



SAN MIGUEL CORPORATION

May 8, 2013

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

Definitive Information Statement

2nd Tuesday of June

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Month

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Day

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FORM TYPE

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Annual Meeting

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Secondary License Type, If Applicable

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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SAN MIGUEL CORPORATION

NOTICE OF REGULAR MEETING OF STOCKHOLDERS

June 11, 2013

The Regular Meeting of the Stockholders of San Miguel Corporation will be held on **Tuesday, June 11, 2013 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 14, 2012
3. Presentation of the Annual Report
4. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
5. Appointment of External Auditors
6. Election of the Board of Directors
7. Other Matters
8. Adjournment

Minutes of the 2012 Regular Stockholders' Meeting and resolutions of the Board of Directors beginning January 1, 2012 will be available for examination during office hours at the Office of the Corporate Secretariat.

The deadline for submission of proxies is on **May 28, 2013**. 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 4, 2013** at 10:00 a.m. at the SMC Stock Transfer Service Corporation Office, 2/F, 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

**Tuesday, June 11, 2012 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 10, 2013

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 December 31, 2012
Common Shares	2,372,653,621
Series "2-A" Preferred Shares	721,012,400
Series "2-B" Preferred Shares	90,428,200
Series "2-C" Preferred Shares	255,559,400
TOTAL	3,439,653,621

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 "2" 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 11, 2013** 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 10, 2013**.

**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

There are no corporate matters or actions that will entitle dissenting stockholders to exercise their right of appraisal as provided by Title X of the Corporation Code.

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 25, 2013, the Company had the following outstanding shares of common stock:

<u>Title of Class</u>	<u>No. of shares outstanding</u>
Common Shares	2,379,617,251
Series "2-A" Preferred Shares	721,012,400
Series "2-B" Preferred Shares	90,428,200
Series "2-C" Preferred Shares	<u>255,559,400</u>
Total	3,446,617,251

As of April 30, 2013, the following is the foreign ownership of the shares of stock of the Company:

Share Class	Foreign Shares	Percentage of Foreign Ownership	Local Shares / Shares held by Filipinos	Percentage of Filipino Ownership	Total Shares Outstanding
Common	515,781,120	21.67 %	1,863,836,131	78.33 %	2,379,617,251
Preferred Series "2-A"	3,504,504	0.49 %	717,507,896	99.51 %	721,012,400
Preferred Series "2-B"	106,300	0.12 %	90,321,900	99.88 %	90,428,200
Preferred Series "2-C"	1,425,883	0.56 %	254,133,517	99.44 %	255,559,400
Total	520,817,807	15.11 %	2,925,799,444	84.89 %	3,446,617,251

The record date with respect to this solicitation is on **May 8, 2013**. Only stockholders of record at the close of business on **May 8, 2013** 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 8, 2013**, 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: **number of common shares held on record as of record date multiplied by 15 directors**.

The deadline for submission of proxies is on **May 28, 2013**. Validation of proxies will be on **June 4, 2013** at 10:00 a.m. at the SMC Stock Transfer Service Corporation Office, 2/F, SMC Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, Philippines.

Owners of more than 5% of the Company's voting¹ securities (both common and preferred shares) as of April 25, 2013, 2013 are 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
Common	Top Frontier Investment Holdings Inc. ² 5th Floor, ENZO Bldg., No. 339 Sen. Gil Puyat, Makati City	Top Frontier Investment Holdings Inc.	Filipino	1,573,100,340	45.64%
Common	Master Year Limited Scotia Centre, 4/F P.O. Box 2804 George Town Grand Cayman KYI-1112, Cayman Islands	Ramon S. Ang, President and Chief Operating Officer of the Company (Filipino)	Caymanian	368,140,516	10.68%
Common	PCD Nominee Corporation (Filipino) Makati City	Various individuals/ entities	Filipino	118,248,673	30.05%
Series "2" Preferred Shares	PCD Nominee Corporation (Filipino) Makati City	Various individuals/ entities	Filipino	917,315,113	
Common	PCD Nominee Corporation (Non-Filipino) Makati City	Various individuals/ entities	Foreign	116,287,555	3.51%
Series "2" Preferred Shares	PCD Nominee Corporation (Non-Filipino) Makati City	Various individuals/ entities	Foreign	4,917,087	

¹ Common stockholders have the right to vote on all matters requiring stockholders' approval. The holders of the Series "2" 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 The shares owned by Top Frontier Investments Holdings, Inc. are voted, in person or by proxy, by its authorized designate. As of April 25, 2013, Top Frontier Investments Holdings, Inc. has voting rights to a total of 1,573,100,340 shares of the Company which represent about 56.61% of the outstanding common capital stock of the Company. Mr. Roberto V. Ongpin and Mr. Eric O. Recto own 1,999 shares and 1 share, respectively, in Top Frontier.

The following are the number of shares comprising the Company's capital stock (all of which are voting shares) owned of record by the Chief Executive Officer, directors, key officers of the Company, and nominees for election as director as of April 25, 2013:

Name of Owner	Amount and Nature of Ownership		Citizenship	Total No. of Shares
	Common	Preferred		
Eduardo M. Cojuangco, Jr.	1,273,544 (D)		Filipino	1,273,544 (0.04%)
Ramon S. Ang	757,873 (D) 368,140,516 (I)		Filipino	368,898,389 (10.07%)
Ferdinand K. Constantino	147,500 (D)	210,609 (D)	Filipino	358,109 (0.01%)
Estelito P. Mendoza	31,972 (D)		Filipino	31,972 (0.00%)
Leo S. Alvez	10,000 (D) 9,326 (I)		Filipino	19,326 (0.00%)
Iñigo Zobel	16,171 (D)		Filipino	16,171 (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%)
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%)
Thomas A. Tan	5,000 (D)		Filipino	5,000 (0.00%)
Reynato S. Puno	5,000 (D)		Filipino	5,000 (0.00%)
Margarito B. Teves	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, Chief Operating Officer, key officers and directors as a group as of April 25, 2013 is 2,531,766 shares or approximately 0.0735% of the Company's outstanding capital stock.

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:

Board of Directors

<u>Name</u>	<u>Age</u>	<u>Citizenship</u>	<u>Position</u>
Eduardo M. Cojuangco, Jr.	77	Filipino	Chairman and Chief Executive Officer
Ramon S. Ang	59	Filipino	Vice Chairman, President and Chief Operating Officer
Estelito P. Mendoza	83	Filipino	Director
Leo S. Alvez	70	Filipino	Director
Joselito F. Campos, Jr.	62	Filipino	Director
Ferdinand K. Constantino	61	Filipino	Director
Menardo R. Jimenez	80	Filipino	Director
Roberto V. Ongpin	76	Filipino	Director
Alexander J. Poblador	59	Filipino	Director
Eric O. Recto	49	Filipino	Director
Thomas A. Tan	59	Filipino	Director
Iñigo Zobel	56	Filipino	Director
Winston F. Garcia	54	Filipino	Independent Director
Reynato S. Puno	72	Filipino	Independent Director
Margarito B. Teves	69	Filipino	Independent Director

Eduardo M. Cojuangco, Jr. is the Chairman and Chief Executive Officer of the Company, a position he has held since July 7, 1998. He is also the Chairman of the Executive Committee of the Company. He also holds the following positions: Chairman and Chief Executive Officer of Ginebra San Miguel, Inc. and Chairman of San Miguel Pure Foods Company, Inc. He is also the Chairman of ECJ & Sons Agricultural Enterprises, Inc. and the Eduardo Cojuangco, Jr. Foundation, Inc., and a Director of Caiñaman Farms, Inc. and Petron Corporation. He is a former Director of Manila Electric Company (February 2009-May 2009). He attended the University of the Philippines – Los Baños College of Agriculture and California Polytechnic College in San Luis, Obispo, U.S.A.

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

Estelito P. Mendoza has been a Director of the Company since April 21, 1998. He is a Member of the Executive Committee, Audit Committee, and the Chairman of the Nomination and Hearing Committee of the Company. He is also a Director of Petron Corporation, Manila Electric Company, Philippine National Bank and Philippine Airlines, Inc., and Chairman of Prestige Travel, Inc. Atty. Mendoza, a former Solicitor General, Minister of Justice, Member of the Batasang Pambansa and Governor of the Province of Pampanga, heads the E.P. Mendoza Law Office. He is also a former Chairman of Dutch Boy Philippines, Inc. and Alcorn Petroleum and Minerals Corporation, and Director of East-West Bank. He graduated from the University of the Philippines College of Law *cum laude*. He also holds a Master of Laws degree from Harvard Law School.

Leo S. Alvez has been a Director of the Company since February 27, 2002 and a Member of the Audit Committee of the Company. He is also a Director of Ginebra San Miguel, Inc. and San Miguel Pure Foods Company, Inc. Ret. Major General Alvez is a former Security Consultant to the Prosecution Panel of the Senate Impeachment Trial of President Joseph Estrada (2000-2001), Vice Commander of the Philippine Army (1998), and Division Commander of the 7th Infantry Division (1996-1998). He is a graduate of the Philippine Military Academy and has a Masters in Business Administration degree from the University of the Philippines.

Joselito D. Campos, Jr. has been a Director since May 31, 2010. He is a member of the Executive Compensation Committee. He is the President and Chief Executive Officer of Del Monte Philippines, Inc. He is also the Chairman and Chief Executive Officer of the NutriAsia, Inc., Chairman of Fort Bonifacio Development Corp. and Chairman of Ayala Greenfield Development Corp. He was the former Chairman and Chief Executive Officer of United Laboratories, Inc. and its regional subsidiaries and affiliates. He is also the Honorary Consul in the Philippines for the Republic of Seychelles. He is Chairman of the Metropolitan Museum of Manila and a Trustee of the Asia Society in the Philippines, the Philippines-China Business Council, the Philippine Center for Entrepreneurship and a member of the WWF (World Wildlife Fund) Philippines. He graduated with a degree in BS Commerce, Major in International Business from the University of Santa Clara, California and a Masters in Business Administration from Cornell University, New York.

Ferdinand K. Constantino has been a Director of the Company since May 31, 2010. He is a member of the Executive Committee, Audit Committee, Executive Compensation Committee and Nomination and Hearing Committee. He is Senior Vice President, Chief Finance Officer and Treasurer of the Company. He also holds, among others, the following positions: President of Anchor Insurance Brokerage Corporation; and a Director of San Miguel Brewery Inc., San Miguel Yamamura Packaging Corporation, SMC Global Power Holdings Corp., Top Frontier Investment Holdings Inc., Petron Corporation, Ginebra San Miguel Inc. and San Miguel Foods Inc. He is also the Chairman of San Miguel Foundation, Inc. He is also a Director of PAL Holdings, Inc., and Philippine Airlines, Inc. Mr. Constantino previously served San Miguel Corporation as Chief Finance Officer of the San Miguel Beer Division (1999-2005) and as Chief Finance Officer and Treasurer of San Miguel Brewery Inc. (2007-2009); Director of San Miguel Pure Foods Company, Inc. (2008-2009); Director of San Miguel Properties, Inc. (2001-2009); and Chief Finance Officer of Manila Electric Company (2009). He has held directorships in various domestic and international subsidiaries of SMC during the last five years. He holds a degree in AB Economics from the University of the Philippines and completed academic requirements for an MA Economics degree.

Menardo R. Jimenez has been a Director of the Company since February 27, 2002 and the Chairman of the Executive Compensation Committee and a Member of the Executive Committee of the Company. He is also a Director of San Miguel Pure Foods Company, Inc., and Magnolia, Inc. His other positions include: Chairman of the United Coconut Planters Bank; President and Chief Executive Officer of Albay-Agro Industrial Corporation; Director of Majent Management and Development Corporation, M. A. Jimenez Enterprises, Inc., Television International Corporation; Chairman of Fibers Trading, Inc., CBTL Holdings, Inc., and Meedson Properties Corporation; and a Director of Mabuhay Philippines Satellite Corporation, CCC Insurance Corporation and Pan-Phil Aqua Culture Corporation. He is a graduate of Far Eastern University with a degree of Bachelor of Science in Commerce and is a certified public accountant.

Roberto V. Ongpin has been a Director of the Company since September 1, 2009. He is a member of the Nomination and Hearing Committee and Executive Committee of the Company. He also holds the following positions: Director of Petron Corporation, Top Frontier Investment Holdings Inc., PAL Holdings, Inc., Philippine Airlines, Inc. and Ginebra San Miguel, Inc.; Chairman of PhilWeb Corporation, ISM Communications Corporation, Alphaland Corporation, Atok-Big Wedge Co., Inc., and Acentic GmbH; Non-Executive Director of Forum Energy PLC (UK) and Shangri-la Asia Limited (Hong Kong); and Deputy Chairman of South China Morning Post (Hong Kong). He is a graduate of the Ateneo de Manila University with a degree in BS Business Administration *cum laude* and is a certified public accountant. He also holds a Masters in Business Administration degree from Harvard Business School.

Alexander J. Poblador has been a Director of the Company since September 1, 2009 and a member of the Nomination and Hearing Committee of the Company. 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. He is a graduate of the University of the Philippines with a degree in Bachelor of Laws *cum laude*, class valedictorian, and Bachelor of Arts in Political Science *cum laude*. He also holds a Master of Laws degree from the University of Michigan, at Ann Arbor, School of Law (De Witt Fellow).

Eric O. Recto has been a Director since May 31, 2010. He is a member of the Executive Compensation Committee of the Company. He is the President and Director of Top Frontier Investment Holdings Inc; the Chairman of Philippine Bank of Communications; a Director of Manila Electric Company; Vice Chairman of Philweb Corporation, Atok-Big Wedge Corporation and Alphaland Corporation; and President of ISM Communications Corporation. He was previously Undersecretary of the Department of Finance, in charge of both the International Finance Group and the Privatization Office and a member of the Central Bank Board of Liquidators from 2002 to 2005. He is graduate of the University of the Philippines with a degree in BS Industrial Engineering and holds a Masters in Business Administration degree from Cornell University, New York.

Thomas A. Tan was elected as a Director of the Company on June 14, 2012. He is the President and General Manager of SMC Shipping and Lighterage Corporation and President of Saturn Cement Corporation. He obtained a degree in Bachelor of Science, major in Physics in 1974 from the Ateneo de Manila University and a Masters in Business Management from the Asian Institute of Management in 1976. He is likewise a Director of other affiliates of the Company.

Iñigo Zobel has been a Director of the Company since October 2009 and was an Independent Director of the Company from May 5, 1999 until October 2009. He also holds the following positions: Chairman of Top Frontier Investment Holdings Inc.; Vice Chairman of SMC Global Power Holdings Corp.; President and Chief Operating Officer of E. Zobel, Inc.; President of Ayala España S.A.; Calatagan Golf Club, Inc. and Hacienda Bigaa, Inc.; and a Director of Calatagan Resort, Inc., Calatagan Bay Realty, Inc., Calatagan Golf Club, Inc., and MERMAC, Inc., among others. He is also a Director of PAL Holdings, Inc. and Philippine Airlines, Inc., and President and Chief Operating Officer of Air Philippines Corporation. 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 attended Santa Barbara College, California, U.S.A.

Winston F. Garcia has been a Director of the Company since February 1, 2001, and a Member of the Audit Committee and Executive Compensation Committee of the Company. He has been an independent director of the Company since May 9, 2006. 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. He is a graduate of the San Beda College of Law, and has a Bachelor of Arts in Philosophy from the University of Santo Tomas and Associate in Arts degree in Southwestern University.

Reynato S. Puno was elected to the Board as an Independent Director of the Company on January 20, 2011 and a member of the Executive Compensation Committee and Nomination and Hearing Committee of the Company. He was the Chief Justice of the Supreme Court from December 6, 2006 until his retirement on May 17, 2010. He joined the Supreme 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 also served as Deputy Minister of Justice from 1984-1986. He completed his Bachelor of Laws from the University of the Philippines in 1962, and has a Master of Laws degree from the University of California in Berkeley (1968) and a Master in Comparative Law degree from the Southern Methodist University, Dallas, Texas (1967).

Margarito B. Teves was elected as an Independent Director of the Company on June 14, 2012 and is the Chairman of the Audit Committee. He is also an Independent Director of Alphaland Corporation and Atok-Big Wedge Corporation. He is also the Managing Director of The Wallace Business Forum and Chairman of Think Tank Inc. 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, among others. He holds a Master of Arts in Development Economics from the Center for Development Economics, Williams College, Massachusetts and is a graduate of the City of London College, with a degree of Higher National Diploma in Business Studies which is equivalent to a Bachelor of Science in Business Economics.

Officers

Name	Age	Citizenship	Position
Ferdinand K. Constantino	61	Filipino	Senior Vice President – Chief Finance Officer
Virgilio S. Jacinto	56	Filipino	Senior Vice President – General Counsel, Compliance Officer and Corporate Secretary
Joseph N. Pineda	50	Filipino	Senior Vice President – Deputy Chief Finance Officer
Aurora T. Calderon	58	Filipino	Senior Vice President – Senior Executive Assistant to the Office of the President and Chief Operating Officer

Virgilio S. Jacinto is the Corporate Secretary, Senior Vice-President and General Counsel and Compliance Officer of SMC (since October, 2010). He is a Director of San Miguel Brewery Inc. and Petron Corporation. He was formerly the Vice President and First Deputy General Counsel from 2006 to 2010 and appointed as SMC General Counsel in 2010. He was Director and Corporate Secretary of United Coconut Planters Bank, Partner at Villareal Law Offices and Associate at SyCip, Salazar, Feliciano & Hernandez Law Office. Mr. Jacinto is an Associate Professor at the University of the Philippines, College of Law. He obtained his law degree from the University of the Philippines *cum laude* where he was the class salutatorian and placed sixth in the 1981 bar examinations. He holds a Master of Laws degree from Harvard Law School. He holds various directorships in various local and offshore subsidiaries of SMC.

Joseph N. Pineda is the Senior Vice President and Deputy Chief Finance Officer of SMC. He is also OIC of Treasury since 2010. He was formerly Vice President prior to his promotion on July 27, 2010 and has been the Deputy Chief Finance Officer since December 2005. He was previously Special Projects Head of SMC since January 2005. He is a director of the Philippine Dealing System Holdings, Corp. and Philippine Dealing & Exchange Corp. Mr. Pineda has a degree of Bachelor of Arts in Economics from San Beda College and obtained units towards a Masters 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 SMC since January 20, 2011. Previous to her appointment, she was a consultant of the Company reporting to the Chief Operating Officer since 1998. She is also a member of the board of directors of Petron Corporation, Petron Marketing Corporation, Petron Freeport Corporation, SMC Global Power Holdings Corp., Sea Refinery Corporation, Thai San Miguel Liquor Co., Ltd., NVRC, Las Lucas Construction and Development Corp., and Kankiyo Corporation. She is also Director of PAL Holdings, Inc., Philippine Airlines, Inc., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, and Air Philippines Corporation. She is the President and the Director of Total Managers, Inc. and was a Director of Meralco (2009). A certified public accountant, Ms. Calderon graduated from the University of the East with a degree in BS Business Administration, major in Accountancy, magna cum laude. In addition, Ms. Calderon holds directorships in various SMC domestic and international subsidiaries.

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 11, 2013 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. Reynato S. Puno
3. Margarito B. Teves

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. Mr. Ongpin and Mr. Recto hold 1,999 shares and 1 share, respectively, in Top Frontier Investment Holdings, Inc., a significant stockholder 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 SMC 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, (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 Philippine 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 SMC.

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 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 ³	2013	₱145.9	₱135.8	₱33.0	₱314.9
	(estimated)	Million	Million	Million	Million
	2012	₱143.8	₱ 128.6	₱36.5	₱308.9
		Million	Million	Million	Million
	2011	₱145.5	₱ 184.6	₱34.1	₱364.2
		Million	Million	Million	Million
All other officers and directors as a group unnamed	2013	₱130.7	₱49.0	₱33.2	₱212.9
	(estimated)	Million	Million	Million	Million
	2012	₱ 119.4	₱47.5	₱31.8	₱198.7
		Million	Million	Million	Million
	2011	₱113.0	₱66.1	₱31.4	₱210.5
		Million	Million	Million	Million
Total	2013	₱276.4	₱ 184.8	₱66.2	₱ 527.6
	(estimated)	Million	Million	Million	Million
	2012	₱ 263.2	₱176.1	₱68.3	₱ 507.6
		Million	Million	Million	Million
	2011	₱ 258.5	₱ 250.7	₱65.5	₱574.7
		Million	Million	Million	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.

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.

³ The Chief Executive Officer and senior executive officers of the Company for 2013 are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Virgilio S. Jacinto, Joseph N. Pineda, Maria Cristina Menorca; for 2012 are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Virgilio S. Jacinto, Joseph N. Pineda, and Maria Cristina Menorca; 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.

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 25, 2013, the outstanding options under the LTIP held by the above-named Chief Executive Officer and Senior Executive Officers are 8,987,785 common shares, while those held by all officers and middle managers as a group total 7,253,086 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, 2012;
2. Minutes of the 2012 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 June 7, 2011
 - (c) Presentation of the Annual Report
 - (d) Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
 - (e) Approval of Increase in the Authorized Capital Stock
 - (f) Approval of the Amendments to Article VII of the Amended Articles of Incorporation of the Company
 - (g) Appointment of External Auditors
 - (h) Election of the Board of Directors
 - (i) Other Matters
 - (j) Adjournment
3. Ratification of all the acts of the Board of Directors and Officers since the 2012 Annual Stockholders' Meeting which include:
 - a) Approval of:
 - i. Acquisition, through San Miguel Equity Investments Inc. (SMEII), of 49% equity interests in Trustmark Holdings Corporation and Zuma Holdings and Management Corporation, respectively, which results in SMEII indirectly owning 47.88% and 48.98% beneficial interests in Philippine Airlines, Inc. and Air Philippines Corporation, respectively.
 - ii. Issuance and Listing of the Series "2" Preferred Shares.
 - iii. Redemption of Series "1" preferred shares at a redemption price of ₱75.00 per share.

- iv. Sale by the Company of the common shares of San Miguel Pure Foods Company, Inc. by way of secondary offering to comply with the minimum public ownership requirement of the Securities and Exchange Commission and Philippine Stock Exchange.
 - v. Acquisition by the Company, through San Miguel Holdings Corporation, of 100% equity interest in Terramino Holdings, Inc. which has a 37.33% equity interest in Citra Metro Manila Tollways Corporation and 100% equity interest in Assetvalues Holding Company, Inc., a shareholder of Skyway O&M Corporation.
 - vi. Acquisition, through San Miguel Holdings Corporation of 60% equity interest in Alloy Manila Toll Expressways Inc., a company engaged in the business of operating and maintaining toll road facilities and providing related services such as technical advisory services in the operation and maintenance of toll road and toll road facilities.
 - vii. Sale of 1,042,801,676 common shares of stock of Rockwell Land Corporation Rockwell Land Shares.
 - viii. Filing of application for voluntary delisting from the Philippine Stock Exchange of San Miguel Brewery Inc. and San Miguel Properties, Inc.
- b) Declaration of cash dividends;
 - c) Appointment of officers; and
 - d) Approval of signing authorities and limits.

Minutes of the 2012 Annual Stockholders' Meeting and resolutions of the Board of Directors since the date of the 2012 Annual Stockholders' Meeting will be available for examination during office hours at the Office of the Corporate Secretariat.

VOTING PROCEDURES

For 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 most diversified and also one of the largest conglomerates in the Philippines in terms of market capitalization and total assets. SMC's traditional businesses comprise primarily of beverage, food and packaging products. In 2007, SMC embarked on a diversification strategy through a series of acquisitions and investments. Since 2008, SMC had entered into new industries, including power, fuel and oil, infrastructure, mining, telecommunications, property development, and most recently, aviation.

A summary of these transactions is set forth below:

- SMC holds a 68.26% equity interest in Petron Corporation (Petron) which subsequently acquired controlling stake in Petron Oil & Gas International Sdn. Bhd. including Petron Fuel International Sdn Bhd, Petron Oil (M) Sdn Bhd and Petron Malaysia Refining & Marketing Bhd. (collectively Petron Malaysia) and 100% equity interest in Limay Energen Corp.
- 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.
- The Group owns a 32.04% equity interest in the Manila Electric Company (Meralco)
- SMC owns 49% equity interest in Trustmark Holdings Corporation and Zuma Holdings and Management Corporation, the holding companies of PAL (through PAL Holdings, Inc.) and Air Philippines Corporation, respectively.
- SMC made the following infrastructure acquisitions:
 - a. 35.0% equity interest in Private Infra Dev Corporation (PIDC)
 - b. 98.21% equity interest in Trans Aire Development Holdings Corp. (TADHC, formerly known as Caticlan International Airport Development Corporation)
 - c. 51% equity interest in Universal LRT Corporation (BVI) Limited (Universal LRT)
 - d. 46.53% equity interest in Atlantic Aurum Investments BV (Atlantic)
 - e. 100% equity interest in Terramino Holdings, Inc. which owns 37.33% equity interest in Citra Metro Manila Tollways Corporation (CMMTC), and the existing 23.5% indirect ownership in CMMTC through Atlantic
 - f. 60% equity interest in Alloy Manila Toll Expressways Inc. by San Miguel Holdings Corp. (SMHC) where Atlantic holds 40% ownership interest
- SMC made the following telecommunications acquisitions:
 - a. 41.48% equity interest in Liberty Telecommunications Holdings, Inc. (LTHI)
 - b. 100% equity interest in Bell Telecommunications Philippines (BellTel)
 - c. 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., bringing its total indirect equity interests in ETPI to 77.7%.

- SMC made the following mining acquisitions:
 - a. 100% 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.
 - b. 100% equity interest in Clariden Holdings, Inc. which owns 100% ownership of V.I.L. Mines, Inc. and 60% ownership interest in Asia-Alliance Mining Resources Corp.

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. In 2012, the Group accounts for about 5.02 % of the country's gross national income and 6.61% 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 include 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 partnerships 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 18,275 employees. In addition, the Group contributes to the growth of downstream industries and sustains a network of hundreds of third party suppliers.

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, 44, and 45 of the Audited Consolidated Financial statements, attached herein as **Annex "C"**.

Beverages

The Group's beverage business consists of brewing, distilling, selling, marketing and distributing beer, liquor and non-alcoholic beverages. SMC conducts its beverage business through majority owned subsidiaries: San Miguel Brewery Inc. (SMB) for beer and Ginebra San Miguel, Inc. (GSMI) for liquor and non-alcoholic beverages.

SMB sells the dominant beer brands in the Philippines, with a total market share of more than 90%. In addition to its Philippine beer operations, SMB has brewery and sales operations in China, Hong Kong, Thailand, Vietnam and Indonesia through its wholly owned subsidiary, San

Miguel Brewing International Ltd. SMB exports its beer products to over 40 countries, with key markets in the United Arab Emirates, Japan, Sudan, Taiwan, Malaysia, Singapore and the United States. Exports of SMB are primarily sold under various San Miguel brands as well as under private labels.

Apart from beer, the Group also produces some of the most recognizable brands in the Philippine liquor market, through its majority-owned subsidiary, GSMI. It operates two distilleries and six liquor bottling facilities.

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, Purefoods, Tender Juicy, Monterey, Star, Dari Crème, B-Meg, San Mig Coffee and JellyAce. To date, SMPFC has a product line up that is unparalleled in the industry, offering a variety of food products and services for both individual and food service customers. Its products range from cooking oils, feeds, flour and flour-based products, poultry, fresh and value-added meats, breadfill, dairy and coffee.

The support of SMC and partnerships with major international companies like United States-based Hormel Foods International Corporation and Singapore-based Super Coffee Corporation Pte Ltd (SCCPL) and Penderyn Pte Ltd. ("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, the Parent Company of the food business, is a 84.92%-owned business of SMC. It was incorporated in 1956 as a manufacturer and marketer of processed meat products. SMPFC, through its subsidiaries, later on diversified into poultry and livestock operations, feeds and flour milling, dairy and coffee operations, franchising and young animal ration manufacturing and distribution. SMPFC was consolidated with SMC in April 2001.

Packaging

The San Miguel Packaging Group (Packaging Group) is a 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, industrial laminates and a packaging research center) and Australia (plastics and trading).

In January 2008, SMC finalized a joint venture agreement with NYG pursuant to which NYG purchased 35% of San Miguel Packaging Specialists, Inc. (SMPSI) and San Miguel Packaging International Limited (SMPIL). SMPSI owns all of the domestic plants of the Packaging Group, except the corrugated carton plant, Mincorr and SMYAC, which is already an existing joint venture between SMC and NYG. SMYPIL's subsidiaries are composed of the Packaging Group's international facilities.

In connection with the joint venture of SMPSI and NYG, SMPSI changed its corporate name to "San Miguel Yamamura Packaging Corporation" as approved by the SEC on June 4, 2008. In addition, the Board of Directors of SMPIL likewise approved the change in the corporate name of SMPIL to "San Miguel Yamamura Packaging International Limited" (SMYPIL) on January 3, 2008 and such change became effective on June 11, 2008.

In December 17, 2009, the packaging business through its international subsidiary, SMYPIL, acquired a 65% stake in JHK Investments Pty. Ltd., 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 Group. SMPI is presently engaged in 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 operated by Independent Power Producer's (IPP). Under the IPPA framework, 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 January 2010 and the Ilijan power plant in June 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 August 26,

2011, SMC Global sold a 620 MW oil-fired power plant located in Limay, Bataan. SMC Global sells power through off take 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 coal mining companies who are concession holders of coal deposits in Southern Mindanao. In 2010, SMC executed a Share Placement Agreement with Indophil Resources NL (Indophil) to subscribe to 48,016,960 common shares (Placement Shares) equivalent to approximately 10.1% of the currently issued common shares of Indophil. Indophil has a 37.5% beneficial ownership of Sagittarius Mines, Inc. which in turn holds a 40% controlling equity stake in a joint venture to explore, develop and operate the Tampakan Copper-Gold Project in Southern Mindanao. On October 15, 2010, the Placement Shares were issued in the name of Coastal View Exploration Corporation (Coastal View), a subsidiary of SMHC. As of December 31, 2012 and 2011, Coastal View's stake in Indophil is at 3.99% as a result of the additional share issuances made by Indophil.

Fuel and Oil

SMC operates its fuel and oil business through Petron, in which SMC holds a 68.26% beneficial interest. Petron refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. In the Philippines, Petron is the largest integrated oil refining and marketing company, with an overall market share of 38.5% of the Philippine oil market in terms of sales volume based on industry data from the Department of Energy as of December 31, 2012. Petron had a 16.6% share of the Malaysian retail market as of December 31, 2012, according to Metrix Research estimates, the market research consultant appointed by Malaysian retail market participants to compile industry data.

Petron possesses the most extensive oil distribution infrastructure in the country with more than 32 depots, terminals and airport installations and over 2,015 retail 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 Private Infra Development Corporation (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 98.21% stake in Trans Aire Development Holdings Corporation (TADHC) the company which holds a 25-year concession to operate the Caticlan Airport. The concession includes the rehabilitation of the existing terminal, extension of the runway and the construction of a new international terminal.

SMHC also acquired 51% stake in Universal LRT Corp. (BVI) Limited which holds a 25-year build-transfer-operate concession on the Metro Rail Transit Line 7 project. The project will include the construction, operation and maintenance of a railway system starting from North EDSA, Quezon City to San Jose del Monte, Bulacan.

SMHC has acquired 46.53% stake in Atlantic Aurum Inc., a company which has obtained ownership of the following:

- 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
- 50.51% stake in Citra Metro Manila Tollways Corporation, a company which holds a 25 year concession to operate the 16.38 km (Stage 1 and 2) South Metro Manila Skyway Project which links the EDSA to Alabang.

SMHC has a 60% equity interest in Alloy Manila Toll Expressways Inc. (AMTEX) which has a 30% interest in Manila Toll Expressway Systems, Inc. (MATES), the Operating and Maintenance for SLEX.

SMHC has a 100% equity interest in Terramino Holdings Inc. which has a 37.33% interest in Citra Metro Manila Corporation (CMMTC) and 100% in Asset Values Holding Company Inc (AVHCI). AVHCI is the sole legal and beneficial owner of 15.43% of the issued capital stock of Skyway O&M Corporation (SOMCO).

With the acquisition of THI, which owns 37.33% of the outstanding capital stock of CMMTC, and the existing 23.5% indirect ownership in CMMTC through Atlantic, SMHC obtained control and consolidated CMMTC effective December 28, 2012.

Telecommunications

In 2010, SMC through its subsidiary Vega Telecoms Inc. (Vega) owns 41.48% stake in Liberty Telecoms Holdings, Inc., 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. that collectively owns 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 2010, 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, 2012, including the Company's Statement of Management's Responsibility, are attached hereto as **Annex "B"**. The Notes to the 2012 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, 2012 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 ₱13 million both in 2012 and 2011. 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 "2-A", "2-B", and "2-C" preferred shares are traded in the Philippine Stock Exchange. The Series "1" preferred shares of the Company were also traded in the Philippine Stock Exchange prior to their redemption on October 5, 2012. The Company's high and low closing prices for each quarter of the last two (2) fiscal years and for the first quarter of 2013 are as follows:

2011			
Common		Series "1"	
High	Low	High	Low
189.50	150.00	100.00	65.00
175.00	105.70	76.50	74.50
132.60	110.90	80.00	75.00
129.20	110.50	79.95	75.00

	2012									
	Series “2-A”		Series “2-B”		Series “2-C”		Series “1”		Common	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	-	-	-	-	-	-	80.00	76.60	123.00	110.00
2nd	-	-	-	-	-	-	79.10	74.50	117.00	111.00
3rd	75.10	74.90	80.00	74.50	76.00	75.00	78.10	73.00	115.00	110.00
4th	75.20	74.50	81.50	74.00	77.90	74.50	75.50	75.50	111.00	100.00

	2013							
	Series “2-A”		Series “2-B”		Series “2-C”		Common	
	High	Low	High	Low	High	Low	High	Low
1st	75.00	74.65	77.00	74.50	79.25	74.50	125.00	103.20

The closing prices as of April 28, 2013, the latest practicable trading date, are as follows:

Common	P 120.70	Series “2-B” Preferred	P 81.00
Series “2-A” Preferred	P 80.40	Series “2-C” Preferred	P 81.00

The approximate number of shareholders as of April 25, 2013 is 39,286.

The top 20 common and preferred stockholders as of April 25, 2013 are as follows:

Rank	Name of Stockholders	Common	Series “2-A” Preferred Shares	Series “2-B” Preferred Shares	Series “2-C” Preferred Shares	Total No. of Shares	Percentage of outstanding
1	Top Frontier Investment Holdings, Inc.	1,347,112,692	0	0	0	1,347,112,692	39.085068%
2	PCD Nominee Corporation	30,785,949	628,083,696	59,308,900	229,922,917	948,101,062	27.508162%
3	Master Year Limited	368,140,516	0	0	0	368,140,516	10.681213%
4	PCD Nominee Corporation (Filipino)	313,450,372	0	0	0	313,450,372	9.094435%
5	PCD Nominee Corporation (Non-Filipino)	116,287,555	3,444,904	105,800	1,366,383	121,204,642	3.516626%
6	China Banking Corporation	0	66,666,600	0	0	66,666,600	1.934262%
7	PCGG in trust for the Comprehensive Agrarian Reform Program	27,636,339	0	0	0	27,636,339	0.801840%
8	San Miguel Corporation Retirement Plan	1	0	26,435,700	0	26,435,700	0.767004%
9	G & E Shareholdings Inc.	0	0	0	15,000,000	15,000,000	0.435209%
10	GSIS Provident Fund	0	0	1,300,000	2,666,700	3,966,700	0.115090%
11	Sysmart Corporation	3,457,000	0	0	0	3,457,000	0.100301%
12	El Superior de la Corporacion Filipina de Padres Agustinos Recoletos, Inc.	2,370,000	0	0	0	2,370,000	0.068763%
13	Petron Corporation Employees’ Retirement Plan	0	0	2,000,000	0	2,000,000	0.058028%
14	Petron Corporation Employees’ Retirement Plan	0	2,000,000	0	0	2,000,000	0.058028%
15	Everett Steamship Corporation	1,903,330	0	0	0	1,903,330	0.055223%
16	Gingcoog Holdings Corporation	1,830,082	0	0	0	1,830,082	0.053098%
17	Pac Rim Realty Development Corp.	912,050	667,000	0	0	1,579,050	0.045814%
18	Knights of Colimbus Fraternal Association of the Philippines, Inc.	81,000	0	0	1,333,300	1,414,300	0.41034%
19	Par Investment & Realty Corporation	1,278,982	0	0	0	1,278,982	0.037108%
20	Eduardo M. Cojuangco, Jr.	1,273,544	0	0	0	1,273,544	0.036951%
	TOTAL	2,216,519,412	700,861,800	89,150,400	250,289,300	3,256,820,912	94.593257%

Cash dividends declared by the Parent Company's BOD to common shareholders amounted to P1.40 per share and P1.05 per share in 2012 and 2011, respectively.

Cash dividends declared by the Parent Company's BOD to Series "1" preferred shareholders amounted to P6.00 per share in 2012 and 2011.

On November 14, 2012, the Parent Company's BOD declared cash dividend at P1.40625, P1.4296875 and P1.50 per share, payable on January 4, 2013 to all Series "2" - Subseries "2-A", Subseries "2-B" and Subseries "2-C" preferred shareholders, respectively, as of December 20, 2012.

Description of the following securities of the Group may be found in the indicated Notes to the 2012 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, 2013 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, 2013.

SAN MIGUEL CORPORATION

By:



Virgilio S. Jacinto
Corporate Secretary



106252012001352



SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines
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SEC Registration No. PW00000277
 Company Name SAN MIGUEL CORP.
 Industry Classification
 Company Type Stock Corporation

Document Information

Document ID 106252012001352
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 Document Code LTR
 Period Covered June 25, 2012
 No. of Days Late 0
 Department CED/CFD/CRMD/MRD/NTD
 Remarks Certificate of Independent Directors

COVER SHEET

P W - 2 7 7

S. E. C. Registration Number

S A N

M I G U E L

C O R P O R A T I O N

(Company's Full Name)

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

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

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

Atty. Mary Rose S. Tan

Contact Person

(632) 632-3000

Company Telephone Number

Certificate of Independent Director

1 2

Month

3 1

Day

S E C - F O R M

FORM TYPE

Month

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Dept. Requiring this Doc.

Amended Articles Number/Section

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Total No. of Stockholders

Domestic

Domestic

Foreign

Foreign

To be accomplished by SEC Personnel concerned

File Number

File Number

LCU

Document I. D.

Document I. D.

Cashier

STAMPS

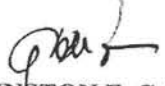
Remarks = pls. Use black ink for scanning purposes

CERTIFICATION OF INDEPENDENT DIRECTORS

I, **WINSTON F. GARCIA**, Filipino, of legal age with address at No. 86 Juan Luna St., San Lorenzo Village, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

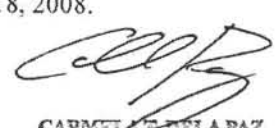
1. I am an independent director of San Miguel Corporation.
2. I am affiliated with the companies or organizations listed in Annex "A" hereof.
3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of San Miguel Corporation as provided for in Section 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 25 2012 day of _____ 2012 at Mandaluyong City.


WINSTON F. GARCIA
Affiant

SUBSCRIBED AND SWORN to before me this JUN 25 2012 day of _____ 2012 at Mandaluyong City, affiant personally appeared before me and exhibited to me his Passport No. XX1426496 issued at Manila on June 18, 2008.

Doc. No. 4118;
Page No. 85;
Book No. I;
Series of 2012.


CARMEL R. DELA PAZ
Commission No. 0364-12
Notary Public for Mandaluyong City
Until Dec. 31, 2013
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 57052
PTR No. 1972881; 02/03/12; Mandaluyong City
IBP Lifetime Member No. 010580; 02/09/12; Makati City

Annex "A"

WINSTON F. GARCIA

Present Position:

- Senior Partner of Garcia Garcia Law Offices
- President, Golden Garfields Development Corporation
- Independent Director, San Miguel Corporation

Previous Position:

- President and General Manager : Government Service Insurance System
Vice-Chairman, Board of Trustees
- Chairman : National Reinsurance Corporation of the
Philippines
- Chairman : GSIS Mutual Fund, Incorporated
- Chairman : Asean Forum, Incorporated
- Chairman : Philippine Social Security Association
- Board Member : Asean Social Security Association
- Director : Philippine National Construction
Corporation
- Director : Philippine Health Insurance Corporation
- Member (GSIS) : International Social Security Association
- Member (GSIS) : Federation of Afro Insurers and
Reinsurers
- Member (GSIS) : International Insurance Society,
Incorporated



106252012001347



SECURITIES AND EXCHANGE COMMISSION

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Company Information _____

SEC Registration No. PW00000277
 Company Name SAN MIGUEL CORP.
 Industry Classification
 Company Type Stock Corporation

Document Information

Document ID	106252012001347
Document Type	LETTER/MISC
Document Code	LTR
Period Covered	June 14, 2012
No. of Days Late	0
Department	CED/CFD/CRMD/MRD/NTD
Remarks	Certificate of Independent Directors

COVER SHEET

P W - 2 7 7

S. E. C. Registration Number

S A N

M I G U E L

C O R P O R A T I O N

(Company's Full Name)

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

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

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

Atty. Mary Rose S. Tan

Contact Person

(632) 632-3000

Company Telephone Number

Certificate of Independent Director

1 2

Month

3 1

Day

S E C - F O R M

FORM TYPE

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

STAMPS

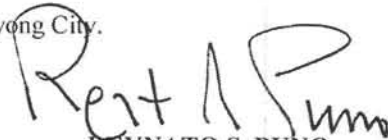
Remarks = pls. Use black ink for scanning purposes

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **REYNATO S. PUNO**, Filipino, of legal age with address at No. 13 Julius Street, Don Jose Heights, Commonwealth Avenue, Quezon City, after having been duly sworn to in accordance with law do hereby declare that:

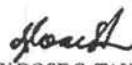
1. I am an independent director of San Miguel Corporation.
2. I am affiliated with the companies and organizations listed in Annex "A" hereof.
3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of San Miguel Corporation as provided for in Section 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 14th day of June 2012 at Mandaluyong City.


