer to SMPFC of the food-related brands and intellectual property rights at a purchase price of ₱3,200 million. Following the provision of the Agreement between the Parent Company and SMPFC, 10% of the purchase price was paid on July 30, 2010 and the balance payable (i) upon change in controlling interest of SMPFC to any third person other than an affiliate or (ii) two years from July 30, 2010, subject to floating interest rate based on 1 year PDSTF plus an agreed margin after one year, whichever comes first. On March 8, 2011, the remaining balance was fully paid by SMPFC.

MATERIAL CHANGES PER LINE OF ACCOUNT

2011 vs. 2010

Trade and other receivables increased by 11% to ₱84,472 million in 2011 primarily due to the increase in trade receivables of: a) Petron on account of higher sales to industrial customers, b) SMB and SMPFC due to higher sales and of GSMI due to extension of longer credit terms to dealers, c) SMC Global's higher receivable balance from WESM; additional advances to SMC Retirement Plan; and option deposit on the acquisition of the remaining 53.47% stake in Atlantic, net of the decrease in receivable from other related parties; lower government receivables of Petron and the deconsolidation of PanAsia's balance.

Inventories increased by 14% to ₱65,720 million in 2011 mainly due to: a) increase in volume and price of crude oil inventory of Petron; b) higher coal inventory for the period of SMEC; c) increase in molasses inventory of GSMI, and d) build-up of malt in anticipation of higher production and sales requirements for the summer months of SMB, net of the decrease in fuel inventory of SMC Global due to deconsolidation of PanAsia, decrease in GSMI's finished goods

inventory as a result of the inventory depletion program and the decrease in SMB's containers due to higher sales volume during the year.

Current portion of biological assets increased by 26% due to higher feed costs and increase in volume of growing poultry livestock and hogs.

Prepaid expenses and other current assets increased by 34% to ₱22,620 million in 2011 mainly due to the excess input tax over VAT payable of the Group particularly Petron and SMC Global.

The increase in assets held for sale was mainly due to the total assets of SMTCL and SMYUI, which were sold on February 15 and January 31, 2012, respectively, and the carrying value of SMVCL's building and land use rights in the Amata Industrial Zone in Vietnam, which were sold on February 23, 2012, net of the sale of the 32nd floor and 10 parking lots of Petron Mega Plaza and the reclassification to investment properties account of its remaining carrying amount.

Investments increased by 9% from ₱152,814 million in 2010 mainly due to a) advances made for future investment in a telecommunications company and in PIDC shares by Rapid Thoroughfares, Inc., b) investment in 46.53% stake in Atlantic by SMHC and in 35% stake in Manila North Harbour Port, Inc. by Petron and c) additional investment in BOC shares of stock by SMPI and in Limay Energen Corp. by Petron and equity in net income of Meralco, net of the consolidation of ETPI, previously an associate in 2010, equity in net loss of Top Frontier, LTHI and PAHL and dividends from Meralco and Top Frontier.

Available-for-sale financial assets decreased by 43% from ₱3,597 million in 2010 mainly due to the fair value adjustment of the investment in shares of stock of Indophil, net of the disposal of Petron's AFS and fair value adjustments on other available for sale financial assets of the Group.

Investment properties increased by 34% due to reclassification to investment properties of Petron Mega Plaza's remaining carrying amount from assets held for sale and the construction costs of SMPI's Makati Diamond Hotel Project, net of the disposal of SMBIL's investment property in Thailand and the depreciation for the year.

Biological assets – net of current portion increased by 23% mainly due to the increase in volume of breeding stock coupled with higher feed costs.

Deferred tax assets (DTA) increased by 15% to ₱8,233 million in 2011 due to the effect of recognition of deferred tax assets on net operating loss carry over (NOLCO) and minimum corporate income tax (MCIT) of GSMI, and the recognition of deferred tax asset on SMC Global's excess of depreciation and interest over monthly PSALM payments.

Other noncurrent assets increased by 14% to ₱38,517 million in 2011 mainly due to the advances made by Petron to Petrochemical Asia Holdings Limited and additional advances to Petron Corporation Employee Retirement Plan (PCERP), advances made by the Parent Company to Atlantic, SMC Global's receivable from MHI on the sale of PanAsia and purchase of additional containers to support the increasing sales for domestic operations of SMB.

Drafts and loans payable increased by 11% mainly due to net availments made during the year to support the financial requirements of the Group's operations.

Accounts payable and accrued expenses decreased by 12% mainly due to the payment made by SMPI to SMCRP related to the acquisition of BOC shares and payment made by SMC related to the acquisition of Meralco shares of stock, net of the reclassification to current liabilities of the amount due from SMC Global in 2012 and increase in payables of Petron due to increase in crude and finished product prices in 2011.

Income and other taxes payable decreased by 10% mainly due to tax incentives of SMC Global as a result of the income tax holiday granted by the BOI in August 2010, net of the increases due to higher taxable income during the year.

Dividends payable increased by 161% mainly due to the dividends payable of the Parent Company to its preferred shareholders which were paid on January 20, 2012.

The balance of liabilities directly associated with assets held for sale pertains to the total liabilities of SMTCL and SMYUI.

Long-term debt increased by 25% from ₱168,927 million in 2010 mainly due to issuance of bonds by the Parent Company and SMC Global and the availment of corporate notes, net of payments made.

Deferred tax liabilities decreased by 18% from ₱13,752 million in 2010 mainly due to the effect of recognition of lower deferred income tax liability on the undistributed net earnings of foreign subsidiaries during the period and the effect of recognition of deferred tax on the foreign currency loss of SMC Global as compared to the forex gains recognized last year.

Finance lease liabilities decreased by ₱146 million mainly due to payments, net of the recognition of effective interest for the year.

Other noncurrent liabilities decreased by 74% in 2011 mainly due to the prepayment made by SMC in August 2011; the reclassification to current liabilities of the amount due from SMC Global, which was subsequently paid on January 31, 2012, related to the acquisition of Meralco shares of stock; and the reclassification to current liabilities of the payable related to the acquisition of AGNP shares of stock in 2010, net of the payable on the acquisition of ETPI shares in 2011 and the increase in cylinder deposits, cash bond, asset retirement obligation and pension liability of Petron.

Appropriated retained earnings increased significantly in 2012 mainly due to additional appropriations made by SMC Global, Petron, SMPI, GSMI and SMCSLC.

Amounts recognized directly in equity relating to assets held for sale pertains to the balance of SMTCL and SMYUI's cumulative translation adjustments.

Non-controlling interests (NCI) increased by 37% in 2011 mainly due to the recognition of NCI on the preferred shares issued by SMPFC, the NCI upon the consolidation of ETPI and the share of NCI in the net income.

Equity
The increase in equity in 2011 is due to:

(In millions)	2011
Income during the period	₱28,504
Addition to non-controlling interests	15, 578
Issuance of capital stock	4,259
Amounts recognized directly in equity relating to assets held for sale	(53)
Effect of translation adjustments	(235)
Cash dividends	(15,778)
	₱32,275

2010 vs. 2009

Cash and cash equivalents decreased by 40% from ₱209,411 million in 2009 to ₱125,188 million in 2010 mainly due to: (1) acquisition of subsidiaries (Petron & SRC, SMC Global, Belltel, ULC BVI, AGNP, TADHC, IGI and SMPI - GSIS JVC); (2) investment in shares of stock of Top Frontier, BOC, LTHI, PIDC and Indophil; (3) payment of dividends; (4) net payments of short-term loans; and (5) various acquisition of property plant equipment by GSMI, SMCSLC, SMYPIL and SMB, net of the net proceeds from loan availment of the Parent Company, SMB, SMFI and the consolidation of Petron and SMC Global's cash balance.

Trade and other receivables increased by 55% to ₱75,904 million in 2010 mainly due to the consolidation of Petron and SMC Global's balance and additional advances to SMCRP and other related parties, net of the collection of insurance claim of SMPFC and interest received from money market placements.

Inventories increased by 126% to ₱57,442 million in 2010 due to the consolidation of Petron and SMC Global's balances and increase in the inventory of raw alcohol and production volume of liquor products of GSMI, net of the decrease in inventory of the Packaging Group due to higher sales.