REYNATO S. PUNO
Affiant

SUBSCRIBED AND SWORN to before me this 14th day of June 2012 at Mandaluyong City, affiant personally appeared before me and exhibited to me his Passport No. XX0468450 issued at Manila on February 6, 2008.

Doc. No. 150 ;
Page No. 31 ;
Book No. VI ;
Series of 2012.


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. 1963633; 1/19/12; Mandaluyong City
Lifetime Member No. 09449; 01/04/11; Makati City

Annex "A"

REYNATO S. PUNO

Present Position:

- Independent Director : San Miguel Corporation

Previous Position:

- Appointed Chief Justice of the Supreme Court, December 6, 2006;
Retired, May 17, 2010
- Member, House Electoral Tribunal, 1998-1999
- Member, Senate Electoral Tribunal, 1999-2002
- Chairman, Presidential Electoral Tribunal
- Chairman, House Electoral Tribunal, May 30, 2002
- Chairman, Third Division of the Supreme Court, May 30, 2002
- Chairman, Second Division of the Supreme Court, November 2003
- Chairman, Senate Electoral Tribunal, November 2003



106252012001363



SECURITIES AND EXCHANGE COMMISSION

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Company Representative

Doc Source

Company Information

SEC Registration No. PW00000277

Company Name SAN MIGUEL CORP.

Industry Classification

Company Type Stock Corporation

Document Information

Document ID 106252012001363

Document Type LETTER/MISC

Document Code LTR

Period Covered June 14, 2012

No. of Days Late 0

Department CED/CFD/CRMD/MRD/NTD

Remarks Certificate of Independent Directors

COVER SHEET

P W - 2 7 7

S. E. C. Registration Number

S A N

M I G U E L

C O R P O R A T I O N

(Company's Full Name)

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

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

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

Atty. Mary Rose S. Tan

Contact Person

(632) 632-3000

Company Telephone Number

1 2

Month

3 1

Day

Certificate of Independent Director

S E C - F O R M

FORM TYPE

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

STAMPS

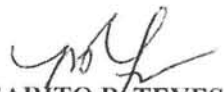
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CERTIFICATION OF INDEPENDENT DIRECTOR

I, **MARGARITO B. TEVES**, Filipino, of legal age with address at No. 411 Ambuklao Street, Ayala, Alabang, after having been duly sworn to in accordance with law do hereby declare that:

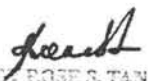
1. I am an independent director of San Miguel Corporation.
2. I am affiliated with the companies and organizations listed in Annex "A" hereof.
3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of San Miguel Corporation, as provided for in Section 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 14th day of June 2012 at Mandaluyong City.


MARGARITO B. TEVES
Affiant

SUBSCRIBED AND SWORN to before me this 14th day of June 2012 at Mandaluyong City, affiant personally appeared before me and exhibited to me his Passport No. EB0095211 issued at Manila on April 13, 2010.

Doc. No. 151 ;
Page No. 32 ;
Book No. VII ;
Series of 2012.


MA. ROSE S. TAN
Commission No. 0252-11
Notary Public for Mandaluyong City
Unsub. Exp. 31, 2012
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 47144
PTR No. 1963623; 1/19/12; Mandaluyong City
Lifetime Member No. 09449; 01/04/11; Makati C.,

MARGARITO B. TEVES

Current Position:

- Managing Director, The Wallace Business Forum
- Chairman, Think Tank Inc.
- Senior Adviser, China-Asean Economic and Culture Research Center
- Visiting Professor, Guilin University of Electronic Technology, China
- Member, Board of Advisers, Metro Bank and Trust Company
- Member, Board of Directors, Landbank Countryside Development Foundation
- Independent Director, Alphaland Corporation
- Independent Director, Atok-Big Wedge Corporation

Previous Position:

- Secretary, Department of Finance
- Governor for the Philippines, World Bank Group
- Governor for the Philippines, Asian Development Bank
- Alternate Governor for the Philippines, International Monetary Fund
- Governor for the Philippines, International Fund for Agricultural Development
- Chairman, Land Bank of the Philippines
- Chairman, Philippine Deposit Insurance Corporation
- Chairman, Trade & Investment Development Corporation of the Philippines
- Chairman, Home Guaranty Corporation
- Chairman, National Power Corporation
- Chairman, Power Sector Assets and Liabilities Management Corporation
- Chairman, National Transmission Corporation
- Chairman, NEDA-ICC Committee
- Chairman, Privatization Council
- Co-Chair, Capital Market Development Council
- Governor for the Philippines at World Bank and Asian Development Bank
- President and Chief Executive Officer, Land Bank of the Philippines
(September 1, 2000 – July 15, 2005)

ANNEX “B”

**SAN MIGUEL CORPORATION
2012
CONSOLIDATED FINANCIAL STATEMENTS**



SAN MIGUEL CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of San Miguel Corporation (the "Company") is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders of the Company.

Manabat Sanagustin & Co., CPAs, the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders has expressed its opinion on the fairness of presentation upon completion of such audit.



EDUARDO M. COJUANGCO, JR.

Chairman and Chief Executive Officer



RAMON S. ANG

President and Chief Operating Officer



FERDINAND K. CONSTANTINO

Senior Vice President and
Chief Finance Officer / Treasurer

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES)
Mandaluyong City) S. S.

Before me, a Notary Public for and in Mandaluyong City this 26th day of March 2013, personally appeared the following:

<u>Name</u>	<u>Passport No.</u>	<u>Date/Place of Issue</u>
Mr. Eduardo M. Cojuangco, Jr.	XX0410612	02/16/12/Manila
Mr. Ramon S. Ang	XX0748364	07/11/11/Manila
Mr. Ferdinand K. Constantino	EB5297621	05/04/12/Manila

known to me to be the same persons who executed the foregoing instrument and that they acknowledged to me that the same is their free and voluntary act and deed and that of the corporation they represent.

IN WITNESS WHEREOF, I have hereunto affixed my notarial seal at the date and place first above written.

Doc. No. 108;
Page No. 23;
Book No. 1;
Series of 2013.


MAJALLA S. BAUN
Commission No. 0223-13
Notary Public for Mandaluyong City
Until Dec. 31, 2014
SMC, 40 San Miguel Ave., Mandaluyong City
Poli No. 45149
PTR No. 16198-1, 01/03/13, Mandaluyong City
IBP Lifetime Member No. 645271, 01/03/13, Mandaluyong City



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: Bacolod - Cebu - Iloilo - Subic

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, 2012 and 2011, 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, 2012, 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.

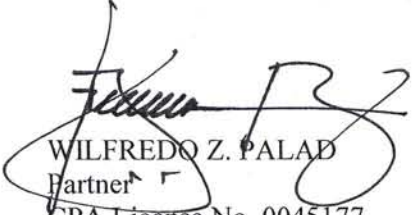
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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.

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, 2012 and 2011, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2012, 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. 3669525MC

Issued January 2, 2013 at Makati City

March 21, 2013

Makati City, Metro Manila

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012, 2011 and 2010

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

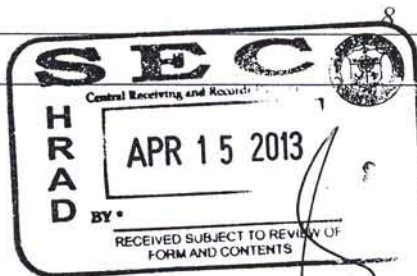
		December 31	
	Note	2012	2011
ASSETS			
Current Assets			
Cash and cash equivalents	9, 41, 42	P125,631	P128,975
Trade and other receivables - net	4, 10, 34, 40, 41, 42	122,599	84,472
Inventories	4, 11	80,222	65,720
Current portion of biological assets - net	18	3,792	4,124
Prepaid expenses and other current assets	4, 12, 35, 41, 42	31,612	22,620
		363,856	305,911
Assets held for sale	5, 8, 13	9,373	2,268
Total Current Assets		373,229	308,179
Noncurrent Assets			
Investments and advances - net	4, 5, 13	161,625	166,854
Available-for-sale financial assets	14, 41, 42	1,570	2,068
Property, plant and equipment - net	4, 16, 35	370,689	319,626
Investment properties - net	4, 17	3,780	2,850
Biological assets - net of current portion	4, 18	1,932	1,812
Goodwill - net	4, 5, 19, 39	49,953	30,990
Other intangible assets - net	4, 5, 19	34,131	11,407
Deferred tax assets	4, 25	8,826	8,233
Other noncurrent assets - net	4, 20, 34, 36, 40, 41, 42	32,228	38,517
Total Noncurrent Assets		664,734	582,357
		P1,037,963	P890,536

LIABILITIES AND EQUITY

Current Liabilities

Loans payable	21, 34, 41, 42	P151,274	P82,588
Accounts payable and accrued expenses	5, 13, 22, 34, 36, 41, 42	84,665	61,629
Finance lease liabilities - current portion	4, 35, 41, 42	15,456	15,388
Income and other taxes payable		11,124	9,041
Dividends payable	37	3,247	2,153
Current maturities of long-term debt - net of debt issue costs	23, 41, 42	3,279	19,453
		269,045	190,252
Liabilities directly associated with assets held for sale		-	578
Total Current Liabilities		269,045	190,830

Forward



		December 31	
	Note	2012	2011
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	23, 41, 42	P220,938	P191,967
Deferred tax liabilities	25	12,084	11,257
Finance lease liabilities - net of current portion	4, 35, 41, 42	179,698	192,873
Other noncurrent liabilities	4, 5, 24, 34, 36, 41, 42	6,418	4,509
Total Noncurrent Liabilities		419,138	400,606
Equity	23, 26, 37, 38, 40		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common		16,408	16,397
Capital stock - preferred		10,187	4,852
Additional paid-in capital		177,762	103,511
Revaluation increment		1,352	1,443
Cumulative translation adjustments		5,088	5,264
Retained earnings:			
Appropriated		27,219	24,315
Unappropriated		154,303	141,126
Treasury stock		(140,124)	(67,441)
		252,195	229,467
Amounts recognized directly in equity relating to assets held for sale	8	-	(53)
		252,195	229,414
Non-controlling Interests	2	97,585	69,686
Total Equity		349,780	299,100
		P1,037,963	P890,536

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(In Millions, Except Per Share Data)

	<i>Note</i>	2012	2011	2010
SALES	34	P698,868	P535,775	P246,156
COST OF SALES	27	594,732	432,321	173,929
GROSS PROFIT		104,136	103,454	72,227
SELLING AND ADMINISTRATIVE EXPENSES	28	(51,353)	(47,500)	(37,619)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	21, 23, 31, 35	(29,826)	(27,443)	(16,578)
INTEREST INCOME	32	4,254	4,618	3,023
EQUITY IN NET EARNINGS OF ASSOCIATES	13	2,691	2,824	6,817
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	6, 13, 14, 16, 17	4,549	1,046	529
OTHER INCOME (CHARGES) - Net	33	12,981	(12)	7,095
INCOME BEFORE INCOME TAX		47,432	36,987	35,494
INCOME TAX EXPENSE	25, 43	8,812	8,483	11,438
NET INCOME		P38,620	P28,504	P24,056
Attributable to:				
Equity holders of the Parent Company		P27,579	P17,518	P20,091
Non-controlling interests		11,041	10,986	3,965
		P38,620	P28,504	P24,056
Earnings Per Common Share				
Attributable to Equity Holders of the Parent Company	38			
Basic		P9.05	P4.97	P6.18
Diluted		P8.99	P4.94	P6.14

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(In Millions)

	<i>Note</i>	2012	2011	2010
NET INCOME		P38,620	P28,504	P24,056
GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS		(1,785)	356	(653)
SHARE IN COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES	13	400	645	(422)
NET GAIN (LOSS) ON AVAILABLE-FOR- SALE FINANCIAL ASSETS	14	(462)	(1,236)	447
INCOME TAX BENEFIT (EXPENSE)		1	-	(45)
OTHER COMPREHENSIVE LOSS - NET OF TAX		(1,846)	(235)	(673)
TOTAL COMPREHENSIVE INCOME - NET OF TAX		P36,774	P28,269	P23,383
Attributable to:				
Equity holders of the Parent Company		P27,403	P17,417	P19,611
Non-controlling interests		9,371	10,852	3,772
		P36,774	P28,269	P23,383

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(In Millions)

Equity Attributable to Equity Holders of the Parent Company														
	Note	Cumulative Translation Adjustment									Non-controlling Interests	Total Equity		
		Capital Stock		Additional Paid-in Capital	Revaluation Increment	Translation Reserve		Fair Value Reserve	Retained Earnings				Treasury Stock	Total
		Common	Preferred			Appropriated	Unappropriated							
As of January 1, 2012		P16,397	P4,852	P103,511	P1,443	P5,662	(P451)	P24,315	P141,126	(P67,441)	P229,414	P69,686	P299,100	
Loss on exchange differences on translation of foreign operations		-	-	-	-	(103)	-	-	-	-	(103)	(1,682)	(1,785)	
Share in comprehensive income of associates	13	-	-	-	-	-	400	-	-	-	400	-	400	
Net gain (loss) on available-for-sale financial assets	14	-	-	-	-	-	(473)	-	-	-	(473)	12	(461)	
Other comprehensive loss		-	-	-	-	(103)	(73)	-	-	-	(176)	(1,670)	(1,846)	
Net income		-	-	-	-	-	-	-	27,579	-	27,579	11,041	38,620	
Total comprehensive income (loss)		-	-	-	-	(103)	(73)	-	27,579	-	27,403	9,371	36,774	
Issuance of common shares	26	11	-	118	-	-	-	-	-	-	129	-	129	
Issuance of Series “2” preferred shares	26	-	5,335	73,903	-	-	-	-	-	-	79,238	-	79,238	
Conversion of exchangeable bonds from treasury shares	26	-	-	43	-	-	-	-	-	105	148	-	148	
Redemption of Series “1” preferred shares	26	-	-	-	-	-	-	-	-	(72,788)	(72,788)	-	(72,788)	
Stock options	40	-	-	187	-	-	-	-	-	-	187	-	187	
Net addition to non-controlling interests and others	5, 6, 13	-	-	-	(91)	53	-	-	-	-	(38)	26,705	26,667	
Appropriations - net	26	-	-	-	-	-	-	2,904	(2,904)	-	-	-	-	
Cash dividends	37													
Common		-	-	-	-	-	-	-	(4,148)	-	(4,148)	(6,024)	(10,172)	
Preferred		-	-	-	-	-	-	-	(7,350)	-	(7,350)	(2,153)	(9,503)	
As of December 31, 2012	26	P16,408	P10,187	P177,762	P1,352	P5,612	(P524)	P27,219	P154,303	(P140,124)	P252,195	P97,585	P349,780	

Forward

Equity Attributable to Equity Holders of the Parent Company													
	Note	Capital Stock		Additional Paid-in Capital	Revaluation Increment	Cumulative Translation Adjustment		Retained Earnings		Treasury Stock	Total	Non- controlling Interests	Total Equity
		Common	Preferred			Translation Reserve	Fair Value Reserve	Appro- priated	Unappro- priated				
As of January 1, 2011		P16,343	P4,852	P101,406	P1,391	P5,241	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		-	-	-	-	-	-	-	17,518	-	17,518	10,986	28,504
Total comprehensive income (loss)		-	-	-	-	474	(575)	-	17,518	-	17,417	10,852	28,269
Issuance of common shares	26	54	-	894	-	-	-	-	-	-	948	-	948
Conversion of exchangeable bonds from treasury shares	26	-	-	30	-	-	-	-	-	57	87	-	87
Reissuance of treasury shares	26	-	-	928	-	-	-	-	-	2,043	2,971	-	2,971
Stock options	40	-	-	253	-	-	-	-	-	-	253	-	253
Addition to non-controlling interests	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	(P451)	P24,315	P141,126	(P67,441)	P229,414	P69,686	P299,100

Forward

Equity Attributable to Equity Holders of the Parent Company													
	Note	Capital Stock		Additional Paid-in Capital	Revaluation Increment	Cumulative Translation Adjustment		Retained Earnings		Treasury Stock	Total	Non- controlling Interests	Total Equity
		Common	Preferred			Translation Reserve	Fair Value Reserve	Appro- priated	Unappro- priated				
As of January 1, 2010		P16,150	P4,852	P99,085	P18	P5,737	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		-	-	-	-	-	-	-	20,091	-	20,091	3,965	24,056
Total comprehensive income (loss)		-	-	-	-	(496)	16	-	20,091	-	19,611	3,772	23,383
Issuance of common shares	26	193	-	2,121	-	-	-	-	-	-	2,314	-	2,314
Stock options	40	-	-	200	-	-	-	-	-	-	200	-	200
Net addition to non-controlling interests	5, 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	P124	P5,671	P150,544	(P69,541)	P216,031	P50,794	P266,825

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(In Millions)

	<i>Note</i>	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P47,432	P36,987	P35,494
Adjustments for:				
Depreciation, amortization and others - net	7, 29	5,169	19,305	9,457
Interest expense and other financing charges	31	29,826	27,443	16,578
Interest income	32	(4,254)	(4,618)	(3,023)
Equity in net earnings of associates	13	(2,691)	(2,824)	(6,817)
Gain on sale of investments and property and equipment	33	(4,549)	(1,046)	(5,019)
Operating income before working capital changes		70,933	75,247	46,670
Changes in noncash current assets, certain current liabilities and others	39	(27,939)	(19,335)	13,175
Cash generated from operations		42,994	55,912	59,845
Interest paid		(16,987)	(14,434)	(5,155)
Income taxes paid		(9,192)	(12,818)	(9,312)
Net cash flows provided by operating activities		16,815	28,660	45,378
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of subsidiaries, net of cash and cash equivalents acquired	39	(19,729)	(775)	(18,978)
Additions to investments and advances	13	(23,159)	(16,338)	(99,762)
Additions to property, plant and equipment	7, 16	(52,920)	(26,426)	(8,518)
Payment of other liabilities	13	(2,122)	(24,485)	-
Decrease (increase) in other noncurrent assets and others		7,917	(6,356)	(4,586)
Proceeds from sale of investments and property and equipment	6, 8, 13, 16, 17	24,568	1,347	1,175
Interest received		2,466	3,455	3,674
Dividends received from associates	13	4,949	2,637	-
Net cash flows used in investing activities		(58,030)	(66,941)	(126,995)

Forward

	<i>Note</i>	2012	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		P752,957	P492,117	P685,768
Long-term borrowings		59,671	55,399	72,937
Payments of:				
Short-term borrowings		(699,213)	(483,672)	(703,376)
Long-term borrowings		(59,667)	(14,025)	(29,196)
Proceeds from issuance of Series “2” preferred shares	26	79,238	-	-
Redemption of Series “1” preferred shares	26	(72,788)	-	-
Payment of finance lease liabilities		(17,393)	(11,781)	(4,798)
Cash dividends paid	37	(10,609)	(6,801)	(21,118)
Proceeds from issuance of capital stock	26	129	948	2,314
Proceeds from reissuance of treasury stock	26	-	2,971	-
Dividends paid to non-controlling shareholders		(7,969)	(7,650)	(4,883)
Increase in non-controlling interests		-	-	126
Net proceeds from issuance of preferred shares of subsidiaries	6	14,216	14,829	-
Net cash flows provided by (used in) financing activities		38,572	42,335	(2,226)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		(701)	(181)	(380)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
		(3,344)	3,873	(84,223)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
		128,975	125,188	209,411
CASH AND CASH EQUIVALENTS ASSOCIATED TO ASSETS HELD FOR SALE				
	8	-	(86)	-
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	9	P125,631	P128,975	P125,188

See Notes to the Consolidated Financial Statements.

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

1. Reporting Entity

San Miguel Corporation (SMC or the 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 interests 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 are based on International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB). PFRS include statements named PFRS, 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 21, 2013.

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
	2012	2011	
Beverage Business:			
San Miguel Brewery Inc. (SMB) and subsidiaries [including Iconic Beverages, Inc., Brewery Properties Inc. (BPI) and subsidiary, San Miguel Brewing International Ltd. (SMBIL) and subsidiaries {including San Miguel Brewery Hong Kong Limited (SMBHK) and subsidiaries, PT Delta Djakarta Tbk ^(a) and a subsidiary, San Miguel (Baoding) Brewery Company. Limited ^(a) , San Miguel Brewery Vietnam Ltd. ^(a) , 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., East Pacific Star Bottlers Phils Inc. (EPSBPI) ^(b) , Ginebra San Miguel International, Ltd. (GSMIL), Ginebra San Miguel International Holdings Ltd. (GSMIHL), Global Beverage Holdings Ltd. (GBHL) and Siam Holdings Ltd. (SHL)]	77.36	77.63	Philippines
San Miguel Foods and Beverage International Limited (SMFBIL) and subsidiaries [including PT San Miguel Indonesia Foods & Beverages (PTSMIFB) ^(a) , San Miguel (Thailand) Co. Ltd. (SMTCL) ^(c) , San Miguel (Guangdong) Foods & Beverages Co. Ltd. ^(a) , San Miguel (Vietnam) Co. Ltd. (SMVCL) ^(d) , PT San Miguel Marketing Indonesia ^(a) , 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 subsidiaries (including Golden Avenue Corp. (GAC) ^(e) and Golden Bay Grain Terminal Corporation (GBGTC) ^(f)), The Purefoods-Hormel Company, Inc., Magnolia, Inc. (Magnolia) and subsidiaries including Golden Food and Dairy Creamery Corporation (GFDCC) ^(g) , San Miguel Super Coffeemix Co., Inc., PT San Miguel Pure Foods Indonesia 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. ^(h)]	84.92	99.92	Philippines
Packaging Business:			
San Miguel Yamamura Packaging Corporation (SMYPC) and subsidiaries, SMC Yamamura Fuso Molds Corporation and Can Asia, Inc. (CAI) ⁽ⁱ⁾	65.00	65.00	Philippines
San Miguel Yamamura Packaging International Limited (SMYPIL) and subsidiaries [including San Miguel Phu Tho Packaging Co. Ltd. ^(a) , Zhaoqing San Miguel Yamamura Glass Co., Ltd., Foshan San Miguel Packaging Co. Ltd., PT San Miguel Yamamura Utama Indoplas (SMYUI) ^(j) , San Miguel Yamamura Packaging & Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Yamamura Plastic Films Sdn. Bhd. and San Miguel Yamamura Knox Pty. Ltd. (SMYK) ^(a) and subsidiaries]	65.00	65.00	BVI
Mindanao Corrugated Fibreboard, Inc. ^(a)	100.00	100.00	Philippines
San Miguel Yamamura Asia Corporation (SMYAC)	60.00	60.00	Philippines

Forward

	Percentage of Ownership		Country of Incorporation
	2012	2011	
Power Generation and Distribution Business:			
SMC Global Power Holdings Corp. (SMC Global) 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) ^(k)]	100.00	100.00	Philippines
Mining Business:			
Clariden Holdings, Inc. (Clariden) and subsidiaries [including V.I.L. Mines, Incorporated and Asia-Alliance Mining Resources Corp. (AAMRC) ^(l)]	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 (OVINCOR) ^(a) , Petron Singapore Trading Pte. Ltd., New Ventures Realty Corporation (NVR) and subsidiaries, Petron Global Limited (BVI) (PGL), Petron Oil & Gas International Sdn. Bhd. (POGI) including Petron Fuel International Sdn Bhd, Petron Oil (M) Sdn Bhd and Petron Malaysia Refining & Marketing Bhd. (collectively Petron Malaysia) ^(a, m) , Petron Finance (Labuan) Limited and Limay Energen Corp. (LEC)]	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) ^(a) , Universal LRT Corporation (BVI) Limited (ULC BVI) ^(a) , Terramino Holdings, Inc. (THI) and subsidiary ^(a, n) , Citra Metro Manila Tollways Corporation (CMMTC) ^(a, o) and Alloy Manila Toll Expressways Inc. (AMTEX) ^(a, p)]	100.00	100.00	Philippines
Telecommunications Business:			
Vega Telecom, Inc. (Vega) and subsidiaries [including Two Cassandra-CCI Conglomerates, Inc. (TCCI) ^(a) , Perchpoint Holdings Corp. (PHC) ^(a) and Power Smart Capital Limited (PSCL) ^(a) [collectively own Bell Telecommunication Philippines, Inc. (BellTel) ^(a)] and A.G.N. Philippines, Inc. (AGNP)]	100.00	100.00	Philippines
Eastern Telecommunications Philippines, Inc. (ETPI) and subsidiary ^(q) , Telecommunications Technologies Phils., Inc. (TTPI)	77.70	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 Makati Flagship Realty Corp. (SMPI Flagship) ^(r) , SMC Originals, Inc. (SMC Originals) ^(s) and Integrated Geosolutions, Inc. (IGI)] ^(a)	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. ^(a) 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) ^(t) , SMC Cebu Shipyard Land, Inc. (SMCCSLI) ^(u) and Mactan Shipyard Corporation (MSC) ^(v)]	70.00	70.00	Philippines
Challenger Aero Air Corp.	100.00	100.00	Philippines

Forward

	Percentage of Ownership		Country of Incorporation
	2012	2011	
Pacific Central Properties, Inc. (PCPI)	100.00	100.00	Philippines
San Miguel Equity Securities Inc. (SMESI) ^(w)	100.00	100.00	Philippines
San Miguel Equity Investments Inc. (SMEII) ^(x)	100.00	100.00	Philippines

- (a) *The financial statements of these subsidiaries were audited by other auditors.*
- (b) *Consolidated to GSMI effective January 27, 2012 (Note 5).*
- (c) *Sold on February 15, 2012 (Note 8).*
- (d) *The State Securities Commission of Vietnam issued on May 31, 2012 an order of dissolution of SMVCL.*
- (e) *Consolidated to SMMI effective June 2012. Formerly Cobertson Realty Corporation (CRC) (Note 5).*
- (f) *Incorporated on November 8, 2011 (Note 5).*
- (g) *Consolidated to Magnolia effective September 12, 2011 (Note 5).*
- (h) *Formerly San Miguel Pure Foods (Vn) Co. Ltd. (SMPFVN)(Note 6).*
- (i) *Incorporated on November 12, 2012 (Note 6)*
- (j) *Sold in January 2012 (Note 8).*
- (k) *Sold on August 26, 2011 (Note 5).*
- (l) *Consolidated to Clariden effective September 6, 2012 (Note 5).*
- (m) *Consolidated to Petron effective March 30, 2012 (Note 5).*
- (n) *Consolidated effective December 28, 2012 (Note 5).*
- (o) *Consolidated effective December 28, 2012. 37.33% owned by THI and 23.50% owned through Atlantic Aurum Investments BV (Atlantic) in 2012 (Note 5).*
- (p) *Consolidated to SMHC effective February 2012 (Note 5).*
- (q) *Consolidated effective October 20, 2011. 40% owned by AGNP in 2011 and 37.7% owned by SMESI in 2011 (Note 6).*
- (r) *Formerly SMPI-Government Service Insurance System Joint Venture Corporation (SMPI-GSIS JVC)(Note 6).*
- (s) *Formerly Highriser Group, Inc. (Note 6).*
- (t) *Incorporated on March 16, 2011 (Note 6).*
- (u) *Formerly Keppel Cebu Shipyard Land, Inc. (KCSLI). Consolidated to SMCSLC effective May 26, 2011 (Note 5).*
- (v) *Incorporated on August 18, 2011 (Note 6).*
- (w) *Incorporated on March 28, 2011 (Note 6).*
- (x) *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, ETPI, AIBC, SMCSLC, Petron, TADHC, ULC BVI and IGI in 2012 and 2011 and AAMRC, CMMTC and AMTEX in 2012.

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 Amendments to Standards

The FRSC approved the adoption of a number of amendments to standards as part of PFRS.

Effective 2012, the Group has adopted the amendments to PFRS 7, *Disclosures - Transfers of Financial Assets*, which 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. The amendments are effective for annual periods beginning on or after July 1, 2011. The adoption of these amendments did not have an effect on the consolidated financial statements.

Additional disclosures 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, 2012, and have not been applied in preparing the consolidated financial statements. Except as otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements of the Group. The Group does not plan to adopt these standards early.

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

- Presentation of Items of Other Comprehensive Income (*Amendments to PAS 1, Presentation of Financial Statements*). The amendments: (a) require that an entity presents 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 consolidated statement of comprehensive income to consolidated 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 adoption of the amendments is required for annual periods beginning on or after January 1, 2013. The adoption of the amendments is not expected to have an effect on the consolidated financial statements.

- Disclosures: Offsetting Financial Assets and Financial Liabilities (*Amendments to PFRS 7*). These amendments include minimum disclosure requirements related to financial assets and financial liabilities that are: (a) offset in the consolidated statements of financial position; or (b) subject to enforceable master netting arrangements or similar agreements. They include a tabular reconciliation of gross and net amounts of financial assets and financial liabilities, separately showing amounts offset and not offset in the consolidated statements of financial position. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2013. The adoption of the amendments is not expected to have an effect on the consolidated financial statements.
- 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), *Consolidated and Separate Financial Statements*, and Philippine Interpretation Standards Interpretation Committee (SIC) 12, *Consolidation - Special Purpose Entities*. The adoption of the new standard is required for annual periods beginning on or after January 1, 2013.

The adoption of the new standard may result to changes in consolidation conclusion in respect of the Group's investees and may lead to changes in the current accounting for these investees.

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

The effect of the adoption of the new standard will result to the elimination of the option to use proportionate consolidation, which is the current practice of the Group.

- 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. The new standard provides information that enables users to evaluate: (a) the nature of, and risks associated with, an entity's interests in other entities; and (b) the effects of those interests on the entity's financial position, financial performance and cash flows. The adoption of the new standard is required for annual periods beginning on or after January 1, 2013.

The Group is currently assessing the disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities in comparison with the existing disclosure.

- Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (*Amendments to PFRS 10, PFRS 11, and PFRS 12*). The amendments: (a) simplify the process of adopting PFRS 10 and 11, and provide relief from the disclosures in respect of unconsolidated structured entities; (b) simplify the transition and provide additional relief from the disclosures that could have been onerous depending on the extent of comparative information provided in the consolidated financial statements; and (c) limit the restatement of comparatives to the immediately preceding period; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged. In addition, the date of the initial application is now defined in PFRS 10 as the beginning of the annual reporting period in which the standard is applied for the first time. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

The Group is currently assessing whether there is a change in the consolidation conclusion for its investees.

- 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 adoption of the new standard is required for annual periods beginning on or after January 1, 2013. The adoption of the new standard is not expected to significantly change the Group's methodologies in determining fair values.
- 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 of 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 amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2013.

The effect on the Group's consolidated financial statements of the retrospective application of the amendments to PAS 19 beginning January 1, 2013 is estimated to increase retirement assets and retirement liabilities by P3,048 and P5,536, respectively, decrease other comprehensive income by P1,028 and a corresponding decrease to the opening balance of retained earnings amounting to P714.

- 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 amendments is required for annual periods beginning on or after January 1, 2013. The adoption of the amendments is not expected to have an effect on the consolidated financial statements.

- *Improvements to PFRS 2009-2011* contain amendments to 5 standards with consequential amendments to other standards and interpretations, of which, the adoption is not expected to have an effect on the consolidated financial statements.
 - *Comparative Information beyond Minimum Requirements (Amendments to PAS 1)*. These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements. An entity must include comparative information in the related notes to the consolidated financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of consolidated financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements) are not required. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.
 - *Presentation of the Opening Statement of Financial Position and Related Notes (Amendments to PAS 1)*. The amendments clarify that: (a) the opening consolidated statement of financial position is required only if there is: (i) a change in accounting policy; (ii) a retrospective restatement; or (iii) a reclassification which has a material effect upon the information in that consolidated statement of financial position; (b) except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, notes related to the opening consolidated statement of financial position are no longer required; and (c) the appropriate date for the opening consolidated statement of financial position is the beginning of the preceding period, rather than the beginning of the earliest comparative period presented. This is regardless of whether an entity provides additional comparative information beyond the minimum comparative information requirements. The amendments explain that the requirements for the presentation of notes related to additional comparative information and those related to the opening consolidated statement of financial position are different, because the underlying objectives are different. Consequential amendments have been made to PAS 34, *Interim Financial Reporting*. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.
 - *Classification of Servicing Equipment (Amendments to PAS 16, Property, Plant and Equipment)*. The amendments clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in PAS 16 is now considered in determining whether these items should be accounted for under this standard. If these items do not meet the definition, then they are accounted for using PAS 2, *Inventories*. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.
 - *Income Tax Consequences of Distributions (Amendments to PAS 32, Financial Instruments Presentation)*. The amendments clarify that PAS 12, *Income Taxes* applies to the accounting for income taxes relating to: (a) distributions to holders of an equity instrument; and (b) transaction costs of an equity transaction. This amendment removes a perceived inconsistency between PAS 32 and PAS 12. Before the amendment, PAS 32 indicated that distributions to holders of an equity instrument are recognized directly in equity, net of any related income tax.

However, PAS 12 generally requires the tax consequences of dividends to be recognized in profit or loss. A similar consequential amendment has also been made to Philippine Interpretation IFRIC 2, *Members' Share in Co-operative Entities and Similar Instruments*. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

- Segment Assets and Liabilities (*Amendments to PAS 34*). This is amended to align the disclosure requirements for segment assets and segment liabilities in interim consolidated financial statements with those in PFRS 8, *Operating Segments*. PAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when: (a) the amount is regularly provided to the chief operating decision maker; and (b) there has been a material change from the amount disclosed in the last annual consolidated financial statements for that reportable segment. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.
- Offsetting Financial Assets and Financial Liabilities (*Amendments to PAS 32*). The amendments clarify that: (a) an entity currently has a legally enforceable right to set-off if that right is: (i) not contingent on a future event; and (ii) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and (b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that: (i) eliminate or result in insignificant credit and liquidity risk; and (ii) process receivables and payables in a single settlement process or cycle. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014. The adoption of the amendments is not expected to have an effect on the consolidated financial statements.
- PFRS 9, *Financial Instruments (2010) and (2009)*. PFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under PFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. PFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of PFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. PFRS 9 (2010 and 2009) is effective for annual periods beginning on or after January 1, 2015.

The Group is still evaluating the possible financial impact of the adoption of PFRS 9 and does not plan to adopt this standard early.

- 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 as at 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 for 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 to the fair value from 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 the fair value (a ‘Day 1’ profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is 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 as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as 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 at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;
- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Fair value changes and realized gains or losses are recognized in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest earned shall be recognized as part of "Interest income" account 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 (Note 12).

The combined carrying amounts of financial assets under this category amounted to P238 and P315 as of December 31, 2012 and 2011, 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" account 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, option deposit and noncurrent receivables and deposits are included in this category (Notes 9, 10, 12 and 20).

The combined carrying amounts of financial assets under this category amounted to P264,096 and P240,918 as of December 31, 2012 and 2011, 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" account 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" account 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.

The Group has no investments accounted for under this category as of December 31, 2012 and 2011.

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" account in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" account 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 are classified under this category (Notes 12 and 14).

The carrying amounts of financial assets under this category amounted to P1,621 and P2,068 as of December 31, 2012 and 2011, 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 in the consolidated statements of changes in equity. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account 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 P315 and P118 as of December 31, 2012 and 2011, 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.

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

The combined carrying amounts of financial liabilities under this category amounted to P658,947 and P566,041 as of December 31, 2012 and 2011, 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.

The Group has no outstanding derivatives accounted for as fair value hedges as of December 31, 2012 and 2011.

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

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

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

The Group has no outstanding derivatives accounted for as a cash flow hedge as of December 31, 2012 and 2011.

Net Investment Hedge. The Group has no hedge of a net investment in a foreign operation as of December 31, 2012 and 2011.

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 as 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 the 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 the 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; finished goods include 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 stocks, 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) 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

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 are currently 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.

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, then 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.

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.

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 book value accounting.

Non-controlling Interests

The acquisitions of non-controlling interests 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 the 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 to 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 in the profit or loss of the associate after the date of acquisition. The Group's share in the profit or loss of the associate is recognized as "Equity in net earnings of associates" account 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. 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, *Business Combination*. 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 of 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). Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Construction in progress (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. CIP is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization, which commences when the assets are available for their intended use, 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 - 10
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 methods are reviewed and adjusted periodically, if appropriate, to ensure that such periods and methods 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.

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 from 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 and 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, which commences when the assets are available for their intended use, 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 and 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 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
Airport concession rights	25
Toll road concession rights	30
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 lives of licenses and trademarks and brand names to be indefinite. Based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the Group.

Licenses and trademarks and brand names 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 the 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 and PAS 18 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 - Airport Concession Right

The Group's intangible asset - airport concession right pertains to the right granted by the Republic of the Philippines (ROP) to TADHC: (a) to operate the Caticlan Airport (the Airport Project, known as the Boracay Airport starting 2011) as expressly stated in the Concession Agreement (CA) (Note 35), (b) the right to design and finance the development of the Airport Project, and operate and maintain the Boracay Airport during the concession period and (c) 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 - airport 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 its use or disposal.

Gain or loss from derecognition of the intangible asset - airport 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.

Intangible Asset - Toll Road Concession Rights

The Group's intangible asset - toll road concession rights represent the costs of construction and development of Stage 1 and Stage 2 of the South Metro Manila Skyway (SMMS or the Skyway Project), including borrowing costs during the construction period. Toll road concession rights are recognized initially at the fair value of the construction services. Following initial recognition, the toll road concession rights are carried at cost less accumulated amortization and any impairment losses. Subsequent expenditures or replacement of part of it, are normally charged to profit or loss as these are incurred, to maintain the expected future economic benefits embodied in the toll road concession rights. Expenditures that will contribute to the increase in revenue from toll operations are recognized as intangible asset.

From 1999 to April 26, 2011, toll road concession rights pertaining to Stage 1, which was fully operational, were amortized on a straight-line basis over the 30-year concession period. At the start of the operation of the Integrated Stage 1 and Stage 2 on April 26, 2011, the intangible asset - toll road concession rights pertaining to unamortized balance of Stage 1 and total costs of Stage 2 were amortized over the 30-year concession period. The amortization period and method are reviewed when there are changes in the expected term of the contract or the expected pattern of consumption of future economic benefits embodied in the asset. These changes are treated as changes in accounting estimates. The amortization expense on the asset is recognized in profit or loss.

The carrying value of the intangible asset - toll road concession rights is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

The intangible asset - toll road concession rights will be derecognized upon turnover to the ROP. There will be no gain or loss upon derecognition of intangible asset - toll road concession rights as these are expected to be fully amortized upon turnover to the ROP.

Intangible Asset - Mining Rights

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

Deferred Exploration and Development Costs

Deferred exploration and development costs comprise of 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. Licenses and trademarks and brand names 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 amount equivalent to 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" 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 events; (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 the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where 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 Boracay Airport at a serviceability level acceptable to the ROP through continuous maintenance and restoration prior to its 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 revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Revenue from Sale of Goods

Revenue from 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.

Revenue from Power Generation

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

Revenue from Telecommunications Services

Revenue from telecommunications services includes the value of all 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 represents settlements from telecommunications providers who sent traffic to the Group's network. Inbound revenue is based on agreed payment accounting rates with other carriers. Interconnection charges are based on the rates agreed with other carriers.

Both the inbound revenue and interconnection charges are accrued based on actual volume of traffic. 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.

Revenue from Airport Operations

Landing, take-off and parking fees are recognized upon rendering of the service which is the period from landing up to take-off of aircrafts.

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

Construction revenue related to the Group's recognition of intangible asset on the right to operate the Boracay Airport, which is the consideration receivable from ROP relative to the Airport Project, is earned and recognized as the Airport 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 Boracay 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 Airport Project up to the end of the reporting period as a percentage of total estimated cost.

Revenue from Toll Operations

Revenue from toll operations is recognized upon the use by the road users of the toll road and the toll is paid by way of cash or charges against an E-Pass account.

Construction revenue is recognized by reference to the stage of completion of the construction activity at the reporting date. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Revenue from 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.

Others

Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

Dividend income is recognized when the Group's right as a shareholder to receive the payment is established.

Rent income 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.

Gain or loss on sale of investments in shares of stock 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 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 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 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), and at the date of renewal or extension period for scenario (b) above.

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 lives 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. Past service cost is recognized immediately as an expense, if the benefits are vested immediately following the introduction of, or changes to the plan. 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 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 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 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.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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 the 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 the results of discontinued operation are shown separately 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 LTIP, 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 the 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 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 the 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 an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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 Administration (IPPA) Agreements with Power Sector Assets and Liabilities Management Corporation (PSALM), the Group's management has made a judgment that the IPPA Agreements are agreements that contain 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 judgment 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, 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 P195,154 and P208,261 as of December 31, 2012 and 2011, respectively (Note 35). The combined carrying amount of power plants, machinery and equipment and transportation equipment under finance lease amounted to P198,562 and P203,756 as of December 31, 2012 and 2011, respectively (Notes 16 and 35).