Current biological assets increased by 29% to ₱3,267 million in 2010 due to the increase in the volume of growing poultry livestock and hogs as a result of expected increase in sales volume and the reclassification to current portion of SMPFVN's biological assets.

Prepaid expenses and other current assets increased by 90% to ₱16,914 million in 2010 mainly due to the consolidation of Petron and SMC Global's balance and of IGI's - raw land inventory and input tax of SMPFC from the acquisition of brands.

Assets held for sale as of December 31, 2010, consist of Petron's office units located at Petron Mega Plaza. On December 1, 2010, Petron's BOD approved the sale of these properties to provide cash flows for various projects. The investment property's carrying amount amounted to ₱823 million as of December 31, 2010. The balance as of December 31, 2009 of ₱2,746 million represents the carrying value of SMPI's investment in BOC (16,396,689 common shares). In 2010, SMPI's management decided not to pursue the sale of its ownership interest in BOC and reclassified it back to "Investments and advances" account in the consolidated statements of financial position.

Investments increased from ₱39,005 million to ₱152,814 million in 2010 mainly due to the: (a) investment in shares of stock of Top Frontier and ETPI; (b) additional investments in BOC and LTHI; (c) consolidation of SMC Global's investment in shares of stock of Meralco and of Petron's investment in Petrochemical Asia (HK) Limited and Limay Energen Corp.; (d) reclassification of investment in BOC previously reported in assets held for sale; and (e) equity in net earnings of Meralco, SMEC, SPDC and BOC, net of equity in net loss of Top Frontier, LTHI and dividend income from Meralco.

The increase in available-for-sale financial assets was mainly due to consolidation of Petron's balance and the investment in shares of stock of Indophil.

Property, plant and equipment increased from ₱65,919 million to ₱308,073 million in 2010 mainly due to the consolidation of Petron and SMC Global's balance, which mainly accounts for the Sual, Ilijan, Limay and San Roque power plants under IPPA agreements with PSALM and expansion of GSMI's distillery capacity, net of the impairment of SMBIL's plant and depreciation in 2010.

Investment properties increased by 14% due to the consolidation of Petron's balance and translation adjustments of SMBIL's investment properties.

Noncurrent biological assets decreased by 20% to ₱1,479 million in 2010 mainly due to the reclassification to current portion of SMPFVN's biological assets.

Goodwill increased to ₱30,251 million in 2010 mainly due to the goodwill recognized from the acquisition of Petron, ULC BVI and TADHC, net of the impairment of SMBHK's goodwill and translation adjustments.

Other intangible assets increased by 202% from ₱3,630 million in 2009 mainly due to the licenses recognized by Vega from the acquisition of BellTel and the mining rights recognized by SMEC from the acquisition of Sultan, Daguma and BERI.

Deferred tax assets decreased by 20% from ₱8,883 million in 2009 to ₱7,134 million in 2010 mainly due to the effect of recognition of unrealized foreign exchange gains and the decrease in MCIT and NOLCO of the Parent Company and utilization of Monterey's NOLCO, net of the consolidation of SMC Global and SRC's balance.

Other noncurrent assets increased by 171% from ₱12,468 million in 2009 to ₱33,801 million in 2010 mainly due to the (a) consolidation of Petron's balance, attributable to the noncurrent receivables from Petron Corporation Employee Retirement Plan; (b) project development cost of ULC BVI; and (c) the noncurrent portion of receivable on the sale of SMPI's Reliance Property, net of the sale of long-term receivables from Coca-Cola South Asia Holdings.

Drafts and loans payable increased by 31% from ₱56,789 million in 2009 mainly due to consolidation of Petron's balance, net of the net payments and translation adjustments.

Accounts payable and accrued expenses increased by 122% from ₱31,391 million in 2009 mainly due to the (a) consolidation of Petron and SMC Global's balance, attributable to the current portion of liability related to the acquisition of Meralco shares of stock and trade and other payables of the power group; (b) reclassification to current liabilities of the unpaid balance due next year of the Parent Company, related to the acquisition of Meralco shares of stock;

(c) SMHC's payable on the acquisition of TADHC; and (d) the reclassification to current liabilities of the subscriptions payable related the investment in PIDC.

The increase in income and other taxes payable of ₱5,815 million from ₱4,186 million in 2009 to ₱10,001 million in 2010, primarily represents the income tax payable of SMC Global.

Dividends payable increased by 44% mainly due to the dividends payable of PF – Hormel to its non-controlling stockholder in 2010.

Deferred tax liabilities increased by 14% from ₱12,037 million in 2009 to ₱13,752 million in 2010 mainly due to the consolidation of Petron and SMC Global's balance, net of the decrease of deferred tax liability on the undistributed net earnings of foreign subsidiaries.

The increase in finance lease liabilities represents the amount payable to PSALM, attributable to the IPP administration of the Sual, Ilijan and San Roque power plants.

Other noncurrent liabilities decreased by 12% in 2010 mainly due to the (a) reclassification to current portion of the unpaid balance due next year related to the acquisition of Meralco shares of stock of the Parent Company; (b) reclassification to current liabilities of amount due next year on the acquisition of PIDC; net of the consolidation of Petron and SMC Global, related to the acquisition of Meralco shares of stock and the subscriptions payable of Vega and SMHC on the acquisition of AGNP and TADHC, respectively.

The increase in revaluation increment of ₱1,373 million in 2010 is mainly due to the recognition of revaluation increment in connection with the acquisition of non-controlling interest in SMC Global.

Cumulative translation adjustments decreased by 8% from ₱5,845 million in 2009 mainly due to the translation of foreign subsidiaries' net assets. The exchange rates used for net assets in December 31, 2010 is ₱43.84 to US$1 (₱46.2 in December 31, 2009).

Non-controlling interests increased by ₱23,673 million in 2010 mainly due to the additional amount recognized as a result of the acquisition of 68.26% ownership interest in Petron, 51% ownership interest in ULC BVI and 52% ownership interest in SMPI - GSIS JVC and share in the 2010 net income of non-controlling stockholders of SMB and SMYPC, net of dividends declared to non-controlling stockholders and translation adjustments.

Equity
The increase in equity in 2010 is due to:

(In millions)	2010
Income during the period	₱24,056
Addition to non-controlling interests	24,854
Issuance of capital stock	2,514
Effect of translation adjustments	(673)
Cash dividends	(26,260)
Acquisition of a subsidiary and others	1,396
	₱25,887

SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	December 31		
	2011	2010	2009
		(In Millions)	
Net cash flows provided by operating activities	**₱32,207**	₱45,314	₱13,368
Net cash flows provided by (used in) investing activities	**(70,488)**	(126,931)	49,155
Net cash flows provided by (used in) financing activities	**42,335**	(2,226)	32,550

Net cash from operations basically consists of income for the period and changes in noncash current assets, certain current liabilities and others.

Net cash provided by (used in) investing activities included the following:

	December 31		
	2011	2010	2009
		(In Millions)	
Interest received	**₱4,523**	₱3,798	₱5,249
Dividends received from associates	**2,637**	-	-
Proceeds from sale of investments and property and equipment	**1,347**	1,175	55,127
Acquisition of subsidiaries, net of cash and cash equivalents acquired	**(775)**	(18,978)	(1,494)
Decrease (increase) in other noncurrent assets and others	**(5,262)**	1,424	(950)
Payment by (advances to) related parties	**(5,709)**	(6,070)	3,243
Additions to investments and advances	**(16,338)**	(99,762)	(5,771)
Payment of other liabilities	**(24,485)**	-	-
Additions to property, plant and equipment	**(26,426)**	(8,518)	(6,249)

Major components of cash flow provided by (used in) financing activities are as follows:

	December 31		
	2011	2010	2009
		(In Millions)	
Proceeds from short-term borrowings	**₱492,117**	₱685,768	₱691,093
Proceeds from long-term borrowings	**55,399**	72,937	67,786
Increase in non-controlling interests	**14,829**	126	315
Proceeds from issuance of capital stock and reissuance of treasury stock	**3,919**	2,314	7,087
Payments of finance lease liabilities	**(11,781)**	(4,798)	(12)
Payments of long-term borrowings	**(14,025)**	(29,196)	(44,657)
Cash dividends paid	**(14,451)**	(26,001)	(5,493)
Payments of short-term borrowings	**(483,672)**	(703,376)	(683,569)

The effect of exchange rate changes on cash and cash equivalents amounted to (₱181 million), (₱380 million) and (₱2,601 million) in December 31, 2011, 2010 and 2009 respectively.