Operating Lease Commitments - Group as Lessor/Lessee. The Group has entered into various lease agreements either as 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 P1,139, P412 and P267 in 2012, 2011 and 2010, respectively (Note 35).

Rent expense recognized in the consolidated statements of income amounted to P3,024, P2,575 and P1,812 in 2012, 2011 and 2010, respectively (Notes 27, 28 and 35).

Applicability of Philippine Interpretation IFRIC 12

Airport Concession Right. 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 the 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 (Note 35).

Management determined that the consideration receivable is an intangible asset in the form of a license to operate the Boracay 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 Airport 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. The Airport 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 each reporting date 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 Airport Project and to be amortized simultaneously with the cost related to the Airport Project because only at that time would significant maintenance of the Boracay Airport would also commence. However, since the Group had already started the maintenance of the rehabilitated Boracay Airport, the entire present value of the annual estimated costs had already been recognized in CIP - airport concession arrangements and portion of which representing the actual amount incurred in the current year for the maintenance of the Boracay Airport had 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 Boracay Airport during the last quarter of 2010. Consequently, management has started amortizing the related value of the intangible asset and 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.

Toll Road Concession Rights. The Group has assessed that it is covered by Philippine Interpretation IFRIC 12 and qualifies under the intangible asset model with respect to the operation of the toll roads, including the right to verify and audit the toll road revenue, to check the structures and collection facilities and to implement policies and procedures for the operations and management of the toll roads.

Recognition of Profit Margin on the Airport Project Concession Arrangement. The Group has not recognized any profit margin on the construction of the Airport Project as it believes that the fair value of the intangible asset reasonably approximates the cost. 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 TADHC's preferred shares, particularly mandatory redemption, 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).

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 a 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 financial position and 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 P6,387 and P5,225 as of December 31, 2012 and 2011, respectively. The carrying amounts of trade and other receivables amounted to P122,599 and P84,472 as of December 31, 2012 and 2011, 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 allowance for inventory losses amounted to P1,030 and P1,154 as of December 31, 2012 and 2011, respectively. The carrying amount of inventories amounted to P80,222 and P65,720 as of December 31, 2012 and 2011, respectively (Note 11).

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 the transactions and the reporting date. Costs to sell are estimated based on the 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, amounted to P89 and P69 in 2012 and 2011, 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 P3,788 and P2,926 as of December 31, 2012 and 2011, respectively (Note 17). Property, plant and equipment, net of accumulated depreciation and amortization amounted to P379,794 and P330,949 as of December 31, 2012 and 2011, respectively (Note 16). Accumulated depreciation and amortization of investment properties amounted to P1,361 and P1,536 as of December 31, 2012 and 2011, respectively (Note 17). Accumulated depreciation and amortization of property, plant and equipment amounted to P140,657 and P111,940 as of December 31, 2012 and 2011, respectively (Note 16).

Deferred containers, net of accumulated amortization, included as part of “Other noncurrent assets” account in the consolidated statements of financial position amounted to P6,214 and P5,035 as of December 31, 2012 and 2011, 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 P6,078 and P5,594 as of December 31, 2012 and 2011, 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 P26,907 and P4,121 as of December 31, 2012 and 2011, respectively (Note 19).

Estimated Useful Lives of Intangible Asset - Airport and Toll Road Concession Rights. The Group estimates the useful lives of intangible assets arising from the airport and toll road concession rights based on the period over which the assets are expected to be available for use, which is 25 and 30 years, respectively. 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, Licenses and Trademarks and Brand Names with Indefinite Useful Lives. The Group determines whether goodwill, licenses and trademarks and brand names 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 licenses and trademarks and brand names. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and from the licenses and trademarks and brand names and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amount of goodwill amounted to P49,953 and P30,990 as of December 31, 2012 and 2011, respectively (Note 19).

The combined carrying amounts of licenses and trademarks and brand names amounted to P7,224 and P7,286 as of December 31, 2012 and 2011, 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 are recognized at the date of acquisition based on 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. The combined carrying amounts of goodwill and other intangible assets with indefinite and finite lives arising from business combinations amounted to P19,554 and P929 in 2012 and 2011, 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, 2012. 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, 2012 and 2011.

Deferred exploration and development costs included as part of "Other noncurrent assets" account in the consolidated statements of financial position amounted to P232 and P103 as of December 31, 2012 and 2011, respectively (Note 20). There were no impairment losses recognized in 2012, 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 P8,826 and P8,233 as of December 31, 2012 and 2011, 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 - net of current portion, 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 on property, plant and equipment and investment properties amounted to P9,113 and P11,399 as of December 31, 2012 and 2011, respectively (Notes 16 and 17). The combined 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 amounted to P572,053 and P501,284 as of December 31, 2012 and 2011, 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 reporting period. 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 net cumulative unrecognized actuarial gain amounting to P1,495 and P9,348 as of December 31, 2012 and 2011, respectively (Note 36).

Asset Retirement Obligation. The Group has ARO arising from leased service stations, depots, blending plant and franchised store and locator. 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 4.29% to 10.20% 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 P997 and P1,061 as of December 31, 2012 and 2011, respectively, covers only the Group’s leased service stations and depots (Note 24).

Present Value of Annual Franchise Fee and IRO - Airport Concession Arrangements. Part of the amount recognized as intangible asset - airport concession rights as of December 31, 2012 and 2011 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 CIP - airport concession arrangements until the completion of the Airport Project.

The present values 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 present value of annual franchise fee already recognized in the intangible asset is presented in Note 19 while the carrying amount of IRO recognized in CIP - airport concession arrangements is presented in Note 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.

Percentage of Completion - Airport 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 Airport Project cost. The Group reviews and revises, when necessary, the estimate of Airport 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

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 the Parent Company an option to acquire 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. 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 recognized goodwill amounting to P22,025 in 2010, as a result of the acquisition (Notes 19 and 39).

- Petron Malaysia

On March 30, 2012, the Parent Company through POGI, Petron's indirect offshore subsidiary, completed the acquisition of 65% of Esso Malaysia Berhad (EMB), and 100% of ExxonMobil Malaysia Sdn Bhd (EMMSB) and ExxonMobil Borneo Sdn Bhd (EMBSB) for an aggregate purchase price of US\$577 or P25,928. POGI also served the notice of Mandatory General Offer (MGO) to acquire the remaining 94,500,000 shares representing 35% of the total voting shares of EMB for RM3.59 per share from the public. As a result of the MGO, POGI acquired an additional 22,679,063 shares from the public and increased its interest in EMB to 73.4%.

On April 23, 2012, the Companies Commission of Malaysia (CCM) approved the change of name of EMMSB to Petron Fuel International Sdn Bhd and of EMBSB to Petron Oil (M) Sdn Bhd.

On July 11, 2012, CCM approved the change of name of EMB to Petron Malaysia Refining & Marketing Bhd.

From the date of acquisition, Petron Malaysia has contributed revenue of P142,190 and profit of P120 to the Group's financial performance.

Petron 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:

	2012
Assets	
Cash and cash equivalents	P5,633
Trade and other receivables - net	12,811
Inventories	13,160
Prepaid expenses and other current assets	307
Property, plant and equipment - net	14,930
Deferred tax assets	36
Other noncurrent assets - net	6,488
Liabilities	
Loans payable	(4,195)
Accounts payable and accrued expenses	(18,294)
Income and other taxes payable	(64)
Long-term debt - net of debt issue cost	(10,123)
Deferred tax liabilities	(1,116)
Other noncurrent liabilities	(700)
Total Identifiable Net Assets at Fair Value	P18,873

The fair value of the trade and other receivables amounts to P12,811. The gross amount of trade receivables is P12,857, of which P46 is expected to be uncollectible at the acquisition date (Note 10).

Goodwill was recognized based on the provisionary amounts of net assets acquired as follows:

	<i>Note</i>	2012
Total cash consideration transferred		P25,928
Non-controlling interest measured at proportionate interest in identifiable net assets		3,584
Total identifiable net assets at fair value		(18,873)
Goodwill	19, 39	P10,639

Movement of goodwill is as follows:

	<i>Note</i>	2012
Goodwill at acquisition date		P10,639
Translation adjustments		(439)
Goodwill at end of year	19	P10,200

Goodwill arising from the acquisition is attributable to the benefit of expected synergies, 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.

The Group is currently completing the purchase price allocation exercise on the acquisition of Petron Malaysia. The identifiable net assets at fair value are based on provisionary amounts as at the acquisition date, which is allowed under PFRS 3, within 12 months from the acquisition date.

- 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 was subscribed, of which P213 was paid-up by Petron. Petron then owned 40% of LEC, while Two San Isidro owned the remaining 60%. In 2011, Petron infused P1,147 into LEC to fully pay its 40% equity share.

In January 2012, LEC became a wholly-owned subsidiary of Petron when it purchased the 60% equity share of Two San Isidro.

The primary purpose of LEC is to build, operate, maintain, sell and lease power generation plants, facilities, equipment and other related assets and generally engage in the business of power generation and sale of electricity generated by its facilities.

From the date of acquisition, LEC has contributed profit of P28 to the Group's financial performance.

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

	2012
Assets	
Cash and cash equivalents	P3,514
Trade and other receivables	2
Prepaid expenses and other current assets	39
Other noncurrent assets - net	35
Liabilities	
Accounts payable and accrued expenses	(10)
Income and other taxes payable	(144)
Total Identifiable Net Assets at Fair Value	P3,436

The fair value of the trade and other receivables amounts to P2. None of the receivables has been impaired and it is expected that the full amount can be collected.

Total identifiable net assets at fair value is equal to the consideration of the purchase made by Petron.

- Parkville Estates Development Corp. (PEDC)

In April 2012, the Parent Company through NVRC, a subsidiary of Petron, acquired 100% of the outstanding capital stock of PEDC for a total consideration of P132.

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

	2012
Asset	
Property, plant and equipment - net	P117
Liabilities	
Accounts payable and accrued expenses	(5)
Total Identifiable Net Asset at Fair Value	P112

Goodwill was recognized based on the provisionary amounts of net asset acquired as follows:

	<i>Note</i>	2012
Total cash consideration transferred		P132
Total identifiable net asset at fair value		(112)
Goodwill	<i>19, 39</i>	P20

▪ Mariveles Landco Corporation (MLC)

On July 26, 2012, the Parent Company, through NVRC, a subsidiary of Petron, acquired 60% of MLC's shares of stock for a total consideration of P30.

NVRC 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:

	2012
Assets	
Trade and other receivables	P10
Prepaid expenses and other current assets	2
Property, plant and equipment - net	64
Liabilities	
Accounts payable and accrued expenses	(58)
Other noncurrent liabilities	(36)
Total Identifiable Net Liabilities at Fair Value	(P18)

The fair value of the trade and other receivables amounts to P10. None of the receivables has been impaired and it is expected that the full amount can be collected.

Goodwill was recognized based on the provisionary amounts of net liabilities acquired as follows:

	<i>Note</i>	2012
Total cash consideration transferred		P30
Non-controlling interest measured at proportionate interest in identifiable net liabilities		(7)
Total identifiable net liabilities at fair value		18
Goodwill	<i>19, 39</i>	P41

Infrastructure

- **THI and CMMTC**

On December 28, 2012, the Parent Company, through its wholly-owned subsidiary, SMHC, acquired 100% of the outstanding capital stock of THI for P3.

THI has 37.33% equity interest in CMMTC, a company primarily engaged in the business of designing, constructing and financing of toll roads. CMMTC holds the toll road concession rights representing the costs of construction and development of Stage 1 and Stage 2 of the SMMS. In addition, pursuant to a build-and-transfer scheme duly approved by the appropriate Philippine Authorities, two major infrastructure projects have been designated as “flagship” or preferred infrastructure projects by CMMTC, namely: (1) the proposed Metro Manila Skyway (MMS) which is a system of elevated roadway, commencing at the end-point of the South Luzon Expressway (SLEX) in Alabang, Muntinlupa, and culminating at the end-point of the North Luzon Expressway in Balintawak, Caloocan City, thereby serving as an interconnection of the above-mentioned expressways; and (2) the proposed Metro Manila Tollways (or Circumferential Road 6 or simply C-6).

THI also has 100% equity interest in Assetvalues Holding Company Inc. (AVHCI). AVHCI is engaged in the business of investing in real and personal properties, stocks, bonds and other securities or evidence of indebtedness of any corporation, association or entity. AVHCI has 15.43% equity interest in Skyway O&M Corporation (SOMCO), the operator of SMMS.

An option agreement was entered into by SMHC, Padma Fund L.P. (Padma) and THI wherein Padma, or its nominated assignee, obtained the rights to purchase and acquire up to 49% equity ownership interest in THI. The option is exercisable within 2 years from the acquisition by SMHC of all the outstanding shares of THI or until December 28, 2014. The option price paid by Padma amounting to US\$0.25 or P10 is presented as part of “Other noncurrent liabilities” account in the 2012 consolidated statement of financial position.

With the acquisition of THI, which owns 37.33% of the outstanding capital stock of CMMTC, and the existing 23.5% indirect ownership in CMMTC through Atlantic, SMHC obtained control and consolidated CMMTC effective December 28, 2012.

SMHC 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:

	2012
Assets	
Cash and cash equivalents	P2,785
Trade and other receivables - net	259
Prepaid expenses and other current assets	290
Investments and advances	13,970
Property, plant and equipment - net	14
Investment properties - net	1
Other intangible assets - net	20,601
Other noncurrent assets	2
Liabilities	
Loans payable	(11,158)
Accounts payable and accrued expenses	(665)
Income and other taxes payable	(546)
Current maturities of long-term debt - net of debt issue costs	(1,692)
Long-term debt - net of current maturities and debt issue costs	(6,796)
Deferred tax liabilities	(331)
Other noncurrent liabilities	(2,780)
Total Identifiable Net Assets at Fair Value	P13,954

The fair value of the trade and other receivables amounts to P259. The gross amount of trade receivables is P758, of which P499 is expected to be uncollectible at the acquisition date (Note 10).

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

	<i>Note</i>	2012
Total cash consideration transferred		P3
Investment cost of THI		13,922
Equity interest held before business combination		3,236
Total consideration transferred		17,161
Non-controlling interest measured at proportionate interest in identifiable net assets		5,393
Total identifiable net assets at fair value		(13,954)
Goodwill	19, 39	P8,600

▪ **AMTEX**

In February 2012, the Parent Company through its wholly-owned subsidiary, SMHC, acquired 60% of the outstanding capital stock of AMTEX for a total consideration of P90. AMTEX is a company engaged in the business of operating and maintaining toll road facilities and providing related services such as technical advisory services in the operation and maintenance of toll road and toll road facilities.

With the acquisition of the 60% equity interest by SMHC and the existing 18.61% indirect ownership through Atlantic, the Group effectively owns 78.61% of AMTEX and consolidated AMTEX effective February 2012.

From the date of acquisition, AMTEX has contributed profit of P36 to the Group's financial performance.

SMHC 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:

	2012
Assets	
Cash and cash equivalents	P22
Trade and other receivables - net	6
Prepaid expenses and other current assets	17
Investments and advances	120
Property, plant and equipment - net	2
Investment properties - net	71
Deferred tax assets	1
Liabilities	
Accounts payable and accrued expenses	(94)
Other noncurrent liabilities	(40)
Total Identifiable Net Assets at Fair Value	P105

The fair value of the trade and other receivables amounts to P6. 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:

	<i>Note</i>	2012
Total cash consideration transferred		P90
Non-controlling interest measured at proportionate interest in identifiable net assets		42
Total identifiable net assets at fair value		(105)
Goodwill	19, 39	P27

- ULC BVI

In 2010, the Parent Company, through its wholly-owned subsidiary, SMHC, signed a Share Sale and Purchase Agreement (the "Agreement") with ULC BVI, pursuant to the authority of the BOD of the Parent Company. 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 Metro Rail Transit Line 7 Project (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.

The Group recognized goodwill amounting to P1,464 in 2010, as a result of the acquisition (Notes 19 and 39).

- TADHC

In 2010, the Parent Company, through its wholly-owned subsidiary, SMHC, executed a Share Sale and Purchase Agreement relating to the purchase of the rights, title and interests to a total of 2,025,000 common shares of CIADC (the CIADC Shares). Deeds of Assignment of Shares were executed covering the CIADC Shares. SMHC paid P855 for the acquisition of CIADC Shares, of which 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.

CIADC (currently TADHC) 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).

The current portion of the Group's outstanding payable related to the purchase amounting to P70 and P100 as of December 31, 2012 and 2011, respectively, 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).

The Group recognized goodwill amounting to P967 in 2010, as a result of the acquisition (Notes 19 and 39).

Telecommunications

- AGNP

In 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.

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.

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.

The current portion of the Group's outstanding payable related to the purchase of AGNP shares amounting to P640 as of December 31, 2012 and 2011, is included as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position (Note 22).

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.

- 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.

- 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. The acquisition of ETPI was authorized by the BOD of the Parent Company during the 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 current portion of the Group's outstanding payable related to the purchase of ETPI shares amounting to P98 as of December 31, 2012 is included as part of "Accounts payable and accrued expenses" account (Note 22) while the noncurrent portion amounting to P1,108 and P1,206 as of December 31, 2012 and 2011, respectively, is included as part of "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.

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:

	<i>Note</i>	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.

- TCCI, PHC and PSCL

In 2010, the Parent Company through its wholly-owned subsidiary, Vega, completed the acquisition of 100% equity interests in TCCI, PHC and PSCL, which 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 Very Small Aperture Terminal (VSAT) network, international gateway facilities and cellular mobile telecommunications network (Note 35).

The Group recognized other intangible assets - license amounting to P5,221 in 2010, as a result of the acquisition (Notes 19 and 39).

Food

- GAC

In June 2012, following the approval of its BOD, SMMI, a wholly-owned subsidiary of SMPFC, acquired from CRC's individual stockholders, the subscribed capital stock of CRC equivalent to 25,000 shares for P358. CRC is a Philippine company engaged in the purchase, acquisition, development or use for investment, among others, of real and personal property, to the extent permitted by law. As such, CRC became a subsidiary of SMMI and was consolidated into SMPFC through SMMI.

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

	2012
Asset	
Property, plant and equipment - net	P400
Liabilities	
Accounts payable and accrued expenses	(42)
Total identifiable net asset at fair value	P358

Total identifiable net assets at fair value, is equal to the consideration of the purchase made by SMMI.

Subsequently, SMMI subscribed to an additional 45,000 CRC shares with a par value of P1,000.00 per share and paid P45.

In December 2012, following the approval of the BOD and stockholders of CRC to change the latter's corporate name, the SEC issued the Certificates of Filing of Amended Articles of Incorporation and Amended By-laws reflecting the change in corporate name of CRC to Golden Avenue Corp.

- **GFDCC**

In September 2011, the Parent Company through Magnolia, a wholly-owned subsidiary of SMPFC, acquired the subscription rights of certain individuals in GFDCC for P105. GFDCC is a company engaged in the toll manufacturing of ice cream products. As such, GFDCC became a subsidiary and was consolidated into SMPFC through Magnolia.

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

The fair value of the trade and other receivables amounts to P25. 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:

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

Beverage

- **EPSBPI**

On January 27, 2012, the Parent Company, through its subsidiary, GSMI, acquired 100% of the outstanding capital stock of EPSBPI for P200. EPSBPI is a company primarily engaged in the manufacturing and bottling of alcoholic and non-alcoholic beverages.

From the date of acquisition, EPSBPI has contributed loss of P35 to the Group's financial performance.

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

	2012
Assets	
Cash and cash equivalents	P57
Trade and other receivables - net	18
Inventories	4
Prepaid expenses and other current assets	24
Property, plant and equipment - net	1,063
Other noncurrent assets	97
Liabilities	
Accounts payable and accrued expenses	(489)
Long-term debt	(800)
Deferred tax liabilities	(1)
Total Identifiable Net Liabilities at Fair Value	(P27)

The fair value of the trade and other receivables amounts to P18. 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:

	<i>Note</i>	2012
Total consideration transferred		P200
Total identifiable net liabilities at fair value		27
Goodwill	<i>19, 39</i>	P227

Goodwill arising from the acquisition is attributable to the benefit of expected synergies with the Group's beverage business, revenue growth, and future development specifically on tolling services with third parties.

Power Generation and Distribution

▪ 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. A bargain purchase gain amounting to P4,490 was recognized as a result of the acquisition and presented as part of "Other income (charges)" account in the 2010 consolidated statement of income (Note 33).

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.

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 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. The Group recognized a gain of P278 for the said sale, presented as part of "Gain on sale of investments and property and equipment" account in the consolidated statements of income.

An initial payment of P25 was received by SMC Global in 2011 and the balance of P600 was recognized at present value discounted at applicable rate of similar instruments. As of December 31, 2012, the current portion of the receivable amounting to P98 is included as part of "Trade and other receivable - net" account (Note 10) and the noncurrent portion amounting to P396 is included as part of "Other noncurrent assets" account in the consolidated statements of financial position (Note 20). The discount is amortized over the collection period and recognized as part of "Interest income" account in the consolidated statements of income. Interest income amounted to P21 and P7 in 2012 and 2011, respectively.

Coal Mining Companies

On various dates in 2010, SMEC acquired 100% ownership interest in Daguma Agro-Minerals, Inc. (DAMI), Bonanza Energy Resources, Inc. (BERI) and Sultan Energy Phils. Corp. (SEPC). DAMI, BERI and SEPC are mining companies with coal properties covered by Coal Operating Contract (COC) No. 126, COC No. 138 and COC No. 134, respectively, issued by the Department of Energy (DOE). The COCs of these entities met the contractual/legal criterion and qualified as intangible assets under PFRS 3. Accordingly, the Group recognized other intangible asset - mining rights amounting to P1,719 in 2010 as a result of the acquisition (Notes 19 and 39).

As of December 31, 2012, DAMI, SEPC and BERI are in the exploratory stages of their mining activities. All related costs and expenses from exploration are currently recognized as deferred 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 exceeds recoverable amounts as of December 31, 2012.

Mining

- Clariden

On November 11, 2011, the Parent Company acquired 100% of the outstanding capital stock of Clariden for a total consideration of P5. Clariden's primary purpose is to acquire by purchase, exchange, assignment or otherwise, and to sell, assign, transfer, exchange, lease, let, develop, mortgage, pledge, deal in and operate, enjoy and dispose of, all properties of every kind and description and whenever situated and to the extent permitted by law.

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

	2011
Assets	
Cash and cash equivalents	P36
Trade and other receivables	41
Investments and advances - net	274
Liabilities	
Accounts payable and accrued expenses	(16)
Other noncurrent liabilities	(527)
Total Identifiable Net Liabilities at Fair Value	(P192)

The fair value of the trade and other receivables amounts to P41. None of the receivables has been impaired and it is expected that the full amount can be collected.

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

	<i>Note</i>	2011
Total cash consideration transferred		P5
Total identifiable net liabilities at fair value		192
Other Intangible Asset - Mining Rights	<i>19, 39</i>	P197

- AAMRC

On September 6, 2012, the Parent Company, through its wholly-owned subsidiary, Clariden, acquired 1,140,000 shares representing 60% ownership of the outstanding capital stock of AAMRC for a total consideration of P275. AAMRC is a company primarily engaged in the business of operating iron mines, and of prospecting, exploration and mining, milling, concentrating, smelting, treating, refining and processing of metals for market.

From the date of acquisition, AAMRC has contributed loss of P0.28 to the Group's financial performance.

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

	2012
Assets	
Trade and other receivables - net	P70
Other noncurrent assets	233
Total Identifiable Assets at Fair Value	P303

The fair value of the trade and other receivables amounts to P70. None of the receivables has been impaired and it is expected that the full amount can be collected.

Total identifiable assets at fair value, is equal to the consideration of the purchase made by Clariden and non-controlling interest measured at proportionate interest in identifiable assets.

Real Estate

▪ SMPI Flagship

The Parent Company, through SMPI, entered into a Joint Venture Agreement (JVA) with GSIS to establish the SMPI-GSIS JVC which holds ownership and title to the real property owned by GSIS primarily to develop the property into a first class high-rise service apartment and manage and operate the same.

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 June 7, 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. The total consideration for the sale amounted to P399. As such, SMPI-GSIS JVC became a wholly-owned subsidiary of SMPI.

On March 12, 2012, the BOD of SMPI-GSIS JVC approved the change in corporate name to SMPI Makati Flagship Realty Corp. The SEC approved the change in corporate name in January 2013.

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, foreshore leases and land use 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 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.

On May 23, 2012, the SEC approved the change in corporate name of Keppel Cebu Shipyard Land, Inc. to SMC Cebu Shipyard Land, Inc.

If the foregoing acquisitions have occurred on January 1, 2012, management estimates that consolidated revenue would have been P753,108, and consolidated net income for the year would have been P43,228. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2012.

6. Investments in Subsidiaries

The following are the developments relating to the Parent Company's investments in subsidiaries in 2012 and 2011:

Fuel and Oil

- PGL

On February 24, 2012, the Parent Company through Petron, acquired PGL, a company incorporated in the British Virgin Islands. PGL has issued an aggregate of 31,171,180 common shares with a par value of US\$1.00 per share to Petron. PGL issued 150,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series A and 200,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series B at an issue price equal to the par value of each share of US\$1.00 to a third party investor.

Infrastructure

- SMHC

On April 13, 2012, the BOD and stockholders of SMHC resolved and approved the increase in authorized capital stock from P1,000 divided into 1,000,000 shares to P5,000 divided into 5,000,000 shares, both with a par value of P1,000.00 per share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 28, 2012 and was approved on February 11, 2013.

- TADHC

On September 7, 2012, the BOD and stockholders of TADHC resolved and approved the increase in authorized capital stock from P810 divided into 7,900,000 common shares and 200,000 preferred shares, both with a par value of P100.00 per share, to P1,520 divided into 15,000,000 common shares and 200,000 preferred shares, both with a par value of P100.00 per share. The request for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 28, 2012 and was approved on February 25, 2013.

On October 30, 2012, SMHC executed a Subscription Agreement with TADHC for the subscription of additional 5,840,724 common shares out of the existing shares. Total subscription paid amounted to P728 which also includes full settlement of previous subscription amounting to P144. SMHC also paid P124 as advances for the subscription of additional 1,775,000 common shares from the increase in capital stock of TADHC under the Subscription Agreement.

Food

- SMPFC

- a) Issuance of Preferred Shares

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 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.

b) Investment in Manila Electric Company (Meralco)

In August 2011, SMPFC entered into a Share Purchase Agreement with the Parent Company covering the sale by the latter of its 5.2% shareholdings in Meralco comprising of 59,090,909 common shares for a total consideration of P13,000 (Note 13).

c) Secondary offering of SMPFC common shares

On November 23, 2012, the Parent Company completed the secondary offering of a portion of its common shares in SMPFC following the crossing of such shares at the PSE on November 21, 2012. The offer consisted of 25,000,000 common shares, inclusive of an over-allotment of 2,500,000 common shares at a price of P240.00 per share (the "Offer Shares"). The Offer Shares were offered and sold to Maybank ATR Kim Eng Capital Partners, Inc., Standard Chartered Securities (Singapore) Pte. Limited and UBS AG, Hong Kong Branch. The Parent Company granted UBS AG an option, exercisable in whole or in part for 30 days from and including the Closing date, to procure purchasers for or purchase up to 2,500,000 additional common shares (approximately 11% of the total number of Offer Shares), solely to cover over-allotments under the offer, if any. The option was exercised by UBS AG within the allowable period. The Group recognized a net gain of P2,419 from the offering, presented as part of "Gain on sale of investments and property and equipment" account in the consolidated statements of income.

The completion of the secondary offering resulted in the increase of SMPFC's public ownership from 0.08% to 15.08% of its outstanding common shares.

▪ 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. In May 2011, SMPFC increased its investment in SMPFIL amounting to US\$16.8.

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

- SMFI

In August 2010, the SEC approved the merger of Monterey Foods Corporation (Monterey) into SMFI, with SMFI as the surviving corporation, following the approvals of the merger by the respective BOD and stockholders of Monterey and SMFI in June 2010 and July 2010, respectively. The merger became effective on September 1, 2010. SMFI's request for confirmation of the tax-free merger, filed in September 2010, is still pending with the Bureau of Internal Revenue (BIR) as of March 21, 2013.

In April 2012, SMPFC transferred to SMFI, a 99.97% - owned subsidiary of SMPFC, its food service business under the Great Food Solutions division. Total net assets transferred amounted to P289.

- SMMI

In September 2011, the Parent Company, through SMMI, a wholly-owned subsidiary of SMPFC, formed GBGTC with an authorized capital stock of P2,000. GBGTC is a Philippine company with the 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 grains, among others.

In November 2011, following the approval by the 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.

In February and April 2012, SMMI paid in full the remaining balance of the subscription value amounting to an aggregate of P375.

In July 2012, SMMI subscribed to an additional 7,000,000 GBGTC shares with a par value of P100.00 per share. Total payment made by SMMI for the additional subscription amounted to P500 as of December 31, 2012.

GBGTC has not yet started commercial operations as of December 31, 2012.

Beverage

- SMB

Following the SEC's denial of all requests made (including the request of SMB) for the extension of the grace period for listed companies to comply with the PSE's minimum public ownership and the PSE's imposition of a trading suspension on the common shares of SMB effective January 1, 2013 as a result of such denial, the BOD of SMB approved on February 15, 2013, the voluntary delisting of SMB's common shares from the PSE. A petition for the same was thereafter filed by SMB with the PSE on February 20, 2013. To comply with the PSE requirements on voluntary delisting, SMB undertook a tender offer to buy back all of the common shares held by the public (other than those held by its major stockholders and directors) at an offer price of P20.00 per common share. The tender offer commenced on March 4, 2013 and will end on April 3, 2013. The acceptance and payment by SMB of all validly tendered common shares is set on April 12, 2013.

The date of effectivity of the voluntary delisting of the SMB shares is on May 15, 2013.

Power Generation and Distribution

- SMC Global

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 P100.00 par value per share, to P2,000, divided into 2,000,000,000 shares at P1.00 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.

- 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 Supplier's (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, which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of 5 years from the time it was granted and renewable thereafter.

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

- DAMI

DAMI, a coal mining company with coal property covered by Coal Operating Contract (COC) No. 126 issued by the DOE, dated November 19, 2002, is located in Barangay Ned, Lake Sebu, South Cotabato consisting of two (2) coal blocks with a total area of two thousand (2,000) hectares, more or less. As of February 13, 2013, COC No. 126 has an In-situ coal resources (measured plus indicative coal resources) of about 94 million metric tons based on exploratory drilling and additional in-fill drilling conducted by DAMI.

- SEPC

SEPC, a coal mining property with coal property covered by COC No. 134 issued by the DOE dated February 23, 2005, is located in Lake Sebu, South Cotabato and Sen. Ninoy Aquino, Sultan Kudarat consisting of seven (7) coal blocks with a total aggregate area of 7,000 hectares, more or less. As of February 13, 2013, COC No. 134 has an In-situ coal resources (measured plus indicative coal resources) of about 35 million metric tons based on exploratory drilling and confirmatory drilling conducted by SEPC.

- BERI

BERI, a coal mining company with coal property covered by COC No. 138 issued by the DOE dated May 26, 2005 is located in Maitum, Sarangani Province and Barangay Ned, Lake Sebu, South Cotabato consisting of eight (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 22 million metric tons as of February 13,

2013 based on initial exploratory drilling conducted by SMEC geologists in Maitum, Sarangani. 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 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, effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2008	10 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

** The term is followed by another 10-year extension, and thereafter, renewable for a series of 3-year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.*

In May 2011, SEPC, DAMI and BERI separately wrote a letter to the DOE requesting for a moratorium on suspension of the implementation of the production timetable as specified in the Five-Year Development and Productive Work Progress of COC Nos. 126, 134 and 138 due to the newly enacted Environment Code of South Cotabato. This local ordinance prohibits open pit mining and other related activities, hence, constrained these companies into implementing the production timetable without violating this local ordinance. On April 27, 2012, the DOE granted SEPC, DAMI and BERI's request for a moratorium on their work commitments from the effective dates of their respective COCs when these were converted to Development/Production Phase until December 31, 2012.

Mining

▪ Clariden

On June 8, 2012, the BOD and stockholders of Clariden resolved and approved the increase in authorized capital stock of Clariden from P5 divided into 50,000 shares to P1,000 divided into 10,000,000 shares both with a par value of P100.00 per share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 28, 2012 and was approved on February 22, 2013.

Packaging

▪ CAI

On November 12, 2012, the Parent Company through SMYPC, incorporated CAI, a wholly-owned subsidiary, with an authorized capital stock of P1,000 divided into 10,000,000 shares and paid-up capital of P63. CAI is primarily engaged to carry on trade or operation as a manufacturer, buyer, importer, exporter, contractor, dealer, broker, commission merchant, agent or representative of all kinds of packaging products, and to render services to its clients and customers as may be necessary for the assembling, packaging and/or repacking of their respective products, particularly aluminum cans and ends.

CAI has not yet started commercial operations as of December 31, 2012.

On January 1, 2013, SMYPC spun-off its Metal Container Plant to be sold to and operated by CAI.

On January 15, 2013, the 35% equity interest in CAI was purchased by a foreign company, a corporation duly organized and existing under the laws of Poland.

As of January 2013, CAI is 65% owned by SMYPC.

Real Estate

- SMPI

On December 28, 2012, SMPI received a letter from the PSE imposing trading suspension until June 30, 2013 due to failure to comply with the minimum public ownership requirement.

On February 5, 2013, the BOD approved the filing of the petition for voluntary delisting and conduct of a tender for the acquisition of common share held by SMPI's minority shareholders. On March 4, 2013, SMPI filed with the PSE the petition for voluntary delisting with May 6, 2013 as the effective date of delisting of the SMPI common shares from the PSE. To comply with the PSE requirements on voluntary delisting, SMPI undertook a tender offer to buy back all of the common shares held by the public (other than those held by its major stockholders and directors) at an offer price of P134.12 per common share. The tender offer commenced on March 6, 2013 and will end on April 5, 2013. The acceptance and payment by SMPI of all validly tendered common shares is set on April 15, 2013.

- SMPI Flagship and SMC Originals

On July 30, 2012, the BOD and stockholders of SMPI Flagship resolved and approved the increase in authorized capital stock of SMPI Flagship from P625 divided into 625,000,000 shares to P1,308 divided into 1,308,000,000 shares both with a par value of P1.00 per share. The request for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on October 16, 2012 and was approved on October 31, 2012.

SMPI Flagship has not yet started commercial operations as of December 31, 2012.

On October 9, 2012, the BOD of Highriser Group, Inc. approved the change of corporate name to SMC Originals, Inc. The approval from the SEC was obtained in January 2013.

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.

On March 28, 2012, the BOD and stockholders of SMEII resolved and approved the increase in authorized capital stock of SMEII from P100 divided into 100,000,000 shares to P14,300 divided into 14,300,000,000 shares both with a par value of P1.00 per share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 28, 2012. On January 30, 2013, the SMEII BOD and stockholders approved to further increase its authorized capital stock to P21,425 divided into 21,425,000,000 shares with a par value of P1.00 per share. The application with the SEC was amended to reflect the foregoing change which was approved by the SEC on March 4, 2013.

7. Segment Information

Operating Segments

The reporting format of the Group's operating segments is determined based on 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, feeds production, poultry and livestock farming, processing and selling of poultry and 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 of coffee and coffee-related products.

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 distribution and mining. The power generation assets supply electricity to a variety of customers, including 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 airports, 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 primarily 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 primarily 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, 2012, 2011 and 2010																														
	Beverage			Food			Packaging			Power Generation and Distribution			Fuel and Oil			Infrastructure			Telecommunications			Others			Eliminations			Consolidated		
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
Sales																														
External sales	P90,005	P87,076	P90,407	P95,759	P89,549	P80,415	P17,566	P18,943	P19,268	P73,910	P70,737	P45,636	P420,269	P269,116	P10,383	P134	P116	P9	P1,225	P238	P38	P -	P -	P -	P -	P -	P -	P698,868	P535,775	P246,156
Inter-segment sales	155	179	139	28	42	3	6,894	5,171	4,172	746	708	65	4,526	4,840	246	-	-	-	-	-	-	-	-	-	(12,349)	(10,940)	(4,625)	-	-	-
Total sales	P90,160	P87,255	P90,546	P95,787	P89,591	P80,418	P24,460	P24,114	P23,440	P74,656	P71,445	P45,701	P424,795	P273,956	P10,629	P134	P116	P9	P1,225	P238	P38	P -	P -	P -	(P12,349)	(P10,940)	(P4,625)	P698,868	P535,775	P246,156
Result																														
Segment result	P21,345	P18,850	P19,194	P5,254	P6,142	P5,905	P2,297	P2,158	P1,999	P17,123	P16,720	P9,568	P9,393	P14,834	P679	(P77)	(P74)	(P32)	(P443)	(P672)	(P229)	(P2,345)	(P2,018)	(P2,765)	P236	P14	P289	P52,783	P55,954	P34,608
Interest expense and other financing charges																												(29,826)	(27,443)	(16,578)
Interest income																												4,254	4,618	3,023
Equity in net earnings of associates																												2,691	2,824	6,817
Gain on sale of investments and property and equipment																												4,549	1,046	529
Other income (charges) - net																												12,981	(12)	7,095
Income tax expense																												(8,812)	(8,483)	(11,438)
Net income																												P38,620	P28,504	P24,056
Attributable to:																														
Equity holders of the Parent Company																												P27,579	P17,518	P20,091
Non-controlling interests																												11,041	10,986	3,965
Net Income																												P38,620	P28,504	P24,056

For the Years Ended December 31, 2012, 2011 and 2010																															
	Beverage			Food			Packaging			Power Generation and Distribution			Fuel and Oil			Infrastructure			Telecommunications			Others			Eliminations			Consolidated			
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	
Other Information	P87,330	P83,076	P81,412	P50,955	P43,612	P43,267	P34,077	P31,954	P32,112	P255,516	P260,418	P238,591	P265,507	P172,173	P158,984	P30,210	P3,141	P2,642	P9,958	P9,679	P5,881	P203,193	P227,709	P216,157	(P130,803)	(P152,050)	(P144,272)	P805,943	P679,712	P634,774	
Segment assets	-	-	-	6,317	6,153	-	1,500	-	-	13,421	13,484	12,931	1,641	2,505	804	5,949	8,723	1,581	8,154	8,786	5,125	124,643	127,203	132,373	-	-	-	161,625	166,854	152,814	
Investments in and advances to associates																															
Goodwill, trademarks and brand names																													50,190	31,232	30,491
Other assets																													2,006	2,237	3,764
Assets held for sale																													9,373	2,268	823
Deferred tax assets																													8,826	8,233	7,134
Consolidated Total Assets																													P1,037,963	P890,536	P829,800
Segment liabilities	P19,453	P21,196	P20,945	P14,029	P10,505	P14,755	P4,716	P4,732	P5,380	P13,360	P13,675	P16,769	P42,649	P23,684	P19,633	P18,631	P3,003	P580	P19,529	P18,829	P11,723	P102,836	P110,393	P130,931	(P146,494)	(P141,900)	(P135,218)	P88,709	P64,117	P85,498	
Loans payable																													151,274	82,588	74,128
Long-term debt																													224,217	211,420	168,927
Finance lease liabilities																													195,154	208,261	208,407
Income and other taxes payable																													11,124	9,041	10,001
Dividends payable and others																													5,621	4,174	2,262
Liabilities directly associated with assets held for sale																													-	578	-
Deferred tax liabilities																													12,084	11,257	13,752
Consolidated Total Liabilities																													P688,183	P591,436	P562,975

		For the Years Ended December 31, 2012, 2011 and 2010																													
		Beverage			Food			Packaging			Power Generation and Distribution			Fuel and Oil			Infrastructure			Telecommunications			Others			Eliminations			Consolidated		
		2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
Capital expenditures		P1,101	P2,954	P2,240	P1,957	P598	P599	P1,161	P1,347	P1,490	P4,772	P620	P586	P41,848	P18,794	P364	P7	P36	P8	P394	P72	P -	P1,680	P2,005	P3,231	P -	P -	P -	P52,920	P26,426	P8,518
Depreciation and amortization of property, plant and equipment (Note 29)		2,366	2,168	2,248	884	895	906	1,575	1,688	1,611	5,194	5,432	2,468	4,690	3,566	210	12	6	-	537	181	55	790	707	379	-	-	-	16,048	14,643	7,877
Noncash items other than depreciation and amortization of property, plant and equipment		1,217	1,271	717	1,193	1,309	1,338	257	(111)	(30)	(8,386)	600	357	(748)	161	1,660	8	4	-	26	91	29	(3,387)	1,209	(6,875)	-	-	-	(9,820)	4,534	(2,804)
Loss on impairment of goodwill, property, plant and equipment, and other noncurrent assets		(1,427)	77	4,333	19	6	51	348	-	-	-	-	-	-	-	-	-	-	-	-	45	-	1	-	-	-	-	-	(1,059)	128	4,384

8. Assets Held for Sale

a) Bank of Commerce (BOC)

On May 8, 2012, the Parent Company through SMPI, together with the other stockholders of BOC, executed a Share Purchase Agreement with Commerce International Merchant Bankers (CIMB Bank), a subsidiary of CIMB Group Sdn Bhd. of Malaysia, covering the sale of up to 65,083,087 fully paid ordinary shares, equivalent to a 58% equity interest in BOC for a total consideration of up to approximately P12,000. Under the provisions of the agreement, the completion of the sale is subject to certain closing conditions, inclusive of the mandatory approvals from the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) and the Bank of Negara Malaysia. On November 7, 2012, the Bank of Negara Malaysia approved CIMB Bank's proposed acquisition of BOC subject to the attainment of the relevant approvals from the BSP.

The Monetary Board of the BSP, based on its letter dated November 20, 2012, approved the proposed acquisition.

The sale, however, was not consummated in 2012 pending the compliance of certain provisions of the Share Purchase Agreement.

Accordingly, the carrying amount of the investment as of December 31, 2012 of P8,785 representing 44,817,164 common shares was reclassified to "Assets held for sale" account in the 2012 consolidated statement of financial position.

b) Petron Mega Plaza and PMC's Treats

Petron has properties consisting of office units located at Petron Mega Plaza with a floor area of 21,216 square meters covering the 28th - 44th floors and 206 parking spaces amounting to P823. On December 1, 2010, the BOD approved the sale of these properties to provide cash flows for various projects. Accordingly, the investment properties were presented as "Assets held for sale" as of December 31, 2010. On May 2, 2011, Petron sold the 32nd floor (with total floor area of 1,530 square meters) and 10 parking spaces, 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.

During the latter part of 2012, a prospective buyer tendered an offer to purchase the remaining Petron Mega Plaza units and parking spaces. The management made a counter offer in December 2012 effectively rendering the Petron Mega Plaza units and parking spaces with a carrying amount of P588 as "Assets held for sale" as of December 31, 2012. The negotiation is on its final phase and the sale is expected to be consummated by the second quarter of 2013.

As of December 31, 2012, the fair market value of the Petron Mega Plaza office units and parking spaces amounted to P1,141.

The buildings for stand-alone convenience stores and locators held by PMC with a carrying amount of P10 as of December 31, 2011 were reclassified back to "Property, plant and equipment - net" account in 2012, in view of the fact that the remaining filling stations are no longer held for sale and have not met the qualifications to be classified as such.

c) 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 and the Group recognized a net gain of P63 from the sale.

d) 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 of SMYPIL unanimously accepted NYG's offer and approved the share sale transaction as contemplated in the MOU. The disposal was completed in January 2012 and the Group recognized a net gain of P22 from the sale.

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

	<i>Note</i>	2011
Assets Held for Sale		
Cash and cash equivalents	9	P86
Trade and other receivables - net		21
Inventories		53
Prepaid expenses and other current assets		30
Property, plant and equipment - net	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

- e) 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, Vietnam amounting to P168, which were sold to Pepsico International Vietnam on February 23, 2012. The Group recognized a net gain of P256 from the sale.

9. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	<i>Note</i>	2012	2011
Cash in banks and on hand		P31,362	P30,125
Short-term investments		94,269	98,850
	41, 42	P125,631	P128,975

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 amounted to P86 as of December 31, 2011 (Note 8).

10. Trade and Other Receivables

Trade and other receivables consist of:

	<i>Note</i>	2012	2011
Trade		P52,495	P44,631
Non-trade	5, 13, 40	54,917	31,830
Amounts owed by related parties	34, 36	21,574	13,236
		128,986	89,697
Less allowance for impairment losses	4	6,387	5,225
	41, 42	P122,599	P84,472

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:

	<i>Note</i>	2012	2011
Balance at beginning of year		P5,225	P4,519
Charges for the year		575	1,017
Amounts written off		(125)	(214)
Acquisition of subsidiaries	5	545	68
Transferred to assets held for sale		-	(12)
Translation adjustments and others		167	(153)
Balance at end of year		P6,387	P5,225

As of December 31, 2012 and 2011, the aging of receivables is as follows:

2012	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P40,539	P25,973	P21,574	P88,086
Past due:				
Less than 30 days	4,091	11,675	-	15,766
30-60 days	2,939	564	-	3,503
61-90 days	1,148	798	-	1,946
Over 90 days	3,778	15,907	-	19,685
	P52,495	P54,917	P21,574	P128,986

2011	Trade	Non-trade	Amounts 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

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 amounts owed by related parties include receivables amounting to P21,574 and P13,236 as of December 31, 2012 and 2011, respectively (Note 34).

11. Inventories

Inventories consist of:

	2012	2011
Finished goods and goods in process (including petroleum products)	P58,469	P46,763
Materials and supplies (including coal)	20,559	17,656
Containers	1,194	1,301
	P80,222	P65,720

The cost of finished goods and goods in process amounted to P58,696 and P46,879 as of December 31, 2012 and 2011, 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 P921 and P379 as of December 31, 2012 and 2011, respectively.

The cost of materials and supplies amounted to P21,155 and P18,516 as of December 31, 2012 and 2011, respectively.

Containers at deposit value amounted to P1,401 and P1,479 as of December 31, 2012 and 2011, respectively.

Finished goods and goods in process include net unrealized gain of P89 and P69 on fair valuation of agricultural produce as of December 31, 2012 and 2011, respectively (Note 4). The fair value of agricultural produce less costs to sell, which formed part of finished goods inventory, amounted to P550 and P753 as of December 31, 2012 and 2011, respectively, with corresponding costs at point of harvest amounting to P461 and P684, respectively.

12. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	<i>Note</i>	2012	2011
Prepaid taxes and licenses		P21,458	P16,113
Raw land inventory and real estate projects		3,703	3,925
Option deposit	13, 41, 42	1,026	-
CIP - airport concession arrangements	4	652	318
Prepaid insurance		404	290
Prepaid rent		304	287
Financial assets at FVPL	41, 42	147	194
Derivative assets	41, 42	91	121
AFS financial assets - current portion	41, 42	51	-
Others		3,776	1,372
		P31,612	P22,620

“Others” consist of prepayments for various operating expenses.

CIP - airport 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, capitalized borrowing cost and the present value of the obligation to maintain and restore the Boracay Airport (IRO) prior to its transfer to the ROP at the end of the concession period (Note 35). This will be transferred and recognized as cost of construction upon commencement of the construction of the new terminal and runway (Note 4). The interest expense related to the accretion of the IRO amounting to P4 in 2012 and 2011 and P1 in 2010, was recognized as part of “Interest expense and other financing charges” account in the consolidated statements of income (Note 31).

13. Investments and Advances

Investments and advances consist of:

	<i>Note</i>	2012	2011
Investments in Associates - at Equity			
Acquisition Cost:			
Balance at beginning of year		P159,241	P152,016
Additions		21,530	9,199
Reclassification to investment in subsidiaries	5	(3,495)	(1,600)
Reclassification to assets held for sale	8	(8,211)	-
Redemption		(12,899)	-
Reclassifications and others		502	(374)
		156,668	159,241
Accumulated Equity in Net Earnings (Losses):			
Balance at beginning of year		(746)	(217)
Equity in net earnings		2,691	2,824
Dividends		(6,472)	(3,973)
Redemption		945	-
Reclassification to investment in subsidiaries	5	(933)	(25)
Reclassification to assets held for sale	8	(574)	-
Share in other comprehensive income		400	645
Reclassifications and others		(189)	-
Balance at end of year		(4,878)	(746)
		151,790	158,495
Advances		9,835	8,359
		P161,625	P166,854

The carrying amounts of investments in associates are as follows:

	Country of Incorporation	2012		2011	
		Percentage of Ownership	Amount	Percentage of Ownership	Amount
Top Frontier Investment Holdings, Inc. (Top Frontier)	Philippines	49.00	P76,364	49.00	P90,345
Meralco	Philippines	32.04	47,575	33.19	46,439
Trustmark Holdings Corporation (Trustmark) and Zuma Holdings and Management Corporation (Zuma)	Philippines	49.00	18,861	-	-
Atlantic	Netherlands	46.53	3,142	46.53	6,068
LTHI	Philippines	41.48	2,196	41.48	2,828
Private Infra Dev Corporation (PIDC)	Philippines	35.00	1,545	35.00	1,544
Petrochemical Asia (HK) Limited (PAHL)	Hong Kong	46.00	866	33.00	441
Manila North Harbour Port Inc. (MNHPI)	Philippines	35.00	775	35.00	704
Northpine Land, Inc.	Philippines	20.00	293	20.00	249
Manila Toll Expressway Systems, Inc.	Philippines	30.00	103	-	-
SOMCO	Philippines	40.00	48	-	-
LEC*	Philippines	-	-	40.00	1,360
Bank of Commerce (BOC)**	Philippines	-	-	39.93	8,517
Others	Philippines	-	22	-	-
			P151,790		P158,495

* Reclassified to investments in subsidiaries in 2012 (Note 5).

**Reclassified to "Assets held for sale" account in the 2012 consolidated statement of financial position (Note 8).

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

	2012	2011	2010
Total assets	P677,039	P587,629	P552,700
Total liabilities	422,782	309,418	261,599
Revenue	394,135	271,340	253,289
Net income	10,290	12,173	19,290

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.

On June 18, 2012, Top Frontier redeemed a total of 693,500 preferred shares out of the 2,598,040 preferred shares issued to the Parent Company, at the total redemption price of P12,899. The Group recognized a gain of P945 from the transaction included as part of "Gain on sale of investments and property and equipment" account in the consolidated statements of income.

b. Meralco

The Parent Company increased its beneficial interest in Meralco to 33.19% upon its acquisition of SMC Global in 2010, which owns 69,059,538 common shares of Meralco.

The purchase price of the Meralco shares purchased from GSIS in 2008 was P27,087, plus fixed term interest. The Parent Company paid a downpayment of P5,417 with the balance payable in 3 years. 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.

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 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 2011, SMC Global paid the Development Bank of the Philippines and the Social Security System P2,576, as consideration for the acquisition of Meralco shares of stock.

The current portion of the Group's outstanding payable related to the purchase of Meralco shares amounted to P2,122 as of December 31, 2011, included under "Accounts payable and accrued expenses" account (Note 22). The remaining balance of its payable was paid in full on January 31, 2012.

On May 14, 2012, the Group received the stock certificate for the property dividend from Meralco consisting of 1,042,801,676 common shares of stock of Rockwell Land Corporation, with a book value of P1,522. On July 27, 2012, the Group sold through the PSE its Rockwell Land Shares at P2.01 per share and recognized a gain of P571 included as part of "Gain on sale of investments and property and equipment" account in the consolidated statements of income.

The fair value of the Group's investment in Meralco amounted to P96,428 and P90,656 as of December 31, 2012 and 2011, respectively.

c. Trustmark and Zuma

On April 3, 2012, the Parent Company, through SMEII, signed Investment Agreements with the Lucio Tan Group to subscribe to the unissued common shares equivalent to 49% of the outstanding capital stock of Trustmark and Zuma for a total consideration of P21,506.

With the acquisition of the 49% equity interests in Trustmark and Zuma, SMEII indirectly owns 47.88% and 48.98% beneficial interests in Philippine Airlines, Inc. (PAL) and Air Philippines Corporation (AirPhil), respectively. PAL, the national flag carrier of the Philippines, and Airphil are primarily engaged in the business of air transportation for the carriage of passengers and cargo within and outside the Philippines.

d. 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 SLEX Project.

On December 29, 2011, SMHC entered into an Option Agreement with 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). The option deposit was returned to SMHC on January 26, 2012.

On May 24, 2012, SMHC and Padma entered into another Option Agreement granting SMHC an option to acquire 4.47% equity interest in Atlantic and up to 100% of the outstanding capital stock of certain corporations where Padma holds ownership interest for US\$25 or P1,026. The option is exercisable at any time from execution of the Agreement or such other date as may be agreed upon by 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, 2012, the option deposit was presented as part of "Prepaid expenses and other current assets" account in the consolidated statements of financial position (Note 12).

e. LTHI

Vega, a wholly-owned subsidiary of the Parent Company, has a 41.48% stake in LTHI representing 643,700,669 common shares and 587,951,737 preferred shares. The preferred shares are voting, non-redeemable and participating.

The fair value of the Group's investment in LTHI amounted to P3,277 and P3,508 as of December 31, 2012 and 2011, respectively.

f. PIDC

Rapid, a wholly-owned subsidiary of SMHC, has a 35% equity interest in PIDC, a consortium of construction companies behind the Tarlac-Pangasinan-La Union Expressway Project. As of December 31, 2012 and 2011, Rapid has an unpaid subscription amounting to P769 included 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, included as part of "Investments and advances" account in the consolidated statements of financial position. As of March 21, 2013, one of the conditions for the issuance of the subscribed shares to Rapid has not yet been met.

g. PAHL

The Parent Company, through its subsidiary Petron, had a 33% stake in PAHL, a company incorporated in Hong Kong which indirectly owns, among other assets, a 160,000 metric ton-polypropylene production plant in Mariveles, Bataan.

On December 31, 2012, PAHL issued to Petron 135,652,173 ordinary B shares which increased Petron's ownership in PAHL to 46%.

h. 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.

i. BOC

SMPI has made series of acquisitions of BOC shares from 2007 to 2010 and has acquired a total of 36,779,899 shares equivalent to 32.77% equity ownership interest in BOC as of December 31, 2010.

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 were not considered in the determination of SMPI’s percentage equity interest in BOC.

In 2011, SMPI acquired an additional 7.16% 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 in an increase in its equity interest to 39.93% as of December 31, 2011.

In 2011, SMPI, through the Parent Company, started negotiating for the sale of a portion of its ownership interest in BOC to CIMB Bank, a financial institution incorporated in Malaysia. As of December 31, 2011, the contracting parties have not yet finalized the agreement due to price consideration and other pending pertinent documents. Further, the investment account is not presented under “Assets held for sale” account since this transaction requires approval from BSP and the possibility of obtaining such approval is uncertain as of December 31, 2011.

As of December 31, 2011, SMPI still has pending share purchase transactions with other stockholders of BOC for the acquisition of additional shares which will further increase SMPI’s equity interest in BOC to 41.02%. Pending consummation of the share purchase transactions, the advance payments made by SMPI to the sellers amounting to P221, which were placed under escrow, were presented under “Investments and advances” account in the 2011 consolidated statement of financial position. Accordingly, this was not also considered in the determination of the Company’s percentage of equity ownership interest in BOC.

In July 2011, SMPI’s management received a letter from the sellers stating their intention to cancel the sale of BOC shares. In 2012, SMPI’s management decided to accept the offer for the cancellation of the share purchase agreement since the sellers can no longer fulfill certain conditions in the agreement. As of December 31, 2012, SMPI has yet to receive the advance payment placed under the escrow fund. As a result of the cancellation of the purchase agreement, the advance payment, including accumulated interest income from the escrow fund, was reclassified to “Trade and other receivables” account in the 2012 consolidated statement of financial position.

Share in BOC’s accumulated fair value gains amounted to P258 and P129 in 2012 and 2011, respectively, and are presented as part of “Share in comprehensive income (loss) of associates” account in the consolidated statements of comprehensive income.

In November 2012, SMPI, through the Parent Company, obtained the approval for the proposed acquisition from Bank Negara Malaysia and from BSP which are the regulatory agencies governing the operations of financial institutions in Malaysia and

Philippines, respectively. The sale, however, was not consummated in 2012 pending the compliance of certain provisions of the sale and purchase agreement. Accordingly, the investment was reclassified from “Investment and advances” account to “Assets held for sale” account in the 2012 consolidated statement of financial position.

The Management of SMPI determined that the carrying amount of the investment in BOC as of December 31, 2012 is fully recoverable based on the agreed selling price of the investment with CIMB, thus, no impairment loss was recognized in 2012.

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 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; (c) realization of revaluation increment through depreciation; and (d) misstatement in the values of structured financial instruments and certain investment properties. No impairment loss on the investment was recognized in 2011 and 2010.

BOC is required to meet certain ratios under BSP regulations to manage the risks inherent in the banking business. As of December 31, 2012, 2011 and 2010, 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, 2012, 2011 and 2010 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, 2012.

j. **Advances**

Primeria Comercio Holdings, Inc. (PCHI)

SMPI provided US dollar-denominated deposits to PCHI, a future investee of SMPI, amounting to P794 as of December 31, 2012 and 2011. The deposits will be applied against future subscriptions of SMPI to the shares of stock of PCHI.

Telecommunications Company

In 2011, Vega has made deposits to a telecommunications company, a future investee, amounting to P5,958 as of December 31, 2012 and 2011, to be applied against future stock subscriptions.

Cement Company

In 2012, SMYPC provided a deposit for future subscription on the shares of stocks of a cement company amounting to P1,500 as of December 31, 2012. This deposit will be applied against future subscription of SMYPC to the shares of stocks of the cement company.

On March 1, 2013, SMYPC fully settled the P3,500 subscription payment for the purchase of 104,500,000 common shares of stock of the cement company.

As of March 21, 2013, SMYPC owns 35% equity interest in the cement company’s capital stock.

AAMRC

In 2011, Clariden has made deposits for the acquisition of AAMRC's shares of stock amounting to P274. On September 6, 2012, Clariden completed the acquisition of the 60% equity interest in AAMRC and was consolidated into the Group. In 2012, the P274 deposit was reclassified from "Investments and advances" account in the consolidated statements of financial position to investment in subsidiaries.

14. Available-for-Sale Financial Assets

Available-for-sale financial assets consist of:

	<i>Note</i>	2012	2011
Government and other debt securities		P804	P924
Equity securities		505	877
Proprietary membership shares and others		312	267
	<i>41, 42</i>	1,621	2,068
Less: current portion	<i>12</i>	51	-
	<i>41, 42</i>	P1,570	P2,068

Government Securities

Petrogen's government securities are deposited with the Bureau of Treasury in accordance with the provisions of the Insurance Commission, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates ranging from 6.00% to 8.875% in 2012 and 2011.

Ovincor's ROP9 bonds are maintained at the HSBC Bank Bermuda Limited and carried at fair value with fixed annual interest rates of 8.250% to 8.875%.

As of December 31, 2012 and 2011, the fair value of Ovincor's ROP9 Bonds amounted to P625 and P692, respectively.

Equity Securities

The Parent Company executed a Share Placement Agreement with Indophil Resources NL (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, 2012 and 2011, Coastal View's stake in Indophil is at 3.99% as a result of the additional share issuances made by Indophil.

As of December 31, 2012 and 2011, the fair value of the investment in Indophil amounted to P491 and P862, respectively.

15. Investments in Joint Ventures

GSMI, through GSMIL, has an existing Joint Venture (JV) with Thai Life Group of Companies (Thai Life) covering the ownership and operations of TSML. TSML is a limited company organized under the laws of Thailand in which GSMIL owns 40% ownership interest. 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.

With the acquisition by SHL, a wholly-owned subsidiary of GSMI, of the 49% ownership interest in Siam Wine Liquor Co., Ltd. (SWL) and SWL's acquisition of shares representing 10% ownership of the outstanding capital stock of TSML, GSMI group's share in TSML increased from 40% to 44.9%. The acquisition was funded through advances made by GSMI to GBHL, a wholly-owned subsidiary of GSMI, which has an existing loan agreement with SWL for the same amount.

The Group's share in the assets, liabilities, income and expenses of TSML included in the Group's consolidated financial statements as of December 31 is shown below:

	2012	2011	2010
Current assets	P297	P484	P516
Noncurrent assets	735	806	894
Current liabilities	358	425	436
Noncurrent liabilities	142	269	309
Revenue	444	452	657
Cost of sales	535	600	817
Operating expenses	67	85	76
Other income	1	4	12
Net loss	157	229	224

The Group's share in the cash flows of TSML for the years ended December 31 is as follows:

	2012	2011	2010
Net cash flows used in operating activities	(P38)	(P209)	(P373)
Net cash flows provided by investing activities	72	87	-
Net cash flows provided by (used in) financing activities	127	(40)	(106)

GSMI, through its wholly-owned subsidiary GSMIHL, has an existing 40% ownership interest in TGT, which was formed as another joint venture with Thai Life. TGT functions as the selling and distribution arm of TSML.

With the acquisition of SWL of the 10% ownership interest in TGT, GSMI group's share in TGT increased from 40% to 44.9%. The acquisition was funded through advances made by GSMI to GBHL which has an existing loan agreement with SWL for the same amount.

The Group's share in the assets, liabilities, income and expenses of TGT included in the Group's consolidated financial statements as of December 31 is shown below:

	2012	2011	2010
Current assets	P44	P65	P51
Noncurrent assets	-	3	14
Current liabilities	14	14	15
Noncurrent liabilities	-	-	2
Revenue	113	171	232
Cost of sales	1	2	17
Operating expenses	39	83	111
Other income	9	1	1
Net income	82	87	105

The Group's share in the cash flows of TGT for the years ended December 31 is as follows:

	2012	2011	2010
Net cash flows provided by operating activities	P105	P70	P159
Net cash flows provided by investing activities	3	12	15
Net cash flows used in financing activities	-	(2)	(14)

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, 2010	P15,277	P32,224	P214,899	P37,286	P5,319	P85,763	P1,002	P8,615	P2,327	P4,194	P702	P1,237	P6,097	P414,942
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
Additions	627	216	-	116	1,348	2,253	190	1,501	209	360	236	44	45,820	52,920
Disposals/reclassifications/ acquisition of subsidiaries	4,258	7,817	-	11,298	7,159	(1,612)	(58)	(91)	(135)	184	(338)	114	(164)	28,432
Currency translation adjustments	(228)	(1,025)	-	(480)	(301)	(1,603)	-	(33)	(35)	(64)	(4)	(2)	(15)	(3,790)
December 31, 2012	21,065	39,670	214,319	48,744	14,276	85,702	7,526	12,257	2,546	5,286	703	1,707	66,650	520,451
Accumulated depreciation and amortization:														
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
Additions	149	1,385	5,185	2,337	977	3,926	444	817	194	343	195	96	-	16,048
Disposals/reclassifications/ acquisition of subsidiaries	(51)	3,857	-	7,510	4,132	(809)	(30)	(103)	(145)	243	(220)	(12)	-	14,372
Currency translation adjustments	(13)	(377)	-	(330)	(178)	(690)	-	(28)	(27)	(55)	(3)	(2)	-	(1,703)
December 31, 2012	2,697	16,965	15,813	28,096	9,152	51,047	5,820	3,633	1,832	4,255	610	737	-	140,657

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, 2010	P412	P3,829	P -	P -	P -	P7,403	P -	P12	P20	P41	P -	P -	P -	P11,717
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
Additions (reversal) for the year	-	(1,502)	-	-	-	(4)	-	-	-	-	-	1	-	(1,505)
Disposals/reclassifications/ acquisition of subsidiaries	-	(48)	-	-	-	(14)	-	-	(6)	(1)	-	-	-	(69)
Currency translation adjustments	-	(235)	-	-	-	(404)	-	(1)	(1)	(3)	-	-	-	(644)
December 31, 2012	385	2,027	-	-	-	6,585	45	12	13	37	-	1	-	9,105
Net book value:														
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
December 31, 2012	P17,983	P20,678	P198,506	P20,648	P5,124	P28,070	P1,661	P8,612	P701	P994	P93	P969	P66,650	P370,689

Total depreciation, amortization and impairment losses/reversal recognized in profit or loss amounted to P14,543, P14,746 and P11,725 in 2012, 2011 and 2010, respectively (Notes 29 and 33). These amounts include annual amortization of capitalized interest amounting to P14, P13 and P14 in 2012, 2011 and 2010, respectively.

The Group has interest amounting to P895 and P219 which were capitalized in 2012 and 2011, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization were 5.71% and 5.65% in 2012 and 6.76% and 4.97% in 2011. As of December 31, 2012 and 2011, the unamortized capitalized borrowing costs amounted to P997 and P314, respectively.

The combined carrying amounts of power plants, machinery and equipment and transportation equipment under finance lease amounted to P198,562 and P203,756 as of December 31, 2012 and 2011, respectively (Notes 4 and 35).

- Limay Power Plant

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 26, 2011, SMC Global sold its 100% ownership interest in PanAsia to MHI.

- SMVCL

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 2011 consolidated statement of income.

On February 23, 2012, SMVCL sold its building and land use rights in Amata Industrial Zone, Vietnam for US\$12 and recognized a gain amounting to P256 included as part of "Gain on sale of investments and property and equipment" account in the 2012 consolidated statement of income.

- PTSMIFB

On September 28, 2012, PTSMIFB sold its land use rights, building and machinery for US\$27 and recognized a gain amounting to P45, included as part of "Gain on sale of investments and property and equipment" account in the 2012 consolidated statement of income.

- Sumilao Property

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 among SMFI, MAPALAD, OP and DAR on March 29, 2008. The MOA provided for the release of a 50-hectare portion of the property to qualified farmer-beneficiaries, and the transfer of additional 94 hectares outside of the property to be negotiated with other Sumilao landowners. Under the MOA, SMFI shall retain ownership and title to the remaining portion of the property for the completion and pursuit of the hog farm expansion.

SMFI fully complied with all the provisions of the MOA in the last quarter of 2010. To formally close the pending cases filed by MAPALAD with the Supreme Court and OP, SMFI forwarded in November 2010 to the Sumilao farmers' counsels the draft of the Joint Manifestation and Motion for Dismissal of the cases pending with the Supreme Court 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 Supreme

Court 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.

17. Investment Properties

The movements in investment properties are as follows:

	<i>Note</i>	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Tools and Small Equipment	Construction in Progress	Total
Cost:							
December 31, 2010		P2,158	P600	P1,015	P9	P -	P3,782
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
Additions and acquisition of subsidiary/reclassifications	5	1,088	45	82	-	442	1,657
Transferred to assets held for sale	8	-	(928)	-	-	-	(928)
Currency translation adjustments		(20)	(22)	-	-	-	(42)
December 31, 2012		2,581	620	1,099	9	840	5,149
Accumulated depreciation and amortization:							
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
Additions		9	111	42	-	-	162
Disposals/reclassifications		-	-	24	-	-	24
Transferred to assets held for sale	8	-	(350)	-	-	-	(350)
Currency translation adjustments		(3)	(8)	-	-	-	(11)
December 31, 2012		106	256	990	9	-	1,361
Accumulated impairment losses:							
December 31, 2010		356	35	-	-	-	391
Disposals/reclassifications		(304)	-	-	-	-	(304)
Currency translation adjustments		(11)	-	-	-	-	(11)
December 31, 2011		41	35	-	-	-	76
Disposals/reclassifications		(31)	(33)	-	-	-	(64)
Currency translation adjustments		(2)	(2)	-	-	-	(4)
December 31, 2012		8	-	-	-	-	8
Net book value:							
December 31, 2011		P1,372	P987	P93	P -	P398	P2,850
December 31, 2012		P2,467	P364	P109	P -	P840	P3,780

No impairment loss was recognized in 2012, 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 2012, 2011 and 2010.

On June 10, 2011, SMBTL sold its Bangpho property in Bang Sue District, Bangkok Metropolis for THB815 (P1,050). The property's original cost is THB506 (P706). The Group recognized a gain of P344, included as part of "Gain on sale of investments and property and equipment" account in the 2011 consolidated statement of income.

Estimated fair values of investment properties amounted to P6,078 and P5,594 as of December 31, 2012 and 2011, respectively (Note 4).

18. Biological Assets

Biological assets consist of:

	2012	2011
Current:		
Growing stocks	P3,150	P3,228
Goods in process	642	896
	3,792	4,124
Noncurrent:		
Breeding stocks - net	1,932	1,812
	P5,724	P5,936

The amortization of breeding stocks recognized in profit or loss amounted to P1,311, P1,186 and P1,081 in 2012, 2011 and 2010, respectively (Note 29).

Growing stocks pertain to growing broilers, hogs and cattle and goods in process pertain to hatching eggs.

The movements in biological assets are as follows:

	2012	2011
Cost:		
Balance at beginning of year	P6,295	P5,010
Increase (decrease) due to:		
Production	27,233	17,159
Purchases	483	11,687
Mortality	(565)	(477)
Sales	(7,242)	(6,087)
Harvest	(18,788)	(19,989)
Reclassifications	(1,085)	(1,010)
Currency translation adjustments	(118)	2
Balance at end of year	6,213	6,295
Accumulated amortization:		
Balance at beginning of year	359	264
Additions	1,311	1,186
Disposals	(91)	(81)
Reclassifications	(1,085)	(1,010)
Currency translation adjustments	(5)	-
Balance at end of year	489	359
Net book value	P5,724	P5,936

19. Goodwill and Other Intangible Assets

The movements in goodwill are as follows:

	<i>Note</i>	2012	2011
Balance at beginning of year		P30,990	P30,251
Additions	5, 39	19,554	732
Currency translation adjustments and others		(591)	7
Balance at end of year		P49,953	P30,990

The movements in other intangible assets with indefinite useful lives are as follows:

	Licenses	Trademarks and Brand Names	Total
Cost:			
December 31, 2010	P7,138	P430	P7,568
Currency translation adjustments	(94)	2	(92)
December 31, 2011	7,044	432	7,476
Currency translation adjustments	(57)	(19)	(76)
December 31, 2012	6,987	413	7,400
Accumulated impairment losses:			
December 31, 2010 and 2011	-	190	190
Currency translation adjustments	-	(14)	(14)
December 31, 2012	-	176	176
Net book value:			
December 31, 2011	P7,044	P242	P7,286
December 31, 2012	P6,987	P237	P7,224

The movements in other intangible assets with finite useful lives are as follows:

		Toll Road Concession Rights	Leasehold Rights	Land Use Rights	Mining Rights	Airport Concession Rights	Licenses	Others	Total
	<i>Note</i>								
Cost:									
December 31, 2010		P -	P -	P1,817	P1,800	P91	P203	P816	P4,727
Additions and acquisition of subsidiaries	5, 39	-	-	3	197	111	34	362	707
Disposals and reclassifications		-	-	(118)	-	1	-	19	(98)
Currency translation adjustments		-	-	25	-	-	(2)	1	24
December 31, 2011		-	-	1,727	1,997	203	235	1,198	5,360
Additions and acquisition of subsidiaries	5, 39	29,039	1,915	-	-	93	176	481	31,704
Disposals and reclassifications		-	(58)	(202)	(10)	(1)	(84)	366	11
Currency translation adjustments		-	(78)	(114)	-	-	(2)	(21)	(215)
December 31, 2012		29,039	1,779	1,411	1,987	295	325	2,024	36,860
Accumulated amortization and impairment losses:									
December 31, 2010		-	-	410	-	1	62	652	1,125
Additions and acquisition of subsidiaries	5, 33, 39	-	-	46	-	9	8	54	117
Disposals and reclassifications		-	-	(22)	-	1	(1)	12	(10)
Currency translation adjustments		-	-	7	-	-	-	-	7
December 31, 2011		-	-	441	-	11	69	718	1,239
Additions and acquisition of subsidiaries	5, 39	8,438	16	30	-	9	25	151	8,669
Disposals and reclassifications		-	-	(11)	-	(7)	7	96	85
Currency translation adjustments		-	-	(28)	-	-	-	(12)	(40)
December 31, 2012		8,438	16	432	-	13	101	953	9,953
Net book value:									
December 31, 2011		P -	P -	P1,286	P1,997	P192	P166	P480	P4,121
December 31, 2012		P20,601	P1,763	P979	P1,987	P282	P224	P1,071	P26,907

Intangible asset - airport 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).

Intangible asset - toll road concession rights represent the costs incurred for the construction of the toll roads (Note 3).

Goodwill, licenses and trademarks and brand names with indefinite lives and mining rights with finite lives acquired through business combinations have been allocated to individual cash-generating units, for impairment testing as follows:

	2012			2011		
	Goodwill	Licenses, Trademarks and Brand Names	Mining Rights	Goodwill	Licenses, Trademarks and Brand Names	Mining Rights
Fuel and oil	P32,286	P -	P -	P22,025	P -	P -
Infrastructure	11,065	-	-	2,438	-	-
Food	2,927	225	-	2,942	229	-
Packaging	1,894	-	-	2,026	-	-
Beverage	994	1,778	-	772	1,836	-
Power generation and distribution and mining	-	-	1,987	-	-	1,997
Telecommunications	726	5,221	-	726	5,221	-
Others	61	-	-	61	-	-
Total	P49,953	P7,224	P1,987	P30,990	P7,286	P1,997

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 2012 and 2011. The discount rate also imputes 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 was recognized and included as part of “Other income (charges)” account in the 2010 consolidated statement of income in 2010. No impairment losses were recognized in 2012 and 2011 (Note 33).

The recoverable amount of 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 range of the growth rates used is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections ranged from 7.4% to 16% and 8.9% to 14.5% in 2012 and 2011, 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 2010 consolidated statement of income. No impairment losses were recognized in 2012 and 2011 (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:

	<i>Note</i>	2012	2011
Noncurrent receivables and deposits - net	34, 36, 40, 41, 42	P14,840	P27,471
Deferred containers - net	4	6,214	5,035
Project development costs		2,135	2,218
Retirement assets	36	903	299
Others		8,136	3,494
		P32,228	P38,517

Noncurrent receivables and deposits include amounts owed by related parties amounting to P11,032 and P24,509 as of December 31, 2012 and 2011, respectively (Note 34).

Project development costs consist of capitalized expenditures related to the development of the MRT 7 Project (Note 35). These include manpower costs, engineering service costs, financing fees, technology development and consultancy service costs, overhead costs and other project related costs.

“Others” include noncurrent prepaid rent and insurance, catalysts, deferred exploration and development costs and idle assets. Deferred exploration and development costs amounted to P232 and P103 as of December 31, 2012 and 2011, respectively (Note 4). Idle assets amounted to P906 and P986 as of December 31, 2012 and 2011, respectively (Notes 4 and 33).

21. Loans Payable

Loans payable consist of:

	<i>Note</i>	2012	2011
Parent Company			
Peso-denominated		P9,325	P15,133
Subsidiaries			
Peso-denominated		96,700	63,577
Foreign currency-denominated		45,249	3,878
	41, 42	P151,274	P82,588

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 3.25% to 5.75% and 3.10% to 5.13% in 2012 and 2011, respectively. Interest rates for foreign currency-denominated loans range from 3.28% to 14.19% and 1.5% to 20% in 2012 and 2011, respectively.

Loans payable include interest bearing amounts payable to a related party amounting to P9,045 and P3,360 as of December 31, 2012 and 2011, respectively (Note 34).

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:

	<i>Note</i>	2012	2011
Trade		P54,954	P39,398
Non-trade		20,596	12,638
Payables on the purchase of shares of stock	5, 13	808	2,862
Subscriptions payable	13, 34	769	769
Amounts owed to related parties	34	571	326
Retirement liabilities	36	103	85
Others		6,864	5,551
	41, 42	P84,665	P61,629

Derivative liabilities included under “Others” amounted to P315 and P118 as of December 31, 2012 and 2011, respectively (Notes 41 and 42).

Non-trade payables include freight payable, contract growers/breeders’ fees, 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 P11 and P2 as of December 31, 2012 and 2011.

“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:

	2012	2011
Parent Company		
Unsecured term notes:		
Foreign currency-denominated:		
Floating interest rate based on LIBOR plus margin, with maturities up to 2015 (a)	P40,444	P43,011
Fixed interest rate with maturities up to 2014 (b)	24,133	25,754
Peso-denominated:		
Floating interest rate based on PDST-F plus margin, with maturities up to 2012, 2014 and 2015 (c)	9,047	9,445
	73,624	78,210
Subsidiaries		
Bonds:		
Peso-denominated:		
Fixed interest rate of 8.25%, 8.875% and 10.50% maturing in 2012, 2014 and 2019, respectively (d)	25,015	38,534
Fixed interest rate of 6.05%, 5.93% and 6.60% maturing on 2017, 2019 and 2022, respectively (e)	19,813	-
Foreign currency-denominated:		
Fixed interest rate of 7% maturing in 2016 (f)	12,210	13,012
Unsecured term notes:		
Peso-denominated:		
Fixed interest rate of 7% maturing in 2017 (g)	19,830	19,803
Fixed interest rate of 8.14% and 9.33% maturing in 2014 and 2016, respectively (h)	9,810	9,840
Fixed interest rate of 8.5% maturing in 2017 (i)	8,488	-
Fixed interest rate of 6.3212% and 7.1827% maturing in 2018 and 2021 (j)	3,530	3,563
Fixed interest rate of 6.175% and 6.145% maturing in 2016 (k)	1,500	1,494
Fixed interest rate of 6.50% and 7.25% maturing in 2012 and 2014, respectively (l)	1,268	2,220
Fixed interest rate of 7.89% and 7.25% maturing in 2015 (m)	1,239	1,495
Fixed interest rate of 5.4885% maturing in 2015 (n)	796	794
Fixed interest rate of 6.73% maturing in 2012 (o)	-	154
Floating interest rate based on PDST-F plus margin, with maturities up to 2015 (n)	3,680	3,673
Floating interest rate based on PDST-F plus margin or BSP overnight rate plus margin, whichever is higher, with maturities up to 2019 (p)	3,482	-
Floating interest rate based on PDST-F plus margin, with maturities up to 2022 (q)	751	-
Floating interest rate based on PDST-F plus margin or BSP overnight rate, whichever is higher, with maturities up to 2018 (r)	686	-
Floating interest rate based on PDST-F plus margin, fully paid in 2012 (s)	-	1,200
Floating interest rate based on PDST-R1 plus margin or BSP overnight rate plus margin, whichever is higher, preterminated in 2012 (t)	-	204

Forward

	2012	2011
Foreign currency-denominated:		
Floating interest rate based on LIBOR plus margin, with maturities up to 2016 (u)	P11,922	P3,419
Floating interest rate based on LIBOR plus margin, with maturities up to 2017 (v)	10,921	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2014 (w)	8,184	8,713
Floating interest rate based on LIBOR plus margin, with maturities up to 2015 (x)	6,069	12,906
Floating interest rate based on LIBOR plus margin, with maturities up to 2015 (y)	1,227	-
Floating interest rate based on THBFIX plus margin, with maturities up to 2014 (z)	172	297
Floating interest rate based on LIBOR plus margin (aa)	-	11,889
	150,593	133,210
	224,217	211,420
Less current maturities	3,279	19,453
	P220,938	P191,967

- a. The amount represents drawdown by the Parent Company in 2010 from the US\$1,000 loan facility used to refinance its existing financial indebtedness and for general working capital purposes.

Unamortized debt issue costs related to these loans amounted to P606 and P829 as of December 31, 2012 and 2011, respectively.

- b. The amount represents the Parent Company's US\$600 Exchangeable Bonds (the Bonds) issued on May 5, 2011 and listed in the Singapore Exchange Securities Trading Limited (SGX-ST) on the same date. 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 shares 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.

As of December 31, 2012, a total of US\$5.6 worth of exchangeable bonds representing 2,176,055 common shares of the Parent Company were exchanged at issue prices ranging from P109.80 to P113.24 (Note 26).

Unamortized bond issue costs as of December 31, 2012 and 2011 amounted to P267 and P462, respectively.

- c. The amount represents drawdown by the Parent Company used for general financing and corporate requirements.

Unamortized debt issue costs related to these loans amounted to P3 and P5 as of December 31, 2012 and 2011, 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. (PDEX) 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.

In February 2012, SMB obtained the consent of bondholders of its P38,800 Bonds representing 76.92% of the aggregate principal amount of the P38,800 Bonds to maintain a minimum interest coverage ratio of 4.75:1 in lieu of a minimum current ratio of 1:1.

The Series A bonds with an aggregate principal amount of P13,590 matured on April 3, 2012 and was accordingly redeemed by SMB on the said date.

Unamortized debt issue costs related to these bonds amounted to P97 and P167 as of December 31, 2012 and 2011, respectively.

- e. The amount represents SMB's peso-denominated fixed rate bonds (Bonds) worth P20,000, which were sold to the public pursuant to a registration statement that was rendered effective by the SEC on March 16, 2012. The Bonds were issued on April 2, 2012 at the issue price of 100.00% of face value in three (3) series: Series D Bonds with fixed interest rate of 6.05% per annum; Series E Bonds with a fixed interest rate of 5.93% per annum; and Series F Bonds with a fixed interest rate of 6.60% per annum. The proceeds of the Bonds were used to refinance its existing financial indebtedness and for general working capital purposes.

The Series E Bonds and Series F Bonds were listed on PDEX on April 2, 2012 while the Series D Bonds was listed for trading on the PDEX effective October 3, 2012.

Unamortized debt issue costs related to these bonds amounted to P187 as of December 31, 2012.

- f. 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 SGX-ST.

Unamortized bond issue costs as of December 31, 2012 and 2011 amounted to P105 and P140, respectively.

- g. 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 bear interest of 7% per annum, 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 P171 and P197 as of December 31, 2012 and 2011, respectively.

- h. The amount represents Fixed Rate Corporate Notes (FXCN) issued by Petron amounting to P5,200 and P4,800. 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 6 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 P46 and P64 as of December 31, 2012 and 2011, respectively.

- i. The amount represents CMMTC's syndicated loans amounting to P8,721 in 2012 (Note 5). The syndicated loans were entered into by CMMTC with various banks which were used to finance CMMTC's capital expenditures.

Unamortized debt issue cost related to these loans amounted to P233 as of December 31, 2012.

- j. The amount represents FXCN 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 P33 and P37 as of December 31, 2012 and 2011, respectively.

- k. The amount represents drawdown by SMCSLC in 2011, from a local bank, which was used for working capital requirements.

Unamortized debt issue cost related to this loan amounted to P6 as of December 31, 2011.