Cash and cash equivalents associated to assets held for sale amounted to ₱86 million as of December 31, 2011.

IV. ADDITIONAL INFORMATION ON UNAPPROPRIATED RETAINED EARNINGS

The following items are not available for declaration as dividends:

	December 31	
	2011	2010
	(In Millions)	
Accumulated equity in net earnings of subsidiaries and associates (included in the unappropriated retained earnings balance)	**₱44,000**	**₱55,565**
Treasury stock	**(67,441)**	**(69,541)**

V. KEY PERFORMANCE INDICATORS

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

	December 31	
	2011	2010
Liquidity:		
Current Ratio	**1.61**	1.57
Solvency:		
Debt to Equity Ratio	**1.98**	2.11
Asset to Equity Ratio	**2.98**	3.11
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**7.87%**	9.35%
Interest Rate Coverage Ratio	**2.81**	3.17
Operating Efficiency:		
Volume Growth	**97%**	34%
Revenue Growth	**118%**	41%

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

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

VI. OTHER MATTERS

- Events After the Reporting Date

a. *Investment in ExxonMobil*

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

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

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

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

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

b. *Sale of Petron Shares by PCERP*

  On January 24, 2012, PCERP sold 695,300,000 common shares of Petron at a price of ₱11.00 per share through the facilities of the PSE.

c. *Acquisition of East Pacific Star Bottlers Philippines, Inc. (EPSBPI)*

  On January 27, 2012, GSMI acquired 100% of the outstanding capital stock of EPSBPI for ₱200 million.

d. *Amendment of Articles of Incorporation and By-Laws of the Parent Company*

  At the March 14, 2011 and June 7, 2011, meeting of the Parent Company's BOD and stockholders, respectively, the amendments to the Parent Company's Articles of Incorporation and By-Laws were approved as follows:

  a. that the Parent Company's corporate term be extended for another fifty (50) years from August 21, 2013; and

b. that the date of the annual regular meeting of the stockholders be changed from second Tuesday of May to second Tuesday of June.

The SEC approved on March 16, 2012, the amendment of the Articles of Incorporation and By-Laws of the Parent Company.

- Contingencies

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

- Deficiency Excise Tax

On April 12, 2004 and May 26, 2004, the Parent Company was assessed by the BIR for deficiency excise tax on "San Mig Light", one of its beer products. The Parent Company contested the assessments before the Court of Tax Appeals (CTA) (1st Division) under CTA case numbers 7052 and 7053.

In relation to the aforesaid contested assessments, the Parent Company, on January 31, 2006, filed with the CTA (1st Division), under CTA case number 7405, a claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it.

The above assessment cases (CTA case numbers 7052 and 7053) and claim for refund (CTA case number 7405), which involve common questions of fact and law, were subsequently consolidated and jointly tried.

On November 27, 2007, the Parent Company filed with the CTA (3rd Division), under CTA case number 7708, a second claim for refund, also in relation to the contested assessments, as it was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate.

On January 11, 2008, the BIR addressed a letter to the Parent Company, appealing to the Parent Company to settle its alleged tax liabilities subject of CTA case numbers 7052 and 7053 "in order to obviate the necessity of issuing a Warrant of Distraint and Garnishment and/or Levy". The Parent Company's external legal counsel responded to the aforesaid letter and met with appropriate officials of the BIR and explained to the latter the unfairness of the issuance of a Warrant of Distraint and Garnishment and/or Levy against the Parent Company, especially in view of the Parent Company's pending claims for refund. As of March 28, 2012, the BIR has taken no further action on the matter.

On July 24, 2009, the Parent Company filed its third claim for refund with the CTA (3rd Division), under CTA case number 7953, also in relation to the contested assessments. This case is still undergoing trial.