- l. The amount represents syndicated loans obtained by SMYAC which were used for capital expenditures.

Unamortized debt issue costs related to these loans amounted to P2 and P4 as of December 31, 2012 and 2011, respectively.

- m. The amount represents drawdown by GSMI, from a local bank, which was used for working capital requirements.

Unamortized debt issue costs related to these loans amounted to P4 and P5 as of December 31, 2012 and 2011, respectively.

- n. 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 amounts 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 were used to fund expansion and investment in new businesses by SMFI and for general corporate financing purposes.

Unamortized debt issue costs related to these bonds amounted to P24 and P33 as of December 31, 2012 and 2011, respectively.

- o. The amount represents a club loan agreement entered into by Petron amounting to P1,000. The loan was fully paid on January 31, 2012.
- p. The amount represents the loan agreement entered into by SMYPC with BOC amounting to P3,500 used for general financing and corporate requirements maturing on October 11, 2019 (Note 34).

Unamortized debt issue costs related to the loan amounted to P18 as of December 31, 2012.

- q. The amount represents the balance of the first drawdown of P755 from a loan agreement entered into by TADHC with BOC amounting to P3,300, used for financing the Airport Project. The loan is payable in twenty-eight quarterly installments commencing on the twelfth quarter (Note 34).

Unamortized debt issue costs related to these loans amounted to P4 as of December 31, 2012.

- r. The amount represents EPSBPI's loan balance of P686 (Note 5). The unsecured loan facility was entered into by EPSBPI which was used to finance EPSBPI's construction of its bottling facilities. The loan is payable in equal quarterly installments starting February 18, 2012 bearing an interest rate equivalent to the higher of benchmark rate (three-month PDST-F rate) plus a one percent spread or the overnight rate (BSP overnight reverse repo rate on interest rate settling date).
- s. The amount represents a three-year term facility agreement entered into by Petron amounting to P1,800. The loan is subject to quarterly repricing and the principal amount is amortized in twelve quarterly installments of P150 starting March 2011 up to December 2013. The loan was obtained to finance Petron's general corporate requirements. The loan was fully paid on June 14, 2012.
- t. The amount represents GFDCC's loan balance of P204 in 2011 (Note 5). The unsecured loan facility was entered into by GFDCC with BOC which was used to finance GFDCC's capital expenditures. In December 2012, GFDCC preterminated the loan facility and paid BOC the remaining balance including applicable interest (Note 34).
- u. 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 fixed spread. The loan proceeds will be used to finance the capital expenditure requirements of the Refinery Master Plan Phase 2 (RMP-2) Project. The first drawdown of US\$80 was made on November 25, 2011. Petron availed of the remaining US\$400 of the term loan facility on February 15, 2012. A partial payment of US\$180 was made on June 29, 2012.

Unamortized debt issue costs related to the loan amounted to P393 and P71 as of December 31, 2012 and 2011, respectively.

- v. The amount represents a five-year term loan facility signed by Petron on October 31, 2012, amounting to US\$485 with a syndicate of nine banks. The proceeds will be used partly to finance the capital expenditure requirements of RMP-2 Project. Amortization in seven equal amounts will start in November 2014, with final amortization due in November 2017. An initial drawdown of US\$100 was made on November 9, 2012. Subsequent drawdown of US\$35 and US\$140 were made in December 2012. The remaining balance of US\$210 was drawn in the first quarter of 2013.

Unamortized debt issue costs related to this loan facility amounted to P367 as of December 31, 2012.

- w. The amount represents the US\$200, syndicated 3-year 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 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 P26 and P55 as of December 31, 2012 and 2011, respectively.

- x. The amount represents an unsecured loan facility agreement entered into by SMB with an aggregate amount of US\$300, used to finance SMB's acquisition of the international beer and malt-based beverage business from the Parent Company. Interest rates for the foreign currency-denominated loan range from 2.31% to 2.40% and from 2.33% to 2.41% in 2012 and 2011, respectively.

In 2011, SMB obtained approval of all its lenders for its US\$300 Term Facility to maintain a minimum interest coverage ratio of 4.75:1 in lieu of a minimum current ratio of 1:1.

On April 13, 2012, SMB made a partial prepayment of its US\$300 Term Facility in the amount of US\$100. A subsequent partial pre-payment was made on April 27, 2012 in the amount of US\$50.

Unamortized debt issue costs related to this loan facility amounted to P89 and P246 as of December 31, 2012 and 2011, respectively.

- y. The amount represents US\$30 long-term loan drawn by SMBHK from BOC for working capital requirements (Note 34).

Unamortized debt issue costs related to this loan facility amounted to P4 as of December 31, 2012.

- z. The amount represents GSMI's 44.9% share of the unsecured, long-term, interest-bearing loan of TSML from Thai local and foreign banks used to finance TSML's plant construction and start-up operations. This loan is carried at amortized cost. It bears annual interest rate at the aggregate of applicable Thailand Baht floating-rate fix (THBFIX) and 1.75% per annum. TSML and the creditor entered into an agreement that changed the rate of interest to a fixed rate of 6.41% for the period from January 1 to June 30, 2010. The loan is payable every six (6) months at 5% and 10% of the outstanding loan facilities starting March 14, 2009.

- aa. The amount represents drawdown by Petron 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. The loan was fully paid on June 1, 2012.

Unamortized debt issue costs related to this loan facility amounted to P233 as of December 31, 2011.

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.

As of December 31, 2012 and 2011, the Group is in compliance with the covenants of the debt agreements.

The movements in debt issue costs are as follows:

	<i>Note</i>	2012	2011
Balance at beginning of year		P2,555	P2,334
Additions and reclassification		1,358	974
Amortization	<i>31</i>	(1,234)	(753)
Balance at end of year		P2,679	P2,555

Repayment Schedule

As of December 31, 2012, the annual maturities of long-term debt are as follows:

Year	Gross Amount	Debt Issue Costs	Net
2013	P3,373	P94	P3,279
2014	67,919	932	66,987
2015	70,918	965	69,953
2016	30,084	241	29,843
2017	29,004	237	28,767
2018 and thereafter	25,598	210	25,388
Total	P226,896	P2,679	P224,217

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:

	<i>Note</i>	2012	2011
Payables on the purchase of shares of stock	5	P1,108	P1,276
ARO	4	997	1,061
Retirement liabilities	36	1,310	1,054
Obligation to ROP - service concession agreement	4, 19, 35	74	76
IRO	4	45	46
Redeemable preferred shares	4	13	12
Cash bonds, cylinder deposits and others	34	2,871	984
	41, 42	P6,418	P4,509

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 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.

“Others” include amounts owed to related parties amounting to P66 as of December 31, 2012 (Note 34).

25. Income Taxes

Deferred tax assets and liabilities arise from the following:

	2012	2011
Allowance for impairment losses on trade and other receivables and inventory	P2,225	P1,913
NOLCO	2,026	1,371
MCIT	519	65
Undistributed net earnings of foreign subsidiaries	(5,395)	(7,669)
Unrealized intercompany charges and others	(2,633)	1,296
	(P3,258)	(P3,024)

The above amounts are reported in the consolidated statements of financial position as follows:

	<i>Note</i>	2012	2011
Deferred tax assets	4	P8,826	P8,233
Deferred tax liabilities		(12,084)	(11,257)
		(P3,258)	(P3,024)

The undistributed earnings of foreign subsidiaries and cumulative translation adjustments for which deferred tax liabilities have not been recognized amounted to P6,114 and P4,976 as of December 31, 2012 and 2011, respectively.

As of December 31, 2012, 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
2010	December 31, 2013	P2,228	P1
2011	December 31, 2014	1,244	68
2012	December 31, 2015	3,281	450
		P6,753	P519

The components of income tax expense are shown below:

	2012	2011	2010
Current	P9,248	P12,240	P11,517
Deferred	(436)	(3,757)	(79)
	P8,812	P8,483	P11,438

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2012	2011	2010
Statutory income tax rate	30.00%	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subject to final tax	(2.69%)	(3.75%)	(2.56%)
Equity in net earnings of associates	(1.70%)	(2.29%)	(5.76%)
Gain on sale of investments subject to final or capital gains tax	(2.50%)	(0.23%)	-
Loss (gain) on derivatives	0.80%	(0.15%)	(0.56%)
Others, mainly income subject to different tax rates - net	(5.33%)	(0.65%)	11.10
Effective income tax rate	18.58%	22.93%	32.22%

26. Equity

a. Developments Relating to the Parent Company's Equity

Amendments to the Articles of Incorporation

On July 23, 2009, during the Parent Company's annual stockholders' meeting, the stockholders approved the amendments to the Parent Company's Articles of Incorporation providing for the declassification of the common shares of the Company. The authorized capital stock of the Parent Company amounting to P22,500 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.

During the April 18, 2012 and June 14, 2012 meetings of the Parent Company's BOD and stockholders, respectively, the BOD and stockholders approved the amendments to the Parent Company's Articles of Incorporation to increase the authorized capital stock of the Parent Company from P22,500 to P30,000 as follows: (a) the increase in the number of the common shares from 3,390,000,000 common shares to 3,790,000,000, or an increase of 400,000,000 common shares; and (b) the creation and issuance of 1,100,000,000 Series "2" preferred shares with a par value P5.00 per share.

On September 21, 2012, the SEC approved the amendment to the Articles of Incorporation of the Parent Company to increase the authorized capital stock, and consequently creating the Series "2" Preferred Shares.

Exchange of Capital Stock

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.

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.

Series “2” Preferred Shares

On June 26, 2012, the Parent Company filed with the SEC a Notice of Filing of Registration Statement for the registration of up to 1,067,000,000 Series “2” Preferred Shares with par value of P5.00 per share, to be offered by way of public offering, inclusive of shares for oversubscription.

b. *Capital Stock*

Common Shares

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.

Effective August 26, 2010, all Class “A” common shares and Class “B” common shares of the Parent Company were declassified and are considered as common shares without distinction, as approved by the SEC. Both shall be available to foreign investors, subject to the foreign ownership limit.

As of December 31, 2012, the Parent Company has a total of 38,999 common stockholders.

The movements in the number of issued and outstanding shares of common stock are as follows:

	<i>Note</i>	2012	2011	2010
Balance at beginning of year		3,279,334,575	3,268,594,254	3,229,944,942
Issuances during the year	<i>40</i>	2,211,715	10,740,321	38,649,312
Issued shares at end of year		3,281,546,290	3,279,334,575	3,268,594,254
Less treasury shares		908,892,669	910,303,273	938,648,724
Issued and outstanding shares at end of year		2,372,653,621	2,369,031,302	2,329,945,530

Preferred Shares

I. Series “1” 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, the Parent Company has 970,506,353 outstanding Series “1” preferred shares and has a total of 954 preferred stockholders.

On August 13, 2012, the BOD of the Parent Company approved the redemption of Series “1” preferred shares at a redemption price of P75.00 per share. The redemption took effect on October 5, 2012 and accordingly, the proceeds of the shares and all accumulated unpaid cash dividends were paid on the same date to stockholders of record as of September 11, 2012.

II. Series “2” Preferred Shares

Series “2” preferred shares consisting of 1,067,000,000 shares were fully subscribed at the issue price of P75.00 per share. The Series “2” preferred shares were issued in three sub-series (Subseries “2-A,” Subseries “2-B” and Subseries “2-C”) and are peso-denominated, perpetual, cumulative, non-participating and non-voting.

The Parent Company has the redemption option starting on the 3rd, 5th and 7th year and every dividend payment thereafter, with a “step-up” rate effective on the 5th, 7th and 10th year, respectively, if the shares are not redeemed. Dividend rates are 7.500%, 7.625% and 8.000% per annum for Subseries “2-A,” “2-B” and “2-C,” respectively.

Bulk of the proceeds from the issuance of Series “2” preferred shares were used by the Parent Company to redeem the Series “1” Preferred Shares as well as for general corporate purposes, including short-term debt repayment.

On September 28, 2012, the Parent Company listed the Series “2” preferred shares at the PSE.

As of December 31, 2012, the Parent Company has 1,067,000,000 outstanding Series “2” preferred shares and has a total of 461 preferred stockholders.

c. Treasury Shares

I. Common shares

The movements in the number of common shares held in treasury are as follows:

	<i>Note</i>	2012	2011	2010
Balance at beginning of year		910,303,273	938,648,724	938,648,724
Reissuance of treasury shares during the year		-	(27,580,000)	-
Conversion of exchangeable bonds	23	(1,410,604)	(765,451)	-
Balance at end of year		908,892,669	910,303,273	938,648,724

Treasury shares, totaling 65,475,371 common shares, are stated at acquisition cost amounting to P4,053, while 873,173,353 common shares were acquired through the exchange of common shares to preferred shares on a one-for-one basis at P75.00 per share amounting to P65,488.

1. A portion of the total treasury shares of the Parent Company came from 25,450,000 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] which 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 Supreme Court 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 Supreme Court 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 Supreme Court 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 Supreme Court 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 October 5, 2012, the Parent Company redeemed all Series "1" Preferred Shares including those Series "1" Preferred Shares in the name of the CIIF Holding Companies. Proceeds of such redemption with respect to Series "1" Preferred Shares in the name of the CIIF Holding Companies, including all

accumulated dividends were paid to the National Treasury. As of October 5, 2012, CIIF Holding Companies are no longer stockholders of the Parent Company.

On June 30, 2011, the PCGG filed with the Supreme Court 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. As of December 31, 2012, there are no new developments 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, in the event of an unfavorable ruling by the Supreme Court.

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 shares 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.
3. Also on May 5, 2011, US\$600 worth of exchangeable bonds of the Parent Company sold to overseas investors were simultaneously listed at the SGX-ST. 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 shares 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 and February 10, 2012, the delivered 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.

On various dates in 2012, additional 1,410,604 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 exchange prices ranging from P109.80 to P113.24 per share. Of the

1,410,604 common shares delivered, 1,094,832 common shares of stock of the Parent Company were transacted and crossed at the PSE on various dates 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, 2012, US\$5.6 worth of exchangeable bonds were already exchanged to equity into common shares (Note 23).

II. Series “1” Preferred Shares

On August 13, 2012, the BOD of the Parent Company approved the redemption of Series “1” preferred shares at a redemption price of P75.00 per share. On October 5, 2012, 970,506,353 Series “1” preferred shares were held in treasury and were no longer outstanding but remain unissued as of December 31, 2012.

d. *Unappropriated Retained Earnings*

The Group’s unappropriated retained earnings includes the accumulated earnings in subsidiaries and equity in net earnings of associates amounting to P45,787, P44,000 and P55,565 in 2012, 2011 and 2010, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

The Parent Company’s unappropriated retained earnings is restricted in the amount of P140,124, P67,441 and P69,541 as of December 31, 2012, 2011 and 2010, respectively, representing the cost of shares held in treasury.

e. *Appropriated Retained Earnings*

The BOD of certain subsidiaries approved additional appropriations amounting to P5,904, P18,650 and P201 in 2012, 2011 and 2010, respectively, to finance future capital expenditure projects. Reversal of appropriations amounted to P3,000, P6 and P27 in 2012, 2011 and 2010, respectively.

27. Cost of Sales

Cost of sales consists of:

	<i>Note</i>	2012	2011	2010
Inventories		P468,805	P315,700	P88,347
Energy fees		33,150	30,263	15,875
Taxes and licenses		30,803	30,219	23,343
Fuel and oil		13,269	11,947	10,657
Depreciation, amortization and impairment	29	13,166	12,625	7,287
Contracted services		7,476	6,592	5,929
Freight, trucking and handling		6,842	5,563	5,504
Communications, light and water		5,602	5,252	4,585
Personnel	30	4,981	4,532	3,827
Power purchase		4,452	4,416	4,791
Repairs and maintenance		3,424	2,255	1,962
Rent	4, 35	756	879	517
Others		2,006	2,078	1,305
		P594,732	P432,321	P173,929

28. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2012	2011	2010
Selling	P28,999	P24,222	P18,239
Administrative	22,354	23,278	19,380
	P51,353	P47,500	P37,619

Selling expenses consist of:

	Note	2012	2011	2010
Freight, trucking and handling		P7,737	P6,665	P5,922
Advertising and promotions		7,108	5,528	4,977
Personnel	30	6,880	5,844	4,180
Depreciation, amortization and impairment	29	2,239	1,434	419
Rent	4, 35	2,233	1,650	1,200
Taxes and licenses		524	484	271
Professional fees		487	313	131
Supplies		422	897	326
Communications, light and water		396	347	193
Others		973	1,060	620
		P28,999	P24,222	P18,239

Administrative expenses consist of:

	Note	2012	2011	2010
Personnel	30	P10,077	P10,965	P8,090
Depreciation, amortization and impairment	29	4,638	3,387	2,403
Professional fees		2,016	2,083	1,802
Taxes and licenses		1,119	1,197	803
Advertising and promotion		1,105	1,178	1,201
Repairs and maintenance		833	690	681
Communications, light and water		745	627	715
Supplies		682	436	755
Freight, trucking and handling		269	343	513
Research and development		119	146	333
Rent	4, 35	35	46	95
Others	40	716	2,180	1,989
		P22,354	P23,278	P19,380

“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:

	<i>Note</i>	2012	2011	2010
Cost of sales:				
Property, plant and equipment	7, 16	P12,021	P11,436	P6,192
Deferred containers, biological assets and others	18, 20	1,145	1,189	1,095
	27	13,166	12,625	7,287
Selling and administrative expenses:				
Property, plant and equipment	7, 16	4,027	3,207	1,685
Deferred containers and others	20, 33	2,850	1,614	1,137
	28	6,877	4,821	2,822
		P20,043	P17,446	P10,109

“Others” include amortization of computer software, land use rights, licenses and investment properties.

30. Personnel Expenses

Personnel expenses consist of:

	<i>Note</i>	2012	2011	2010
Salaries and wages		P11,009	P10,086	P7,997
Retirement costs (benefits)	36	(282)	1,019	285
Other employee benefits		11,211	10,236	7,815
		P21,938	P21,341	P16,097

Personnel expenses are distributed as follows:

	<i>Note</i>	2012	2011	2010
Cost of sales	27	P4,981	P4,532	P3,827
Selling expenses	28	6,880	5,844	4,180
Administrative expenses	28	10,077	10,965	8,090
		P21,938	P21,341	P16,097

31. Interest Expense and Other Financing Charges

	2012	2011	2010
Interest expense	P26,878	P25,698	P13,870
Other financing charges	2,948	1,745	2,708
	P29,826	P27,443	P16,578

Amortization of debt issue costs included in “Other financing charges” amounted to P1,234, P753 and P1,808 in 2012, 2011 and 2010, respectively (Note 23).

Interest expense on loans payable, long-term debt and finance lease liabilities is as follows:

	<i>Note</i>	2012	2011	2010
Loans payable	21	P5,421	P7,392	P3,035
Long-term debt and finance lease liabilities	23, 35	21,457	18,306	10,835
		P26,878	P25,698	P13,870

32. Interest Income

Interest income consists of:

	<i>Note</i>	2012	2011	2010
Interest from short-term investments, cash in banks and others		P2,731	P3,545	P2,899
Interest on amounts owed by related parties	34, 36	1,523	1,073	124
		P4,254	P4,618	P3,023

33. Other Income (Charges)

Other income (charges) consists of:

	<i>Note</i>	2012	2011	2010
Foreign exchange gains (losses)	41	P11,375	(P823)	P6,097
Reversal (loss) on impairment of goodwill, trademarks and brand names, property, plant and equipment and idle assets (a, b)	16, 19, 20	1,060	(36)	(4,233)
PSALM monthly fees reduction		918	445	395
Gain on acquisition of a subsidiary	5, 39	-	-	4,490
Gains (losses) on derivatives - net	42	(1,270)	182	660
Others (c, d)		898	220	(314)
		P12,981	(P12)	P7,095

- a. In 2011 and 2010, the Group recognized impairment loss on noncurrent assets of SMBHK and San Miguel (Guangdong) Brewery Company Limited (SMGB). Over the past two years, the business performance of SMBHK and SMGB had been adversely affected by factors such as economic downturns, fierce market competition, counterfeit products and poor weather conditions.

SMBHK

The Group's noncurrent assets relating to the manufacturing operations in SMBHK comprise mainly of the production plant, an office building and a warehouse (the SMBHK CGU). The recoverable amount of the SMBHK 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 SMBHK.

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 SMBHK were fairly consistent with the forecasts made in 2010.

In 2012, there was a change in the estimates used to determine the SMBHK CGU's recoverable amount as the Group was able to determine fair value less costs to sell based on a reliable estimate of the amount obtainable from the sale in an arm's length transaction between knowledgeable and willing parties for most of the assets belonging to the SMBHK CGU, due to recent comparable transaction data becoming available. The fair value less costs to sell of the SMBHK CGU was greater than the value-in-use as of December 31, 2012. Hence, the Group reversed the amount of P1,448, a part of previously recognized impairment losses in respect of SMBHK CGU. The reversal is only to the extent that the revised carrying amount of individual assets does not exceed the smaller of respective fair value less costs to sell as of December 31, 2012 and what would have been determined had no impairment loss been recognized in prior years.

SMGB

In 2012, 2011 and 2010, the Group noted that the decline in demand for its products in mainland China compared to previous sales forecasts, fierce market competition and the operating losses that consequently arose, were indications that noncurrent assets of the operations in mainland China, comprising mainly of the production plant located in Shunde, Guangdong Province and other tangible assets may be impaired. The Group recognized an impairment loss amounting to P20 in 2012.

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.

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 (up) by (P1,428) and P30, as of December 31, 2012 and 2011, respectively, presented as follows:

	<i>Note</i>	2012	2011	2010
Selling and administrative expenses	28	P -	P -	P151
Other charges (income)		(1,428)	30	4,182
		(P1,428)	P30	P4,333

In 2010, a reversal of an impairment loss amounting to P235 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 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. 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.

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. As of December 31, 2012, portion of the Donated Property has not yet been returned to SMPI pending the final resolution of the Foundation's new set of Board of Trustees.

As of December 31, 2012, the Foundation has not yet started with the development of Montemaria Project.

- d. "Others" consist of 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 and terms. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

	Note	Year	Revenue From Related Parties	Purchases From Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement plans	10, 20, 36	2012	P -	P -	P21,601	P -	On demand; Interest bearing	Unsecured; No impairment
		2011	-	-	29,139	-		
		2010	-	-	26,569	1,800		
Associates	10, 22, 24	2012	53,210	481	10,680	61	On demand; Non-interest bearing	Unsecured; No impairment
		2011	33,013	494	7,741	60		
		2010	17,103	490	7,323	43		
	21, 23	2012	-	-	-	9,045	Less than 1 to 10 years Interest bearing	Unsecured
		2011	-	-	-	3,360		
JVC	20	2012	-	-	118	-	On demand; Non-interest bearing	Unsecured; No impairment
		2011	-	-	118	-		
Shareholders in subsidiaries	10, 22, 24	2012	-	34	183	557	On demand; Non-interest bearing	Unsecured; No impairment
		2011	-	-	19	-		
		2010	-	-	11	-		
Others	10, 22	2012	-	-	24	18	On demand; Non-interest bearing	Unsecured; No impairment
		2011	51	1,487	728	266		
		2010	43	105	9	712		
Total		2012	P53,210	P515	P32,606	P9,681		
Total		2011	P33,064	P1,981	P37,745	P3,686		
Total		2010	P17,146	P595	P33,912	P2,555		

- Amounts owed by related parties consist of trade and non-trade receivables and share in expenses.
- Amounts owed to related parties consist of trade payables and professional fees.
- The amounts owed to associates include interest bearing loans to BOC included as part of "Loans payable" and "Long-term debt" accounts in the consolidated statements of financial position.
- The compensation of key management personnel of the Group, by benefit type, follows:

	2012	2011	2010
Short-term employee benefits	P447	P475	P408
Share-based payments	17	29	31
Retirement benefits	(251)	(52)	(147)
	P213	P452	P292

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:

	<i>Note</i>	2012	2011	2010
Short-term employee benefits		P31	P7	P30
Share-based payments	40	22	25	24
Retirement costs	36	1	-	-
	28, 30	P54	P32	P54

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 as 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.

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.
- viii. 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 renewed their performance bonds in US dollar amounting to US\$58, US\$20 and US\$60, which will expire on November 3, 2013, January 25, 2013 and June 16, 2013, 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 is not sufficient to meet customers' power requirements.

Power Supply Agreements

SMEC and SPPC have Power Supply Agreements with various counterparties including related parties, 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. 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.

SMEC and SPPC also purchase power from WESM and other power generation companies during periods when the power generated from power plant is not sufficient to meet customers' power requirements.

In 2012, 2011 and 2010, all customers are above their minimum contracted power requirements.

Coal Supply Agreement

SMEC renewed the Supply Agreement for Steaming Coal with PT Bumi Resources Tbk's subsidiary PT Kaltim Prima Coal, BANPU Public Company Limited Thailand and Noble Resources Pte. Ltd. (the Coal Suppliers) through Topcoal Trading Corporation for the coal requirements of the Sual Power Plant. 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 desired to further extend the Agreement which may be further extended upon mutual agreement of the parties. On October 1, 2012, the Coal Supply Agreement was assigned to SMEC by Topcoal with the consent of the Coal Suppliers.

Fuel and Oil

Supply Agreement

Petron has assigned all its rights and obligations to Petron Singapore Trading Pte. Ltd. (as Assignee) to have a term contract to purchase Petron's crude oil requirements from Saudi Arabian American Oil Company (Saudi Aramco), based on the latter'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 included as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position as of December 31, 2012 and 2011 (Note 22). The contract is extended until October 27, 2013.

Petron Malaysia has a service level agreement with Concord Energy Ltd. (Concord Energy). Under this agreement, effective until March 31, 2013, Concord Energy shall act as Petron Malaysia's commercial trader in relation to all spot & term transactions for the import & export of Crude Oil and Refined Petroleum Products. This shall exclude domestic sale and purchase. This covers the monthly purchase of Tapis Blend Crude Oil & Terengganu Condensate from ExxonMobil Exploration and Production Malaysia.

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 Agreements

▪ TADHC

In 2009, the ROP awarded TADHC the Airport 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 Airport 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 aspect 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 Maintenance Performance Security (OMPS) amounting to P25, which must be valid for the entire concession period of 25 years. As of December 31, 2012 and 2011, TADHC has yet to pay the OMPS since it is payable only after the completion of the construction of the Airport 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 cost of the Airport Project, 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 Airport 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 fully issued its authorized capital stock as a leveraged to the loan obtained from third party.

5. TADHC shall also post a P250 Work Performance Security in favor of the ROP as guarantee for faithful performance by TADHC to develop the Airport 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 2012 and 2011, for the Work Performance Security. The unamortized portion was presented as part of the “Prepaid expenses and other current assets” account in the consolidated statements of financial position as of December 31, 2012 and 2011 (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 Boracay Airport was turned over to TADHC on October 16, 2010.

After 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 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, 2012, 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 7 Project through a NOA issued on January 31, 2008. The MRT 7 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 Revised 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 and operate and maintain (O&M) the proposed MRT 7 Project, 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 21, 2013, construction of the MRT 7 Project has not yet started.

Toll Operation Agreement

■ CMMTC

On June 10, 1994, the Philippine National Construction Corporation (PNCC), the franchise holder for the construction, operation and maintenance (O&M) of the proposed Metro Manila Expressway, including any and all extensions, linkages or stretches such as the proposed MMS, and PT Citra Lamtoro Gung Persada (CITRA) as joint proponents, submitted to the Philippine Government through the Toll Regulatory Board (TRB), the Joint Investment Proposal covering not only the proposed MMS but also the planned Metro Manila Tollways. The said proposal embodied, among others, CITRA in cooperation with PNCC, committed itself to finance, design and construct MMS in three stages, consisting of the SMMS, the North Metro Manila Skyway and the Central Metro Manila Skyway with the Metro Manila Tollways as the fourth stage. The Joint Investment Proposal was approved by the TRB on November 27, 1995, and the Supplemental Toll Operation Agreement (STOA) was executed on the same date by and among CMMTC, PNCC and the ROP through the TRB. Under the approved Joint Investment Proposal and the STOA, the design and the construction of the SMMS and the financing thereof, shall be the primary and exclusive privilege, responsibility and obligation of CMMTC as Investor. On the other hand, the O&M of the same shall be the primary and exclusive privilege, responsibility and obligation of PNCC, through its wholly-owned subsidiary, the PNCC Skyway Corporation (PSC).

On July 18, 2007, the STOA was amended to cover, among others, the implementation of Stage 2 of the SMMS; the functional and financial integration of Stage 1 and Stage 2 of the SMMS upon the completion of the construction of Stage 2; and the grant of right to CMMTC to nominate to the TRB a qualified party to perform the O&M of the Project Roads to replace PSC. CMMTC, PNCC and PSC then entered into a Memorandum of Agreement for the successful and seamless turnover of the O&M responsibilities for the SMMS from PSC to SOMCO.

The following are the salient features of the STOA:

1. The Project Roads shall be owned by the Philippine Government, without prejudice to the rights and entitlement of the Investor and the Operator to the toll revenues, and the legal transfer of ownership to the Philippine Government shall be deemed to occur automatically on a continuous basis in accordance with the progress of construction.
2. The 30-year franchise period for the Stage 1 of the SMMS and for the Integrated Stage 1 and Stage 2 of the SMMS commenced on October 10, 1999 and April 25, 2011, respectively.
3. The toll fees collected are allocated between CMMTC and SOMCO in accordance with the Revenue Sharing Agreement entered by both parties on March 30, 2012. Under the STOA, CMMTC may file an application to adjust the toll rates which shall be of two kinds, namely periodic and interim adjustments. Periodic adjustments are made every two years. Interim adjustment will be granted upon the occurrence of force majeure, or a significant currency devaluation. A currency devaluation shall be deemed "significant" if it results in a depreciation of the value of the Philippine peso relative to the US dollar by at least 10%. The applicable exchange rate shall be the exchange rate between the currencies in effect as of the date of approval of the prevailing preceding toll rate.

The Group has determined that the provisions of Philippine Interpretation IFRIC 12 apply to this STOA and will be accounted for under the intangible asset model.

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.

On April 17, 2012, NTC approved another three (3) year extension of the PA until April 17, 2015.

- ETPI

On October 3, 2002, RA No. 9172 entitled “An Act Renewing and Amending the Franchise Granted to ETPI (Eastern Extension Australasia 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, the following telecommunications services:

- 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 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 (EO) No. 109 (s. 1993), which required ETPI to put up a minimum of 300,000 Local Exchange Carrier lines. TTPI is allowed to deploy Public Calling Offices in municipalities and barangays within its authorized service area in lieu of rolling out Local Exchange Carrier lines.

On January 18, 2006, the NTC granted TTPI a Certificate of Public Convenience and Necessity (CPCN) to install, operate and maintain Local Exchange Carrier services in the cities of Manila and Caloocan, as well as in the provinces of Cagayan and Isabela. 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 Local Exchange Carrier 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 PAs in favor of TTPI to install, operate and maintain Local Exchange Carrier 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.

On June 7, 2011, GSIS has exercised the put option and transferred all its ownership interest to SMPI for a total consideration of P399, making SMPI-GSIS JVC a wholly-owned subsidiary of SMPI.

Lease Commitments:

a. Finance Leases

Group as Lessee

a. 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 to the terms of the Agreement and further confirms that for as 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 P198,506 and P195,102 in 2012 and P203,691 and P208,187 in 2011, 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 (Note 16).

The Group's incremental borrowing rates are as follows:

	US Dollar	Philippine Peso
SMEC	3.89%	8.16%
SPPC	3.85%	8.05%
SPDC	3.30%	7.90%

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of “Interest expense and other finance charges” account in the consolidated statements of income (Note 31). Interest expense in 2012, 2011 and 2010 amounted to P11,331, P11,531 and P5,299, respectively.

The future minimum lease payments for each of the following periods are as follows:

2012

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US\$212	P8,687	P10,130	P18,817
More than one year and not later than five years	960	39,397	45,954	85,351
Later than five years	1,937	79,540	92,839	172,379
	3,109	127,624	148,923	276,547
Less: Future finance charges on finance lease liabilities	636	26,118	55,327	81,445
Present values of finance lease liabilities	US\$2,473	P101,506	P93,596	P195,102

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

The present values of minimum lease payments for each of the following periods are as follows:

2012

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US\$187	P7,659	P7,778	P15,437
More than one year and not later than five years	769	31,576	28,967	60,543
Later than five years	1,517	62,271	56,851	119,122
	US\$2,473	P101,506	P93,596	P195,102

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

b. 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, 2012 and 2011, the net carrying amount of the leased equipment was P55 and P64, respectively (Note 16).

The Group's share in the minimum lease payments for these finance lease liabilities are as follows:

2012

	Minimum Lease Payable	Interest	Principal
Within one year	P21	P2	P19
After one year but not more than 2 years	35	3	32
	P56	P5	P51

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

c. 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, 2012 and 2011, the net carrying amount of leased transportation equipment was P1. As of December 31, 2012, the minimum lease payable due after one year amounted to P1.

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, 2012, 2011 and 2010, the future minimum lease receipts under non-cancellable operating leases are as follows:

	2012	2011	2010
Within one year	P340	P311	P370
After one year but not more than five years	494	318	541
After five years	69	45	52
	P903	P674	P963

Rent income recognized in profit or loss amounted to P1,139, P412 and P267 in 2012, 2011 and 2010, 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, 2012, 2011 and 2010, non-cancellable operating lease rentals are payable as follows:

	2012	2011	2010
Within one year	P1,418	P885	P875
After one year but not more than five years	3,230	2,551	2,424
More than five years	7,680	7,486	7,196
	P12,328	P10,922	P10,495

Rent expense recognized in profit or loss amounted to P3,024, P2,575 and P1,812 in 2012, 2011 and 2010, 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 (collectively, the Retirement Plans). Contributions and costs are determined in accordance with the actuarial studies made for the Retirement Plans. Annual cost is determined using the projected unit credit method. Majority of the Group's latest actuarial valuation date is December 31, 2012. Valuations are obtained on a periodic basis.

Majority of the Retirement Plans are registered with the Bureau of Internal Revenue as tax-qualified plans under Republic Act No. 4917, as amended. The control and administration of the Group's Retirement Plans are vested in the Board of Trustees of each Retirement Plan. The Board of Trustees of the Group's Retirement Plans exercises voting rights over the shares and approve material transactions. The Retirement Plans' accounting and administrative functions are undertaken by the Parent Company's Retirement Funds Office.

Retirement benefits recognized in profit or loss by the Parent Company amounted to P590, P212 and P371 in 2012, 2011 and 2010, respectively, while retirement costs charged by the subsidiaries amounted to P308, P1,231 and P656 in 2012, 2011 and 2010, 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 (benefits) recognized in profit or loss in 2012, 2011 and 2010 and the amounts recognized in the consolidated statements of financial position as of December 31, 2012 and 2011 are as follows:

	2012	2011	2010
Current service cost	P1,045	P922	P652
Interest cost	1,195	1,303	1,082
Expected return on plan assets	(1,755)	(3,951)	(1,170)
Net actuarial loss (gain)	(766)	2,754	(282)
Effect of curtailment	(1)	(9)	3
Net retirement costs (benefits)	(P282)	P1,019	P285
Actual return (loss) on plan assets	(P3,164)	(P14,056)	P25,621

The retirement costs (benefits) are recognized in the following line items in the consolidated statements of income:

	<i>Note</i>	2012	2011	2010
Cost of sales		P175	P143	P143
Selling and administrative expenses		(457)	876	142
	<i>30</i>	(P282)	P1,019	P285

The reconciliation of the assets and liabilities recognized in the consolidated statements of financial position is as follows:

	<i>Note</i>	2012	2011
Present value of defined benefit obligation		P24,575	P20,700
Fair value of plan assets		25,560	29,208
		(985)	(8,508)
Unrecognized actuarial gain	<i>4</i>	1,495	9,348
Net retirement liabilities		P510	P840

In 2012, net retirement assets and liabilities included as part of “Other noncurrent assets” account amounted to P903 (Note 20) and under “Accounts payable and accrued expenses” and “Other noncurrent liabilities” accounts amounted to P103 and P1,310, respectively (Notes 22 and 24).

In 2011, net retirement assets and liabilities included as part of “Other noncurrent assets” account amounted to P299 (Note 20) and under “Accounts payable and accrued expenses” and “Other noncurrent liabilities” accounts amounted to P85 and P1,054, respectively (Notes 22 and 24).

The movements in the present value of defined benefit obligation are as follows:

	2012	2011
Balance at beginning of year	P20,700	P18,386
Benefit obligation of newly acquired subsidiaries	986	170
Interest cost	1,195	1,303
Current service cost	1,045	922
Benefits paid	(1,233)	(1,312)
Actuarial losses	2,002	1,245
Effect of curtailment	(2)	(10)
Translation adjustments	(118)	(4)
Balance at end of year	P24,575	P20,700

The movements in the fair value of the plan assets are as follows:

	2012	2011
Balance at beginning of year	P29,208	P43,964
Plan assets of newly acquired subsidiaries	-	255
Expected return on plan assets	1,755	3,951
Contributions by employer	727	318
Benefits paid	(1,159)	(1,271)
Actuarial losses	(4,919)	(18,007)
Translation adjustments	(52)	(2)
Balance at end of year	P25,560	P29,208

The carrying amounts of the Group's retirement fund approximate fair values as of December 31, 2012 and 2011.

The Group's plan assets consist of the following:

	In Percentages	
	2012	2011
Marketable securities and shares of stock	71.87	80.90
Interest in pooled funds		
Fixed income portfolio	5.79	5.04
Stock trading portfolio	3.33	2.52
Investment in Real Estate	0.38	0.37
Others	18.63	11.17

Investments in Marketable Securities

As of December 31, 2012, the plan assets include 20,304,067 common shares, 35,586,770 Series "2", Subseries "2-A" and 38,077,020 Series "2", Subseries "2-B" preferred shares of the Parent Company with fair market value per share of P105.40, P75.00 and P75.00, respectively.

As of December 31, 2012, the Group's plan assets include 1,499,181,997 common shares of Petron with fair market value per share of P10.46.

As of December 31, 2012, the Group's plan assets include 34,166,985 common shares of GSMI with fair market value per share of P17.80.

As of December 31, 2012, the Group's plan assets include 32,220,400 common shares of SMB with fair market value per share of P29.30.

The Group's Retirement Plans recognized a loss on the investment in marketable securities of SMC and its subsidiaries amounting to P4,932 in 2012.

Dividend income from the investment in shares of stock of SMC and its subsidiaries amounted to P341 in 2012.

Investment in Shares of Stock

Investment in shares of stock includes the investment of the Retirement Plans in the common shares of BOC and PAHL, accounted for under the equity method.

a. BOC

As of December 31, 2012, San Miguel Corporation Retirement Plan's (SMCRP) investment in BOC amounting to P4,593 is at 39.94% equity interest, representing 44,774,271 common shares.

In 2012, the Retirement Plan recognized its share from the net income of BOC amounting to P278.

b. PAHL

As of December 31, 2012, Petron Corporation Employees Retirement Plan's (PCERP) investment in PAHL amounting to P1,919 (US\$44) represents 54.1% equity interest, composed of 273,000,000 Class A shares and 102,142,858 Class B shares.

In 2012, the Retirement Plan recognized its share from the net loss of PAHL amounting to P90.

c. BPI

As of December 31, 2012, the Group's plan assets also include investment in BPI representing 2,389,494 preferred shares.

Interest in Pooled Funds

Investments in pooled funds were established mainly to put together a portion of the funds of the retirement funds of the Group to be able to draw, negotiate and obtain the best terms and financial deals for the investments resulting from big volume transactions.

As of December 31, 2012, approximately 14% and 56% of the Retirement Plan's investments in pooled funds in stock trading portfolio and fixed income portfolio, respectively, include investments in shares of stock of the Parent Company and its subsidiaries.

The Board of Trustees approved the percentage of asset to be allocated for fixed income instruments and equities. The Retirement Plan has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The Board of Trustees may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

Investment in Real Estate

As of December 31, 2012, the Group Retirement Plans have investments in real estate properties.

Others

Others include the Group Retirement Plans' investment in trust account, government securities, bonds and notes, cash and cash equivalents and receivables which earn interest. Investment in trust account represents funds entrusted to a financial institution for the purpose of maximizing the yield on investible funds.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2012	2011
Discount rate	3.4 - 6.8	1.5 - 6.3
Salary increase rate	4.0 - 8.0	2.5 - 7.0
Expected return on plan assets	5.0 - 9.0	5.0 - 9.0

The historical information for the current and previous four annual periods is as follows:

	2012	2011	2010	2009	2008
Present value of the defined benefit obligation	P24,026	P20,700	P18,386	P12,362	P11,080
Fair value of plan assets	25,560	29,208	43,964	15,178	10,232
Deficit (excess) in the plan	(1,534)	(8,508)	(25,578)	(2,816)	848
Experience adjustments on plan liabilities	860	1,492	(132)	927	6
Experience adjustments on plan assets	(4,907)	(18,007)	24,451	5,232	(295)

The Group expects to contribute P945 to its defined benefit plans in 2013.

As of December 31, 2012 and 2011, the outstanding balances of the Group's receivables from the retirement plans are as follows:

- The current portion of Petron's advances to PCERP amounting to P4,747 as of December 31, 2012 is included as part of "Trade and other receivables - net" account (Note 10), while the noncurrent portion amounting to P10,770 and P23,247 as of December 31, 2012 and 2011, respectively, is included as part of "Other noncurrent assets" account in the consolidated statements of financial position (Notes 20 and 34). The advances are subject to interest of 4% in 2012 and 2011.
- The Parent Company has advances to SMCRP amounting to P5,997 and P5,755 as of December 31, 2012 and 2011, respectively, included as part of "Trade and other receivables - net" account in the consolidated statements of financial position (Note 10). The advances are subject to interest of 5.75% in 2012 and 2011.

- c. GSMI has advances to GSMIRP amounting to P77 and P137 as of December 31, 2012 and 2011, respectively, included as part of “Trade and other receivables - net” account in the consolidated statements of financial position (Note 10). The advances are subject to interest of 5.75% in 2012 and 2011.

Transactions with retirement plans are made at normal market prices and terms. Outstanding balances as of December 31, 2012 and 2011 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Group has not made any provision for impairment losses relating to the receivables from retirement plans for the years ended December 31, 2012, 2011 and 2010.

37. Cash Dividends

Cash dividends declared by the Parent Company’s BOD to common shareholders amounted to P1.75 per share and P1.05 per share in 2012 and 2011, respectively.

Cash dividends declared by the Parent Company’s BOD to Series “1” preferred shareholders amounted to P6.00 per share in 2012 and 2011.

On November 14, 2012, the Parent Company’s BOD declared cash dividend at P1.40625, P1.4296875 and P1.50 per share, payable on January 4, 2013 to all Series “2” - Subseries “2-A”, Subseries “2-B” and Subseries “2-C” preferred shareholders, respectively, as of December 20, 2012.

On January 17, 2013, the Parent Company’s BOD declared cash dividend at P1.40625, P1.4296875 and P1.50 per share, payable on April 4, 2013 to all Series “2” - Subseries “2-A”, Subseries “2-B” and Subseries “2-C” preferred shareholders, respectively, as of March 20, 2013.

38. Basic and Diluted Earnings Per Share

Basic and Diluted EPS is computed as follows:

	<i>Note</i>	2012	2011	2010
Income attributable to equity holders of the Parent Company		P27,579	P17,518	P20,091
Dividends on preferred shares for the period	37	(6,127)	(5,823)	(5,823)
Net income attributable to common shareholders of the Parent Company (a)		P21,452	P11,695	P14,268
Weighted average number of common shares outstanding (in millions) - basic (b)		2,370	2,353	2,310
Effect of dilution - common	40	16	16	14
Weighted average number of common shares outstanding (in millions) - diluted (c)		2,386	2,369	2,324
Earnings per common share attributable to equity holders of the Parent Company				
Basic (a/b)		P9.05	P4.97	P6.18
Diluted (a/c)		P8.99	P4.94	P6.14

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, 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):

	2012	2011	2010
Trade and other receivables	(P25,614)	(P9,600)	P12,305
Inventories	(922)	(10,129)	2,178
Prepaid expenses and other current assets	(8,956)	(5,670)	(3,686)
Loans payable	(231)	15	107
Accounts payable and accrued expenses	7,069	5,233	7,581
Income and other taxes payable and others	715	816	(5,310)
	(P27,939)	(P19,335)	P13,175

- b. Acquisition of subsidiaries (Note 5)

	Note	2012	2011	2010
Cash and cash equivalents		P12,011	P463	P42,729
Trade and other receivables - net		12,844	437	32,953
Inventories		13,164	19	35,315
Prepaid expenses and other current assets		679	137	4,599
Asset held for sale		-	-	823
Available-for-sale financial assets		-	4	-
Investments and advances - net		168	274	16,092
Property, plant and equipment - net		16,590	3,711	175,650
Investment properties - net		412	-	121
Other intangible assets - net		20,601	-	7,097
Deferred tax assets		37	-	430
Other noncurrent assets - net		6,735	229	25,619
Loans payable		(15,353)	-	(34,987)
Accounts payable and accrued expenses		(19,325)	(450)	(28,114)
Income and other taxes payable		(754)	(119)	(1,267)
Current maturities of long-term debt - net of debt issue costs		(11,815)	(25)	(9,193)
Long-term debt - net of current maturities and debt issue costs		(7,596)	(185)	(43,452)
Deferred tax liabilities		(1,448)	(91)	(2,539)
Other noncurrent liabilities		(853)	(1,779)	(151,777)
Non-controlling interests		(9,040)	(691)	(25,518)
Net assets		17,057	1,934	44,581
Cash and cash equivalents		(12,011)	(463)	(42,729)
Goodwill in subsidiaries	4, 5, 19	19,554	732	24,456
Investment at equity		(4,871)	(1,625)	(1,444)
Other intangible asset - mining rights	4, 5, 19	-	197	-
Revaluation increment		-	-	(1,396)
Gain on acquisition of a subsidiary	5, 33	-	-	(4,490)
Net cash flows		P19,729	P775	P18,978

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 amounted to P259 and P286 as of December 31, 2012 and 2011, 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 P776 and P1,343 as of December 31, 2012 and 2011, respectively, is presented 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

There were no shares offered under ESPP in 2012.

The average market price of the common shares granted in 2011 was P111.90 per share.

The average remaining contractual life of the ESPP subscribed in 2011 was 0.69 and 1.69 years as of December 31, 2012 and 2011, respectively.

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 December 16, 2010, the Parent Company approved the grant of stock options to 732 executives consisting of 2,402,081 shares.

There were no LTIP offered to executives in 2012 and 2011.

Options to purchase 15,888,431 shares and 16,039,416 shares in 2012 and 2011, respectively, were outstanding at the end of each year. Options which were exercised and cancelled totaled 3,061,093 shares and 3,023,807 shares in 2012 and 2011, 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:

	2012		2011	
	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	13,633,452	P68.09	15,541,940	P66.36
Exercised during the year	(1,563,043)	55.66	(1,496,639)	53.67
Expired during the year	(613,449)	68.01	(411,849)	55.34
Balance at end of year	11,456,960	69.79	13,633,452	68.09
Class "B"				
Balance at beginning of year	6,113,417	P70.52	7,228,736	P69.66
Exercised during the year	(648,672)	65.87	(898,532)	64.73
Expired during the year	(235,929)	70.39	(216,787)	66.06
Balance at end of year	5,228,816	71.10	6,113,417	70.52

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 of December 31, 2012 and 2011, 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 range of exercise prices for options outstanding was P40.50 to P120.33 as of December 31, 2012 and 2011.

The average remaining contractual life of the LTIP was 1.16 year as of December 31, 2011 for Class “A” common shares and 0.50 year as of December 31, 2011 for Class “B” common shares.

The average remaining contractual life of the LTIP was 1.00 year as of December 31, 2012.

Share-based payment charged to operations, included under “Administrative expenses - others” account, amounted to P242, P303 and P315 in 2012, 2011 and 2010, respectively (Note 28).

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, option deposit, 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 BOD constituted the Group's Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the Group's financial statements and financial reporting process and the Group's systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the Group's financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance by the Group with legal and regulatory requirements, including the Group's disclosure control and procedures; e) evaluation of management's process to assess and manage the Group's enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit Committee shall also prepare the reports required to be included in the Group's annual report.

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 P981 and P962 in 2012 and 2011, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

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

December 31, 2012	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P2,282	P31,054	P3,038	P7,817	P24,681	P23,194	P92,066
Interest rate	6.3212% - 9.33%	6.3212% - 9.33%	5.4885% - 9.33%	6.1451% - 9.33%	6.05% - 7%	5.93% - 10.5%	
Foreign currency-denominated (expressed in Philippine peso)	-	24,400	-	12,315	-	-	36,715
Interest rate		2%		7%			
Floating Rate							
Philippine peso-denominated	514	914	11,664	1,097	1,098	2,404	17,691
Interest rate				PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	
Foreign currency-denominated (expressed in Philippine peso)	577	11,551	56,216	8,855	3,225	-	80,424
Interest rate	LIBOR + margin, THBFIX + margin	LIBOR + margin, THBFIX + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin		
	P3,373	P67,919	P70,918	P30,084	P29,004	P25,598	P226,896

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 + margin, THBFIX + margin	LIBOR, + margin, THBFIX + margin	LIBOR + margin, THBFIX + margin	LIBOR + margin	LIBOR + margin		
	P19,642	P5,503	P69,927	P72,476	P20,197	P26,230	P213,975

Foreign Currency Risk

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

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

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

	2012		2011	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$864	P35,447	US\$1,386	P60,759
Trade and other receivables	1,332	54,686	567	24,879
Prepaid expenses and other current assets	28	1,138	-	-
AFS financial assets	12	491	20	862
Noncurrent receivables	59	2,445	44	1,918
	2,295	94,207	2,017	88,418
Liabilities				
Loans payable	1,103	45,249	88	3,878
Accounts payable and accrued expenses	1,213	49,747	661	28,990
Long-term debt (including current maturities)	2,853	117,139	2,761	121,036
Finance lease liabilities	2,474	101,507	2,574	112,751
Other noncurrent liabilities	251	10,291	10	434
	7,894	323,933	6,094	267,089
Net foreign currency-denominated monetary liabilities	(US\$5,599)	(P229,726)	(US\$4,077)	(P178,671)

The Group reported net foreign exchange gains (losses) amounting to P11,375, (P823) and P6,097 in 2012, 2011 and 2010, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 33). 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, 2012	41.05
December 31, 2011	43.84
December 31, 2010	43.84

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

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

The following 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, 2012 and 2011:

2012	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P566)	(P695)	P566	P695
Trade and other receivables	(223)	(1,265)	223	1,265
Prepaid expenses and other current assets	(28)	(20)	28	20
AFS financial assets	-	(12)	-	12
Noncurrent receivables	(36)	(48)	36	48
	(853)	(2,040)	853	2,040
Loans payable	322	1,006	(322)	(1,006)
Accounts payable and accrued expenses	567	1,044	(567)	(1,044)
Long-term debt (including current maturities)	2,823	2,007	(2,823)	(2,007)
Finance lease liabilities	2,473	1,731	(2,473)	(1,731)
Other noncurrent liabilities	126	212	(126)	(212)
	6,311	6,000	(6,311)	(6,000)
	P5,458	P3,960	(P5,458)	(P3,960)

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
Loans payable	6	86	(6)	(86)
Accounts payable and accrued expenses	322	563	(322)	(563)
Long-term debt (including current maturities)	2,761	1,933	(2,761)	(1,933)
Finance lease liabilities	2,572	1,800	(2,572)	(1,800)
Other noncurrent liabilities	7	8	(7)	(8)
	5,668	4,390	(5,668)	(4,390)
	P4,225	P2,806	(P4,225)	(P2,806)

Exposures to foreign exchange rates vary during the 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 and 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, 2012 and 2011.

2012

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P125,631	P125,631	P125,631	P -	P -	P -
Trade and other receivables - net	122,599	122,599	122,599	-	-	-
Option deposit (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	1,026	1,026	1,026	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	91	91	91	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	147	147	147	-	-	-
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	1,621	1,735	181	1,155	399	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	14,840	14,840	-	14,840	-	-
Financial Liabilities						
Loans payable	151,274	151,882	151,882	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	84,236	84,236	84,236	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	315	315	315	-	-	-
Long-term debt (including current maturities)	224,217	267,303	15,017	77,136	145,243	29,907
Finance lease liabilities (including current portion)	195,154	276,600	18,836	19,421	65,964	172,379
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	4,066	4,071	342	3,457	30	242

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	2,136	85	1,254	797	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	27,471	28,021	1,610	26,030	381	-
Financial Liabilities						
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	2,357	257	1,620	47	433

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 and other 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 losses that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance include 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, 2012 and 2011, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	<i>Note</i>	2012	2011
Cash and cash equivalents	9	P125,631	P128,975
Trade and other receivables - net	10	122,599	84,472
Option deposit	12	1,026	-
Derivative assets	12	91	121
Financial assets at FVPL	12	147	194
AFS financial assets	12, 14	1,621	2,068
Noncurrent receivables and deposits - net	20	14,840	27,471
		P265,955	P243,301

The credit risk for cash and cash equivalents, option deposit, 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 trade and other receivables and noncurrent receivables and deposits 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 such as supply and demand and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below.

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing plants and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.
- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.
- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at reasonable price.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (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 shares 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, 2012 and 2011:

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P125,631	P125,631	P128,975	P128,975
Trade and other receivables - net	122,599	122,599	84,472	84,472
Option deposit (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	1,026	1,026	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	91	91	121	121
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	147	147	194	194
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	1,621	1,621	2,068	2,068
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	14,840	14,840	27,471	27,471
Financial Liabilities				
Loans payable	151,274	151,274	82,588	82,588
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	84,236	84,236	61,424	61,424
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	315	315	118	118
Long-term debt (including current maturities)	224,217	239,625	211,420	228,523
Finance lease liabilities (including current portion)	195,154	195,154	208,261	208,261
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	4,066	4,066	2,348	2,348

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

Cash and Cash Equivalents, Trade and Other Receivables, Option Deposit and Noncurrent Receivables and Deposits. The carrying amount of cash and cash equivalents, trade and other receivables and option deposit approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables and deposits, 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.

Loans Payable and Accounts Payable and Accrued Expenses. The carrying amount of 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. Discount rates used for Philippine peso-denominated loans range from 0.5% to 4.3% and 1.7% to 5.4% as of December 31, 2012 and 2011, respectively. The discount rates used for foreign currency-denominated loans range from 0.2% to 0.8% and 0.3% to 1.0% as of December 31, 2012 and 2011, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

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

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

Derivative Instruments 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

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$963 and US\$220 as of December 31, 2012 and 2011, respectively, and with various maturities in 2013 and 2012. The net positive (negative) fair value of these currency forwards amounted to (P217) and P40 as of December 31, 2012 and 2011, respectively.

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2013 and 2012. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps is 525 and 845 metric tons as of December 31, 2012 and 2011, respectively. The net positive (negative) fair value of these swaps amounted to P2 and (P13) as of December 31, 2012 and 2011, respectively.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2013 and 2012. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps is 0.5 and 1.8 million barrels as of December 31, 2012 and 2011, respectively. The positive fair value of these swaps amounted to P30 and P147 as of December 31, 2012 and 2011, respectively.

Commodity Options

The Group has outstanding bought and sold options covering its wheat requirements with notional quantities of 85,457 and 47,083 metric tons as of December 31, 2012 and 2011, respectively. These options can be exercised at various calculation dates in 2013 and 2012 with specified quantities on each calculation date. The net negative fair value of these options amounted to P41 and P5 as of December 31, 2012 and 2011, respectively.

The Group has outstanding bought and sold options covering its soybean meal requirements with notional quantity of 7,439 metric tons as of December 31, 2011. These options can be exercised at various calculation dates in 2012 with specified quantities on each calculation date. The negative fair value of these options amounted to P5 as of December 31, 2011. There were no outstanding options on the purchase of soybean meal as of December 31, 2012.

The Group has outstanding commodity options covering its crude oil requirements with notional quantity of 0.2 and 1.3 million barrels as of December 31, 2012 and 2011, respectively. These call and put options can be exercised at various calculation dates in 2013 and 2012 with specified quantities on each calculation date. The net positive fair value of these options amounted to P15 and P47 as of December 31, 2012 and 2011, respectively.

Embedded Derivatives

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

Embedded Currency Forwards

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$182 and US\$201 as of December 31, 2012 and 2011, 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. The net positive (negative) fair value of these embedded currency forwards amounted to P38 and (P2) as of December 31, 2012 and 2011, respectively.

Embedded Currency Options

The total outstanding notional amount of currency options embedded in non-financial contracts amounted to US\$14 and US\$24 as of December 31, 2012 and 2011, respectively. These non-financial contracts consist mainly of sales agreements. These embedded options are not clearly and closely related to their host contracts. The net negative fair value of these embedded currency options amounted to P6 and P11 as of December 31, 2012 and 2011, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P1,270), P182 and P660 in 2012, 2011 and 2010, respectively.

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Balance at beginning of year	P3	P178
Net change in fair value of non-accounting hedges	(1,270)	182
	(1,267)	360
Less fair value of settled instruments	(1,043)	357
Balance at end of year	(P224)	P3

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, 2012 and 2011. The different levels have been defined as follows:

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

2012

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	P -	P91	P91
Financial assets at FVPL	147	-	147
AFS financial assets	741	880	1,621
Financial Liabilities			
Derivative liabilities	-	315	315

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

The Group has no financial instruments valued based on Level 3 as of December 31, 2012 and 2011. 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 Income Tax Holiday (ITH) for four (4) years without extension beginning August 1, 2010, subject to compliance with certain requirements under their registrations. The ITH incentives availed was limited only to the sale of power generated from the power plants. On August 26, 2011, SMC Global sold its 100% ownership in PanAsia to MHI (Note 5).

- SMPFC

Certain operations of consolidated subsidiaries of SMPFC are registered with the BOI as pioneer and non-pioneer activities. As registered enterprises, these subsidiaries are subject to some requirements and are entitled to certain tax and non-tax incentives which are considered in the computation of the income tax expense.

GBGTC

GBGTC was registered with the BOI under Registration No. 2012-223 on a non-pioneer status as a New Operator of Warehouse for its grain terminal project in Mabini, Batangas on October 19, 2012.

Under the terms of GBGTC's BOI registration and subject to certain requirements as provided in the Omnibus Investments Code of 1987, GBGTC is entitled to incentives which include, among others, ITH for a period of four (4) years from July 2013 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

SMFI

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 Investments 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 (4) 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 requirement on the export of the production of Toluene which, in 2012, was reduced to 50%) 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 (4) 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 (3) years; (2) for six (6) years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Benzene and Toluene; and (3) for six (6) 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 (10) years from start of commercial operations;
- c. Simplification of customs procedures;
- d. Access to Customs Bonded Manufacturing Warehouse (CBMW) subject to Customs rules and regulations provided firm exports at least 70% of production output of Mixed Xylene, Benzene and 50% of Toluene;
- 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 (10) 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 of Mixed Xylene, Benzene and 50% of Toluene; 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.

Mixed Xylene entitlement period ended in April 2012 and the registration for Mixed Xylene was cancelled on August 10, 2012.

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 (5) 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 percentage (%) share of product that are subject to retooling;
- b. Minimum duty of three percent (3%) 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 (5) 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 wharfage dues, any export tax, duty, imports and fees for a ten-year period from date of registration;

- f. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse;
- g. Exemption from real property tax on production equipment or machinery; and
- h. 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 (4) 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 (10) 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.

RMP-2 Project

On June 3, 2011, the BOI approved Petron's application under RA No. 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 (5) 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 three percent (3%) and VAT on imported capital equipment and accompanying spare parts;
- c. Importation of consigned equipment for a period of five (5) 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 three percent (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:

- 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, the date of registration.

SMYAC's entitlement for ITH for Phase I expired in August 2010 while the entitlement for ITH for Phase II was extended until November 2012.

44. Events After the Reporting Date

- a. *Investment in Excelon Asia Holding Corporation (EAHC), New Manila Properties Inc. (NMPI) and Philnico Holdings Limited (PHL)*

On January 11, 2013, Clariden entered into separate Deeds of Absolute Sale of Shares for the purchase of the outstanding capital stock of the following companies:

Clariden purchased 1,000,000 shares representing 100% equity interest in NMPI for a total consideration of P283. NMPI is a company primarily engaged in the business of real estate development.

Clariden purchased 120,000 shares representing 100% equity interest in EAHC for a total consideration of P343. The primary purpose of EAHC is to acquire by purchase, exchange, assign, gift or otherwise, and to sell, assign, transfer, exchange, lease, let, develop, mortgage, pledge, traffic, deal in and with otherwise operate, enjoy, and dispose of, all properties of every kind and description and whenever situated and as to the extent permitted by law.

Clariden purchased 8,704 shares representing 100% equity interest in PHL for a total consideration of P56.

- b. *Issuance of Undated Subordinated Capital Securities by Petron*

On February 6, 2013, Petron issued undated subordinated capital securities at the issue price of 100% amounting to US\$500 (the February 6 Issuance). On March 11, 2013, Petron further issued undated subordinated capital securities at the issue price of 104.25% amounting to US\$250 which were consolidated, and formed a single series, with the February 6 Issuance. At the option of the issuer, the securities may be redeemed after five and a half years or on any distribution payment date thereafter. The proceeds will be applied by Petron towards capital and other expenditures in respect of RMP-2 and used for general corporate purposes. The securities were listed on the Hong Kong Stock Exchange.

c. *Tender Offer for US\$600 Exchangeable Bonds*

Pursuant to the resolution of the BOD of the Parent Company approved during its regular meeting held last January 17, 2013 authorizing management to refinance its existing financial obligations under such terms and conditions which are favorable and advantageous to the Parent Company, the Parent Company solicited from the holders of the outstanding US\$600, 2.0% Exchangeable Bonds due 2014, listed on the SGX-ST, their consent to tender their bonds for repurchase (Invitation to Tender). The bonds are exchangeable for common shares of stock of the Parent Company, to be issued out of the Parent Company's treasury shares.

To afford the investing public and existing shareholders of the Parent Company sufficient time to be apprised of, and to evaluate, the Invitation to Tender, the Parent Company filed a request with the PSE for a suspension of the trading in the Parent Company's common shares for a period of six (6) trading days. Given the foregoing request of the Parent Company, the PSE implemented the trading suspension of SMC common shares from January 23, 2013 to January 30, 2013.

The Parent Company delivered the notices relating to the Invitation to Tender to the SGX-ST in the afternoon of January 22, 2013 (Singapore time), and the Invitation to Tender commenced in the morning of, and end in the evening of, January 29, 2013.

On February 7, 2013, the Parent Company has repurchased Bonds having an aggregate principal amount of US\$259. The aggregate cash amount paid by the Parent Company based on the aggregate principal amount of the Bonds repurchased, as well as accrued but unpaid interest payable until February 7, 2013, is US\$281. The aggregate principal amount of the Bonds remaining outstanding following completion of the Invitation to Tender is US\$332.

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 of the Group.

▪ **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 Distrainment 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 Distrainment and Garnishment and/or Levy against the Parent Company, especially in view of the Parent Company’s pending claims for refund. As of March 21, 2013, 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 was denied in the case docketed as CTA EB No. 755. The Office of the Solicitor General filed with the Second Division of the Supreme Court a Petition for 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 elevated the decision to CTA En Banc for review, which was docketed as CTA EB No. 873, the same was dismissed in a Decision dated October 24, 2012. The subsequent Motion for Reconsideration filed by the Commissioner was likewise denied.

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; on December 23, 2011, its third claim for refund with the CTA (3rd Division) under case number 8400, and last December 2012, SMB filed its fourth claim for refund with CTA. All of these cases are undergoing trial.

- Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron relating 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 contested the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of the TCCs and that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CTA in its Resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012.

- Pandacan Terminal Operations

In November 2001, the City of Manila enacted Ordinance No. 8027 reclassifying the areas occupied by the oil terminals of Petron, Pilipinas Shell Petroleum Corporation (Shell) and Chevron Philippines Inc. (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 an MOU with the City of Manila and the DOE, agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance No. 8027. In December 2002, in reaction to the MOU, the Social Justice Society (SJS) filed a petition with the Supreme Court against the Mayor of Manila asking that the latter be ordered to enforce Ordinance No. 8027. In April 2003, Petron filed a petition with the Regional Trial Court (RTC) to annul Ordinance No. 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance No. 8027.

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance (Ordinance No. 8119), which applied to the entire City of Manila. Ordinance No. 8119 allowed Petron (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance No. 8119, which was thought to effectively repeal Ordinance No. 8027, in April 2007, the RTC dismissed the petition filed by Petron questioning Ordinance No. 8027.

However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (the March 7 Decision) directing the Mayor of Manila to immediately enforce Ordinance No. 8027. On March 12, 2007, Petron, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, Petron also filed a petition before the RTC of Manila praying for the nullification of Ordinance No. 8119 on the grounds that the reclassification of the oil

terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Water Code of the Philippines (Presidential Decree No. 1067, the Water Code). On February 13, 2008, Petron, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance No. 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance No. 8027.

In May 2009, Manila City Mayor Alfredo Lim approved Ordinance No. 8187, which repealed Ordinance No. 8027 and Ordinance No. 8119 and permitted the continued operations of the oil terminals in Pandacan.

On August 24, 2012, the RTC of Manila ruled that Section 23 of Ordinance No. 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance No. 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance No. 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance No. 8119. On September 25, 2012, Petron sought clarification and partial consideration of the August 24 decision and prayed for the nullification of the entire Ordinance No. 8119. In an order dated December 18, 2012, the RTC of Manila denied the motion filed by Petron. Petron filed a notice of appeal on January 23, 2013. In an order dated February 6, 2013, the RTC of Manila ordered the records to be forwarded to the Court of Appeals.

With regard to Ordinance No. 8187, petitions were filed before the Supreme Court, seeking for its nullification and the enjoinder of its implementation. Petron filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within 5 years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of Petron and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented Petron from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), Petron reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

- Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, sank 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 MT 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 DOTC 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, which are charterers.

In 2009, complaints for violation of the Philippine Clean Water Act of 2004 (Republic Act No. 9275, the Clean Water Act) and homicide and less serious physical injuries were filed against Petron. Complainants claim that their exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill has caused them major health problems. On February 13, 2012, an Information was filed against the owner and the Captain of MT Solar 1 and the former President and Chairman of Petron for violation of the Clean Water Act. On March 28, 2012, the court dismissed the information for lack of probable cause and for lack of jurisdiction over the offense charged. The Provincial Prosecutor and the private prosecutor filed a motion for reconsideration of this March 28 Order of the court. On August 13, 2012, the court issued an order denying the said motion for reconsideration.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims for both cases amount to P292. Both cases are still pending as of December 31, 2012.

- **Generation Payments to PSALM**

SPPC disputed the claims of PSALM for generation payments. The claims arose from differing interpretations of certain provisions in the IPPA Agreement related to generation payments, the fees payable to PSALM for the generation of power to customers. SPPC's management is in discussions with PSALM to secure a common understanding through amicable means. However, management and its legal counsel assessed that SPPC's bases for the amounts due to PSALM are consistent with the terms of the Ilijan IPPA Agreement. The outcome of these claims is uncertain; accordingly, the amount cannot be presently determined.

- 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 call option with Q-Tech at P70.00 per share plus transactions costs for a total of P21,133.

Pursuant to an Agreement entered into by Top Frontier on November 20, 2009, Top Frontier acquired an option from the group of 44 companies 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.

The option agreement with the group of 44 companies also provides Top Frontier the rights, with prior written notice to the 44 companies, to assign, transfer and convey its rights to and interest in the option in favor of a third party provided: (i) such assignment, transfer and conveyance made by Top Frontier is consummated during the option period; (ii) the assignee of the option is acceptable to the group of 44 companies; and (iii) the terms and conditions of the agreement shall be valid, binding and enforceable on the assignee.

On June 14, 2012, the BOD of Top Frontier approved the assignment of its rights to exercise the option covering 368,140,516 common shares of the Parent Company in favor of Master Year Limited (MYL), one of the shareholders of Top Frontier.

Also, on June 14, 2012, the BOD of Top Frontier approved the exercise of the option covering the remaining 125,234,667 common shares of the Parent Company. On June 29, 2012, Top Frontier exercised the option on the 125,234,667 common shares of the Parent Company. The sale was transacted at the PSE thru a special block sale at the price of P75.00 per share.

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, 2012 and 2011, Top Frontier had total shareholdings of 1,573,100,340 and 1,447,865,673 common shares of the Parent Company, respectively. Out of the 1,573,100,340 common shares of the Parent Company held by Top Frontier as of December 31, 2012, 225,987,648 shares are lodged in the Philippine Depository and Trust Company.

c. *MYL*

On June 29, 2012, MYL purchased a total of 368,140,516 common shares of the Parent Company. The sale was transacted at the PSE thru a special block sale at the price of P75.00 per share.

d. *Commitments*

Amount authorized but not yet disbursed for capital projects as of December 31, 2012 is approximately P14,100.

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 P41.05 and P43.84 in 2012 and 2011, respectively, for consolidated statements of financial position accounts; and average rates of P42.24, P43.31 and P45.12 in 2012, 2011 and 2010, respectively, for income and expense accounts.

f. 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.

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 Company / Town / Province)

Ms. Bella O. Navarra

Contact Person

632-3000

Company Telephone Number

1	2
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Month

3	1
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Day

Compliance for CFD

FORM TYPE

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Month

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Day

Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

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Domestic

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Foreign

Total Amount of Borrowings

To be accomplished by SEC Personnel concerned

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File Number

LCU

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Branches: Bacolod - Cebu - Iloilo - Subic

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

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

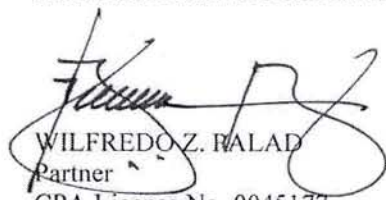
We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Corporation and Subsidiaries (the "Group") as at and for each of the three years in the period ended December 31, 2012, and have issued our report thereon dated March 21, 2013.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements of the Company 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 and Interpretations
- Supplementary Schedules of Annex 68-E

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the basic consolidated financial statements. Such supplementary 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

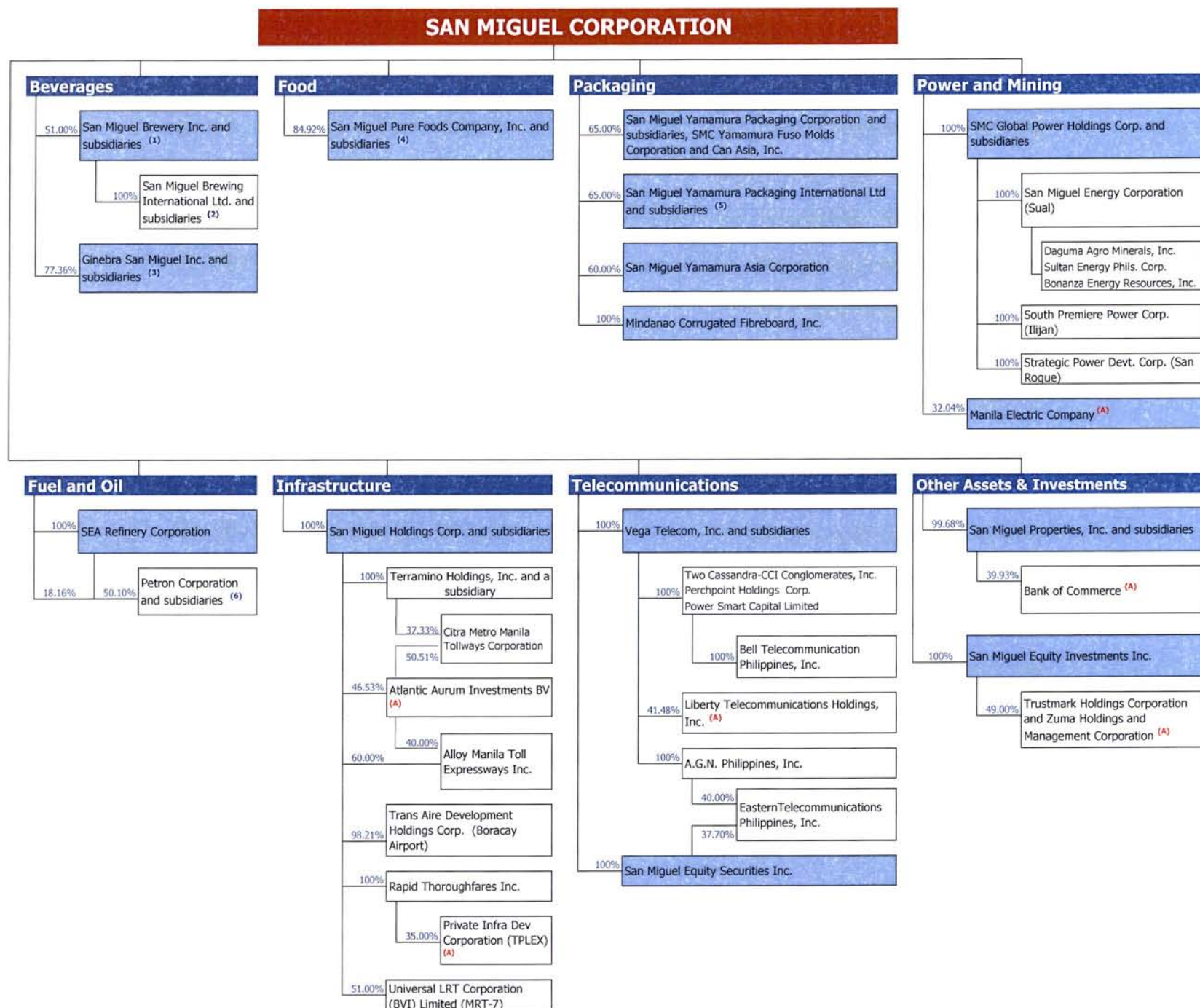
Issued June 30, 2010; valid until June 29, 2013

PTR No. 3669525MC

Issued January 2, 2013 at Makati City

March 21, 2013
Makati City, Metro Manila

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, 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., Siam Holdings Ltd. and East Pacific Star Bottlers Philippines, Inc.
4. San Miguel Pure Foods Company, Inc. subsidiaries include San Miguel Foods, Inc., The Purefoods-Hormel Company, Inc., Magnolia, Inc. and subsidiaries, San Miguel Mills, Inc. and subsidiaries, 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 Phu Tho Packaging Co. Ltd., Zhaoqing San Miguel Yamamura Glass Co., Ltd., Foshan San Miguel Yamamura Packaging Co. Ltd., San Miguel Yamamura Packaging & Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Yamamura 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 subsidiaries, Petron Global Limited (BVI), Petron Finance (Labuan) Limited, Petron Oil & Gas International Sdn Bhd including Petron Fuel International Sdn Bhd, Petron Oil (M) Sdn Bhd and Petron Malaysia Refining & Marketing Bhd. (collectively Petron Malaysia) and Limay Energen Corp.

San Miguel Corporation and Subsidiaries

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Early Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources	✓		
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Early Adopted	Not Applicable
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities		✓	
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments		✓	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
PFRS 10	Consolidated Financial Statements		✓	
PFRS 11	Joint Arrangements		✓	
PFRS 12	Disclosure of Interests in Other Entities		✓	
PFRS 13	Fair Value Measurement		✓	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income		✓	
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Balance Sheet Date	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures		✓	
PAS 19 (Amended)	Employee Benefits		✓	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Early Adopted	Not Applicable
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation		✓	
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27	Consolidated and Separate Financial Statements	✓		
PAS 27 (Amended)	Separate Financial Statements		✓	
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures		✓	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities		✓	
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Early Adopted	Not Applicable
PAS 40	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Investment Property	✓		
PAS 41	Agriculture	✓		
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	<i>Determining Whether an Arrangement Contains a Lease</i>	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓		
IFRIC 6	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
IFRIC 7	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
IFRIC 8	<i>Scope of PFRS 2</i>	✓		
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>	✓		
IFRIC 11	PFRS 2- Group and Treasury Share Transactions	✓		
IFRIC 12	Service Concession Arrangements	✓		
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	✓		
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		
IFRIC 18	Transfers of Assets from Customers	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Early Adopted	Not Applicable
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	✓		
SIC-15	Operating Leases - Incentives	✓		
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.	✓		
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

SAN MIGUEL CORPORATION AND SUBSIDIARIES

**INDEX TO FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2012**

A	- FINANCIAL ASSETS	
B	- AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)	NOT APPLICABLE
C	- AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS	
D	- INTANGIBLE ASSETS - 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	

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2012
(Amounts in Millions, except No. of Shares Data)

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, 2012	Income Received and Accrued
Cash and cash equivalents	-	₱ 125,631	₱ 125,631	₱ 3,226
Trade and other receivables - net	-	122,599	122,599	459
Option deposit	-	1,026	1,026	-
Derivative assets	-	91	91	(1,270) *
Financial assets at FVPL	-	147	147	(22)
Available for sale financial assets	1,275,733,318	1,621	1,621	689
Noncurrent receivables and deposits - net	-	14,840	14,840	550
	<u>1,275,733,318</u>	<u>₱ 265,955</u>	<u>₱ 265,955</u>	<u>₱ 3,632</u>

* 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, 2012
(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 P	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	2
Capitol Hills Golf & Country Club	1	-
Casino Espanol de Manila	2	-
Cebu Country Club	1	3
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	120
Manila Polo Club	2	21
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
Montserrat Trading	1,000	-
Motor Services	52,500	-
Naga Telephone Co.	220	-

(a) if the cost of investment is less than P500,000, the amount column will show zero.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
ATTACHMENT TO SCHEDULE A - AVAILABLE FOR SALE FINANCIAL ASSETS
DECEMBER 31, 2012
(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)
Negros Occidental Golf club	6 P	-
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	-
SMC Logistics Co.	-	0
Sta Elena Properties	7	5
Sta Elena Golf Club	1	3
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	8
Valley Golf Club Inc.	2	1
Victorias Country Club	1	-
San Miguel Holdings Corp.		
Indophil Resources NL	48,016,960	491
Petron Corporation		
Aboitiz Power Bonds	-	-
Government Security - PIID 0516 C107	-	75
Globe Bonds	50,220,000	-
Government Security - PIBD 0514 A673 (FXTN 5	100,000,000	53
Government Security - PIBD 0713 C348 (FXTN 7	100,000,000	51
ROP Bonds	27,012,000	625
San Miguel International Ltd.		
Others	-	16
San Miguel Brewery Inc.		
Royal Orchid International Golf Club	1	2
Guangzhou Luhu Golf Club	1	-
HSBC Holdings	20,400	9
Pacific Club Kowloon	2	6
Hongkong Arts Centre Ltd.	1	-
The American Club Hong Kong	1	8
Hong Kong Football Club	1	5
Canadian International School of Hong Kong	1	1
Discovery Bay Golf Club	1	7

(a) if the cost of investment is less than P500,000, the amount column will show zero.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
ATTACHMENT TO SCHEDULE A - AVAILABLE FOR SALE FINANCIAL ASSETS
DECEMBER 31, 2012
(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)
San Miguel Properties Inc.		
Apo Golf & Country Club	1 P	1
Mimosa Golf & Country Club	4	1
Sta. Elena Golf & Country Club	1	3
Metro Club	1	-
Phil. Long Distance Tel Co	12,200	1
Meralco	273,118	8
Italia Country Club	89	-
Riviera Golf Course and Country Club	1	3
Tagaytay Midlands Country Club	1	-
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.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
ATTACHMENT TO SCHEDULE A - AVAILABLE FOR SALE FINANCIAL ASSETS
DECEMBER 31, 2012
(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)
San Miguel Purefoods Company, Inc.		
Club Filipino	1 P	-
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	-
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	2
Casino Espanol	1	-
Vega Telecom Holdings, Inc.		
Makati Sport Club	4	1
MERALCO - SIP	5,662	-
Other Telecom Companies	1,680,000	4
Total Available for Sale Financial Assets	1,275,733,318 P	1,621

(a) if the cost of investment is less than P500,000, the amount column will show zero.