On January 7, 2011, the CTA (3rd Division) under CTA case number 7708 rendered its decision in this case, granting the Parent Company's petition for review on its claim for refund and ordering respondent Commissioner of Internal Revenue to refund or issue a tax credit certificate in favor of the Parent Company in the amount of ₱926 million, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from December 1, 2005 up to July 31, 2007. This decision was elevated by the BIR Commissioner to the CTA En Banc and is pending review.

On October 18, 2011, the CTA (1st Division) rendered its joint decision in CTA case numbers 7052, 7053 and 7405, cancelling and setting aside the deficiency excise tax assessments against the Parent Company, granting the latter's claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of ₱781 million, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from February 1, 2004 to November 30, 2005. A motion for reconsideration filed by the BIR Commissioner on the aforesaid decision has been denied, and the Commissioner is presently taking steps to elevate the decision to CTA En Banc for review.

In the meantime, effective October 1, 2007, the Parent Company spun off its domestic beer business into a new company, SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR.

On September 28, 2009, SMB filed a claim for refund with the CTA (3rd Division) under CTA case number 7973; on December 28, 2010, its second claim for refund with the CTA (1st Division) under case number 8209; and on December 23, 2011, its third claim for refund with the CTA (3rd Division) under case number 8400. All of these cases are undergoing trial.

- Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron. The assessment relates to Petron's use of ₱659 million worth of Tax Credit Certificates ("TCCs") to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron is contesting the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of Board of Investments-registered companies, Petron is a qualified transferee of the TCCs. Following an unfavorable ruling from the CTA En Banc, Petron filed an appeal to the Supreme Court. A Resolution was issued by the Supreme Court (1st Division) on September 13, 2010 denying with finality the Commissioner of Internal Revenue's motion for reconsideration of the Decision dated July 28, 2010.

In November 1999, the BIR issued a ₱284 million assessment against Petron for deficiency excise taxes for the years 1995 to 1997. The assessment results from the cancellation by the Philippine Department of Finance ("DOF") of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. In August 2006, the CTA denied Petron's petition, ordering it to pay the BIR ₱580 million representing the ₱284 million unpaid deficiency excise from 1995 to 1997, and 20% interest per annum computed from December 4,

1999. In July 2010, the Philippine Supreme Court ("SC") nullified the assessment against Petron and declared Petron as a valid transferee of the TCCs. The BIR filed a motion for reconsideration which remains pending as of March 28, 2012.

In May 2002, the BIR issued a ₱254 million assessment against Petron for deficiency excise taxes for the years 1995 to 1998. The assessment results from the cancellation by the DOF of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. In May 2007, the CTA second division denied Petron's petition, ordering Petron to pay the BIR ₱601 million representing Petron's ₱254 million unpaid deficiency excise taxes for the taxable years 1995 to 1998, and 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. Petron appealed the decision to the CTA *en banc,* which ruled in favor of Petron, reversing the unfavorable decision of the CTA second division. The BIR is contesting the CTA *en banc* decision before the SC where the case is still pending.

There are duplications in the TCCs subject of the three assessments described above. Excluding these duplications, the aggregate deficiency excise taxes, excluding interest and penalties, resulting from the cancellation of the subject TCCs amount to ₱911 million.

- Pandacan Terminal Operations

  In November 2001, the City of Manila enacted City Ordinance No. 8027 ("Ordinance 8027") reclassifying the areas occupied by the oil terminals of Petron, Shell and Chevron from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, Petron, together with Shell and Chevron, entered into a MOU with the City of Manila and DOE, agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance 8027. In December 2002, in reaction to the MOU, Social Justice Society ("SJS") filed a petition with the SC against the Mayor of Manila asking that the latter be ordered to enforce Ordinance 8027. In April 2003, Petron filed a petition with the Regional Trial Court ("RTC") to annul Ordinance 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance 8027.

  The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance ("Ordinance 8119"), which applied to the entire City of Manila. Ordinance 8119 allowed Petron (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance 8119, which was thought to effectively repeal Ordinance 8027, in April 2007, the RTC dismissed the petition filed by Petron questioning Ordinance 8027.