* See Notes 12, 14, 41 and 42 of the Audited Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/O THERS	AMTS PAID/ DEBIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Sea Refinery Corporation	P 33,938	P -	P (470)	P -	P 33,468	P 33,468	P -	P 33,468
San Miguel Corporation	39,595	(1,322)	(16,173)	-	22,100	22,100	-	22,100
San Miguel Equity Investments, Inc.	-	21,510	-	-	21,510	-	21,510	21,510
San Miguel Holdings Corp. and Subsidiaries	17,379	2,370	-	-	19,749	14,984	4,765	19,749
Vega Telecom Inc. and Subsidiaries	17,534	672	-	-	18,206	18,206	-	18,206
San Miguel International Limited and Subsidiaries	15,825	161	(11,186)	-	4,800	4,800	-	4,800
Challenger Aero Air Corporation	2,804	140	(453)	-	2,491	2,232	259	2,491
San Miguel Brewery Inc. and Subsidiaries	1,808	459	-	-	2,267	2,267	-	2,267
San Miguel Properties, Inc. and Subsidiaries	2,255	76	(67)	-	2,264	2,080	184	2,264
San Miguel Pure Foods Company, Inc. and Subsidiaries	1,154	294	-	-	1,448	1,448	-	1,448
San Miguel Yamamura Packaging Corp. and a Subsidiary	1,677	-	(374)	-	1,303	1,303	-	1,303
Ginebra San Miguel, Inc. and Subsidiaries	623	635	-	-	1,258	1,258	-	1,258
Clariden Holdings, Inc.	565	200	-	-	765	559	206	765
Petron Corporation and Subsidiaries	645	-	(13)	-	632	632	-	632
San Miguel Equity Securities, Inc.	306	-	(4)	-	302	302	-	302
San Miguel Yamamura Asia Corporation	166	77	-	-	243	243	-	243
Pacific Central Properties, Inc.	235	-	-	-	235	235	-	235
Others	3,401	530	(160)	-	3,771	1,856	1,915	3,771
	P <u>139,910</u>	P <u>25,802</u>	P <u>(28,900)</u>	P <u>-</u>	P <u>136,812</u>	P <u>107,973</u>	P <u>28,839</u>	P <u>136,812</u>

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING		ADDITIONS/ CTA/RECLASS/ OTHERS	AMTS COLLECTED/		AMOUNTS			ENDING							
		BALANCE			CREDIT MEMO		WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	BALANCE					
San Miguel Corporation	P	92,236	P	31,115	P	(19,494)	P	-	P	103,857	P	77,222	P	26,635	P	103,857
San Miguel International Limited and Subsidiaries		42,387		(2,592)		(14,050)		-		25,745		25,745		-		25,745
San Miguel Yamamura Packaging Corp. and a Subsidiary		994		5,291		(4,736)		-		1,549		1,446		103		1,549
San Miguel Yamamura Asia Corporation		690		2,494		(1,986)		-		1,198		1,116		82		1,198
SMC Shipping and Lighterage Corporation		600		4,224		(4,038)		-		786		786		-		786
SMITS, Inc. and a Subsidiary		370		1,264		(894)		-		740		736		4		740
Petron Corporation and Subsidiaries		737		5,859		(6,022)		-		574		574		-		574
San Miguel Holdings Corp. and Subsidiaries		262		472		(218)		-		516		516		-		516
San Miguel Properties, Inc. and Subsidiaries		402		514		(501)		-		415		254		161		415
San Miguel Brewery Inc. and Subsidiaries		171		861		(838)		-		194		168		26		194
Ginebra San Miguel, Inc. and Subsidiaries		143		168		(151)		-		160		160		-		160
San Miguel Pure Foods Company, Inc. and Subsidiaries		135		631		(646)		-		120		119		1		120
Others		828		2,149		(2,006)		-		971		971		-		971
	P	139,955	P	52,450	P	(55,580)	P	-	P	136,825	P	109,813	P	27,012	P	136,825

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS AND OTHER ASSETS
DECEMBER 31, 2012
(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 Adjustment	Ending Balance
Goodwill	P 30,990	P 19,554	P -	P -	P (591)	P 49,953
Trademarks and Other Intangibles						
Cost:						
Trademarks and brand names	P 432	P -	P -	P -	P (19)	P 413
Licenses	7,279	176	(84)	-	(59)	7,312
Service concession rights	203	93	(1)	-	-	295
Toll road concession rights	-	29,039	-	-	-	29,039
Mining rights	1,997	-	(10)	-	-	1,987
Land use rights	1,727	-	(202)	-	(114)	1,411
Leasehold rights	-	1,915	(58)	-	(78)	1,779
Other Intangibles	1,198	481	366	-	(21)	2,024
	12,836	31,704	11	-	(291)	44,260
Accumulated Amortization and Impairment Losses:						
Trademarks and brand names	P 190	P -	P -	P -	P (14)	P 176
Licenses	69	-	7	25	-	101
Airport concession rights	11	-	(7)	9	-	13
Toll road concession rights	-	8,438	-	-	-	8,438
Land use rights	441	-	(11)	30	(28)	432
Leasehold rights	-	16	-	-	-	16
Other Intangibles	718	-	96	151	(12)	953
	1,429	8,454	85	215	(54)	10,129
Net Book Value:	P 11,407	P 23,250	P (74)	P (215)	P (237)	P 34,131

See Notes 4, 5 and 19 of the Notes to Consolidated Financial Statements

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS AND OTHER ASSETS
DECEMBER 31, 2012
(Amounts in Millions)

Part B - Other Noncurrent Assets

Description		Beginning Balance	Additions / Acquisition of Subsidiaries	Charged to Cost and Expenses		Other Changes/ Reclassifications/ (Disposal)	Currency Translation Adjustment	Ending Balance
Noncurrent receivables and deposits	P	27,471 P	617 P	- P		(13,139) P	(109) P	14,840
Deferred containers expense - net of accumulated amortization		5,035	3,364	(1,769)		(365)	(51)	6,214
Others - net		6,011	1,488	(684)		4,563	(204)	11,174
	P	<u>38,517 P</u>	<u>5,469 P</u>	<u>(2,453) P</u>		<u>(8,941) P</u>	<u>(364) P</u>	<u>32,228</u>

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, 2012
(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													
<i>Unsecured term notes:</i>													
<i>Peso denominated:</i>													
Floating	Landbank of the Philippines	P 1,200	P 400	P (2)	P 398	P 800	P (1)	P 799	P 1,197	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
		<u>9,050</u>	<u>400</u>	<u>(2)</u>	<u>398</u>	<u>8,650</u>	<u>(1)</u>	<u>8,649</u>	<u>9,047</u>				
<i>Foreign currency - denominated:</i>													
Fixed	Bank of New York Mellon	24,400	-	-	-	24,400	(267)	24,133	24,133	2%	Bullet	Semi Annual	May-14
Floating	Standard Chartered Bank	41,050	-	-	-	41,050	(606)	40,444	40,444	LIBOR plus agreed margin	Bullet	Quarterly	July-15
		<u>65,450</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,450</u>	<u>(873)</u>	<u>64,577</u>	<u>64,577</u>				
Subsidiaries													
<i>Unsecured term notes:</i>													
<i>Peso denominated:</i>													
SM Brewery													
Fixed	Philippine Depository & Trust Corp.	22,302	-	-	-	22,302	(74)	22,228	22,228	8.875%	Bullet	Semi-annual	April-14
Fixed	Philippine Depository & Trust Corp.	2,810	-	-	-	2,810	(23)	2,787	2,787	10.500%	Bullet	Semi-annual	April-19
Fixed	Philippine Depository & Trust Corp.	3,000	-	-	-	3,000	(27)	2,973	2,973	6.05%	Bullet	Semi-annual	April-17
Fixed	Philippine Depository & Trust Corp.	10,000	-	-	-	10,000	(93)	9,907	9,907	5.930%	Bullet	Semi-annual	April-19
Fixed	Philippine Depository & Trust Corp.	7,000	-	-	-	7,000	(67)	6,933	6,933	6.60%	Bullet	Semi-annual	April-22
		<u>45,112</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,112</u>	<u>(284)</u>	<u>44,828</u>	<u>44,828</u>				
Petron													
Fixed	Rizal Commercial Banking Corporation	3,584	36	(3)	33	3,528	(30)	3,498	3,531	6.3212% and 7.1827%	Amortized	Semi-annual	October-21
Fixed	BPI Asset Management and Trust Group	5,200	-	-	-	5,200	(18)	5,182	5,182	8.14%	Bullet	Semi-annual	June-14
Fixed	BPI Asset Management and Trust Group	4,658	48	(8)	40	4,608	(21)	4,587	4,627	9.33%	Amortized	Semi-annual	June-16
Fixed	Deutsche Bank AG, Hongkong Branch	20,000	-	-	-	20,000	(170)	19,830	19,830	7.00%	Bullet	Semi-annual	November-17
		<u>33,420</u>	<u>84</u>	<u>(11)</u>	<u>73</u>	<u>33,336</u>	<u>(239)</u>	<u>33,097</u>	<u>33,170</u>				
SMY Asia													
Fixed	HSBC	1,270	-	-	-	1,270	(3)	1,267	1,267	7.25%	Bullet	Semi-annual	March-14
GSMI													
Fixed	Security Bank Corporation	214	86	-	86	128	-	128	214	7.885%	Amortized	Semi-annual	May-15
Fixed	Security Bank Corporation	1,029	343	(2)	341	686	(2)	684	1,025	7.25000%	Amortized	Semi-annual	May-15
		<u>1,243</u>	<u>429</u>	<u>(2)</u>	<u>427</u>	<u>814</u>	<u>(2)</u>	<u>812</u>	<u>1,239</u>				
SMCSLC													
Fixed	Security Bank Corporation	1,250	-	-	-	1,250	-	1,250	1,250	6.175%	Bullet	Quarterly	May-16
Fixed	Security Bank Corporation	250	-	-	-	250	-	250	250	6.145%	Bullet	Quarterly	May-16
		<u>1,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,500</u>	<u>-</u>	<u>1,500</u>	<u>1,500</u>				
CMMTC													
Fixed	PNB	3,687	748	(32)	716	2,939	(66)	2,873	3,589	8.500%	Amortized	Quarterly	27-Dec-17
Fixed	LBP	2,480	503	(22)	481	1,977	(44)	1,933	2,414	8.500%	Amortized	Quarterly	27-Dec-17
Fixed	Allied Bank	1,771	359	(15)	344	1,412	(32)	1,380	1,724	8.500%	Amortized	Quarterly	27-Dec-17
Fixed	East West Bank	782	159	(7)	152	623	(14)	609	761	8.500%	Amortized	Quarterly	27-Dec-17
		<u>8,720</u>	<u>1,769</u>	<u>(76)</u>	<u>1,693</u>	<u>6,951</u>	<u>(156)</u>	<u>6,795</u>	<u>8,488</u>				
SMPEC													
Fixed	China Banking Corporation	230	-	-	-	230	-	230	230	5.4885%	Bullet	Quarterly	December-15
Fixed	China Banking Corporation - Trust Group as Trustee	54	-	-	-	54	-	54	54	5.4885%	Bullet	Quarterly	December-15
Fixed	China Bank Savings, Inc. Trust as Trustee	16	-	-	-	16	-	16	16	5.4885%	Bullet	Quarterly	December-15
Fixed	Land Bank of the Philippines	500	-	-	-	500	(4)	496	496	5.4885%	Bullet	Quarterly	December-15
		<u>800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>800</u>	<u>(4)</u>	<u>796</u>	<u>796</u>				
SMPEC													
Floating	Banco de Oro Unibank, Inc.	1,500	-	-	-	1,500	(8)	1,492	1,492	3-month PDST-F plus margin	Bullet	Quarterly	December-15
Floating	China Banking Corporation	1,200	-	-	-	1,200	(6)	1,194	1,194	3-month PDST-F plus margin	Bullet	Quarterly	December-15
Floating	Land Bank of the Philippines	500	-	-	-	500	(3)	497	497	3-month PDST-F plus margin	Bullet	Quarterly	December-15
Floating	Maybank Philippines, Inc.	500	-	-	-	500	(3)	497	497	3-month PDST-F plus margin	Bullet	Quarterly	December-15
		<u>3,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,700</u>	<u>(20)</u>	<u>3,680</u>	<u>3,680</u>				
SMYPC													
Floating	Bank of Commerce	3,500	-	-	-	3,500	(18)	3,482	3,482	3-month PDST-F plus margin	Amortized	Quarterly	October-19
TADHC													
Floating	Bank of Commerce	755	-	-	-	755	(4)	751	751	3-month PDST-F plus margin	Amortized	Quarterly	October-22
EPSBPI													
Floating		686	114	-	114	572	-	572	686	3-month PDST-F plus margin	Amortized	Quarterly	October-19
		<u>100,706</u>	<u>2,396</u>	<u>(89)</u>	<u>2,307</u>	<u>98,310</u>	<u>(730)</u>	<u>97,580</u>	<u>99,887</u>				

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2012
(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
<i>Foreign currency - denominated</i>													
<i>Domestic Subsidiary</i>													
SMC Global													
Fixed	DB Trustees (Hongkong) Limited	12,315	-	-	-	12,315	(105)	12,210	12,210	7%	Bullet	Semi-annual	January-16
Floating	Standard Chartered Bank (Hongkong) Limited	8,210	-	-	-	8,210	(25)	8,185	8,185	LIBOR plus agreed margin	Bullet	Quarterly	September-14
		20,525	-	-	-	20,525	(130)	20,395	20,395				
Petron													
Floating	Standard Chartered Bank (Hong Kong) Limited	12,315	-	-	-	12,315	(393)	11,922	11,922	LIBOR plus agreed margin	Amortized	ry 1, 3 or 6 mor	November-16
Floating	Standard Chartered Bank (Hong Kong) Limited	11,289	-	-	-	11,289	(368)	10,921	10,921	LIBOR plus agreed margin	Amortized	ry 1, 3 or 6 mor	November-17
		23,604	-	-	-	23,604	(761)	22,843	22,843				
SM Brewery													
Floating	Mizuho Corporate Bank, Ltd.	6,158	-	-	-	6,158	(89)	6,069	6,069	LIBOR plus agreed margin	Bullet	Quarterly	February-15
Floating	Bank of Commerce	1,231	462	(3)	459	769	(1)	768	1,227	LIBOR plus agreed margin	Bullet	Quarterly	March-15
		7,389	462	(3)	459	6,927	(90)	6,837	7,296				
GSMI													
Floating	ABN AMRO	86	57	-	57	29	-	29	86	THBFIX plus agreed margin	Amortized	Quarterly	February-14
Floating	United Overseas Bank	86	58	-	58	28	-	28	86	THBFIX plus agreed margin	Amortized	Quarterly	February-14
		172	115	-	115	57	-	57	172				
		51,690	577	(3)	574	51,113	(981)	50,132	50,706				
Total Long-term Debt		P 226,896	P 3,373	P (94)	P 3,279	P 223,523	P (2,585)	P 220,938	P 224,217				

See Note Z3, 41 and 42 of the Notes to Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE H - CAPITAL STOCK
DECEMBER 31, 2012

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	3,790,000,000	3,281,546,290	908,892,669	2,372,653,621	134,641,564	1,590,767,777	22,000,613
SERIES "1" PREFERRED SHARES	1,110,000,000	970,506,353	970,506,353	-	-	-	-
SERIES "2" PREFERRED SHARES	1,100,000,000	1,067,000,000	-	1,067,000,000	-	108,470,590	-
	<u>6,000,000,000</u>	<u>5,319,052,643</u>	<u>1,879,399,022</u>	<u>3,439,653,621</u>	<u>134,641,564</u>	<u>1,699,238,367</u>	<u>22,000,613</u>

See Notes 23, 26, 36, 40 and 45 of the Notes to Consolidated Financial Statements.

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

		<u>TOTAL</u>	<u>OVER 90 DAYS</u>
ACCOUNTS RECEIVABLE - NON-TRADE	P	127	<u>127</u>
ALLOW. FOR DOUBTFUL ACCOUNTS		<u>(127)</u>	
NET	P	<u>0</u>	



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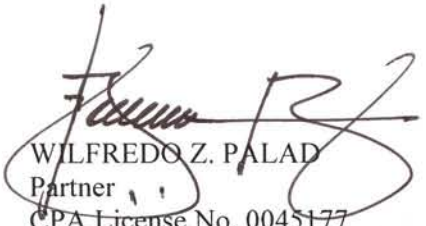
REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

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

We have audited in accordance with Philippine Standards on Auditing, the parent company financial statements of San Miguel Corporation (the Company) as at and for the years ended December 31, 2012 and 2011, and have issued our report thereon dated March 21, 2013.

Our audits were made for the purpose of forming an opinion on the basic parent company financial statements of the Company taken as a whole. The supplementary information included in the Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management. This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the basic parent company financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic parent company financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic parent company 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. 3669525MC

Issued January 2, 2013 at Makati City

March 21, 2013
Makati City, Metro Manila

SAN MIGUEL CORPORATION
No. 40 San Miguel Avenue, Mandaluyong City
RECONCILIATION OF RETAINED EARNINGS
FOR DIVIDEND DECLARATION
(In Millions)

Unappropriated Retained Earnings, January 1, 2012	P143,344
Adjustments:	
<i>(see adjustments in previous year's reconciliation)</i>	<i>(68,200)</i>
Unappropriated Retained Earnings, as adjusted, January 1, 2012	75,144
Add: Net income actually earned/realized during the year	
Net income during the year closed to Retained Earnings	P24,592
Add (Less): Non-actual/unrealized income, net of tax	
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	(4,652)
Deferred tax asset	759
	(3,893)
	20,699
Net income actually earned during the year	95,843
Less: Treasury shares	(72,683)
Dividend declarations during the year	(11,498)
TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, DECEMBER 31, 2012	P11,662

PART II - OTHER INFORMATION

San Miguel Corporation

Proceeds from Issuance of Series "2" Preferred Shares

December 31, 2012

(Amounts in Millions)

A. Gross and Net Proceeds as Disclosed in the Final Prospectus

Gross Proceeds	P	80,025
Estimated Fees, Commissions and Expenses Relating to the Issue:		
Gross underwriting fees for the offer shares being sold by the Company	P	645
Taxes to be paid by the Company		400
Philippine SEC filing and legal research fee for the registration of the Offer Shares		21
Philippine SEC filing and legal research fee for the increase in authorized capital stock		162
Estimated PSE listing and processing fee		152
Estimated legal and other professional fees		170
Estimated other expenses		25
Net Proceeds	P	<u>78,450</u>

B. Gross Proceeds	P	80,025
Underwriting fees		(645)
Issue Management Fee		(142)
Net Proceeds as of December 31, 2012	P	<u>79,238</u>

C. Each Expenditure Item Where the Proceeds were Used

Redemption of Series "1" Preferred Shares		72,788
Payment of short-term loans		6,239
Documentary stamp taxes paid		27
SEC-application for increase in authorized capital stock		57
PSE-Listing fees and other expenses		90
SEC-Listing fees and other expenses		20
Professional fees		17
Total Expenses	P	<u>79,238</u>

D. Balance of the Proceeds as of End of Reporting Period	P	<u>-</u>
--	---	----------



**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 (SMC or the “Parent Company”) and its subsidiaries (collectively referred to as the “Group”) for the three-year period ended December 31, 2012. The following discussion should be read in conjunction with the attached audited consolidated statements of financial position of the Group as of December 31, 2012 and 2011, 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, 2012. All necessary adjustments to present fairly the Group’s consolidated financial position as of December 31, 2012 and the financial performance and cash flows for the year ended December 31, 2012 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 are based on International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB). PFRS include statements named PFRS, 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 (P000,000), 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 Amendments to Standards

The FRSC approved the adoption of a number of amendments to standards as part of PFRS.

Effective 2012, the Group has adopted the amendments to PFRS 7, *Disclosures - Transfers of Financial Assets*, which 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. The amendments are effective for annual periods beginning on or after July 1, 2011. The adoption of these amendments did not have an effect on the consolidated financial statements.

Additional disclosures required by the amendments to a standard 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		
	2012	2011	2010
		<i>(In Millions)</i>	
Sales	₱698,868	₱535,775	₱246,156
Gross Profit	104,136	103,454	72,227
Selling and Administrative Expenses	(51,353)	(47,500)	(37,619)
Financing Charges - Net	(25,572)	(22,825)	(13,555)
Equity in Net Earnings of Associates	2,691	2,824	6,817
Gain on Sale of Investments and			
Property and Equipment	4,549	1,046	529
Other Income (Charges) - Net	12,981	(12)	7,095
Net Income	38,620	28,504	24,056
Net Income Attributable to Equity			
Holders of the Parent Company	27,579	17,518	20,091

2012 vs. 2011

Consolidated sales revenue reached ₱698,868 million, a 30% increase over 2011 on the back of solid contributions from all major businesses. Of this, 70% was derived from new businesses, whose revenues grew 46% over 2011 levels. The core businesses, on the other hand, posted a healthy 4% year-on-year increase.

Consolidated operating income was at ₱52,783 million, lower by 6%, due to the raw materials cost issues that challenged Petron Corporation (Petron) and the food business. However, with higher gains from other investments and favorable foreign exchange rates, the profitability grew by 57%, with consolidated net income attributable to equity holders of the Parent Company reaching ₱27,579 million.

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 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.

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

2012 vs. 2011

BEVERAGE

SMB

SMB's consolidated revenues grew by 5% to ₱75,580 million on the back of higher selling prices and volume sales which reached 225 million cases. This, along with the continued management of fixed costs, resulted in a 9% growth in SMB's operating income at ₱22,371 million.

Beer Domestic

Overall, revenues of domestic beer operations grew by 5% as a result of higher selling prices given the price adjustment implemented in November and moderate increase in volume sales of 186 million cases. Consequently, operating income grew by 8% to ₱21,881 million, supported by improvements in operational efficiencies and strong marketing programs.

Beer domestic remains bullish about its prospects for 2013, particularly with consumption expected to increase with the national and local elections, and the continued growth of the Philippine economy. The launch of a new product in December, the zero-carb, low calorie San Mig Zero, is proof of the 123-year-old brewer's dynamism, underscoring growth opportunities within the industry for innovative products that cater to consumers' needs.

Beer International

Revenues of international beer operations rose 6%, owing to notable contributions from Indonesia, Thailand, and Hong Kong, as well as Exports, which offset a slowdown in sales in

South and North China, and Vietnam. In total, international operations sold 38 million cases, at par with the previous year.

As a result of better sales volumes and cost management efforts, international operations saw a two-fold rise in operating income, which reached ₱489 million, with almost all units, led by Indonesia, South China, Vietnam, Thailand, and Exports, showing significant improvement.

San Miguel Brewery Hong Kong Limited (SMBHK) posted a 3% increase in volumes on the strong showing of San Mig Light. The brand was launched in convenience stores to complement strong on-premise demand, which was sustained in 2012. Flagship San Miguel Pale Pilsen and other premium offerings likewise contributed to better sales volumes.

Recognizing opportunities in the up-market segment, SMBHK capped the year with the release of San Miguel Premium All-Malt Beer. The unit also secured the exclusive distributorship of all Kirin beer brands within the territory. Higher discounts and increased advertising expenditure, however, contributed to the decline in operating income – something that the unit hopes to correct through the rationalizing of this form of spending and improving on-premise penetration.

It was a stellar year for Indonesia, with domestic beer volumes growing by 17%. Expansion programs implemented in the territory paid off, with all beer brands posting double-digit growth, and San Miguel brands continuing to grow. Profitability likewise grew as a result of better sales volumes and the price increase implemented in April. PT Delta Jakarta Tbk (PT Delta) is expected to keep on growing as it continues to expand coverage, intensify penetration in untapped territories, and further improve its distribution network.

Volume sales in Vietnam declined with the drop in sales of San Miguel Pale Pilsen and exports. This was partially offset by the 14% growth in volumes of own Win Bia brand and good sales of San Mig Light. On the other hand, operating profitability improved, with increased penetration in neighborhood outlets, which resulted to lower spending on promotions.

Thailand recovered volumes lost in 2011 and managed to post a robust 18% volume growth by the end of the year. This double-digit growth is attributed to targeted advertising and sales promotion activities, as well as enhanced market penetration programs. This, coupled with lower fixed cost spending, trimmed down operating loss by 49%.

South China operations continue to be plagued by a number of challenges, resulting to lower volumes. The group is restructuring its going-to-market and distribution strategy, a move that has resulted in volume sales growth in Guangzhou, and East and West Guangdong, which partially offset sales decline in other areas.

Meanwhile, operating profitability showed significant improvement. While still in the red, operating losses of Guangzhou San Miguel Brewery and San Miguel Guangdong Brewery were cut significantly, the result of fixed cost spending and a restructuring program implemented in 2011. With the market restructuring and business integration initiatives, the group is expected to recover volumes and, in the long-term, realize more income gains.

North China volumes were also down as aggressive tactics employed by competitors weighed down the business. In particular, competitors engaged in buyouts of outlets in order to grab market share. The business countered these moves by increasing outlet penetration and community-based activities and visibility programs.

San Miguel Brewery's exports business posted a healthy 4% growth in volumes, boosted by higher sales to South Korea, Malaysia, the Maldives, Qatar and Japan; and stable volumes to Taiwan and the United States. In 2012, new markets were also tapped as San Miguel Brewing International Ltd. (SMBIL) began exporting to Angola, Australia, Bahrain, Canada and South Africa.

Liquor and Spirits

The year 2012 continued to be a challenging year for Ginebra San Miguel Inc. (GSMI).

Flagship Ginebra San Miguel stepped up to the plate as it increased volume sales by 19% against the previous year – a result of the company's deliberate strategy to play on its core strengths through the successful *Lahing Ginebra*, *Ikaw Na* and *Ginumanfest* campaigns. These initiatives pushed domestic volumes almost within 2011, which ended at 23.8 million cases.

Operating loss has been trimmed down to ₱566 million from almost ₱900 million in 2011, boosted by higher contribution margins from lower alcohol cost.

For 2013, GSMI will push for the recovery of lost volumes. To help weather the challenges posed by higher excise taxes and increased competition, it will implement a more aggressive sales and marketing push. It will capitalize on its flagship brand Ginebra San Miguel's renewed strength by extending the *Lahing Ginebra* equity to its other brands via *Ginumanfest*. It also aims to improve distribution by leveraging on the parent company's ever-growing business network.

FOOD

SMPFC registered another record year with revenues reaching ₱95,787 million, a 7% increase over 2011. This is attributed to increased volume sales across all major segments, driven by higher demand, the launch of around 50 new products, and the continued expansion of its distribution network.

Operating income ended at ₱5,254 million, lower than last year, on account of the cost challenges experienced by the Agro-Industrial businesses in early 2012. During the first quarter, the Agro-Industrial businesses were beset by higher costs of major raw materials and lower selling prices of hogs due to the influx of cheap imported frozen pork meats. Quick recovery started in the second quarter and was sustained with quarter-on-quarter improvements in operating profitability. This was made possible by increasing usage of cheaper raw material substitutes and channeling food products to the more stable-priced segments.

Meanwhile, value-added businesses consisting of Purefoods Hormel, Magnolia Dairy and San Mig Coffee continued to deliver healthy results, driven by strong performance of core brands and new product launches.

Moving forward, the food group will further strengthen programs on product innovations and fast track the opening of exclusive branded outlets such as Magnolia Chicken Stations and Monterey Meatshops. These will serve as enablers to executing its strategy of shifting to the more stable-priced and value-added segments of the business, and lessen exposure to the volatility of commodity prices, thus improving profitability and margins.

The food group undertook a major project in 2012 – the construction of a ₱3-billion grains terminal in Batangas. The terminal, which is expected to be operational in the third quarter of

2013, can accommodate large vessels, and will benefit the company in terms of lower freight and storage costs.

Agro-Industrial

The Agro-Industrial cluster posted a 9% increase in revenues, with all segments of poultry, fresh meats and feeds contributing to its performance. Revenues for the poultry business grew 8% due to increased demand in a low-supply industry setting, while fresh meats delivered double-digit revenue increases following sales volume growth from both pork and beef. Commercial feeds also delivered a 9% increase in revenues on the back of more focused sales initiatives.

It was this segment that felt the impact of higher raw material prices the most. However, it started to recover by the second quarter, posting ₱1,769 million in operating income by year-end. Contributing to this recovery, the poultry segment strategically diverted volumes to stable-priced segments, as higher selling prices for commercial feeds offset the margin squeeze caused by high raw material prices.

Value-Added

The Value-added segment continued its growth streak in 2012, registering a 13% increase in revenues compared to 2011 levels. Overall sales volume grew 10% with the combined volume growth of core brands: Purefoods Tender Juicy, Purefoods Star, Purefoods Corned Beef and Nuggets category higher by 20%. In particular, significant growth came from Crispy Juicy Drumsticks, which had its breakout in 2012. Consequently, operating income increased by 14%.

Milling

The flour segment introduced Magnolia All-Purpose Flour, which helped push volumes up and compensated for slightly lower selling prices. As a result, the flour business posted modest gains. This, along with lower wheat costs, translated to a 2% growth in the cluster's operating income.

Dairy and Others

Dairy, fats and oils improved revenues by 2%, with growth seen in all categories. The core products: cheese, margarine and butter remained consistent performers, turning in volume growth of 25%. Emerging categories posted volumes that were at par with last year.

Coffee

San Miguel Super Coffeemix Co. Inc. (SMSCCI) invested in efforts to promote its new San Mig Coffee Super Packs. Increased penetration and above-the-line marketing initiatives, including TV and radio advertisements, digital campaigns and the renaming of the food group's PBA franchise to San Mig Coffee Mixers, helped bring about a 30% growth in revenue.

Food Services

SMFPC's franchising segment gained significant momentum, posting a 54% increase in consolidated sales revenues as volumes grew by 142%. Hungry Juan was the main contributor to this success as it grew its retail outlet network more than six-fold. By the end of 2012, the number of food service outlets nationwide stood at 187 for Hungry Juan, 77 for Smokey's, and 60 for San Mig Food Ave.

PACKAGING

San Miguel Yamamura Packaging Corporation (SMYPC) turned in another positive year, consistent with its record of stability. Consolidated revenues reached ₱24,460 million, a percentage increase over 2011 as a result of customer-penetration programs in both the domestic and international markets.

SMYPC clinched long-term contracts with major local companies such as Pepsi and RC Cola. It also developed new customers within the Asian region, particularly in Myanmar, Malaysia and Indonesia; and continued to increase sales to the United States (US) and Australia. The successful launch of new products also contributed to its performance.

Operating income for the packaging group grew 6% to reach ₱2,297 million, owing to better efficiencies brought on by equipment modernization and improvements in its cost structure.

Glass. The glass segment achieved total revenues of ₱8,041 million, almost at par with last year, driven by robust domestic sales to internal customer SMB and increased sales to Pepsi. The international operations also made its contribution, marking the year with the onset of exports to Indonesia and continued exports to US and Australia.

Metal. Revenues from the metals segment reached ₱4,165 million in 2012, backed by increased sales to major domestic customers. The group also expanded its reach in Malaysia and Thailand. The year also saw SMYPC enter into a joint venture with Poland-based Can-Pack to form Can Asia, Inc. (CAI), which will enable the metal container business to develop new products and modernize its facilities.

Plastics. Plastics ended the year on a high note with a 40% increase in revenues, which amounted to ₱2,140 million. This growth is attributed to increased sales of crates, exports of glass bottles to Australia, and the development of a new design for poultry flooring called E-mats.

Paper. The paper segment reported revenues amounting to ₱1,504 million, down by 8%, largely as a result of challenging conditions in the banana growers industry and disruptions caused by Typhoon Pablo. However, aggressive fixed cost containment measures and better prices helped cushion the shortfall in volumes. The plant also underwent an expansion that doubled its capacity to 120,000 metric tons per year, a move that is seen as a growth driver in the future.

PET. The PET segment was able to clinch a five-year, beverage filling contract for RC Cola in Luzon, and Pepsi in Visayas and Mindanao. At the same time, it successfully captured 100% of Pepsi's carbonated soft drinks preforms, and Del Monte's plastic caps. It also doubled market share for Asia Brewery Inc.'s Cobra. All of these, in tandem with the launch of new products resulted in a 15% growth in sales revenues.

Flexibles. It was a turnaround year for flexibles with notable increases in its sales and profitability.

Malaysia. The Malaysia group experienced a slowdown in volume sales due to weak exports.

Cospak. Packaging's international arm, Cospak, continued to operate in a difficult market environment as a result of an economic slowdown in the local manufacturing sector.

POWER GENERATION AND DISTRIBUTION

In just three short years, SMC Global was able to establish itself as a formidable player in the power industry with a highly diversified portfolio of power plants, each contributing significantly to the unit's outstanding financial results.

In 2012, SMC Global registered net revenues of ₱74,656 million, 4% higher than in 2011, driven by increased demand from bilateral customers. Net generation volume of the three plants grew 7% to 15,250 gigawatt hours (GWh), despite forced outages throughout the year. Operating income at ₱17,123 million was almost the same level as last year's, as strong revenue growth was offset by additional costs incurred due to Sual's forced outages, along with higher natural gas prices for Ilijan.

Sual Power Plant reported a 7% growth in revenues backed by better offtake volumes, which reached 7,187 GWh, 12% higher than the previous year. Operating income, posted at ₱8,962 million, was at par with 2011, as improved revenues and plant utilization compensated for higher power purchases due to forced outages.

The Ilijan Power Plant's revenues surpassed 2011 levels, registering a 7% increase, because of higher demand from bilateral customers. Total offtake volume improved by 6% to 8,679 GWh. Total net generation increased by 3% to 8,223 GWh as the plant's utilization rate improved to 78%, from 76% in 2011. Operating income reached ₱4,705 million with improved revenues compensating for higher natural gas prices and higher purchased power cost, also due to forced outages.

San Roque Power Plant posted a 5% growth in revenues to reach ₱5,847 million. Higher Philippine Wholesale Electricity Spot Market (WESM) prices outweighed lower offtake volume of 992 GWh brought on by lower water dam reservoir levels. Operating income thus, increased by 13% to ₱3,473 million.

SMC Global has started outlining its growth plans to further enhance the energy mix in anticipation of the country's projected power demand over the next 20 years. It has disclosed a number of greenfield projects, including building coal-fired power plants in Mindanao and Luzon.

FUEL AND OIL

Petron posted revenues of ₱424,795 million for 2012, a 55% improvement from 2011. While the increase was driven by the consolidation of the newly acquired business in Malaysia, Philippine operations registered a 3% revenue growth over last year, given higher volumes and prices. Petron Malaysia reported ₱142 million in revenues.

Volumes grew to 74.3 million barrels, with Philippine operations contributing 47.7 million barrels while Malaysian operations pitched in 26.6 million barrels. Domestic sales in the Philippines were almost 8% higher than the previous year.

Consolidated operating income was posted at ₱9,393 million, significantly lower than 2011 levels despite the ₱1,467 million earned from the Malaysian operations. 2012 experienced volatility with significant swings in both crude oil and petroleum product prices, particularly in the second quarter when Dubai crude continuously fell from a high of US\$124 to US\$89 per barrel. This volatility resulted in Petron posting net losses during the second quarter.

Much progress has also been made in the US\$2-billion upgrade of the Petron Bataan Refinery (Refinery Master Plan Phase 2 or RMP-2). As of the end of the year, approximately 50% of the project had been completed, with commercial operations expected by the second half of 2014. This upgrade will enable Petron to convert existing low margin fuel oil production to higher-margin products such as gasolines, diesel, and petrochemicals, utilize the refinery at almost full capacity, digest cheaper crudes, and improve compliance to environmental standards.

Petron also continued to grow its service station network, a strategy that has boosted domestic volumes considerably since SMC acquired Petron in 2008. As of the end of 2012, petroleum refining and marketing subsidiary had 2,015 service stations.

The first 70 MW unit of the power plant, which will serve as a more stable and cheaper power source for the refinery, will be completed by the second half of 2013. Petron hopes to begin posting savings in the second half of this year. Construction of the second unit is set to be completed in time with the commissioning of the RMP-2.

Early in 2012, Petron completed the acquisition of ExxonMobil Malaysia's downstream operations. Re-launched as Petron Malaysia, the overseas subsidiary has played a crucial role in Petron's strategy for growth and margin protection, as shown in the consolidated performance for the year. As of the end of 2012, Petron was able to re-brand 69 stations in highly visible sites, with plans underway to convert the rest of the total 555 stations by 2014.

INFRASTRUCTURE

In December 2011, San Miguel invested in a 46.53% stake in Atlantic Aurum Investments BV (Atlantic), allowing SMC to enter the business of operating and maintaining two of the country's major toll roads: the South Luzon Expressway (SLEX) and the Skyway system. Concession rights for expansion projects of SLEX and Skyway also form part of this investment. Such projects include the Skyway 3 and extensions of SLEX to Lucena and the C5-FTI-Skyway connector.

Construction of the Tarlac-Pangasinan-La Union Expressway (TPLEX) remains on track. By the third quarter of 2013, the 46-kilometer stretch from Tarlac to Carmen, considered as the first phase of the project, will be operational. The remainder of 88-kilometer highway is due for completion by late 2014.

The Metro Rail Transit Line 7 (MRT 7) project has successfully secured necessary government approval to proceed with construction. The engineering procurement contract has been awarded to Marubeni Corp. SMC is awaiting the release of the performance undertaking. From there, the processing of the financial closure can immediately be initiated and is expected to be received by December this year. Construction of the 44-kilometer road and rail transportation will begin immediately after this, and will take an estimated 42 months to complete.

The extension of the Boracay Airport is also ongoing. This year, SMC expects to complete the preliminary design of the runway, and to tender the engineering procurement contract. SMC hopes to commence with the construction by the first quarter of 2014 and complete the project by 2015.

PROPERTIES

In 2012, San Miguel Properties Inc. (SMPI) focused on building up its residential portfolio and endeavored to increase sales through targeted promotions and the launch of new models. Ongoing subdivision projects in General Trias, Cavite, which include Maravilla, Bel Aldea and Asian Leaf, saw an increase in reservations and higher bookings for the year. The Wedgewoods residential subdivision west of Sta. Rosa, Laguna, to date, has sold nearly 100% of its inventory. The company is looking at expanding the development to take advantage of increased economic activity in the area.

The strong residential sales, stable rental income stream and asset management services generated ₱829 million in revenues for SMPI.

For 2013, SMPI will continue to expand its portfolio of projects, with ongoing townhouse properties in San Juan, Pasig and Mandaluyong, as well as a 29-storey serviced apartment in Makati.

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 2011 with a 5% revenue growth compared to 2010, 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, Hongkong, 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 in 2011 versus 2010.

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 2010.

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 likewise posted a 13% growth. The North China operations posted a significant recovery from 2010 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 San Miguel Pale Pilsen continued to build on its brand equity in sports. SMBHK also secured the exclusive distributorship of Budweiser and Harbin in Hong Kong, further strengthening its portfolio of brands and market dominance.

Operating performance likewise turned around from a loss in 2010, improving by 288%.

In Vietnam, revenues grew by 10% on account of better selling price due to an improvement in sales of San Miguel brands. Some of this headway however, was negated by the contraction of the Bia Hoi market.

PT Delta posted an 11% increase in volume, which translated to 23% revenue growth. Strong volume sales resulted from expansion programs implemented in primary cities across Indonesia. Operating income posted a 16% growth, despite the increase in excise tax, higher inflation affecting direct materials and payroll.

Thailand experienced widespread flooding across the country in the fourth quarter of 2011, particularly in Bangkok and in its neighboring suburbs. This weighed heavily down on volumes, offsetting the gains registered in the first half of 2011, bringing full year domestic volumes to a 7% decline versus 2010.

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 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 2011. Margins for GSMI were at par with 2010 as a price increase and lower bottle costs offset the adverse effects of higher excise taxes.

FOOD

SMPFC posted a record sales performance for 2011, with consolidated revenues reaching ₱89,591 million, 11% above 2010 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

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 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, 2011 operating income was lower than 2010.

Value-Added

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

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

The dairy, fats and oils business generated revenues that registered a stellar 23% increase from 2010 level. Strong volumes and better selling prices across most product categories contributed to this strong showing. In spite of higher input costs, the segment registered 56% growth in operating income. Magnolia Ice Cream likewise posted considerable revenue and volume growths of 31% and 26%, respectively.

SMSCCI posted 32% revenue growth, with volumes growing 35%, the result of intensified distribution efforts. 2011 operating income more than doubled compared to 2010.

PACKAGING

San Miguel's packaging business, under 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, Hongkong, 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 in 2011 also improved by 25% from 2010, even as fixed costs ballooned due to higher depreciation. The result: 2011 operating income roughly at par with 2010.

Paper. The paper segment, under Mindanao Corrugated Fibreboard, Inc. (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.

POWER GENERATION AND DISTRIBUTION

In a few short years, San Miguel has built a power company with a full spectrum of power plants and 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 2011 ended, expiring contracts with customers were renewed. The Sual Power Plant was able to sign new customers, while Ilijan completed negotiations with Manila Electric Company (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 offtake 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. (SPPC) generated 7,964 thousand MWh in 2011, 90% above the 2010 figure covering operations starting June. Bilateral offtakes 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 Nino 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 2011 with consolidated revenues of ₱273,956 million, a significant 20% growth from 2010. 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 RMP-2 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.

For the TPLEX, construction is ongoing with the first phase nearing completion.

On the other hand, the MRT 7 technical evaluation and other aspects related to the project are being jointly reviewed and discussed with the Philippine Department of Transportation and Communications (DOTC) and other pertinent government agencies.

PROPERTIES

SMPI, the real estate arm of SMC, 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 ongoing construction of the 29-storey serviced apartments at Legaspi St., Makati City is expected to be completed by 2014.

III. FINANCIAL POSITION

2012 vs. 2011

The Group's consolidated total assets as of December 31, 2012 amounted to ₱1,037,963 million, ₱147,427 million higher than 2011. This is mainly due to the consolidation of the total assets of Petron Malaysia and the net proceeds from short-term borrowings.

Below were the major developments in 2012:

BUSINESS COMBINATIONS AND INVESTMENTS IN SUBSIDIARIES

FOOD

▪ **Secondary Offering of SMPFC Common Shares**

On November 23, 2012, the Parent Company completed the secondary offering of a portion of its common shares in SMPFC following the crossing of such shares at the PSE on November 21, 2012. The offer consisted of 25,000,000 common shares, inclusive of an over-allotment of 2,500,000 common shares at a price of ₱240.00 per share (the "Offer Shares"). The Offer Shares were offered and sold to Maybank ATR Kim Eng Capital Partners, Inc., Standard Chartered Securities (Singapore) Pte. Limited and UBS AG, Hong Kong Branch. The Parent Company granted UBS AG an option, exercisable in whole or in part for 30 days from and including the Closing date, to procure purchasers for or purchase up to 2,500,000 additional common shares (approximately 11% of the total number of Offer Shares), solely to cover over-allotments under the offer, if any. The option was exercised by UBS AG within the allowable period. The Group recognized a net gain of ₱2,419 million from the offering, presented as part of "Gain on sale of investments and property and equipment" account in the consolidated statements of income.

FUEL AND OIL

▪ **Petron Global Limited (PGL)**

On February 24, 2012, the Parent Company through Petron, acquired PGL, a company incorporated in the British Virgin Islands. PGL has issued an aggregate of 31,171,180 common shares with a par value of US\$1.00 per share to Petron. PGL issued 150,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series A and 200,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series B at an issue price equal to the par value of each share of US\$1.00 to a third party investor.