  However, on March 7, 2007, in the case filed by SJS, the SC rendered a decision (the "March 7 Decision") directing the Mayor of Manila to immediately enforce Ordinance 8027. On March 12, 2007, Petron, together with Shell and Chevron, filed motions with the SC seeking intervention and reconsideration of the March 7 Decision, on the ground that the SC failed to consider supervening events, notably (i) the passage of Ordinance 8119 which supersedes Ordinance 8027, as well as (ii) the RTC orders preventing the implementation of Ordinance

8027. Petron, Shell, and Chevron also noted the possible ill-effects on the entire country arising from the sudden closure of the oil terminals in Pandacan.

On February 13, 2008, the SC resolved to allow Petron, Shell and Chevron to intervene, but denied their motion for reconsideration. In its February 13 resolution (the "February 13 Resolution"), the Supreme Court also declared Ordinance 8027 valid, dissolved all existing injunctions against the implementation of the Ordinance 8027, and directed Petron, Shell and Chevron to submit their relocation plans to the RTC. Petron, Shell and Chevron have sought reconsideration of the February 13 Resolution. In compliance with the February 13 Resolution, Petron, Shell and Chevron have submitted their relocation plans to the RTC.

In May 2009, Manila City Mayor Alfredo Lim approved Ordinance No. 8187 ("Ordinance 8187"), which repealed Ordinance 8027 and Ordinance 8119, and permitted the continued operations of the oil terminals in Pandacan.

In June 2009, petitions were filed with the SC, seeking the nullification of Ordinance 8187 and enjoining its implementation. These petitions are still pending.

- Oil Spill Incident in Guimaras

  On August 11, 2006, M/T Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, capsized 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice ("DOJ") and the Special Board of Marine Inquiry ("SBMI"), both agencies found the owners of M/T Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, who are charterers.

- Bataan Real Property Tax Cases

  Petron has three pending real property tax cases with the Province of Bataan, arising from three real property tax assessments. The first is for an assessment made by the Municipal Assessor of Limay, Bataan in 2006 for the amount of ₱86.4 million covering Petron's isomerization and gas oil hydrotreater facilities which enjoy, among others, a five-year real property tax exemption under the Oil Deregulation Law per the Board of Investments Certificates of Registration. The second is for an assessment made also in 2006 by the Municipal Assessor of Limay for ₱17 million relating to the leased foreshore area on which the pier of Petron's Refinery is located. In 2007, the Bataan Provincial Treasurer issued a Final Notice of Delinquent Real Property Tax requiring Petron to settle the amount of ₱2,168 million allegedly in delinquent real property taxes as of September 30, 2007, based on a third assessment made by the Provincial Assessor covering a period of 13 years from 1994 to 2007. The third assessment cited Petron's non-declaration or under-declaration of machineries and equipment in the Refinery for real property tax purposes and its failure to pay the corresponding taxes for the said period.

Petron timely contested the assessments by filing appeals with the Local Board of Assessment Appeals ("LBAA"), and posted the necessary surety bonds to stop collection of the assessed amount.

However, with regard to the third assessment, notwithstanding the appeal to the LBAA and the posting of the surety bond, the Provincial Treasurer, acting on the basis of the Final Notice of Delinquent Real Property Tax relating to the third assessment, proceeded with the publication of the public auction of the assets of Petron, which was set for October 17, 2007. Due to the Provincial Treasurer's refusal to cancel the auction sale, Petron filed a complaint for injunction on October 8, 2007 before the RTC to stop the auction sale. A writ of injunction stopping the public auction until the final resolution of the case was issued by the RTC on November 5, 2007.

A motion to dismiss filed by the Provincial Treasurer on the ground of forum-shopping was denied by the RTC. However, a similar motion based on the same ground of forum shopping was filed by the Provincial Treasurer before the LBAA and the motion was granted by the LBAA in December 2007. On appeal by Petron, the Central Board of Assessment Appeals ("CBAA"), in August 2008, remanded the case to the LBAA for factual determination, effectively granting Petron's appeal and reversing the LBAA's dismissal of the case.