▪ **Petron Malaysia**

On March 30, 2012, the Parent Company through Petron Oil & Gas International Sdn. Bhd. (POGI), Petron's indirect offshore subsidiary, completed the acquisition of 65% of Esso Malaysia Berhad (EMB), and 100% of ExxonMobil Malaysia Sdn Bhd (EMMSB) and ExxonMobil Borneo Sdn Bhd (EMBSB) for an aggregate purchase price of US\$577 million or ₱25,928 million. POGI also served the notice of Mandatory General Offer (MGO) to acquire the remaining 94,500,000 shares representing 35% of the total voting shares of EMB for RM3.59 per share from the public. As a result of the MGO, POGI acquired an additional 22,679,063 shares from the public and increased its interest in EMB to 73.4%.

On April 23, 2012, the Companies Commission of Malaysia (CCM) approved the change of name of EMMSB to Petron Fuel International Sdn Bhd and of EMBSB to Petron Oil (M) Sdn Bhd.

On July 11, 2012, CCM approved the change of name of EMB to Petron Malaysia Refining & Marketing Bhd.

▪ **Limay Energen Corp. (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 was subscribed, of which ₱213 million was paid-up by Petron. Petron then owned 40% of LEC, while Two San Isidro owned the remaining 60%. In 2011, Petron infused ₱1,147 million into LEC to fully pay its 40% equity share.

In January 2012, LEC became a wholly-owned subsidiary of Petron when it purchased the 60% equity share of Two San Isidro.

The primary purpose of LEC is to build, operate, maintain, sell and lease power generation plants, facilities, equipment and other related assets and generally engage in the business of power generation and sale of electricity generated by its facilities.

INFRASTRUCTURE

▪ **San Miguel Holdings Corp. (SMHC)**

On April 13, 2012, the BOD and stockholders of SMHC resolved and approved the increase in authorized capital stock from ₱1,000 million divided into 1,000,000 shares to ₱5,000 million divided into 5,000,000 shares, both with a par value of ₱1,000.00 per share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the Securities and Exchange Commission (SEC) on December 28, 2012 and was approved on February 11, 2013.

▪ **TADHC**

On September 7, 2012, the BOD and stockholders of TADHC resolved and approved the increase in authorized capital stock from ₱810 million divided into 7,900,000 common shares and 200,000 preferred shares, both with a par value of ₱100.00 per share, to ₱1,520 million divided into 15,000,000 common shares and 200,000 preferred shares, both with a par value of ₱100.00 per share. The request for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 28, 2012 and was approved on February 25, 2013.

On October 30, 2012, SMHC executed a Subscription Agreement with TADHC for the subscription of additional 5,840,724 common shares out of the existing shares. Total subscription paid amounted to ₱728 million which also includes full settlement of previous subscription amounting to ₱144 million. SMHC also paid ₱124 million as advances for the subscription of additional 1,775,000 common shares from the increase in capital stock of TADHC under the Subscription Agreement.

▪ **Terramino Holdings, Inc. (THI) and Citra Metro Manila Tollways Corporation (CMMTC)**

On December 28, 2012, the Parent Company, through its wholly-owned subsidiary, SMHC, acquired 100% of the outstanding capital stock of THI for ₱3 million.

THI has 37.33% equity interest in CMMTC, a company primarily engaged in the business of designing, constructing and financing of toll roads. CMMTC holds the toll road concession rights representing the costs of construction and development of Stage 1 and Stage 2 of the South Metro Manila Skyway (SMMS). In addition, pursuant to a build-and-transfer scheme duly approved by the appropriate Philippine Authorities, two major infrastructure projects have been designated as “flagship” or preferred infrastructure projects by CMMTC: (1) the proposed Metro Manila Skyway (MMS) which is a system of elevated roadway, commencing at the end-point of the SLEX in Alabang, Muntinlupa, and culminating at the end-point of the North Luzon Expressway in Balintawak, Caloocan City, thereby serving as an interconnection of the above-mentioned expressways; and (2) the proposed Metro Manila Tollways (or Circumferential Road 6 or simply C-6).

THI also has 100% equity interest in Assetvalues Holding Company, Inc. (AVHCI). AVHCI is engaged in the business of investing in real and personal properties, stocks, bonds and other securities or evidence of indebtedness of any corporation, association or entity. AVHCI has 15.43% equity interest in Skyway O&M Corporation (SOMCO), the operator of SMMS.

With the acquisition of THI, which owns 37.33% of the outstanding capital stock of CMMTC, and the existing 23.5% indirect ownership in CMMTC through Atlantic, SMHC obtained control and consolidated CMMTC effective December 28, 2012.

▪ **Alloy Manila Toll Expressways Inc. (AMTEX)**

In February 2012, the Parent Company through its wholly-owned subsidiary, SMHC, acquired 60% of the outstanding capital stock of AMTEX for a total consideration of ₱90 million. AMTEX is a company engaged in the business of operating and maintaining toll road facilities and providing related services such as technical advisory services in the operation and maintenance of toll road and toll road facilities.

With the acquisition of the 60% equity interest by SMHC and the existing 18.61% indirect ownership through Atlantic, the Group effectively owns 78.61% of AMTEX and consolidated AMTEX effective February 2012.

BEVERAGE

▪ **East Pacific Star Bottlers Phils Inc. (EPSBPI)**

On January 27, 2012, the Parent Company, through its subsidiary, GSMI, acquired 100% of the outstanding capital stock of EPSBPI for ₱200 million. EPSBPI is a company primarily engaged in the manufacturing and bottling of alcoholic and non-alcoholic beverages.

▪ **Voluntary Delisting of SMB Shares from the PSE and the Buy Back of all their Publicly Listed Shares through a Tender Offer**

Following the SEC’s denial of all requests made (including the request of SMB) for the extension of the grace period for listed companies to comply with the PSE’s minimum public ownership and the PSE’s imposition of a trading suspension on the common shares of SMB effective January 1, 2013 as a result of such denial, the BOD of SMB approved on February 15, 2013, the voluntary delisting of SMB’s common shares from the PSE. A petition for the same

was thereafter filed by SMB with the PSE on February 20, 2013. To comply with the PSE requirements on voluntary delisting, SMB undertook a tender offer to buy back all of the common shares held by the public (other than those held by its major stockholders and directors) at an offer price of ₱20.00 per common share. The tender offer commenced on March 4, 2013 and will end on April 3, 2013. The acceptance and payment by SMB of all validly tendered common shares is set on April 12, 2013.

▪ **Sale of PT San Miguel Indonesia Foods & Beverages' (PTSMIFB) Land Use Rights, Building and Machinery**

On September 28, 2012, PTSMIFB sold its land use rights, building and machinery for US\$27 million and recognized a gain amounting to ₱45 million, included as part of "Gain on sale of investments and property and equipment" account in the 2012 consolidated statement of income.

MINING

▪ **Clariden Holdings, Inc. (Clariden)**

On June 8, 2012, the BOD and stockholders of Clariden resolved and approved the increase in authorized capital stock of Clariden from ₱5 million divided into 50,000 shares to ₱1,000 million divided into 10,000,000 shares both with a par value of ₱100.00 per share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 28, 2012 and was approved on February 22, 2013.

▪ **Asia-Alliance Mining Resources Corp. (AAMRC)**

On September 6, 2012, the Parent Company, through its wholly-owned subsidiary, Clariden, acquired 1,140,000 shares representing 60% ownership of the outstanding capital stock of AAMRC for a total consideration of ₱275 million. AAMRC is a company primarily engaged in the business of operating iron mines, and of prospecting, exploration and mining, milling, concentrating, smelting, treating, refining and processing of metals for market.

PACKAGING

▪ **CAI**

On November 12, 2012, the Parent Company through SMYPC, incorporated CAI, a wholly-owned subsidiary, with an authorized capital stock of ₱1,000 million divided into 10,000,000 shares and paid-up capital of ₱63 million. CAI is primarily engaged to carry on trade or operation as a manufacturer, buyer, importer, exporter, contractor, dealer, broker, agent or representative of all kinds of packaging products, and to render services to its clients and customers as may be necessary for the assembling, packaging and/or repacking of their respective products, particularly aluminum cans and ends.

CAI has not yet started commercial operations as of December 31, 2012.

On January 1, 2013, SMYPC spun-off its Metal Container Plant to be sold to and operated by CAI.

On January 15, 2013, the 35% equity interest in CAI was purchased by a foreign company, a corporation duly organized and existing under the laws of Poland.

As of January 2013, CAI is 65% owned by SMYPC.

PROPERTIES

- **Voluntary Delisting of SMPI Shares from the PSE and the Buy Back of all their Publicly Listed Shares through a Tender Offer**

On December 28, 2012, SMPI received a letter from the PSE imposing trading suspension until June 30, 2013 due to failure to comply with the minimum public ownership requirement.

On February 5, 2013, the BOD approved the filing of the petition for voluntary delisting and conduct of a tender for the acquisition of common share held by SMPI's minority shareholders. On March 4, 2013, SMPI filed with the PSE the petition for voluntary delisting with May 6, 2013 as the effective date of delisting of the SMPI common shares from the PSE. To comply with the PSE requirements on voluntary delisting, SMPI undertook a tender offer to buy back all of the common shares held by the public (other than those held by its major stockholders and directors) at an offer price of ₱134.12 per common share. The tender offer commenced on March 6, 2013 and will end on April 5, 2013. The acceptance and payment by SMPI of all validly tendered common shares is set on April 15, 2013.

OTHERS

- **San Miguel Equity Investments Inc. (SMEII)**

On March 28, 2012, the BOD and stockholders of SMEII resolved and approved the increase in authorized capital stock of SMEII from ₱100 million divided into 100,000,000 shares to ₱14,300 million divided into 14,300,000,000 shares both with a par value of ₱1.00 per share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 28, 2012. On January 30, 2013, the SMEII BOD and stockholders approved to further increase its authorized capital stock to ₱21,425 million divided into 21,425,000,000 shares with a par value of ₱1.00 per share. The application with the SEC was amended to reflect the foregoing change which was approved by the SEC on March 4, 2013.

INVESTMENTS IN ASSOCIATES

- **Trustmark Holdings Corporation (Trustmark) and Zuma Holdings and Management Corporation (Zuma)**

On April 3, 2012, the Parent Company, through SMEII, signed Investment Agreements with the Lucio Tan Group to subscribe to the unissued common shares equivalent to 49% of the outstanding capital stock of Trustmark and Zuma for a total consideration of ₱21,506 million.

With the acquisition of the 49% equity interests in Trustmark and Zuma, SMEII indirectly owns 47.88% and 48.98% beneficial interests in Philippine Airlines, Inc. (PAL) and Air Philippines Corporation (AirPhil), respectively. PAL, the national flag carrier of the Philippines, and Airphil are primarily engaged in the business of air transportation for the carriage of passengers and cargo within and outside the Philippines.

- **Top Frontier Investment Holdings, Inc. (Top Frontier)**

On June 18, 2012, Top Frontier redeemed a total of 693,500 preferred shares out of the 2,598,040 preferred shares issued to the Parent Company, at the total redemption price of ₱12,899 million. The Group recognized a gain of ₱945 million from the transaction included as part of "Gain on sale of investments and property and equipment" account in the consolidated statements of income.

ASSETS HELD FOR SALE

▪ Bank of Commerce (BOC)

On May 8, 2012, the Parent Company through SMPI, together with the other stockholders of BOC, executed a Share Purchase Agreement with Commerce International Merchant Bankers (CIMB Bank), a subsidiary of CIMB Group Sdn Bhd. of Malaysia, covering the sale of up to 65,083,087 fully paid ordinary shares, equivalent to a 58% equity interest in BOC for a total consideration of up to approximately ₱12,000 million. Under the provisions of the agreement, the completion of the sale is subject to certain closing conditions, inclusive of the mandatory approvals from the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) and the Bank of Negara Malaysia. On November 7, 2012, the Bank of Negara Malaysia approved CIMB Bank's proposed acquisition of BOC subject to the attainment of the relevant approvals from the BSP.

The Monetary Board of the BSP, based on its letter dated November 20, 2012, approved the proposed acquisition.

The sale, however, was not consummated in 2012 pending the compliance of certain provisions of the Share Purchase Agreement.

Accordingly, the carrying amount of the investment as of December 31, 2012 of ₱8,785 million representing 44,817,164 common shares was reclassified to "Assets held for sale" account in the 2012 consolidated statement of financial position.

▪ Petron Mega Plaza

Petron has properties consisting of office units located at Petron Mega Plaza with a floor area of 21,216 square meters covering the 28th - 44th floors and 206 parking spaces amounting ₱823 million. On December 1, 2010, the BOD approved the sale of these properties to provide cash flows for various projects. Accordingly, the investment properties were presented as "Assets held for sale" as of December 31, 2010. On May 2, 2011, Petron sold the 32nd floor (with total floor area of 1,530 square meters) and 10 parking spaces, with a total book value of ₱57 million. 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.

During the latter part of 2012, a prospective buyer tendered an offer to purchase the Petron Mega Plaza units and parking spaces. The management made a counter offer in December 2012 effectively rendering the Petron Mega Plaza units and parking spaces with a carrying amount of ₱588 million as "Assets held for sale" as of December 31, 2012. The negotiation is on its final phase and the sale is expected to be consummated by the second quarter of 2013.

As of December 31, 2012, the fair market value of the Petron Mega Plaza office units and parking spaces amounted to ₱1,141 million.

BORROWINGS AND EQUITY TRANSACTIONS

PARENT COMPANY

▪ Increase in Authorized Capital Stock

During the April 18, 2012 and June 14, 2012 meetings of the Parent Company's BOD and stockholders, respectively, the BOD and stockholders approved the amendments to the Parent Company's Articles of Incorporation to increase the authorized capital stock of the Parent Company from ₱22,500 million to ₱30,000 million as follows: (a) the increase in the number of

the common shares from 3,390,000,000 common shares to 3,790,000,000, or an increase of 400,000,000 common shares; and (b) the creation and issuance of 1,100,000,000 Series “2” preferred shares with a par value ₱5.00 per share.

On September 21, 2012, the SEC approved the amendment to the Articles of Incorporation of the Parent Company to increase the authorized capital stock, and consequently creating the Series “2” preferred shares.

▪ **Issuance of Series “2” Preferred Shares**

On June 26, 2012, the Parent Company filed with the SEC a Notice of Filing of Registration Statement for the registration of up to 1,067,000,000 Series “2” preferred shares with par value of ₱ 5.00 per share, to be offered by way of public offering, inclusive of shares for oversubscription.

Series “2” preferred shares consisting of 1,067,000,000 shares were fully subscribed at the issue price of ₱75.00 per share. The Series “2” preferred shares were issued in three sub-series (Subseries “2-A”, Subseries “2-B” and Subseries “2-C”) and are peso-denominated, perpetual, cumulative, non-participating and non-voting.

The Parent Company has the redemption option starting the 3rd, 5th and 7th year and every dividend payment thereafter, with a “step-up” rate effective the 5th, 7th and 10th year, respectively, if the shares are not redeemed. Dividend rates are 7.500%, 7.625% and 8.000% per annum for Subseries “2-A”, “2-B” and “2-C”, respectively.

Bulk of the proceeds from the issuance of Series “2” preferred shares were used by the Parent Company to redeem the Series “1” preferred shares as well as for general corporate purposes, including short-term debt repayment.

On September 28, 2012, the Parent Company listed the Series “2” preferred shares at the Philippine Stock Exchange (PSE).

▪ **Redemption of the Series “1” Preferred Shares**

On August 13, 2012, the BOD of the Parent Company approved the redemption of Series “1” preferred shares at a redemption price of ₱75.00 per share. The redemption took effect on October 5, 2012 and accordingly, the proceeds of the shares and all accumulated unpaid cash dividends were paid on the same date to stockholders of record as of September 11, 2012.

▪ **Exchange of the Parent Company’s Exchangeable Bonds into Common Shares**

On various dates in 2012, additional 1,410,604 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 prices ranging from ₱109.80 to ₱113.24 per share. Of the 1,410,604 common shares delivered, 1,094,832 common shares of stock of Parent Company were transacted and crossed at the PSE on various dates via a special block sale in relation to the issuance of common shares pursuant to the US\$600 million exchangeable bonds of the Parent Company.

As of December 31, 2012, US\$5.6 million worth of exchangeable bonds were already exchanged to equity into common shares.

FUEL AND OIL

▪ **Draw Down and Payment of Long-term Loans by Petron**

On February 15, 2012, Petron availed of the remaining US\$400 million of the US\$480 million term loan facility which was signed and executed on September 30, 2011. The loan proceeds will be used to finance the capital expenditure requirements of the RMP-2 Project.

On October 31, 2012, Petron signed a five-year term loan facility amounting to US\$485 million with a syndicate of nine banks. A total drawdown of US\$275 million were made in November and December 2012. The proceeds will be used partly to finance the capital expenditure requirements of the RMP-2 Project.

BEVERAGE

▪ **Issuance of Bonds by SMB**

On April 2, 2012, SMB issued peso-denominated fixed rate bonds worth ₱20 billion. The Bonds were issued at the issue price of 100.00% of face value in three series: Series D, E and F Bonds.

The Series E and F Bonds were listed on the Philippine Dealing & Exchange Corp. (PDEX) on April 2, 2012, while the Series D Bonds was listed for trading on the PDEX effective October 3, 2012.

Proceeds of the Bonds were used by SMB to redeem the Series A fixed rate bonds amounting to ₱13.59 billion which matured on April 3, 2012 and the partial payment of US\$150 million of the US\$300 million term facility.

▪ **Availment by SMBHK of a US\$30 Million Long-term Loan**

On March 27, 2012, SMBHK availed of a US\$30 million long-term loan from BOC for working capital requirements.

PACKAGING

▪ **Availment by SMYPC of a ₱3,500 Million Long-term Loan**

On October 11, 2012, SMYPC availed of a ₱3,500 million long-term loan from BOC used for general financing and corporate requirements.

OTHERS

▪ **Sale of Rockwell Land Shares**

On May 14, 2012, the Group received the stock certificate for the property dividend from Meralco consisting of 1,042,801,676 common shares of stock of Rockwell Land Corporation, with a book value of ₱1,522 million. On July 27, 2012, the Group sold through the PSE its Rockwell Land Shares at ₱2.01 per share and recognized a gain of ₱571 million included as part of "Gain on sale of investments and property and equipment" account in the consolidated statements of income.

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, the Parent Company through Magnolia Inc., a wholly-owned subsidiary of SMPFC, acquired the subscription rights of certain individuals in GFDCC for ₱105 million. GFDCC is a 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, formed GBGTC with an authorized capital stock of ₱2,000 million. GBGTC is a Philippine company with the purpose of providing and rendering general services connected with and incidental to the operation and management of port terminals engaged in handling and/or trading of grains, among others.

In November 2011, following the approval by SEC of the incorporation of GBGTC, SMMI subscribed to 5,000,000 GBGTC shares for a total subscription value of ₱500 million and paid an initial consideration amounting to ₱125 million.

- **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.

POWER GENERATION AND DISTRIBUTION

- **PanAsia**

On June 17, 2011, the 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's (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 which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of 5 years from the time it was granted and renewable thereafter.

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 the 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 June 7, 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. On May 23, 2012, KCSLI changed its name to SMC Cebu Shipyard Land, Inc.

- **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.

- **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**

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 million or ₱5,871 million. Atlantic has indirect equity interests in the companies holding the concessions to construct, operate and maintain the SLEX 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 ₱2,576 million, related to the acquisition of Meralco shares of stock and paid in full the remaining balance of its payable on January 31, 2012.

- **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 was paid-up by Petron. Petron owns 40% of LEC, while Two San Isidro owns the remaining 60%. In 2011, Petron infused ₱1,147 million into 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. (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 ₱691 million.

- **BOC**

In 2011, SMPI acquired an additional 7.16% of the outstanding capital stock of BOC for a total consideration of ₱1,490 million, 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 in an increase in its equity interest to 39.93% as of December 31, 2011.

- **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 to Rapid has not yet been met.

- **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 31, 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 and the Group recognized a net gain of ₱63

million from the sale.

▪ **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 of SMYPIL unanimously accepted NYG's offer and approved the share sale transaction as contemplated in the MOU. The disposal was completed in January 2012 and the Group recognized a net gain of ₱22 million from the sale.

▪ **San Miguel (Vietnam) Co. Ltd. (SMVCL)**

Included in the "Assets held for sale" account presented in the consolidated statements of financial position as of December 31, 2011, are building and land use rights of SMVCL in Amata Industrial Zone, Vietnam amounting to ₱168 million, which were sold to Pepsico International Vietnam on February 23, 2012.

BORROWINGS AND EQUITY TRANSACTIONS

PARENT COMPANY

▪ **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 Exchange Securities Trading Limited (SGX-ST). 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 PSE via a special block sale in relation to the issuance of common shares pursuant to the US\$600 million exchangeable bonds of the Parent Company. As of December 31, 2011, ₱87 million worth of exchangeable bonds were already exchanged to equity into common shares.

POWER GENERATION AND DISTRIBUTION

▪ **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 SGX-ST.

▪ **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.

FOOD

▪ **Issuance and Listing of Preferred Shares by 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 ₱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.

BEVERAGE

▪ **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

▪ Declaration of Cash Dividend by 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. (Q-Tech) 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.

MATERIAL CHANGES PER LINE OF ACCOUNT

2012 vs. 2011

Trade and other receivables increased by ₱ 38,127 million in 2012 mainly due to the: a) consolidation of Petron Malaysia's balance; b) increase in government receivables of Petron due to higher Value-added Tax (VAT) refund; c) increase in trade receivables of GSMI and

Petron on account of extension of longer credit terms to dealers and d) increase in credit sales of SMPFC during the peak season.

Inventories increased by ₱14,502 million in 2012 mainly on account of the consolidation of Petron Malaysia's balance and the build-up of SMPFC's major raw materials such as corn, soybean meal, coco oil and pollard in anticipation of price increases.

Prepaid expenses and other current assets increased by ₱8,992 million mainly due to the excess input tax over VAT payable of SMC Global, option deposit of SMHC and increase in prepaid taxes of Petron, SMC Global, GSMI, SMPFC and the Parent Company.

Assets held for sale increased by ₱7,105 million mainly due to the reclassification of SMPI's investment in BOC and of Petron Mega Plaza from investment properties, net of reversals as a result of the completion of the sale, of SMTCL and SMYUI on February 15 and January 31, 2012, respectively, and of SMVCL's building and land use rights in Amata Industrial Zone, Vietnam on February 23, 2012.

AFS financial assets decreased by ₱498 million in 2012 mainly due to the fair value and translation adjustments on the investment in shares of stock of Indophil; and the disposal of Petron's AFS financial assets.

Property, plant and equipment increased by ₱51,063 million in 2012 mainly due to the consolidation of Petron Malaysia; major capital projects of Petron such as the RMP-2 Project and Refinery Solid Fuel Fired Power Plant; ongoing construction of SMC Global's Power Plant in Davao and Bataan and the construction of GBGTC's grains terminal in Batangas, net of the depreciation for the period.

Investment properties increased by ₱930 million in 2012 mainly due to the construction costs of the Makati Diamond Hotel and reclassification from raw land inventory of certain properties which SMPI intends to lease out, net of the reclassification to assets held for sale of the Petron Mega Plaza.

Biological assets decreased by ₱212 million in 2012 mainly due to reduction in the number of growing stocks, particularly hogs, due to low prices in the commodity market.

Goodwill increased by ₱18,963 million in 2012 mainly due to the recognition of goodwill upon consolidation of Petron Malaysia with Petron and of CMMTC with SMHC.

Other intangible assets increased by ₱22,724 million in 2012 mainly due to the consolidation of CMMTC's toll road concession rights to operate and maintain the SMMS for 30 years and Petron Malaysia's balance, mainly leasehold rights.

Deferred tax assets increased by ₱593 million in 2012 mainly due to the recognition of deferred tax assets for the following: a) temporary difference of Power Sector Assets and Liabilities Management Corporation (PSALM) payment over depreciation, interest and foreign exchange gains of SMEC; b) net operating loss carry over (NOLCO) and minimum corporate income tax (MCIT) of GSMI; and c) net of the effect of recognition of deferred tax on unrealized foreign exchange gains of the Parent Company.

Other noncurrent assets decreased by ₱6,289 million in 2012 mainly due to the collection of receivables from Petron Corporation Employees Retirement Plan (PCERP), net of the consolidation of Petron Malaysia's balance.

Loans payable increased by ₱68,686 million in 2012 mainly due to net availments made during the period for the Group's working capital requirements and the consolidation of THI and Petron Malaysia's balance, net of translation adjustments.

Accounts payable and accrued expenses increased by ₱23,036 million mainly due to the consolidation of Petron Malaysia's balance, higher liabilities to contractors for Petron's capital projects, increase in trade payables and other current liabilities of SMPFC mainly due to build-up of inventories to take advantage of lower raw material costs and consolidation of CMMTC's balance.

Income and other taxes payable increased by ₱2,083 million mainly due to the increase in output VAT payable of SMC Global and consolidation of CMMTC's balance.

Dividends payable increased by ₱1,094 million mainly due to the dividends payable of the Parent Company to its common shareholders, subsequently paid on January 30, 2013 and of Petron to its preferred shareholders, subsequently paid on March 5, 2013.

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

Long-term debt increased by ₱12,797 million in 2012 mainly due to the issuance of a) ₱20 billion bonds by SMB, b) corporate notes by Petron, SMYPC and SMBHK and c) consolidation of Petron Malaysia's and CMMTC's balances, net of the a) loan payments made by Petron, b) SMB's redemption of Series A bonds and c) translation adjustments.

Deferred tax liabilities increased by ₱827 million mainly due to the recognition by SMC Global of deferred tax liabilities on the following: a) temporary difference of the carrying amount of the leased assets over the carrying amount of lease liabilities, b) other temporary difference from unrealized foreign exchange gains, and c) reversal of impairment loss on receivables; the consolidation of Petron Malaysia's balance, net of the effect of recognition of lower deferred tax liability on the undistributed net earnings of foreign subsidiaries during the year.

Finance lease liabilities decreased by ₱13,107 million mainly due to payments and decrease in balance as a result of favorable foreign exchange rates, net of the recognition of effective interest for the period.

Other noncurrent liabilities increased by ₱1,909 million in 2012 mainly due to the consolidation of Petron Malaysia's balance and increase in retention payable on the RMP-2 Project partly tempered by lower pension liability of Petron.

Capital stock - preferred increased by ₱5,335 million due to the issuance of Series "2" preferred shares by the Parent Company.

Additional paid-in capital increased by ₱74,251 million mainly due to the difference between the offer price and par value of the Series "2" preferred shares issued by the Parent Company, net of transaction costs.

Appropriated retained earnings increased by ₱2,904 million in 2012 mainly due to appropriations made by SMC Global, San Miguel Yamamura Asia Corporation and SMCSLC.

Treasury stock increased by ₱72,683 million in 2012 mainly due to the redemption of Series "I" preferred shares.

Amounts recognized directly in equity relating to assets held for sale were reversed as a result of the completion of the sale of SMTCL and SMYUI.

Non-controlling interests increased by ₱27,899 million in 2012 mainly due to the issuance of preferred shares by PGL, recognition of non-controlling interests upon the consolidation of Petron Malaysia and CMMTC, sale of the Parent Company's investment in SMPFC and the share of non-controlling interests in the net income of mainly SMB, Petron and SMPFC, net of dividends declared and translation adjustments.

Equity

The increase in equity in 2012 is due to:

(In millions)	2012
Issuance of capital stock	₱79,702
Net income	38,620
Addition to non-controlling interests and others	26,667
Effect of translation adjustments	(1,846)
Cash dividends	(19,675)
Redemption of Series "I" preferred shares	(72,788)
	<u>₱50,680</u>

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 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 inventory 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, Vietnam, which were sold on February 23, 2012, net of the sale of the 32nd floor and 10 parking spaces 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, b) investment in 46.53% stake in Atlantic by SMHC and in 35% stake in MNHPI by Petron and c) additional investment in BOC shares of stock by SMPI and in LEC 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, Liberty Telecoms Holdings, Inc. and Petrochemical Asia (HK) Limited (PAHL) and dividends from Meralco and Top Frontier.

AFS 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 financial assets and fair value adjustments on other AFS 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 increased by 15% to ₱8,233 million in 2011 due to the effect of recognition of deferred tax assets on NOLCO and 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 PAHL and additional advances to 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 San Miguel Corporation Retirement Plan 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 by SMC Global, 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 tax liability on the undistributed net earnings of foreign subsidiaries during the period and the effect of the 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 payments made in 2011 by SMC and 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 increased by 37% in 2011 mainly due to the recognition of non-controlling interests on the preferred shares issued by SMPFC, the non-controlling interests 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
Net income	₱28,504
Addition to non-controlling interests	15,578
Issuance of capital stock	4,259
Amounts recognized directly in equity relating to assets held for sale	(53)
Effect of translation adjustments	(235)
Cash dividends	(15,778)
	<u>₱32,275</u>

SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	December 31		
	2012	2011	2010
		<i>(In Millions)</i>	
Net cash flows provided by operating activities	₱16,815	₱28,660	₱45,378
Net cash flows used in investing activities	(58,030)	(66,941)	(126,995)
Net cash flows provided by (used in) financing activities	38,572	42,335	(2,226)

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		
	2012	2011	2010
		<i>(In Millions)</i>	
Interest received	₱2,466	₱3,455	₱3,674
Dividends received from associates	4,949	2,637	-
Proceeds from sale of investments and property and equipment	24,568	1,347	1,175
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(19,729)	(775)	(18,978)
Decrease (increase) in other noncurrent assets and others	7,917	(6,356)	(4,586)
Additions to investments and advances	(23,159)	(16,338)	(99,762)
Payment of other liabilities	(2,122)	(24,485)	-
Additions to property, plant and equipment	(52,920)	(26,426)	(8,518)

Major components of cash flow provided by (used in) financing activities are as follows:

	December 31		
	2012	2011	2010
	<i>(In Millions)</i>		
Proceeds from short-term borrowings	₱752,957	₱492,117	₱685,768
Proceeds from long-term borrowings	59,671	55,399	72,937
Net proceeds from issuance of preferred shares of subsidiaries	14,216	14,829	-
Increase in non-controlling interests	-	-	126
Proceeds from issuance of capital stock and reissuance of treasury stock	129	3,919	2,314
Proceeds from issuance of Series "2" preferred shares	79,238	-	-
Redemption of Series "1" preferred shares	(72,788)	-	-
Payments of finance lease liabilities	(17,393)	(11,781)	(4,798)
Payments of long-term borrowings	(59,667)	(14,025)	(29,196)
Cash dividends paid	(18,578)	(14,451)	(26,001)
Payments of short-term borrowings	(699,213)	(483,672)	(703,376)

The effect of exchange rate changes on cash and cash equivalents amounted to (₱701 million), (₱181 million) and (₱380 million) in December 31, 2012, 2011 and 2010, 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	
	2012	2011
	<i>(In Millions)</i>	
Accumulated equity in net earnings of subsidiaries and associates (included in the unappropriated retained earnings balance)	₱45,787	₱44,000
Treasury stock	(140,124)	(67,441)

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	
	2012	2011
Liquidity:		
Current Ratio	1.39	1.61
Solvency:		
Debt to Equity Ratio	1.97	1.98
Asset to Equity Ratio	2.97	2.98
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	11.45%	7.87%
Interest Rate Coverage Ratio	2.62	2.81
Operating Efficiency:		
Volume Growth	32%	97%
Revenue Growth	30%	118%
Operating Margin	7.55%	10.44%

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	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$
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	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

VI. OTHER MATTERS

▪ Events After the Reporting Date

a. *Investment in Excelon Asia Holding Corporation (EAHC), New Manila Properties Inc. (NMPI) and Philnico Holdings Limited (PHL)*

On January 11, 2013, Clariden entered into separate Deeds of Absolute Sale of Shares for the purchase of the outstanding capital stock of the following companies:

Clariden purchased 1,000,000 shares representing 100% equity interest in NMPI for a total consideration of ₱283 million. NMPI is a company primarily engaged in the business of real estate development.

Clariden purchased 120,000 shares representing 100% equity interest in EAHC for a total consideration of ₱343 million. The primary purpose of EAHC is to acquire by purchase, exchange, assign, gift or otherwise, and to sell, assign, transfer, exchange, lease, let, develop, mortgage, pledge, traffic, deal in and with otherwise operate, enjoy, and dispose of, all properties of every kind and description and whenever situated and as to the extent permitted by law.

Clariden purchased 8,704 shares representing 100% equity interest in PHL for a total consideration of US\$1.371 million or ₱56 million.

b. *Issuance of Undated Subordinated Capital Securities by Petron*

On February 6, 2013, Petron issued undated subordinated capital securities at the issue price of 100% amounting to US\$500 million (the “February 6 Issuance”). On March 11, 2013, Petron further issued undated subordinated capital securities at the issue price of 104.25% amounting to US\$250 million which were consolidated, and formed a single series, with the February 6 Issuance. At the option of the issuer, the securities may be redeemed after five and a half years or on any distribution payment date thereafter. The proceeds will be applied by Petron towards capital and other expenditures in respect of RMP-2 and used for general corporate purposes. The securities were listed on the Hong Kong Stock Exchange.

c. *Tender Offer for US\$600 Million Exchangeable Bonds*

Pursuant to the resolution of the BOD of the Parent Company approved during its regular meeting held last January 17, 2013 authorizing management to refinance its existing financial obligations under such terms and conditions which are favorable and advantageous to the Parent Company, the Parent Company solicited from the holders of the outstanding US\$600 million 2.0% Exchangeable Bonds due 2014, listed on the SGX-ST, their consent to tender their bonds for repurchase (Invitation to Tender). The bonds are exchangeable for common shares of stock of the Parent Company, to be issued out of the Parent Company’s treasury shares.

To afford the investing public and existing shareholders of the Parent Company sufficient time to be apprised of, and to evaluate, the Invitation to Tender, the Parent Company filed a request with the PSE for a suspension of the trading in the Parent Company’s common shares for a period of six (6) trading days. Given the foregoing request of the Parent Company, the PSE implemented the trading suspension of SMC

common shares from January 23, 2013 to January 30, 2013.

The Parent Company delivered the notices relating to the Invitation to Tender to the SGX-ST in the afternoon of January 22, 2013 (Singapore time), and the Invitation to Tender commenced in the morning of, and end in the evening of, January 29, 2013.

On February 7, 2013, the Parent Company has repurchased Bonds having an aggregate principal amount of US\$259 million. The aggregate cash amount paid by the Parent Company based on the aggregate principal amount of the Bonds repurchased, as well as accrued but unpaid interest payable until February 7, 2013, is US\$281 million. The aggregate principal amount of the Bonds remaining outstanding following completion of the Invitation to Tender is US\$332 million.

- 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 of the Group.

- a. Deficiency Excise Tax

On April 12, 2004 and May 26, 2004, the Parent Company was assessed by the Bureau of Internal Revenue (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 Distrainment 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 Distrainment and Garnishment and/or Levy against the Parent Company, especially in view of the Parent Company’s pending claims for refund. As of March 21, 2013,

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 was denied in the case docketed as CTA EB No. 755. The Office of the Solicitor General filed with the Second Division of the Supreme Court a Petition for 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 elevated the decision to CTA En Banc for review, which was docketed as CTA EB No. 873, the same was dismissed in a Decision dated October 24, 2012. The subsequent Motion for Reconsideration filed by the Commissioner was likewise denied.

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; and last December 2012, SMB filed its fourth claim for refund with CTA. All of these cases are undergoing trial.

b. Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron relating 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 contested the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of the TCCs and that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the

assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CTA in its resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a Petition for review on certiorari dated December 5, 2012.

c. Pandacan Terminal Operations

In November 2001, the City of Manila enacted Ordinance No. 8027 reclassifying the areas occupied by the oil terminals of Petron, Pilipinas Shell Petroleum Corporation (Shell) and Chevron Philippines Inc. (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 Department of Energy, agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance No. 8027. In December 2002, in reaction to the MOU, the Social Justice Society (SJS) filed a petition with the Supreme Court against the Mayor of Manila asking that the latter be ordered to enforce Ordinance No. 8027. In April 2003, Petron filed a petition with the Regional Trial Court (RTC) to annul Ordinance No. 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance No. 8027.

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance (Ordinance No. 8119), which applied to the entire City of Manila. Ordinance No. 8119 allowed Petron (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance No. 8119, which was thought to effectively repeal Ordinance No. 8027, in April 2007, the RTC dismissed the petition filed by Petron questioning Ordinance No. 8027.

However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (March 7 Decision) directing the Mayor of Manila to immediately enforce Ordinance No. 8027. On March 12, 2007, Petron, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, Petron also filed a petition before the RTC of Manila praying for the nullification of Ordinance No. 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Water Code of the Philippines (Presidential Decree No. 1067, the Water Code). On February 13, 2008, Petron, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance No. 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance No. 8027.

In May 2009, Manila City Mayor Alfredo Lim approved Ordinance No. 8187, which repealed Ordinance No. 8027 and Ordinance No. 8119 and permitted the continued operations of the oil terminals in Pandacan.

On August 24, 2012, the RTC of Manila ruled that Section 23 of Ordinance No. 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance No. 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance No.

8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance No. 8119. On September 25, 2012, Petron sought clarification and partial consideration of the August 24 decision and prayed for the nullification of the entire Ordinance No. 8119. In an order dated December 18, 2012, the RTC of Manila denied the motion filed by Petron. Petron filed a notice of appeal on January 23, 2013. In a resolution dated February 6, 2013, the RTC of Manila ordered that the records of the case be forwarded to the Court of Appeals.

With regard to Ordinance No. 8187, petitions were filed before the Supreme Court, seeking for its nullification and the enjoinder of its implementation. Petron filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five (5) years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of Petron and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented Petron from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), Petron reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

d. Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, sank 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 MT 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 DOTC 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.

In 2009, complaints for violation of the Philippine Clean Water Act of 2004 (RA No. 9275, the Clean Water Act) and homicide and less serious physical injuries were filed against Petron. Complainants claim that their exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill has caused them major health problems. On February 13, 2012, an Information was filed against the owner and the Captain of MT Solar 1 and the former President and Chairman of Petron for violation of the Clean Water Act. On March 28, 2012, the court dismissed the information for lack of probable cause and for lack of jurisdiction over the offense charged. The Provincial Prosecutor and the private prosecutor filed a motion for reconsideration of this March 28 Order of the court. On August 13, 2012, the court issued an order denying the said motion for reconsideration.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total

claims for both cases amount to ₱292 million. Both cases are still pending as of December 31, 2012.

e. Generation Payments to PSALM

SPPC disputed the claims of PSALM for generation payments. The claims arose from differing interpretations of certain provisions in the IPPA Agreement related to generation payments, the fees payable to PSALM for the generation of power to customers. SPPC's management is in discussions with PSALM to secure a common understanding through amicable means. However, management and its legal counsel assessed that SPPC's bases for the amounts due to PSALM are consistent with the terms of the Ilijan IPPA Agreement. The outcome of these claims is uncertain; accordingly, the amount cannot be presently determined.

▪ *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 Share Purchase Agreement (SPA) with Q-Tech, Top Frontier conducted a tender offer before such acquisition pursuant to the 35% threshold under the mandatory provisions of the Securities Regulation Code.

On April 8, 2010, such tender offer closed and a total of 47,700,679 Class "A" and 31,759,499 Class "B" common shares were tendered for ₱75.00 per share, for a total consideration of ₱5,959 million. Such tendered shares were crossed 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 call option with Q-Tech at ₱70.00 per share plus transaction costs for a total of ₱21,133.

Pursuant to an Agreement entered into by Top Frontier on November 20, 2009, Top Frontier acquired an option from the group of 44 companies 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 option agreement with the group of 44 companies also provides Top Frontier the rights, with prior written notice to the 44 companies, to assign, transfer and convey its rights to and interest in the option in favor of a third party provided: (i) such assignment, transfer and conveyance made by Top Frontier is consummated during the option period; (ii) the assignee of the option is acceptable to the group of 44 companies; and (iii) the terms and conditions of the agreement shall be valid, binding and enforceable on the assignee.

On June 14, 2012, the BOD of Top Frontier approved the assignment of its rights to exercise the option covering 368,140,516 common shares of the Parent Company in favor of MYL, one of the shareholders of Top Frontier.

Also, on June 14, 2012, the BOD of Top Frontier approved the exercise of the option covering the remaining 125,234,667 common shares of the Parent Company. On June 29, 2012, Top Frontier exercised the option on the 125,234,667 common shares of the Parent Company. The sale was transacted at the PSE thru a special block sale at the price of ₱75.00 per share.

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, 2012 and 2011, Top Frontier had total shareholdings of 1,573,100,340 and 1,447,865,673 common shares of the Parent Company, respectively. Out of the 1,573,100,340 common shares of the Parent Company held by Top Frontier as of December 31, 2012, 225,987,648 shares are lodged in the Philippine Depository and Trust Company.

- *MYL*

On June 29, 2012, MYL purchased a total of 368,140,516 common shares of the Parent Company. The sale was transacted at the PSE thru a special block sale at the price of ₱75.00 per share.

- *Commitments*

Amount authorized but not yet disbursed for capital projects as of December 31, 2012 is approximately ₱14,100 million.

- *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 ₱41.05 and ₱43.84 in 2012 and 2011, respectively, for consolidated statements of financial position accounts; and average rates of ₱42.24, ₱43.31 and ₱45.12 in 2012, 2011 and 2010, respectively, for income and expense accounts.

- 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 2012 Audited Consolidated Financial Statements and "Contingencies" of Section VI above, that remain outstanding as of December 31, 2012. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- The effects of seasonality or cyclicity on the interim operations of the Group's businesses are not material.
- 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, 2012.
- 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.