The RTC issued a Decision dated June 25, 2010 upholding Petron's position and declared null and void the demand on Petron for the payment of realty taxes in the amount of ₱1,731 million made by the Provincial Assessor of Bataan and the levy of the properties of Petron. The Court issued a Writ of Prohibition permanently prohibiting, preventing and restraining the Provincial Treasurer of Bataan from conducting a public auction of the properties of Petron or selling the same by auction, negotiated sale, or any act of disposition pending the finality of the disposition by the LBAA or CBAA, as the case maybe, on the pending appeal made by Petron from the revised assessment of the Provincial Assessor of Bataan.

- Top Frontier

  On November 27, 2009, Top Frontier acquired 857,115,914 common shares of the issued and outstanding common shares of the Parent Company for a total of ₱64,284 million. To acquire an additional 327,000,000 Class "B" common shares of the Parent Company under the SPA with Q-Tech Alliance Holdings Inc. (Q-Tech), Top Frontier conducted a tender offer before such acquisition pursuant to the 35% threshold under the mandatory provisions of the Securities Regulation Code.

  On April 8, 2010, such tender offer closed and a total of 47,700,679 Class "A" and 31,759,499 Class "B" common shares were tendered for ₱75.00 per share, for a total consideration of ₱5,959 million. Such tendered shares were crossed in the PSE on April 13, 2010 together with the 327,000,000 common shares acquired from Q-Tech under the SPA.

  Following the tender offer, Top Frontier acquired in the open market a total of 1,942,906 common shares for ₱75.00 per share.

The SPA with Q-Tech also provides a grant of call option to Top Frontier for the purchase of 301,666,675 Class "B" common shares of the Parent Company at ₱70.00 per share. The call option may be exercised by Top Frontier until March 31, 2011 or such later date as may be mutually agreed upon by the parties in writing. On March 8, 2011, Top Frontier has notified Q-Tech of its intention to exercise the call option within the period specified in the SPA. On March 16, 2011, Top Frontier exercised its option to purchase from Q-Tech a 12.9% equity interest in the Parent Company which increased Top Frontier's equity interest in the Parent Company's issued and outstanding common shares of stock to 67.2%.

Top Frontier entered into an Option Agreement with 44 Corporations in 2009 wherein Top Frontier has exclusive right to acquire 476,722,639 Class "A" and 16,652,544 Class "B" common shares of the Parent Company at ₱75.00 per share for which Top Frontier paid an amount of US$200 million as advances. The call option may be exercised by Top Frontier until November 12, 2012. Any further extension of the term of the option period shall require the written consent and approval of both parties.

The Parent Company completed the secondary offering of its common shares which includes 110,320,000 shares of stock held by Top Frontier. The Offer Shares were priced at ₱110.00 per share on April 20, 2011.

On December 1, 2011 Top Frontier sold 9,000,000 SMC common shares transacted through the PSE.

As of December 31, 2011 and 2010, Top Frontier had total shareholdings of 1,447,865,673 and 1,265,518,998 common shares of the Parent Company, respectively. Out of the 1,447,865,673 common shares of the Parent Company held by Top Frontier as of December 31, 2011, 225,987,648 shares are lodged in the Philippine Depository and Trust Company.

- *Commitments*

  Amount authorized but not yet disbursed for capital projects as of December 31, 2011 is approximately ₱25,250 million.

- Certain amounts in prior year have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations for any period.

- *Foreign Exchange Rates*

  The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries and associates to Philippine peso were closing rates of ₱43.84 in 2011 and 2010 for consolidated statements of financial position accounts; and average rates of ₱43.31, ₱45.12 and ₱47.64 in 2011, 2010 and 2009, respectively, for income and expense accounts.

- Events After the Date of Auditor's Report but Before the Date the Consolidated Financial Statements are Issued

a. *Investment in ExxonMobil*

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

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

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

- There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.

- There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.

- There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.

- There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.

- There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 26 (c) of the 2011 Audited Consolidated Financial Statements and "Contingencies" of Section VI above, that remain outstanding as of December 31, 2011. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

- There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period December 31, 2011.

- The effects of seasonality or cyclicality on the interim operations of the Group's businesses are not material.